

OFFICIAL STATEMENT DATED MARCH 13, 2015

NEW ISSUE – BOOK-ENTRY ONLY

Rating: Standard & Poor's "BB-", Stable Outlook
See "RATING" herein

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series 2015A Bonds is excludable from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. Interest on the Series 2015B Bonds is included in gross income for federal income tax purposes. Bond Counsel is also of the opinion that interest on the Series 2015 Bonds is exempt from State of California personal income taxes. For a more complete description of such opinions of Bond Counsel, see "TAX MATTERS" herein.



CALIFORNIA MUNICIPAL FINANCE AUTHORITY \$25,905,000 CHARTER SCHOOL REVENUE BONDS (JULIAN CHARTER SCHOOL PROJECT) SERIES 2015A \$760,000 CHARTER SCHOOL REVENUE BONDS (JULIAN CHARTER SCHOOL PROJECT) (TAXABLE) SERIES 2015B

Dated: Date of Delivery

Due: as shown on inside cover

The California Municipal Finance Authority (the "Authority"), a joint exercise of powers authority of the State of California (the "State") is issuing its \$25,905,000 Charter School Revenue Bonds (Julian Charter School Project) Series 2015A (the "Series 2015A Bonds") and its \$760,000 Charter School Revenue Bonds (Julian Charter School Project) (Taxable) Series 2015B (the "Series 2015B Bonds") (collectively, the "Series 2015 Bonds"). The Series 2015 Bonds are being issued pursuant to an Indenture of Trust, dated as of March 1, 2015 (the "Indenture") between the Authority and Zions First National Bank, Boise, Idaho, as trustee (the "Trustee"). The Series 2015 Bonds will be dated their date of delivery, will be in authorized denominations of \$250,000 or any multiple of \$5,000 in excess of \$250,000 or the outstanding principal amount of the Series 2015 Bonds, if less; provided, however, that upon receipt by the Trustee of an Investment Grade Notice, such denominations shall be reduced to \$5,000 or any multiple thereof, and will mature on March 1 of the years as shown on the front inside cover hereof. The Series 2015 Bonds will bear interest payable semi-annually on March 1 and September 1 of each year, commencing September 1, 2015, until maturity or earlier redemption. The Series 2015 Bonds are subject to optional and mandatory sinking fund redemption, and extraordinary redemption prior to maturity. See "THE SERIES 2015 BONDS – Prior Redemption."

The Authority will loan the proceeds of the Series 2015 Bonds to SDORI Charter School Properties, LLC (the "Borrower"), a California limited liability company, the sole member of which is Julian Charter School, Inc. ("Julian" or the "Tenant"), which operates a California charter school known as Julian Charter School (the "School"), pursuant to the terms of a Loan Agreement, dated as of March 1, 2015 (the "Loan Agreement"), by and between the Authority and the Borrower, for the following purposes: (a) financing the acquisition, construction and renovation of facilities to be used as educational facilities located at 29141 Vallejo Avenue in Temecula, California (the "Hope" facility) and 539 Encinitas Boulevard in Encinitas, California (the "North Coast" facility), and together with the Hope facility, the "Acquisition Facilities") at which sites Julian, a California nonprofit public benefit corporation, operates or will operate the School programs; (b) refinancing the acquisition and the improvements of the facilities located at 39665 Avenida Acacias in Murrieta, California (the "Murrieta" facility) and 27235 Madison Avenue in Temecula, California (the "Temecula" facility), and together with the Murrieta facility, the "Existing Facilities" and collectively with the Acquisition Facilities, the "Facilities") at which sites Julian operates the School programs; (c) funding capitalized interest; (d) funding a reserve fund with respect to the Series 2015 Bonds; and (d) paying certain costs of issuance for the Series 2015 Bonds (collectively, the "Series 2015 Project").

The Facilities will be leased to Julian for operation of the School pursuant to a Lease Agreement, dated as of March 1, 2015 (the "Lease"), by and between the Borrower and Julian. Pursuant to four separate Deeds of Trust, Financing Statements, Security Agreements, Assignment of Leases and Rents and Fixture Filings, each dated as of March 1, 2015 (the "Deeds of Trust"), each executed by the Borrower, as trustee, in favor of the title company providing title policies for each parcel of the Facilities, as trustee, and Zions First National Bank, as the beneficiary thereunder, the Borrower will assign without recourse substantially all of its rights, title and interest under and pursuant to the Lease to the Trustee, as assignee of the Authority, including its right to receive the rental payments due and any remedies it may be entitled to thereunder, as security for Series 2015 Bonds.

The Series 2015 Bonds will be issued as registered bonds in book-entry only form in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Series 2015 Bonds. See "BOOK-ENTRY-ONLY SYSTEM."

The Series 2015 Bonds and the interest thereon are payable solely from certain revenues derived by the Authority under the Loan Agreement and from certain funds and accounts established and maintained under the Indenture. The Series 2015 Bonds are secured by a pledge and assignment of such revenues and of amounts held in the funds and accounts established pursuant to the Indenture (including proceeds of the sale of the Series 2015 Bonds but excluding amounts held in the Rebate Fund), 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. The Series 2015 Bonds are further secured by the Deeds of Trust and an assignment of the right, title and interest of the Authority in the Loan Agreement (to the extent and as more particularly described in the Indenture).

THE SERIES 2015 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 SERIES 2015 BONDS, OR THE REDEMPTION PREMIUM 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 OR INTEREST ON THE SERIES 2015 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.

EACH PURCHASER OF THE SERIES 2015 BONDS IS REQUIRED TO BE AN "APPROVED INSTITUTIONAL BUYER," WHICH AS DEFINED IN THE INDENTURE MEANS (1) A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A PROMULGATED UNDER THE SECURITIES ACT OF 1933, AS IN EFFECT ON THE DATE HEREOF (THE "SECURITIES ACT"); (2) AN "ACCREDITED INVESTOR" AS DEFINED IN PARAGRAPHS (1) THROUGH (3) OF SUBSECTION (A) OF SECTION 501 ("SECTION 501") OF REGULATION D PROMULGATED UNDER THE SECURITIES ACT; (3) AN ENTITY THAT IS DIRECTLY OR INDIRECTLY WHOLLY OWNED OR CONTROLLED BY THE PURCHASER/BONDHOLDER REPRESENTATIVE (BEING A FINANCIAL INSTITUTION DESCRIBED IN (1) ABOVE); (4) AN "ACCREDITED INVESTOR" AS DEFINED IN PARAGRAPH (5) OF SUBSECTION (A) OF SAID SECTION 501, PROVIDED THAT THE MINIMUM NET WORTH SHALL BE \$5,000,000; (5) AN "ACCREDITED INVESTOR" AS DEFINED IN PARAGRAPH (6) OF SUBSECTION (A) OF SAID SECTION 501, PROVIDED THAT THE MINIMUM INCOME (INDIVIDUAL OR JOINT) SHALL BE \$1,000,000; (6) AN ENTITY ALL OF THE INVESTORS IN WHICH ARE DESCRIBED IN (1), (2) OR (3) ABOVE; OR (7) A CUSTODIAN OR TRUSTEE FOR A PARTY DESCRIBED IN (1), (2), (3), (4) OR (5) ABOVE.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Purchase of the Series 2015 Bonds involves a high degree of risk and the Series 2015 Bonds are a speculative investment. Investors must read this entire Official Statement to obtain information essential to the making of an informed investment decision, and should give particular attention to the material under the caption "RISK FACTORS."

The Series 2015 Bonds are offered when, as and if issued by the Authority and received and accepted by the Underwriter and subject to the approval of legality by Kutak Rock LLP, Denver, Colorado, Bond Counsel. Certain legal matters will be passed upon by Jones Hall, A Professional Law Corporation, San Francisco, California, as special counsel to the Authority; by Hooper, Lundy & Bookman, P.C., San Diego, California, as special counsel to the Borrower and the Tenant; and by Quarles & Brady LLP, Milwaukee, Wisconsin, as counsel to the Underwriter. Buck Financial Advisors LLC, Englewood, Colorado is serving as financial advisor to the Borrower and the Tenant. It is expected that the Series 2015 Bonds will be available for delivery on or about March 25, 2015.

BAIRD

MATURITY SCHEDULE

CALIFORNIA MUNICIPAL FINANCE AUTHORITY

\$25,905,000
CHARTER SCHOOL REVENUE BONDS
(Julian Charter School Project)
SERIES 2015A

\$ 3,755,000	Term Bond due March 1, 2025;	Rate 5.000%;	Price 101.958%;	CUSIP: 13048DBA5*
\$ 1,150,000	Term Bond due March 1, 2027;	Rate 5.000%;	Price 100.443%;	CUSIP: 13048DBC1*
\$21,000,000	Term Bond due March 1, 2045;	Rate 5.625%;	Price 100.00%;	CUSIP: 13048DBB3*

\$760,000
CHARTER SCHOOL REVENUE BONDS
(Julian Charter School Project)
(TAXABLE) SERIES 2015B

\$760,000	Term Bond due March 1, 2018;	Rate 6.500%;	Price 100.00%;	CUSIP: 13048DBD9*
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* The above-referenced CUSIP numbers have been assigned by an independent company not affiliated with the Authority, the Borrower, the Tenant, the Trustee or the Underwriter, and are included solely for the convenience of the holders of the Series 2015 Bonds. None of the Authority, the Borrower, the Tenant, the Trustee or the Underwriter is responsible for the selection or uses of such CUSIP numbers, and no representation is made as to their correctness on the Series 2015 Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2015 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities.

NOTICE TO INVESTORS OF THE SERIES 2015 BONDS

Initial purchasers of the Series 2015 Bonds will be required to deliver an executed investor letter, a copy of which is attached as APPENDIX G to this Official Statement. Purchasers of the Series 2015 Bonds by their purchase of the Series 2015 Bonds or any interest therein, will be deemed to have acknowledged, represented, warranted, and agreed with and to the Authority, the Borrower, the Tenant, the Underwriter and the Trustee as follows:

- (a) Each purchaser will be deemed to have acknowledged that the Series 2015 Bonds are payable solely from certain revenues derived by the Authority under the Loan Agreement and from certain funds and accounts established and maintained under the Indenture.
- (b) Each purchaser will be deemed to have acknowledged that the Borrower's obligation to make payments under the Loan Agreement is absolute and unconditional. Each purchaser will be deemed to have acknowledged that the expected sole source of funds for such payments under the Loan Agreement is payments made by the Tenant under the Lease. The Tenant's obligation to make payments under the Lease is a special obligation limited solely to Gross Income of the School (as defined in the Indenture). The Tenant will not make payments under the Loan Agreement separate from its payments under the Lease.
- (c) Each purchaser will be deemed to have acknowledged that, in addition to its receipt of this Official Statement, it has received information from the Borrower and the Tenant relating to: (i) the sources of repayment of the Series 2015 Bonds; (ii) the Facilities; (iii) the Borrower and the Tenant including pertinent financial and operating data; and (iv) such other material matters relating to the Series 2015 Bonds as the purchaser deemed relevant. The purchaser will be deemed to have acknowledged that it had the opportunity to ask questions of, and request additional information from the Borrower and the Tenant regarding the information provided to it and any other matters that it considered to be relevant to the purchaser's decision to purchase the Series 2015 Bonds.
- (d) Each purchaser will be deemed to have acknowledged that neither the Authority nor any of its Board members, officers or employees take any responsibility for, and the purchaser is not relying upon any of such parties, with respect to information appearing anywhere in this Official Statement, other than the information under the captions "THE AUTHORITY," and "LEGAL MATTERS – Pending and Threatened Litigation – No Proceedings Against the Authority" (the "Authority's Portion" of the Official Statement) and that none of such parties have participated in the preparation of this Official Statement except with respect to the Authority's Portion of the Official Statement. Each purchaser will be deemed to have acknowledged that the Official Statement is not guaranteed as to its accuracy or completeness, and is not a representation by and is not to be construed as a representation by the Underwriter; provided the purchaser is not waiving any obligations the Underwriter has under federal and State securities law.
- (e) Each purchaser will be deemed to have acknowledged that it is an "Approved Institutional Buyer," which, as defined in the Indenture, means (1) a "qualified institutional buyer" as defined in Rule 144A promulgated under the Securities Act of 1933, as in effect on the date hereof (the "Securities Act"); (2) an "accredited investor" as defined in paragraphs (1) through (3) of subsection (a) of Section 501 ("Section 501") of Regulation D promulgated under the Securities Act; (3) an entity that is directly or indirectly wholly owned or controlled by the purchaser/bondholder representative (being a financial institution described in (1) above; (4) an "accredited investor" as defined in paragraph (5) of subsection (a) of said Section 501, provided that the minimum net worth shall be \$5,000,000; (5) an "accredited investor" as defined in paragraph (6) of subsection (a) of said Section 501, provided that the minimum income (individual or joint) shall be \$1,000,000; (6) an entity all of the investors in which are described in (1), (2) or (3) above; or (7) a custodian or trustee for a party described in (1), (2), (3), (4) or (5) above.
- (f) Each purchaser will be deemed to have acknowledged that the Series 2015 Bonds may only be transferred to, and Beneficial Ownership Interests only held by an Approved Institutional Buyer, unless the Authority has received an Investment Grade Notice (as defined in the Indenture), in which case transfers shall not be restricted to Approved Institutional Buyers.

No dealer, salesman, or other person has been authorized to give any information or to make any representation, other than the information contained in this Official Statement, in connection with the offering of the Series 2015 Bonds, and, if given or made, such information or representation must not be relied upon as having been authorized by the Authority, the Borrower, the Tenant or the Underwriter. The information in this Official Statement is subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the Borrower, the Tenant or the Underwriter since the date hereof. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which any person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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REGARDING USE OF THIS OFFICIAL STATEMENT

This Official Statement is being distributed in connection with the sale of the Series 2015 Bonds referred to in this Official Statement and may not be used, in whole or in part, for any other purpose. No dealer, broker, salesperson or other person has been authorized by the Authority, the Borrower, the Tenant or the Underwriter to give any information or to make any representation with respect to the Series 2015 Bonds other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy and, there shall not be any sale of the Series 2015 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Unless otherwise indicated, the Tenant is the source of the information contained in this Official Statement. Certain information in this Official Statement has been obtained by the Tenant or on its behalf from The Depository Trust Company and other sources that the Tenant believes to be reliable. No representation or warranty is made, however, as to the accuracy or completeness of such information. Nothing contained in this Official Statement is a promise of or representation by the Underwriter. The information and opinions expressed in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale made under this Official Statement shall, under any circumstances, create any implication that there has been no change in the financial condition or operations of the Tenant or other information in this Official Statement, since the date of this Official Statement. The Authority furnished only the information contained under the captions "THE AUTHORITY" and "LEGAL MATTERS – Pending and Threatened Litigation – No Proceedings Against the Authority," and, except for such information, makes no representation as to the adequacy, completeness or accuracy of this Official Statement or the information contained herein.

This Official Statement contains statements that are "forward-looking statements" as that term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. When used in this Official Statement, the words "estimate," "intend," "project" or "projection," "expect" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are subject to risks and uncertainties, some of which are discussed herein, that could cause actual results to differ materially from those contemplated in such forward-looking statements. Investors and prospective investors are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this Official Statement.

Investors must read this entire Official Statement to obtain information essential to the making of an informed investment decision, and should give particular attention to the material under the caption "RISK FACTORS." No one factor should be considered more or less important than any other by reason of its position in this Official Statement. Where statutes, ordinances, reports or other documents are referred to in this Official Statement, reference should be made to those documents for more complete information regarding their subject matter.

The Series 2015 Bonds will not be registered under the Securities Act of 1933, as amended, or the securities laws of any state of the United States, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity shall have passed upon the accuracy or adequacy of this Official Statement.

Zions First National Bank, as Trustee, has no responsibility to provide any comments or statements relating to this Official Statement. The Trustee did not participate in the preparation of this Official Statement and makes no representations concerning the Series 2015 Bonds, the collateral or any other matter stated in this Official Statement. The Trustee has no duty or obligation to pay the Series 2015 Bonds from its own funds, assets or corporate capital or to make inquiry regarding, or investigate the use of, amounts disbursed from the trust account.

In connection with the offering of the Series 2015 Bonds, the Underwriter may or may not over allot or effect transactions that stabilize or maintain the market prices of the Series 2015 Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time without notice. The prices and other terms respecting the offering and sale of the Series 2015 Bonds may be changed from time to time by the Underwriter after the Series 2015 Bonds are released for sale and the Series 2015 Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Series 2015 Bonds into investment accounts.

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CALIFORNIA MUNICIPAL FINANCE AUTHORITY

**\$25,905,000
CHARTER SCHOOL REVENUE BONDS
(JULIAN CHARTER SCHOOL PROJECT)
SERIES 2015A**

**\$760,000
CHARTER SCHOOL REVENUE BONDS
(JULIAN CHARTER SCHOOL PROJECT)
(TAXABLE) SERIES 2015B**

INTRODUCTION

General

The purpose of this Official Statement is to provide certain information concerning the issuance and sale by the California Municipal Finance Authority (the "Authority") of its \$25,905,000 California Municipal Finance Authority Charter School Revenue Bonds (Julian Charter School Project) Series 2015A (the "Series 2015A Bonds"); and its \$760,000 California Municipal Finance Authority Charter School Revenue Bonds (Julian Charter School Project) (Taxable) Series 2015B (the "Series 2015B Bonds") (collectively, the "Series 2015 Bonds"). The Series 2015 Bonds are being issued pursuant to an Indenture of Trust, dated as of March 1, 2015 (the "Indenture") between the Authority and Zions First National Bank, as trustee (the "Trustee").

The offering of the Series 2015 Bonds is made only by way of this Official Statement, which supersedes any other information or materials used in connection with the offer or sale of the Series 2015 Bonds. This Official Statement speaks only as of its date, and the information contained herein is subject to change. Capitalized terms used but not defined in this Official Statement have the meanings described in "APPENDIX D – DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS."

Caution Regarding Forward-Looking Statements

This Official Statement contains statements relating to future results that are forward-looking statements of the type defined in the Private Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "expect," "project," "intend," "anticipate," "believe," "may," "will," "continue" and similar expressions identify forward-looking statements. Any forward-looking statement is subject to uncertainty and risks that could cause actual results to differ, possibly materially, from those contemplated in such forward-looking statements. Some assumptions used to develop forward-looking statements will not be realized or unanticipated events and circumstances may occur. Therefore, investors should be aware that there are likely to be differences between forward-looking statements and actual results, and that those differences could be material.

THE AUTHORITY

Under Title 1, Division 7, Chapter 5 of the California Government Code (the "Act") certain California cities, counties and special districts (each, a "Member" and collectively, the "Members") have entered into a joint exercise of powers agreement (the "JPA Agreement") to form the Authority for the purpose of exercising the powers common to the Members and additional powers granted to the Authority by the Act and other applicable provisions of California law. Under the JPA Agreement, the Authority may issue bonds, notes or any other evidence of indebtedness for any purpose or activity permitted under the Act or any other applicable law.

The Authority may sell and deliver obligations other than the Series 2015 Bonds. Such obligations will be secured by instruments separate and apart from those securing the Series 2015 Bonds, and the holders of such other obligations of the Authority will have no claim on the security for the Series 2015 Bonds. Holders of the Series 2015 Bonds will have no claim on the security for such other obligations that may be issued by the Authority.

NONE OF THE AUTHORITY, ANY AUTHORITY MEMBER OR ANY PERSON EXECUTING THE SERIES 2015 BONDS IS LIABLE PERSONALLY ON THE SERIES 2015 BONDS OR SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THEIR ISSUANCE. THE SERIES 2015 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF THE TRUST ESTATE UNDER THE INDENTURE. NEITHER THE AUTHORITY, ITS MEMBERS, THE STATE OF CALIFORNIA (THE "STATE"), NOR ANY OF ITS POLITICAL SUBDIVISIONS SHALL BE DIRECTLY, INDIRECTLY, CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONIES OR ASSETS TO PAY ALL OR ANY PORTION OF THE DEBT SERVICE DUE ON THE SERIES 2015 BONDS, TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE SERIES 2015 BONDS ARE NOT A PLEDGE OF THE FAITH AND CREDIT OF THE AUTHORITY, ITS MEMBERS, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS NOR DO THEY CONSTITUTE INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION. THE AUTHORITY HAS NO TAXING POWER. THE AUTHORITY SHALL NOT BE LIABLE FOR PAYMENT OF THE PRINCIPAL OF, PREMIUM OR INTEREST ON THE SERIES 2015 BONDS OR ANY OTHER COSTS, EXPENSES, LOSSES, DAMAGES, CLAIMS OR ACTIONS OF ANY CONCEIVABLE KIND ON ANY CONCEIVABLE THEORY, UNDER OR BY REASON OF OR IN CONNECTION WITH THE INDENTURE, THE SERIES 2015 BONDS OR ANY OTHER DOCUMENTS, EXCEPT ONLY TO THE EXTENT AMOUNTS ARE RECEIVED FOR THE PAYMENT THEREOF FROM THE BORROWER UNDER THE LOAN AGREEMENT.

Neither the Authority nor any of its independent contractors have furnished, investigated or verified the information contained in this Official Statement other than the information contained in this section and in the section entitled "LEGAL MATTERS – Pending and Threatened Litigation – No Proceedings Against the Authority." The Authority does not and will not in the future monitor the financial condition of the Borrower or the Tenant, or otherwise monitor payment of the Series 2015 Bonds or compliance with the documents relating thereto. Any commitments or obligations for continuing disclosure with respect to the Series 2015 Bonds have been undertaken solely by the Borrower and the Tenant. See "MISCELLANEOUS – Continuing Disclosure Agreement."

THE BORROWER

The Authority will loan the proceeds of the Series 2015 Bonds to SDORI Charter School Properties, LLC (the "Borrower" or "Landlord"), a California limited liability company. The Borrower was created for the purpose of owning the Facilities (as defined in the Deeds of Trust). The Facilities will be leased and operated by the Tenant pursuant to a Lease Agreement, dated as of March 1, 2015, by and between the Borrower and the Tenant (the "Lease"). Pursuant to the Deeds of Trust, the Borrower will assign without recourse substantially all of its rights, title and interest under and pursuant to the Lease to the Trustee, for the benefit of the Bondholders, including its right to receive the rental payments due and any remedies it may be entitled to thereunder.

THE TENANT

Julian is a California nonprofit public benefit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). The School, operated by Julian, teaches students primarily residing in the County of San Diego, California, the County of Riverside, California and Orange County, California. Julian began operating the School in the 1999-2000 school year. The School currently serves approximately 2500 students in grades K-12. The School operates under a charter from the Julian Union Elementary School District (the "District") in San Diego County. Although Gross Income of the School (as defined in the Indenture) includes revenues derived from the operation of the School at all of its facilities, only the Facilities are subject to the Deeds of Trust and no interest in other facilities is pledged as additional security for the Series 2015 Bonds. The Tenant's obligation to make payments under the Lease is a special obligation limited solely to Gross Income of the School. See "SECURITY FOR THE SERIES 2015 BONDS." For more information regarding the Tenant, see "APPENDIX B – THE CHARTER SCHOOL AND THE BORROWER – Julian Programs."

RISK FACTORS

This Official Statement contains summaries of pertinent portions of the Series 2015 Bonds, the Indenture, the Loan Agreement, the Lease, the Deeds of Trust, the Continuing Disclosure Agreement and other relevant documents. Such summaries and references are qualified in their entirety by reference to the full text of such documents. The following discussion of some of the risk factors associated with the Series 2015 Bonds is not, and is not intended to be, exhaustive, and such risks are not necessarily presented in the order of their magnitude.

Speculative Investment

Purchase of the Series 2015 Bonds involves a high degree of risk and the Series 2015 Bonds are a speculative investment. The Series 2015 Bonds are rated “BB-”, stable outlook by Standard and Poor’s Ratings Services (“S&P”). See “RATING” below.

Although any explanation of the significance of the rating may be obtained only from S&P, bonds that are within or below this major rating category are typically high-yield, high-risk securities, sometimes referred to as “junk bonds.” Such securities may exhibit price fluctuations due to changes in interest rate or bond yield levels. As a result, the value of the Series 2015 Bonds may fluctuate significantly in the short-term. Further, such securities have a less liquid resale market. As a result, potential investors may have difficulty selling or disposing of the Series 2015 Bonds quickly in certain markets or market environments. Such securities are also considered predominately speculative with respect to the obligor’s continuing ability to make principal and interest payments. See also “RISK FACTORS – Sufficiency of Revenues for the Series 2015 Bonds” below. The Series 2015 Bonds should not be purchased by any potential investor who, because of financial condition, investment policies or otherwise, does not desire to assume, or have the ability to bear, the risks inherent in an investment in the Series 2015 Bonds.

Sufficiency of Revenues for the Series 2015 Bonds

The Series 2015 Bonds and the interest thereon are payable solely from certain revenues derived by the Authority under the Loan Agreement and from certain funds and accounts established and maintained under the Indenture. The Borrower’s sole expected source of revenues will be the rental payments it receives from the Tenant pursuant to the Lease. The Tenant’s obligation to pay rent under the Lease is a special obligation limited solely to Gross Income of the School (as defined in the Indenture). See “APPENDIX D – DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS.”

Based on the operating history of the Tenant and its projections regarding enrollment and other current circumstances, the Tenant believes that it will generate sufficient revenues to allow the Tenant to meet its rental obligations under the Lease representing debt service payments on the Series 2015 Bonds. However, the bases of the assumptions used by the Tenant to formulate its present beliefs may change. No representation or assurance can be made that the Tenant will continue to generate sufficient revenues for payment of debt service on the Series 2015 Bonds.

Default under the Lease; Expiration and Nonrenewal of the Lease; No Assurance Regarding Subsequent Tenant

The Borrower will not make payments under the Loan Agreement separate from the Tenant’s payments under the Lease. The term of the Lease for the Facilities commences on the date the Borrower acquires the Facilities and expires on June 30, 2040; provided, however, that under the Lease for the Facilities, the Tenant has three additional, consecutive five-year options to extend the term of the Lease. See “APPENDIX D – DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS – THE LEASE – Term.”

If there is a default by the Borrower under the Loan Agreement attributable to a default by the Tenant under the Lease, or if the Tenant chooses not to exercise its option(s) to renew the Lease for the full period that the Series 2015 Bonds are outstanding, then the Borrower would very likely not have funds constituting rental income directly or indirectly derived from the lease of the Facilities to satisfy its remaining obligation to make payments under the Loan Agreement.

IF THE TENANT DEFAULTS UNDER THE LEASE OR IF THE TENANT CHOOSES NOT TO EXERCISE ITS OPTION(S) TO RENEW THE LEASE FOR THE FULL PERIOD THAT THE SERIES 2015 BONDS ARE OUTSTANDING, THERE CAN BE NO ASSURANCE THAT THE BORROWER WILL BE ABLE TO FIND A NEW TENANT TO GENERATE FUNDS (CONSTITUTING RENTAL INCOME FROM THE LEASE OF THE FACILITIES) IN A SUFFICIENT AMOUNT TO MAKE PAYMENTS UNDER THE LOAN AGREEMENT REPRESENTING DEBT SERVICE ON THE SERIES 2015 BONDS.

Dependence on State Aid Payments that are Subject to Annual Appropriation and Political Factors

California charter schools such as the Tenant may not charge tuition and have no taxing authority. The primary source of revenue generated by charter schools is aid provided by the State for all public schools. The amount of State aid received with respect to any individual school is based on a variety of factors. The amount of aid available in any year to pay the per pupil allowance is subject to appropriation by the California Legislature. The Legislature bases its decisions about appropriations on many factors, including the State's economic performance. Moreover, because some public officials, their constituents, commentators and others have viewed charter schools as controversial, political factors may also come to bear on charter school funding. As a result, the Legislature may not appropriate funds, or may not appropriate funds in a sufficient amount, for the Tenant to generate sufficient revenue to allow the Tenant to meet its obligations under the Lease representing debt service payments on the Series 2015 Bonds. No liability would accrue to the State in such event, and the State would not be obligated or liable for any future payments or any damages. If the State were to withhold State aid payments for any reason, even for a reason that is ultimately determined to be invalid or unlawful, the School could be forced to cease operations.

Operating History; Reliance on Projections

The Tenant has conducted operations since the 1999-2000 school year. The projections of revenues and expenses contained in "APPENDIX B – THE CHARTER SCHOOL AND THE BORROWER – Projected Revenues And Expenditures," were prepared by the Tenant, but have not been independently verified by any party other than the Tenant. The projections have not been prepared in accordance with generally accepted accounting principles ("GAAP"). No feasibility studies have been conducted with respect to the Tenant's operations pertinent to the Series 2015 Bonds. The projections are "forward-looking statements" and are subject to the general qualifications and limitations described under "INTRODUCTION – Caution Regarding Forward-Looking Statements." The Underwriter has not independently verified such projections, and makes no representations nor gives any assurances that such projections, or the assumptions underlying them, are complete or correct. Further, the projections relate only to a limited number of fiscal years, and consequently do not cover the entire period that the Series 2015 Bonds will be outstanding.

The projections are derived from the actual operations of the Tenant and the Tenant's assumptions about future State funding levels, student enrollment and expenses. There can be no assurance that actual enrollment, revenues and expenses will be consistent with the assumptions underlying such projections. Moreover, no guarantee can be made that the projections of revenues and expenses contained herein will correspond with the results actually achieved in the future because there can be no assurance that actual events will correspond with the assumptions underlying the projections. Actual operating results may be affected by many factors, including, but not limited to, unanticipated increases in costs, lower than anticipated revenues (as a result of insufficient enrollment, reduced State or federal aid payments, or otherwise), employee relations, changes in taxes, changes in applicable government regulation, changes in demographic trends, changes in education competition and changes in local or general economic conditions. Refer to "APPENDIX B – THE CHARTER SCHOOL AND THE BORROWER – Projected Revenues And Expenditures," to review the projections, their underlying assumptions, and the various factors that could cause actual results to differ significantly from projected results. Refer to "INTRODUCTION – Caution Regarding Forward-Looking Statements" above for qualifications and limitations applicable to forward-looking statements.

NO GUARANTEE CAN BE MADE THAT THE PROJECTED INFORMATION CONTAINED HEREIN WILL CORRESPOND WITH THE RESULTS ACTUALLY ACHIEVED IN THE FUTURE BECAUSE THERE CAN BE NO ASSURANCE THAT ACTUAL EVENTS WILL CORRESPOND WITH THE ASSUMPTIONS UNDERLYING SUCH PROJECTIONS. ACTUAL OPERATING RESULTS MAY BE AFFECTED BY MANY

FACTORS, INCLUDING, BUT NOT LIMITED TO, CHANGES IN THE STATE'S FUNDING SYSTEM, UNANTICIPATED INCREASES IN COSTS, LOWER THAN ANTICIPATED REVENUES (AS A RESULT OF INSUFFICIENT ENROLLMENT, REDUCED STATE OR FEDERAL AID PAYMENTS, OR OTHERWISE), EMPLOYEE RELATIONS, CHANGES IN TAXES, CHANGES IN APPLICABLE GOVERNMENTAL REGULATION, CHANGES IN DEMOGRAPHIC TRENDS, CHANGES IN EDUCATION COMPETITION AND LOCAL OR GENERAL ECONOMIC CONDITIONS.

Competition for Students

The facilities utilized by Julian in operating the School are located within the geographic boundaries of Riverside County, San Diego County and Orange County. Riverside, San Diego and Orange County schools currently serve 1,429,810 students in grades K-12, with 163 charter schools being located within the counties. The School draws students primarily from San Diego, Riverside and Orange Counties. The School believes other independent study charter schools represent its main competition for students within Riverside County, San Diego County and Orange County. See "APPENDIX B – THE CHARTER SCHOOL AND THE BORROWER - Service Area And Competing Schools."

As a general matter, the School faces competition from other schools in the area for students (both brick and mortar and independent study), and there can be no assurance that the School will continue to attract and retain the number of students that are needed to generate sufficient revenues for Julian to make payments under the Lease representing debt service on the Series 2015 Bonds. There can be no assurance that the School will continue to attract and retain the number of students needed to produce revenues necessary for the Tenant to make payments under the Lease representing debt service on the Series 2015 Bonds.

Factors Associated with Education

There are a number of factors affecting schools in general, including the Tenant, that could have an adverse effect on the financial position of the Tenant's ability to generate funds sufficient to make payments on the Series 2015 Bonds. These factors include, but are not limited to, the ability of the Tenant to attract a sufficient number of students; increasing costs of compliance with federal or State regulatory laws or regulations, including, without limitation, laws or regulations concerning environmental quality, work safety and accommodating persons with disabilities; any unionization of the Tenant's work force with consequent impact on wage scales and operating costs; changes in existing statutes pertaining to the powers of charter schools and legislation or regulations which may affect general or programmatic funding. There can be no assurance regarding the ultimate effect of these factors on the operations of the Tenant or their financial results.

Nonrenewal or Revocation of Charter Contract

Pursuant to the Charter Schools Act of 1992, California Education Code §§ 47600 *et seq.*, as amended, (the "Charter Schools Act"), the charter pursuant to which the Tenant operates is subject to nonrenewal or revocation. The Tenant's charter has been renewed three times in the past and is currently set to expire on June 30, 2016. The Tenant will be required to apply for charter renewal to operate beyond June 30, 2016. California law imposes renewal requirements on charter schools, including academic attainment requirements. A charter is subject to nonrenewal or revocation for material violations of the charter, failure to meet or pursue any of the pupil outcomes identified in the charter, failure to meet generally accepted accounting principles or engagement in fiscal mismanagement, or violations of law. Under statutory provisions enacted with the 2013-14 State budget, a charter is also subject to revocation for continued failure to improve outcomes for certain pupil subgroups. See "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF CALIFORNIA LAW – CHARTER SCHOOL STATUS AND OPERATIONS – Charter Description of Annual Goals" and "– Charter Terms, Renewals, Revocations and Appeals."

Project Approvals and Construction Process

The Tenant will use a portion of the proceeds of the Series 2015 Bonds, including certain costs related to refinancing, funding of capitalized interest, funding a reserve fund and costs of issuance, to finance certain construction and renovations of the Acquisition Facilities. The Tenant represents that it will obtain all necessary

approvals, consents, certificates and permits as needed in order to complete the Series 2015 Project in a timely fashion. Any failure by the Tenant to obtain such approvals, consents, certificates and permits could result in delay with respect to completion of the Series 2015 Project, and any such delay could adversely affect the Tenant's operations and its ability to generate Gross Income of the School sufficient to pay debt service with respect to the Series 2015 Bonds. See "APPENDIX B – THE CHARTER SCHOOL AND THE BORROWER – Plan of Finance – Acquisition Facilities."

Construction Costs and Completion of Construction

In addition to costs of construction, the costs and funding of the Series 2015 Project include costs related to refinancing, funding of capitalized interest, funding a reserve fund and costs of issuance. If the costs of construction planned as part of the Series 2015 Project exceed the amount available to pay such costs, the Tenant's construction plans would have to be modified to lower construction costs, and there is a risk that improvements to the Acquisition Facilities would not be completed as planned. The Tenant will not enter into construction contracts prior to the issuance of the Series 2015 Bonds thus, there can be no guaranty that actual construction costs will not exceed the amount of proceeds from the Series 2015 Bonds set aside for improvements to the Acquisition Facilities, and hence exceed the amount available to the Tenant for construction purposes, due to unforeseen factors such as an overrun of allowance items, unexpected site problems, or delays due to the fault of the Tenant, the architect or the contractors selected in connection with construction. No assurance can be given that construction components of the Series 2015 Project will be completed on time or for the amount of Series 2015 Bond proceeds and available cash on hand allocated for such purpose. Any failure to complete the Series 2015 Project as planned could adversely affect the Tenant's operations and its ability to generate Revenues sufficient to pay debt service with respect to the Series 2015 Bonds. See "APPENDIX B – - THE CHARTER SCHOOL AND THE BORROWER - Plan of Finance – Acquisition Facilities."

Lease of Facilities

The Tenant currently operates various facilities pursuant to various leases with various lessors. See "APPENDIX B - THE CHARTER SCHOOL AND THE BORROWER - TABLE B-2: Julian Charter School Facilities Enrollment" for a list of the facilities. While the Borrower owns the Facilities and leases the same to Julian for operation of the School, Julian leases the other facilities. If the owners of such facilities failed to renew any leases of such facilities to Julian, the operations of the School at such facilities could be disrupted.

State Financial Difficulties

Charter schools depend on revenues from the State for a large portion of their operating budgets. The availability of State funds for public education is a function of constitutional and statutory provisions affecting school district revenues and expenditures, the condition of the State economy (which affects total revenue available to the State School Fund) and the annual budget process. Decreases in State revenues may adversely affect education appropriations made by the Legislature. As noted, the Legislature bases its decisions about appropriations on many factors, including the State's economic performance, and, because some public officials, their constituents, commentators and others have viewed charter schools as controversial, political factors may also come to bear on charter school funding. See "RISK FACTORS – Dependence on State Aid Payments that are Subject to Annual Appropriation and Political Factors" above.

Although the State of California experienced severe financial difficulties during the economic recession, it has seen an increasingly positive economic forecast. In prior years, the State's response to its financial difficulties had a significant impact on Proposition 98 funding and settle-up treatment as further described in "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF CALIFORNIA LAW – PROPOSITION 98." In the past, the State has sought to avoid or delay paying settle-up amounts when funding has lagged the guaranteed amount. The State has also sought to avoid increases in the minimum guarantee through various mechanisms by treating any excess appropriations as advances against subsequent years' Proposition 98 minimum funding levels rather than current year increases; by deferring State aid payments from one fiscal year to the next; and by suspending Proposition 98, as the State did in 2004-05. In November 2012, Proposition 30, a California Sales and Income Tax Increase initiative, was approved by voters of the State. Eighty-nine percent of the additional tax revenues generated under Proposition 30 are to be allocated to K-12 schools. This additional educational funding prevented the

implementation of planned reductions in State spending related to education programming. Future decreases in State revenues may adversely affect education appropriations made by the Legislature. Neither the Borrower, the Tenant nor any other party to the Series 2015 Bond transaction can predict how State income or State education funding will vary over the entire term of the Series 2015 Bonds. No parties to the Series 2015 Bond transaction take any responsibility for informing owners of the Series 2015 Bonds about any such changes.

A recent report prepared by the California Legislative Analyst's Office ("LAO"), entitled *The 2015-16 Budget: Overview of the Governor's Budget* ("Overview of the Budget"), dated January 13, 2015 provides a general overview of the budget package presented by the Governor. On January 9, 2015, the Governor presented a budget package that included \$158.8 billion in spending from the General Fund and special funds, an increase of one percent over the revised levels for 2014-15. The Governor proposed a \$3.4 billion reserve at the end of 2015-16—comprised of \$1.6 billion deposited in the Budget Stabilization Account (BSA) before Proposition 2, a \$1.2 billion projected deposit in the BSA for 2015-16 and a \$534 million year-end reserve in the Special Fund for Economic Uncertainties. The LOA stated that overall 2013-14 and 2014-15 combined, the administration projects higher revenues (\$3 billion) and higher net spending (\$2.9 million) compared with figures assumed in the June 2014 budget package. Major features of the Governor's budget include ending with \$3.4 billion in budget reserves, paying down State debt, providing an additional \$4 billion for K-12 Local Control Funding Formula and proposing collective bargaining on retiree health liabilities.

The LOA commented in the Overview of the Budget that the Governor's budgeting philosophy continues to be a prudent one by continuing his reluctance to propose significant new program commitments, while also proposing to address the State's retiree health liabilities over the next few decades. The LOA commented that the Governor's plan reflects the higher revenue projections compared to the administration's estimates in the June 2014 State budget plan. However, despite the higher revenue projections, the LOA is still concerned that the State's budget is vulnerable if the State is faced with another economic downturn. The LOA stated that the strong revenues may not continue and, Proposition 2, which was approved by the voters in November 2014, restricts the budget for the first time in 2015-16 by requiring the State to deposit funds into the State's rainy day fund based upon a series of complex formulas.

Information about the financial condition of the State, as well as its budget and spending for education, is available and regularly updated on various State-maintained websites, including those of the LAO, the Department of Finance and the State Controller. In addition, various State official statements, which contain summaries of current and past State budgets and the impact of those budgets on State education funding, may be found at the website of the State Treasurer, www.treasurer.ca.gov. Such information is prepared by the respective State entity maintaining each such website and not by any of the parties to this transaction. The parties to this transaction take no responsibility for the accuracy, completeness or timeliness of such information or the continued accuracy of the internet addresses noted herein, and no such information is incorporated herein by these references.

Budget Delays and Restrictions on Disbursement of State Funds During a Budget Impasse

Charter schools depend on revenues from the State for a large portion of their operating budgets. The availability of State funds for public education is a function of constitutional and statutory provisions affecting school district revenues and expenditures, the condition of the State economy (which affects total revenue available to the State general fund) and the annual budget process.

The State Constitution specifies that an annual budget shall be proposed by the Governor by February 10 of each year for the next fiscal year (the "Governor's Budget"). Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues for the ensuing fiscal year. State law also requires the Governor to update the Governor's Budget projections and budgetary proposals by May 14 of each year (the "May Revision"). The May Revision is normally the basis for final negotiations between the Governor and Legislature to reach agreement on appropriations and other legislation to fund State government for the ensuing fiscal year (the "Budget Act").

The Budget Act must be approved by a majority vote of each House of the Legislature and must be in balance. The budget becomes law upon the signature of the Governor. Text of proposed and adopted budgets may be found at the website of the Department of Finance, www.dof.ca.gov, currently under the heading "California

Budget.” Analyses of budgets are prepared by the Legislative Analyst’s Office at www.lao.ca.gov. Such information is prepared by the respective State entity maintaining each such website and not by any of the parties to this transaction. The parties to this transaction take no responsibility for the accuracy, completeness or timeliness of such information or the continued accuracy of the internet addresses noted herein, and no such information is incorporated herein by these references.

A Budget Act must be adopted no later than June 15. In practice, however, this deadline is routinely breached. Failure by the State to adopt a Budget Act restricts the California State Controller’s ability to disburse State funds after the beginning of the ensuing fiscal year. Those restrictions were the subject of litigation captioned *White v. Davis* (also referred to as *Jarvis v. Connell*) decided on May 29, 2002 by the State Court of Appeal. In *White v. Davis*, the State Court of Appeal held that the State Controller cannot disburse State funds after the beginning of the fiscal year until the adoption of the budget bill or an emergency appropriation, unless the expenditure is:

- (i) authorized by a continuing appropriation found in statute,
- (ii) mandated by the 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 court specifically held that the State Constitution does not mandate or otherwise provide for appropriations for school districts without an adopted budget. Nevertheless, consistent with its belief that the statutory implementation of the constitutional school funding formula provides for a continuing appropriation of State funding for schools, the State Controller has indicated that payment of general purpose (block grant) entitlement funds would continue during a budget impasse and has paid such amounts during past budget impasses. However, the State Controller believes that certain other education funding cannot be appropriated during a budget impasse. Any State budget delay would delay the State’s appropriation of such funds and could negatively impact the Tenant’s ongoing viability and its ongoing ability to make payments under the Lease representing debt service on the Series 2015 Bonds.

Future Changes to Charter School Laws

In California, various constitutional and statutory provisions affecting charter schools were adopted as measures that qualified to appear on the ballot pursuant to the State’s initiative process. From time to time other initiative measures could be adopted further affecting the revenues of charter schools or their ability to expend such revenues. Future changes to the laws applicable to charter schools in the State, and in particular the Charter Schools Act, could be adverse to the Tenant’s financial interests and could adversely affect the security for the Series 2015 Bonds. The Tenant cannot predict the likelihood of success or failure of any future initiatives, and can provide no assurance that the California legislature will not in the future amend the laws affecting charter schools in a manner adverse to the interests of the Holders of the Series 2015 Bonds. For more information on the laws governing charter schools in the State, see “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF CALIFORNIA LAW.” Adverse State budget considerations could prompt the legislature to seek voter approval to reduce constitutional requirements for public school funding. As noted, State budget considerations may adversely affect appropriations for charter school funding.

Litigation Regarding an Unrelated Classroom-Based Charter School Operating Within the Boundaries of San Diego Unified School District

The San Diego Unified School District (“San Diego USD”) filed and obtained a writ of mandate to require another school district that authorized the charter of a non-independent study (or, classroom-based) charter school to revoke such charter because the charter school was operating within the boundaries of the San Diego USD without complying with certain threshold requirements under the Charter School Law. In January, 2015, the Superior Court of California, San Diego County, ordered the authorizing school district to revoke the charter after agreeing with San Diego USD that certain threshold requirements were not met, including notifying San Diego USD that the charter school was operating within its boundaries. The authorizing school district has appealed the Superior Court ruling.

Neither the Borrower nor the Tenant is a party to the proceedings described above, and the court's order does not include or have a direct impact on the Tenant. However, the Tenant operates learning centers and resource centers within the boundaries of San Diego USD (in addition to other school districts outside of its authorizing district) that represent approximately 5% of the Tenant's total enrollment and has not provided notice to San Diego USD of such facilities. The Tenant's charter recognizes it as an Independent Study charter school, and the Tenant represents that as an Independent Study charter school, the Tenant is not required to comply with the same threshold requirements of classroom-based charter schools under the Charter School Law, including notifying San Diego USD of its facilities. None of the Facilities being financed or refinanced with proceeds of the Series 2015 Bonds and subject to the Mortgage are located within the boundaries of the San Diego USD.

Failure to Provide Ongoing Disclosure

The Borrower, the Tenant and the Trustee, as dissemination agent, will enter into a Continuing Disclosure Agreement pursuant to Securities and Exchange Commission Rule 15c2-12 (17 CFR Part 240, § 240.15c2-12) (the "Rule"), in connection with the issuance of the Series 2015 Bonds. Failure to comply with a Continuing Disclosure Agreement and the Rule in the future may adversely affect the liquidity of the Series 2015 Bonds and their market price in the secondary market. See "MISCELLANEOUS – Continuing Disclosure Agreement" and "APPENDIX F – FORM OF CONTINUING DISCLOSURE AGREEMENT."

Key Personnel

The creation, curriculum and educational philosophy of the Tenant and the School reflects the vision and commitment of a few, key personnel who comprise their management. Loss of any of the Tenant's key personnel could adversely affect the Tenant's operations and financial results. For more information regarding the Tenant's and the School's key personnel, see "APPENDIX B – THE CHARTER SCHOOL AND THE BORROWER – Governance and Administration."

Value of Property May Fluctuate; Limitations of Appraisals

Westates/Connolly Commercial, Temecula, California ("Connolly") appraised the site and buildings comprising the Murrieta facility. In that connection, Connolly prepared an appraisal report dated February 10, 2014 (the "Murrieta Appraisal Report"). The Murrieta Appraisal Report estimated that the market value of a leased fee interest in the 100% leased subject property or with a 75% of net rentable area being owner-user space in the subject property as of January 2, 2014 was \$3,400,000, subject to certain conditions as listed in the Murrieta Appraisal Report.

TERRA Real Estate Services, Temecula, California ("TERRA") appraised the site and buildings comprising the Temecula facility. In that connection, TERRA prepared an appraisal report dated April 29, 2013 (the "Temecula Appraisal Report"). The Temecula Appraisal Report estimated that the market value of a fee simple interest in the Temecula facility as of April 17, 2013 was \$2,620,000, subject to certain conditions as listed in the Temecula Appraisal Report. The Temecula Appraisal Report estimated appraised value was less than the purchase price of the Temecula facility. See "APPENDIX B – THE CHARTER SCHOOL AND THE BORROWER – Appraisals of the Facilities."

Connolly appraised the site and buildings comprising the Hope facility. In that connection, Connolly prepared an appraisal report dated February 3, 2014 (the "Hope Appraisal Report"). The Hope Appraisal Report estimated that the market value of a fee simple interest in the Hope facility as of January 21, 2014 was \$4,390,000, subject to certain conditions as listed in the Hope Appraisal Report.

Connolly appraised the site and buildings comprising the North Coast Facility. In that connection, Connolly prepared an Appraisal Report dated November 7, 2014 (the "North Coast Appraisal Report"). The North Coast Appraisal Report estimated that the "as-is" market value of a fee simple interest in the North Coast facility as of October 29, 2014 was \$8,750,000, subject to certain conditions as listed in the Appraisal Report.

See "APPENDIX B – THE CHARTER SCHOOL AND THE BORROWER – Appraisals of the Facilities."

An appraisal represents only the opinion of the appraiser and only as of its date. There may be a difference between the actual value of the Facilities and the amount of the Series 2015 Bonds, and that difference may be material and adverse to Bondholders. In particular, it cannot presently be determined with certainty what the value of the Facilities would be in the event of foreclosure under the Deeds of Trust. Further, the value of the Facilities at any given time will be directly affected by market and financial conditions that are not in the control of the parties involved in the Series 2015 Bond transaction. Real property values can fluctuate substantially depending on a variety of factors. There is nothing associated with the Facilities to suggest that its value would remain stable or would not decrease if the general values of property were to decline in the areas in which the School's Facilities are located.

Damage or Destruction of the Facilities

The Loan Agreement and the Lease require the Facilities to be insured against certain risks. There can be no assurance that the amount of insurance required to be obtained will be adequate, or that the cause of any damage or destruction to the Facilities will be as a result of a risk which is insured. Further, there can be no assurance of the ongoing creditworthiness of the insurance companies from which insurance is obtained. In addition, the Tenant may choose to terminate the Lease if a casualty constituting an uninsured loss under the Lease occurs. See "APPENDIX D – DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS – THE LEASE – Damage or Destruction."

Compliance with the No Child Left Behind Act of 2001

The No Child Left Behind Act of 2001 (the "NCLB") uses Adequate Yearly Progress ("AYP") to measure and hold schools and school districts responsible for student achievement. In California, the NCLB subjects California schools to an annual AYP determination. AYP is calculated by using a formula set by the California Department of Education. It measures participation rates, math and reading performance, and graduation rate targets for the elementary, middle and high school levels. Under California law, if a school receives Title I funds and does not make AYP for two consecutive years, the school is placed on Program Improvement status and the school must develop a school improvement plan. If the school does not achieve AYP goals by the third year after it has entered Program Improvement status, "corrective action" must be undertaken which could include the provision of supplemental educational services for low-performing, low-income students. A school that continues to fail to make AYP must take corrective action and undergo restructuring plans. Failure to meet AYP for years subsequent to the second year carries further consequences under the NCLB.

Reports published by the CDE indicate that the School met 13 out of 20 AYP criteria in 2011, 13 out of 22 AYP criteria in 2012 and 6 out of 22 AYP criteria in 2013. Under California law, a charter school's charter may be terminated if the school fails to make reasonable progress toward achievement of goals, objectives, content standards, pupil performance standards or applicable federal requirements. Failure by the School to meet the requirements of the NCLB in the future could adversely affect the revenues necessary for the Tenant to make payments under the Lease representing debt service on the Series 2015 Bonds. Although the School did not meet AYP criteria in these years, according to the School, it is not in Program Improvement status and has never been in Program Improvement status because the School has made reasonable progress toward the achievement of goals, objectives, content standards and pupil performance standards and the School does not receive federal funding which would subject it to the NCLB requirements. See "APPENDIX B – THE CHARTER SCHOOL AND THE BORROWER – AYP Status."

Environmental Regulation

The Facilities are and will be subject to various federal, State and local laws and regulations governing health and the environment. In general, these laws and regulations could result in liability to the Borrower or the Tenant (and to any beneficiary of the mortgage granted by the Deeds of Trust, particularly following any sale or foreclosure proceedings) for remediating adverse environmental conditions on or relating to the Facilities, whether arising from pre-existing conditions or conditions arising as a result of activities conducted in connection with the ownership and operation of the Facilities. Costs incurred by the Tenant with respect to environmental remediation or liability could adversely affect its financial condition. Excessive costs in connection with any such environmental remediation or any such liability to third parties could also make it difficult to successfully re-let the Facilities.

Various environmental site assessments have been conducted with respect to the Facilities. See “APPENDIX B – THE CHARTER SCHOOL AND THE BORROWER – Environmental Assessments.” The reports prepared in connection with those assessments speak only as of their date, and no additional assessments have been requested or performed subsequent to those dates. Potential purchasers should refer to the complete reports for additional information regarding the assessment performed. Copies of the reports are available as described under “MISCELLANEOUS – Additional Information” below.

Risks Regarding Bankruptcy and Similar Laws

General

No representation can be made regarding whether either the Borrower or the Tenant is, or would be, eligible for voluntary relief, or could have relief involuntarily ordered against it, under the United States Bankruptcy Code, 11 U.S.C. §§101 *et seq.* (the “Bankruptcy Code”) or under any similar federal or state law or equitable proceeding regarding insolvency or providing for protection from creditors (any such proceeding, an “Insolvency Proceeding”). If the Borrower or the Tenant (in either case, the “Relevant Debtor”) were to commence, or have commenced against it, an Insolvency Proceeding, such an Insolvency Proceeding may include, without limitation, a full or partial liquidation of the Relevant Debtor or a restructuring of the Relevant Debtor’s obligations. The commencement of such an Insolvency Proceeding under the Bankruptcy Code would stay the commencement or continuation of many types of action against the Relevant Debtor or its property, including, without limitation, a proceeding to foreclose on the Deeds of Trust, unless a court with jurisdiction over the Insolvency Proceeding were to order otherwise. There can be no guaranty that creditors of the Relevant Debtor, including the owners of the Series 2015 Bonds if the Borrower were the Relevant Debtor, will be paid in full or in part in an Insolvency Proceeding. In such an Insolvency Proceeding in which the Borrower were the Relevant Debtor, it is possible that the property pledged as security for the Series 2015 Bonds would come under the supervision or control of a court with jurisdiction over the Insolvency Proceeding and that such property, in whole or in part, would not be available to satisfy the obligations of the Borrower as contemplated by the principal documents described in this Official Statement, including, without limitation, the Indenture, the Loan Agreement, and the Deeds of Trust. Moreover, an Insolvency Proceeding may limit, modify, restrict, or otherwise affect the availability of remedies to the Trustee or to the registered owners of the Series 2015 Bonds. See “RISK FACTORS – Enforcement of Remedies” below.

It is impossible to predict with certainty the ways in which an Insolvency Proceeding might affect creditors of the Relevant Debtor, including, without limitation, the Trustee, the registered owners of the Series 2015 Bonds, and the Beneficial Owners of the Series 2015 Bonds, in part, because the outcome of any particular matter considered in an Insolvency Proceeding may depend upon the specific facts of the particular case, and because the matter may be subject to the exercise of discretionary equitable powers by a state or federal court (including a federal bankruptcy court), which powers such a court may exercise in furtherance of goals or policies other than those that would favor creditors of the Relevant Debtor, including, without limitation, the Trustee, the registered owners of the Series 2015 Bonds, and the Beneficial Owners of the Series 2015 Bonds.

Although the Borrower is intended to be a special purpose entity, there can be no assurance that it will not become the subject of an Insolvency Proceeding.

Risks Associated with Assumption or Rejection of the Lease in Bankruptcy – Insolvency Proceeding regarding Tenant

In an Insolvency Proceeding of the Tenant commenced under the Bankruptcy Code (a “Tenant Bankruptcy Case”), the trustee (if one were appointed to administer the bankruptcy estate of the Tenant) or the Tenant (as debtor in possession, if no trustee were appointed) (collectively, the “trustee/Tenant”) could seek either to assume or to reject the Lease. The assumption or rejection of the Lease would be subject to approval of the court having jurisdiction over the Tenant Bankruptcy Case, and it cannot be predicted whether that court (a) would determine, if the issue were presented by a party in interest, that the Lease is a lease that, as a matter of law, may not be assumed and/or assigned under the Bankruptcy Code or (b) would otherwise approve either assumption or rejection of the Lease in a Tenant Bankruptcy Case.

Pending any such assumption or rejection, the trustee/Tenant would be required to perform all obligations of the Tenant arising under the Lease from and after the date of entry by the court of an order for relief against the Tenant in the Tenant Bankruptcy Case (which, in a voluntary Tenant Bankruptcy Case, would be the date on which the Tenant filed its voluntary petition for relief under the Bankruptcy Code), except for certain obligations arising from defaults relating to (a) the insolvency or financial condition of the Tenant; (b) the commencement of the Tenant Bankruptcy Case; (c) the appointment of a trustee in the Tenant Bankruptcy Case or of a custodian before the commencement of the Tenant Bankruptcy Case, and (d) certain penalties (clauses (a) through (d), collectively, the “Excluded Defaults”). There can be no assurance that the trustee/Tenant would perform the Tenant’s obligations as so required. If there had been any default under the Lease (other than Excluded Defaults), then, as a prerequisite to assumption of the Lease by the trustee/Tenant, the trustee/Tenant would be required to (I) cure, or to provide adequate assurance that the trustee/Tenant would promptly cure, such defaults; (II) compensate, or provide adequate assurance that the trustee/Tenant would promptly compensate, the Borrower, as lessor, for any actual pecuniary loss to the Borrower resulting from such defaults, and (III) provide adequate assurance of the Tenant’s future performance under the Lease. If the trustee/Tenant were to assume the Lease, the trustee/Tenant then or thereafter could seek to assign the Lease to a third party, notwithstanding any prohibition in the Lease against such an assignment and, upon court approval of any such assignment (which approval cannot be presumed or predicted), the trustee/Tenant and the Tenant’s bankruptcy estate would be relieved of liability for any breach of the Lease occurring after the effective date of such assignment. Although the trustee/Tenant would have to provide adequate assurance of future performance of the Lease by the assignee as a condition to the assignment of the Lease, there can be no assurance that the assignee would in fact perform its future obligations under the Lease.

If, in a Tenant Bankruptcy Case, the trustee/Tenant did not assume the Lease within the appropriate period of time described in the Bankruptcy Code (the “Timing Provisions”), the Lease would be deemed rejected by operation of the Bankruptcy Code. Alternatively, the trustee/Tenant could obtain, within the time described above, an order of the court authorizing rejection of the Lease. In either case, the Borrower, as lessor, would have a claim against the Tenant’s bankruptcy estate for damages arising from the rejection of the Lease, which claim may be limited by certain provisions of the Bankruptcy Code to an amount less than the total damages incurred by the Borrower, as lessor, as a result of the rejection of the Lease. There can be no assurance that any such claim would be allowed in an amount equal to the total damages sustained by the Borrower, as lessor, as a result of the rejection of the Lease or that the Tenant’s bankruptcy estate would distribute to the Borrower an amount on account of any such claim sufficient to satisfy in full the Borrower’s obligations under the Indenture, Loan Agreement, and/or Deeds of Trust.

In a Tenant Bankruptcy Case, it is possible that the trustee/Tenant or another party in interest might ask the court to determine that the Lease is not a true lease but, instead, is and/or should be treated as a financing agreement between the Borrower and the Tenant. If the court were to so determine, it is possible that the property subject to the Lease would be deemed not to be property of the Borrower but, rather, property of the Tenant. In that circumstance, there can be no assurances regarding the nature, extent, validity, priority, or secured or unsecured status of any claims that are or may be asserted by the Borrower against the Tenant.

Risks Associated with Assumption or Rejection of the Lease in Bankruptcy – Insolvency Proceeding regarding Borrower

In an Insolvency Proceeding of the Borrower commenced under the Bankruptcy Code (a “Borrower Bankruptcy Case”), the trustee (if one were appointed to administer the bankruptcy estate of the Borrower) or the Borrower (as debtor in possession, if no trustee were appointed) (collectively, the “trustee/Borrower”) could seek either to assume or to reject the Lease. Pending such assumption or rejection, the Tenant would be required to perform under the Lease pursuant to the terms of the Lease. The trustee/Borrower, as lessor, would not be subject to the same Timing Provisions regarding assumption of the Lease as a trustee/Tenant would be in a Tenant Bankruptcy Case. If the Borrower were to obtain an order of the court authorizing rejection of the Lease, the Tenant, under the Bankruptcy Code, would have certain rights, conditioned upon the performance of certain obligations, to remain in possession of the property subject to the Lease.

The discussion above regarding recharacterization of the Lease is applicable to a Borrower Bankruptcy Case as well as to a Tenant Bankruptcy Case.

Risk of Substantive Consolidation of the Borrower and the Tenant

In both a Tenant Bankruptcy Case and a Borrower Bankruptcy Case, the trustee/Tenant or trustee/Borrower (as applicable) or another party in interest might seek an order of the court substantively consolidating the assets and liabilities of the Borrower and the Tenant. If the court ordered such substantive consolidation, the assets of the Borrower (including property pledged as security for the Series 2015 Bonds) might be combined with the assets of the Tenant into one consolidated bankruptcy estate, and creditors of each of the Borrower and the Tenant might be treated as creditors of the consolidated bankruptcy estate, with the combined assets of the Borrower (including property pledged as security for the Series 2015 Bonds) and the Tenant being thereby made available to satisfy the aggregate claims of creditors of each of the Borrower and the Tenant. Although the Borrower is intended to be a special purpose entity, there can be no assurance that the court would not order substantive consolidation based on the facts and circumstances existing at the time substantive consolidation was sought.

Additional Bonds

The Indenture allows the Authority to issue Additional Bonds on a parity with the Series 2015 Bonds if certain conditions are met. See “SECURITY FOR THE SERIES 2015 BONDS – The Indenture – Additional Bonds,” “SECURITY FOR THE SERIES 2015 BONDS – The Loan Agreement – Limitations on Indebtedness” and “APPENDIX D – DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS – THE INDENTURE – Additional Bonds.”

Enforcement of Remedies

The remedies available to the Trustee or the registered owners of the Series 2015 Bonds upon an Event of Default under the Indenture or the Loan Agreement depend in many respects on judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies provided in the Indenture and the Loan Agreement may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 2015 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by the valid exercise of the sovereign powers of the State and the constitutional powers of the United States of America, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Determination of Taxability

If a Determination of Taxability (as defined in the Indenture) were to occur, the Series 2015A Bonds would be subject to mandatory redemption, as a whole and not in part, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date on the earliest practicable date for which notice can be given following such determination subject to certain conditions and notice requirements. See “THE SERIES 2015 BONDS – Prior Redemption – Mandatory Redemption Upon Determination of Taxability.” The Internal Revenue Service (“IRS”) has authority to audit tax-exempt bonds, and has indicated in public statements and pronouncements that it intends to enforce compliance with statutory and regulatory provisions related to tax-exempt bonds by simultaneously pursuing bondowners, borrowers and issuers.

No assurance can be given that the IRS will not examine the Series 2015A Bonds. If the Series 2015A Bonds are examined, it may have an adverse impact on their marketability and price. The tax-exempt status for federal income tax purposes of interest on the Series 2015A Bonds depends on continued compliance by the Authority, the Borrower and the Tenant with certain covenants relating generally to restrictions on use of the Facilities, arbitrage limitations and rebate of certain excess investment earnings to the federal government. Failure to comply with such covenants could cause interest on the Series 2015A Bonds to become subject to federal income taxation retroactive to the date of issuance of the Series 2015A Bonds. The Indenture does not provide for the payment of any additional interest or penalty in the event that interest on the Series 2015A Bonds becomes included in gross income for federal income tax purposes.

Loss of Tax-Exempt Status

The Tenant is an organization described in Section 501(c)(3) of the Code exempt from taxation under Section 501(a) of the Code. As a tax-exempt, charitable organization, the Tenant and its operations are subject to various requirements specified by the Code and the regulations promulgated thereunder. The Tenant must comply with those requirements in order to maintain its tax-exempt status. The Tenant may be audited by the IRS. Although the Tenant believes it is in compliance with applicable tax laws, an IRS audit of the Tenant ultimately could affect its tax-exempt status. Loss of tax-exempt status by the Tenant could result in loss of tax exemption for federal income tax purposes of interest on the Series 2015A Bonds.

Legislation adopted by Congress in 1996 provides the IRS with an “intermediate” sanctions system of federal excise taxes to combat violations by tax-exempt organizations of the private inurement prohibition of the Code. Before the “intermediate sanctions law,” the IRS could punish such violations only through revocation of an entity’s tax-exempt status. Intermediate sanctions may be imposed where there is an “excess benefit transaction,” defined to include a disqualified person (i.e., an insider) (i) engaging in a non-fair market value transaction with the tax-exempt organization, (ii) receiving unreasonable compensation from the tax-exempt organization, or (iii) receiving payment in an arrangement that violates the private inurement proscription. Intermediate sanctions may be imposed by the IRS either in lieu of or in addition to revocation of exemption. The legislation is potentially favorable to taxpayers in that it provides the IRS with a punitive option short of exemption revocation to deal with incidents of private inurement. However, the standards for tax exemption have not been changed and the IRS still has authority to revoke tax-exempt status in appropriate circumstances.

Secondary Market

Subject to applicable securities laws and prevailing market conditions, the Underwriter intends but is not obligated to make a market in the Series 2015 Bonds. There is no guarantee that a secondary trading market will develop for the Series 2015 Bonds. Consequently, prospective bond purchasers should be prepared to hold their Series 2015 Bonds to maturity or prior redemption.

Risk of Loss from Nonpresentment upon Redemption

The rights of the registered owners to receive interest will terminate on the date, if any, on which the Series 2015 Bonds are redeemed pursuant to a call for redemption, notice of which has been given under the Indenture.

Other Possible Risk Factors

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

1. Establishment of mandatory governmental wage, rent or price controls;
2. Inability to control increases in operating costs, including salaries, wages and fringe benefits, supplies and other expenses, given an inability to obtain corresponding increases in operating revenues;
3. Unionization, employee strikes and other adverse labor actions which could result in a substantial increase in expenditures without a corresponding increase in revenues, and
4. Adoption of other federal, state or local legislation or regulations having an adverse effect on the future operating or financial performance of the Borrower.

THE SERIES 2015 BONDS

General

The Series 2015 Bonds will be dated as of their date of delivery, will be issued in the aggregate principal amounts and will bear interest at the rates and mature on the dates, subject to redemption as described below, set forth on the inside front cover page hereof. The Series 2015 Bonds will be issuable as fully registered bonds without coupons in authorized denominations of \$250,000 or any multiple of \$5,000 in excess of \$250,000 or the outstanding principal amount of the Series 2015 Bonds, if less; provided, however, that upon receipt by the Trustee of an Investment Grade Notice, such denominations shall be reduced to \$5,000 or any multiple thereof. An Investment Grade Notice means an official notice released by any Rating Agency that the Series 2015 Bonds have been given an Investment Grade Rating.

Interest on the Series 2015 Bonds is payable semi-annually on March 1 and September 1 of each year, commencing September 1, 2015 (each an “Interest Payment Date”). Interest on the Series 2015 Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months, until payment of principal has been made or provided for, payable on each Interest Payment Date. The principal of, interest on and any redemption premium with respect to the Series 2015 Bonds shall be payable in legal currency of the United States of America, to the person in whose name the Series 2015 Bond is registered as of the 15th day of the month preceding such Interest Payment Date, whether or not such day is a Business Day (the “Record Date”). Any interest not punctually paid or duly provided for shall cease to be payable to the Holder on the respective Record Date and shall be paid to the person in whose name the Bond is registered at the close of business on a Special Record Date fixed by the Trustee. Under the Indenture, the Trustee will provide notice of such Special Record Date by first-class mail not fewer than 15 days prior to the Special Record Date.

Interest on the Series 2015 Bonds shall be payable by check to the Holders of Bonds at the close of business on the Record Date, at the registered addresses of Holders as shall appear on the registration books of the Trustee; provided, however, that any Holder of Series 2015 Bonds in an aggregate principal amount in excess of \$1,000,000 may be paid interest by wire transfer to a bank account located in the United States by providing written wire transfer instructions to the Trustee prior to the Record Date next preceding the applicable Interest Payment Date.

Restrictions on Purchase and Transfer

The Series 2015 Bonds may only be purchased by “Approved Institutional Buyers”, which means (1) a “qualified institutional buyer” as defined in Rule 144A promulgated under the Securities Act of 1933, as in effect on the date hereof (the “Securities Act”); (2) an “accredited investor” as defined in paragraphs (1) through (3) of subsection (a) of Section 501 (“Section 501”) of Regulation D promulgated under the Securities Act; (3) an entity that is directly or indirectly wholly owned or controlled by the purchaser/bondholder representative (being a financial institution described in (1) above; (4) an “accredited investor” as defined in paragraph (5) of subsection (a) of said Section 501, provided that the minimum net worth shall be \$5,000,000; (5) an “accredited investor” as defined in paragraph (6) of subsection (a) of said Section 501, provided that the minimum income (individual or joint) shall be \$1,000,000; (6) an entity all of the investors in which are described in (1), (2) or (3) above; or (7) a custodian or trustee for a party described in (1), (2), (3), (4) or (5) above. The initial purchasers of the Series 2015 Bonds will be required to execute an Investor Letter substantially in the form attached hereto as “APPENDIX G – FORM OF INVESTOR LETTER.” Purchasers of the Series 2015 Bonds will be deemed to have acknowledged, represented, warranted, and agreed with and to the Authority, the Underwriter and the Trustee as described under “NOTICE TO INVESTORS OF THE SERIES 2015 BONDS” following the cover page to this Official Statement above. The Series 2015 Bonds may only be transferred to an Approved Institutional Buyer, unless the Authority has received an Investment Grade Notice, in which case transfers shall not be restricted to Approved Institutional Buyers.

Prior Redemption

Optional Redemption

The Series 2015A Bonds maturing in the year 2045 are subject to redemption prior to their stated maturity on or after March 1, 2025, at the option of the Borrower, on behalf of the Authority, from any source of available funds, as a whole or in part on any date specified by the Borrower in a notice of redemption given by the Trustee to the Holders of the Series 2015A Bonds to be redeemed (with a copy to the Authority) at least 30 days, but no more than 60 days, prior to such redemption date (in such amounts and of such Mandatory Sinking Account Payments as may be specified by the Borrower, or if the Borrower fails to specify such amounts and such Mandatory Sinking Account Payments, in inverse order of Mandatory Sinking Account Payments), at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

The Series 2015B Bonds are not subject to optional redemption prior to maturity.

Mandatory Sinking Account Redemption

The Series 2015A Term Bonds maturing on March 1, 2025 are subject to mandatory redemption (or payment at maturity, as the case may be), at a redemption price equal to 100% of the principal amount thereof and accrued interest to the redemption date, by application of Mandatory Sinking Account Payments in the following amounts and on the following dates:

Mandatory Sinking Account Payment Dates	Mandatory Sinking Account Payments
March 1	
2018	\$ 60,000
2019	450,000
2020	475,000
2021	500,000
2022	525,000
2023	555,000
2024	580,000
2025†	610,000

† Maturity

The Series 2015A Term Bonds maturing on March 1, 2027 are subject to mandatory redemption (or payment at maturity, as the case may be), at a redemption price equal to 100% of the principal amount thereof and accrued interest to the redemption date, by application of Mandatory Sinking Account Payments in the following amounts and on the following dates:

Mandatory Sinking Account Payment Dates	Mandatory Sinking Account Payments
March 1	
2026	\$625,000
2027†	525,000

† Maturity

The Series 2015A Term Bonds maturing on March 1, 2045 are subject to mandatory redemption (or payment at maturity, as the case may be), at a redemption price equal to 100% of the principal amount thereof and accrued interest to the redemption date, by application of Mandatory Sinking Account Payments in the following amounts and on the following dates:

Mandatory Sinking Account Payment Dates	Mandatory Sinking Account Payments
March 1	
2027	\$ 130,000
2028	700,000
2029	740,000
2030	780,000
2031	825,000
2032	870,000
2033	920,000
2034	970,000
2035	1,025,000
2036	1,085,000
2037	1,145,000
2038	1,210,000
2039	1,275,000
2040	1,350,000
2041	1,425,000
2042	1,505,000
2043	1,590,000
2044	1,680,000
2045†	1,775,000

† Maturity

The Series 2015B Term Bonds maturing on March 1, 2018 shall be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments in the following amounts and on the following dates:

Mandatory Sinking Account Payment Dates	Mandatory Sinking Account Payments
March 1	
2017	\$395,000
2018†	365,000

† Maturity

Redemption of Bonds Upon Occurrence of Certain Events

The Series 2015 Bonds are subject to extraordinary redemption in whole or in part at any time at a redemption price equal to the principal amount of the Series 2015 Bonds to be redeemed plus accrued interest thereon to the redemption date upon the occurrence of any of the following events:

(a) The Facilities shall have been damaged or destroyed, in whole or in part, to such extent that, as expressed in a consulting architect's certificate filed with the Trustee, (i) the Facilities cannot reasonably be restored within a period of six consecutive months to the condition thereof immediately preceding such damage or destruction, (ii) the Borrower is thereby prevented from carrying on its normal operations at the Facilities for a period of six consecutive months or (iii) the cost of restoration thereof would exceed the net proceeds of insurance carried thereon pursuant to the requirements of the Loan Agreement.

(b) Title to or the temporary use of, all or any substantial part of the Facilities shall have been taken under the exercise of the power of eminent domain by any governmental authority or person, firm or corporation acting under governmental authority or because of a defect in title.

(c) As a result of any changes in the Constitution of the State or the Constitution of the United States of America or of legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body (whether state or federal) entered after the contest thereof by the Borrower in good faith the Loan Agreement shall have become void or unenforceable or impossible of performance in accordance with the intent and purposes of the parties as expressed in such agreement or unreasonable burdens or excessive liabilities shall have been imposed on the Borrower or the Tenant in respect to the Facilities. Redemption as described in this subsection shall be in whole only.

Only net proceeds of insurance or of a condemnation award may be used for a partial redemption of Series 2015 Bonds pursuant to subsections (a) or (b) above.

Mandatory Redemption Upon Determination of Taxability

In addition, the Series 2015A Bonds are subject to mandatory redemption as a whole at the principal amount thereof, plus accrued interest thereon to the date of redemption, upon a Determination of Taxability related to such Series 2015A Bonds. The redemption date shall be the earliest practicable date selected by the Trustee, after consultation with the Borrower, but in no event later than six months following the finalization of the Determination of Taxability. See “RISK FACTORS – Determination of Taxability.”

Notice of Redemption

The Trustee is required to cause notice of redemption to be given not more than 60 nor less than 30 days prior to the applicable redemption date by Electronic Means or by first-class mail a copy of the notice to the registered owners of the Series 2015 Bonds designated for redemption in whole or in part, at their last addresses appearing upon the bond register; provided, however, that the failure of any registered owner to receive any such notice or any defect in such notice shall not affect the validity of proceedings for the redemption of such Series 2015 Bonds.

The Borrower, on behalf of the Authority, has the right to rescind any optional redemption notice by written notice to the Trustee, on or prior to the date fixed for redemption. Any such notice of optional redemption is to be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under the Indenture.

Each notice of redemption is required to specify the series and maturities of the Series 2015 Bonds to be redeemed, the date fixed for redemption and the place or places where amounts due upon such redemption shall be payable and, if less than all of the Series 2015 Bonds of any like series and maturity are to be redeemed, the Series 2015 Bonds to be so redeemed, and, in the case of the Series 2015 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Such notice shall further state any conditions that must be met prior to the redemption of the Series 2015 Bonds to be redeemed and that on such date there shall become due and payable upon each Series 2015 Bond to be redeemed the redemption price thereof, or the redemption price of the specified portions of the principal amount thereof in the case of the Series 2015 Bonds to be redeemed in part only, together with interest accrued but unpaid on the principal amount of the Bonds to be redeemed to the date fixed for redemption, and that from and after such date interest thereon shall cease to accrue and be payable.

Under the Indenture, neither the Authority nor the Trustee shall have any responsibility for any defect in the CUSIP number that appears on any of the Series 2015 Bonds or in any redemption notice with respect thereto, and any such redemption notice shall contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither the Authority nor the Trustee shall be liable for any inaccuracy in such numbers.

Acceleration

If an Event of Default occurs and is continuing, upon notice in writing to the Authority, and the Borrower, the Trustee may (a) declare the principal of the Series 2015 Bonds, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable; and (b) exercise any and all rights and remedies of the Trustee provided for in the Loan Agreement and the Deeds of Trust. See “APPENDIX D – DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS – THE INDENTURE – Acceleration of Maturities.”

PLAN OF FINANCE

General

The Borrower will use the proceeds of the Series 2015 Bonds for the following purposes: (a) to refinance the outstanding loans from Verde Charter Capital, LLP (“Verde”) and Western Alliance Bank (formerly known as Torrey Pines Bank) used to acquire the Murrieta facility, (b) to refinance the outstanding loans from Verde and Western Alliance Bank, used to acquire the Temecula facility, (c) to finance the acquisition of the Hope facility, and any improvements thereto, (d) to finance the acquisition of the North Coast facility, and any improvements thereto, (e) funding capitalized interest; (f) funding a reserve fund with respect to the Series 2015 Bonds; and (g) paying certain costs of issuance for the Series 2015 Bonds (collectively, the “Series 2015 Project”). For more information, see “APPENDIX B – THE CHARTER SCHOOL AND THE BORROWER – Plan of Finance.”

Sources and Uses of Funds

The following table sets forth anticipated sources and uses of funds with respect to the Series 2015 Bonds:

Sources and Uses of Funds	
Sources	
Par Amount of Series 2015A Bonds	\$25,905,000.00
Par Amount of Series 2015B Bonds (Taxable)	760,000.00
Premium	78,617.40
	<u>\$26,743,617.40</u>
Uses	
Refinancing of the Murrieta facility	\$3,243,334.44
Refinancing of the Temecula facility	3,369,659.47
Acquisition of the Hope facility	4,220,000.00
Improvements to the Hope facility	1,000,000.00
Acquisition of the North Coast facility	8,750,000.00
Improvements to the North Coast facility	2,000,000.00
Architect, Engineering and Other	569,386.23
Capitalized Interest	500,000.00
Debt Service Reserve Fund Deposit	1,881,000.00
Cost of Issuance Including Underwriter’s Discount**	1,210,237.26
	<u>\$26,743,617.40</u>

** Includes underwriting discount, legal fees, Trustee’s fee, financial advisor fees, printing expenses and other miscellaneous costs and expenses related to the issuance and sale of the Series 2015 Bonds.

SECURITY FOR THE SERIES 2015 BONDS

General

The Series 2015 Bonds and the interest thereon are payable solely from certain revenues derived by the Authority under the Loan Agreement and from certain funds and accounts established and maintained under the Indenture. Under the Indenture, the Authority assigns to the Trustee, and to its successors in trust, and its and their assigns, all right, title and interest of the Authority in and to (a) the Revenues, including, without limitation, all Loan Repayments and other amounts receivable by or on behalf of the Authority under the Loan Agreement in respect of repayment of the Loan and all moneys and investments in the funds and accounts established pursuant to the Indenture, except money on deposit in the Rebate Fund, (b) the Loan Agreement, except for the Unassigned Authority Rights, (c) the Deeds of Trust, and (d) the Lease. See “APPENDIX D – DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS – THE INDENTURE.”

The obligations of the Borrower to make Loan Repayments and Additional Payments under the Loan Agreement are absolute and unconditional. The expected sole source of funds for such Loan Repayments and Additional Payments is payments made by the Tenant under the Lease. The Tenant’s obligation to pay Rent under the Lease is a special obligation limited solely to Gross Income of the School. The Tenant will not make payments under the Loan Agreement separate from its payments under the Lease.

THE SERIES 2015 BONDS ARE NOT AND SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY, AND ARE NOT AND SHALL NOT BE DEEMED TO BE A PLEDGE OF THE FAITH AND CREDIT OF THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR UNDER THE INDENTURE. NEITHER THE STATE NOR THE AUTHORITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF THE SERIES 2015 BONDS, OR THE REDEMPTION PRICE OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED THEREFOR UNDER THE INDENTURE. THE ISSUANCE OF THE SERIES 2015 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 MAKE STATE APPORTIONMENTS OR OTHER FUNDS AVAILABLE TO THE TENANT IN ANY AMOUNT OR AT ANY TIME.

The Indenture

The Series 2015 Bonds will be issued pursuant to the Indenture and will be equally and ratably secured thereby. The Indenture provides that all the Series 2015 Bonds and any Additional Bonds issued thereunder (collectively, the “Bonds”) shall be limited obligations of the Authority, payable solely from the funds provided therefor. As security for its obligations under the Indenture, the Authority will assign to the Trustee all right, title and interest of the Authority in and to (a) the Revenues, including, without limitation, all Loan Repayments and other amounts receivable by or on behalf of the Authority under the Loan Agreement in respect of repayment of the Loan and all moneys and investments in the funds and accounts established pursuant to the Indenture, excepting only moneys on deposit in the Rebate Fund; (b) the Loan Agreement, except for the Unassigned Authority Rights; (c) the Deeds of Trust; and (d) the Lease.

The Revenues are defined in the Indenture as “all amounts received by the Authority or the Trustee for the account of the Authority pursuant or with respect to the Loan Agreement, including, without limiting the generality of the foregoing, payments of Base Rent and Additional Rent to the Trustee as collateral assignee, Loan Repayments and Additional Payments (including both timely and delinquent payments and any late charges, and whether paid from any source), prepayments, insurance proceeds, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture, but not including any Administrative Fees and Expenses or any moneys required to be deposited in the Rebate Fund.”

Flow of Funds

Under the Indenture, except as otherwise provided therein, all Loan Repayments made pursuant to the Loan Agreement and all Additional Payments made pursuant to the Loan Agreement are required to be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Revenue Fund" which the Trustee is required to establish, maintain and hold in trust. Under the Indenture, on or before the 30th day of each month, commencing on or before April, 30, 2015, the Trustee is required to transfer from the Revenue Fund the following amounts, in the following order of priority:

- FIRST: to the Interest Account for the deposits occurring during the months of July through December, one-sixth of the aggregate amount of interest becoming due and payable on the immediately succeeding March 1 on all Bonds then Outstanding and all Parity Debt, and for the deposits occurring during the months of January through June, one-sixth of the aggregate amount of interest becoming due and payable on the immediately succeeding September 1 on all Bonds then Outstanding and all Parity Debt, together with an amount necessary to cure any insufficiency in the monthly deposit from a prior month, in each case until the balance in said account (including any earnings or capitalized interest then on deposit) is equal to said aggregate amount of interest; provided that from the date of delivery of the Bonds or the date of incurrence of Parity Debt until the first Interest Payment Date with respect to the Bonds or such Parity Debt, transfers to the Interest Account shall be sufficient on a monthly pro rata basis to pay the interest becoming due and payable on the initial Interest Payment Date;
- SECOND: to the Principal Account one-twelfth of the aggregate amount of principal becoming due and payable on the Outstanding Serial Bonds plus one-twelfth of the aggregate amount of Mandatory Sinking Account Payments required to be paid into the respective Sinking Accounts for Outstanding Term Bonds plus one-twelfth of the aggregate amount of principal becoming due and payable on Parity Debt, together with an amount necessary to cure any insufficiency in the monthly deposit from a prior month, in each case during the next ensuing 13 months, 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 or the date of incurrence of Parity Debt until the first Principal Payment Date with respect to the Bonds or such Parity Debt (if less than 13 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;
- THIRD: to the Reserve Account, (i) one twelfth 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), together with an amount necessary to cure any insufficiency in the monthly deposit from a prior month; provided that no withdrawal from the Reserve Account shall be made for the purpose of making up a deficiency in the Interest Account or Principal Account with respect to payments on Parity Debt not secured by the Reserve Account pursuant to the Indenture therein; and, provided further 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 (ii) in the event the balance in said account shall be less than the Reserve Account Requirement due to valuation of the Investment Securities deposited therein in accordance with the Indenture the amount necessary to increase the balance in said account to an amount at least equal to the Reserve Account Requirement (until deposits on account of such valuation deficiency are sufficient to increase the balance in said account to said amount);
- FOURTH: to the Rebate Fund, such amounts as are required to be deposited therein by the Indenture;
- FIFTH: to the Repair and Replacement Fund, that portion of the Additional Payments determined as set forth in the Loan Agreement for deposit into the Repair and Replacement Fund; and

SIXTH: to the Expense Account, such amounts as are required to pay the reasonable fees, charges and expenses of (i) the Trustee for services rendered under the Indenture, and all amounts required by the Indenture with respect to the Trustee; (ii) the rebate consultant for services rendered in computing the Rebate Requirement under the Indenture; (iii) the Authority Annual Fee; (iv) such accountants, consultants, attorneys and other experts as may be engaged by the Authority, the Trustee or the Borrower to prepare audited financial statements, reports, opinions or such other services required under the Indenture, the Loan Agreement, the Lease or the Deeds of Trust; and (v) the surveillance fees of the Rating Agency then maintaining a rating on the Bonds.

Under the Indenture, all moneys remaining in the Revenue Fund after the foregoing monthly transfers will be transferred by the Trustee to the Borrower at the written direction of the Borrower.

Under the Indenture, if the Trustee has not received the amounts required to make the transfers and deposits required by the Indenture on or before the 30th day of each month, unless such deficiency has been cured prior to such notification, the Trustee is required to notify the Borrower and the Tenant of such deficiency by no later than the 15th day of the following month and the Borrower shall forthwith pay the amount of any such deficiency to the Trustee by no later than two Business Days after notice thereof to the Borrower and the Tenant. If by the 10th day preceding any Interest Payment Date, the Trustee has not received Revenues sufficient to make the transfers required by the Indenture, the Trustee is required to immediately notify the Borrower and the Tenant of such insufficiency by Electronic Means and, under the Lease, the Borrower and the Tenant are required to pay the amount of any such deficiency to the Trustee upon written notice.

Reserve Account

The Indenture provides for the creation of the Reserve Account in the custody of the Trustee. Moneys in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of making up any deficiency in the Interest Account or the Principal Account, or (together with any other funds available) for the payment or redemption of all Outstanding Bonds.

Upon the issuance of the Series 2015 Bonds, there shall be deposited into the Reserve Account, from proceeds of the Series 2015 Bonds, an aggregate amount equal to \$1,881,000.00, representing the initial Reserve Account Requirement. Under the Indenture, the Reserve Account shall be maintained in an amount equal to the Reserve Account Requirement, being the least of (a) Maximum Annual Debt Service with respect to the Bonds Outstanding, (b) 125% of average Annual Debt Service with respect to the Bonds Outstanding, or (c) 10% of the original principal amount of the Bonds Outstanding; provided, however, in calculating the Maximum Annual Debt Service on the final maturity date for the Series 2015 Bonds Outstanding or each Series of Additional Bonds Outstanding, as applicable, an amount equal to the Reserve Account Requirement may be subtracted from the debt service amount for said year. For purposes of the Reserve Account Requirement, Annual Debt Service and average Annual Debt Service are calculated on the basis of 12-month periods ending on March 1 of any year in which Bonds are Outstanding, commencing March 1, 2016.

Under the Indenture, amounts on deposit in the Reserve Account shall be valued by the Trustee at their fair market value, plus accrued interest to such valuation date, each March 1 commencing on March 1, 2017. If the amount on deposit in the Reserve Account on the first Business Day following such valuation is less than 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 is greater than the Reserve Account Requirement, the excess shall be transferred to the Revenue Fund. See "APPENDIX D – DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS – THE INDENTURE – Application of Reserve Account."

Repair and Replacement Fund

The Indenture establishes a Repair and Replacement Fund. Under the Indenture, amounts held in the Repair and Replacement Fund shall be applied by the Trustee upon receipt of a requisition from an Authorized Representative of the Borrower for costs of operating and maintaining the Facilities, including without limitation, performing capital maintenance. The Repair and Replacement Fund Requirement is defined in the Indenture as a maximum amount equal to \$250,000, subject to a limit of \$50,000 per year until the requirement is reached; provided

however that such amount shall be increased to the extent required pursuant to the Loan Agreement as described below. Upon the issuance of the Series 2015 Bonds, the Borrower will cause \$10,000 to be deposited in the Repair and Replacement Fund from funds on deposit with the Trustee in connection with obligations of the Borrower which are being refinanced with proceeds of the Series 2015 Bonds. Subsequent to the issuance of the Series 2015 Bonds, the Borrower will cause such amounts as may be required under the provisions of the Loan Agreement to be deposited in the Repair and Replacement Fund.

Under the Loan Agreement, the Borrower covenants to increase the amount on deposit in the Repair and Replacement Fund, if (and only if) such an increase is recommended by an independent Consultant (which will examine the physical condition of the Facilities every five years), in equal monthly installments over the next five years. See “SECURITY FOR THE SERIES 2015 BONDS – The Loan Agreement – Operation of the Facilities” below.

Additional Bonds

Under the Indenture, at the request of the Borrower, the Authority may (but shall not be required to) issue Additional Bonds pursuant to the Act, from time-to-time, on a parity with the Series 2015 Bonds, provided that (a) the Trustee has received an opinion or report of an independent certified public accountant to the effect that the conditions for the incurrence of additional Indebtedness set forth in the Loan Agreement have been met, and (b) provided further that the Trustee has received:

- (i) an opinion of Bond Counsel to the effect that (A) the Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority; (B) the Indenture creates a valid pledge of the Revenues and the funds and accounts created under the Indenture (except the Rebate Fund) to secure the payment of the principal of, Redemption Price, if any, and interest on the Bonds subject to the provisions of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in this Indenture; (C) the Bonds of such Series constitute the valid and binding limited obligations of the Authority; and (D) the delivery of the Bonds of such Series will not cause the interest on any of the Tax Exempt Bonds to be included in gross income for federal income tax purposes;
- (ii) an opinion of counsel for the Borrower, addressed to the Authority, the Underwriter and Bond Counsel, to the effect that the Loan Agreement, the Lease and the Tax Regulatory Agreement, to which the Borrower is a party have been duly authorized, executed and delivered by the Borrower and are legal, valid and binding agreements of the Borrower enforceable against the Borrower in accordance with their terms;
- (iii) an Order as to the delivery of such Additional Bonds, signed by an Authorized Signatory of the Authority;
- (iv) an executed copy of the Supplemental Indenture authorizing such Additional Bonds, certified by an Authorized Representative of the Authority to be in full force and effect, which shall, among other provisions, specify:
 - (a) the authorized principal amount of the Bonds and the Series designation of such Bonds;
 - (b) the purpose for which such Additional Bonds are being issued, which shall be for purposes specified in the Indenture, for payment of all costs incidental to or connected with such financing, for making deposits into the Reserve Account to equal the Reserve Account Requirement, and/or for making any deposits into the funds and accounts required by the provision of the Supplemental Indenture authorizing such Additional Bonds;
 - (c) the date, and the maturity date or dates, of such Additional Bonds; provided that (i) each maturity date or Mandatory Sinking Account Payment date shall fall upon March 1, and

- (ii) serial maturities for Serial Bonds or Mandatory Sinking Account Payments for Term Bonds, or any combination thereof, shall be established to provide for the retirement of such Additional Bonds on or before their respective maturity dates;
- (d) the interest rate or rates on such Additional Bonds, and the Interest Payment Dates therefor; provided that the Interest Payment Dates shall be on March 1 and September 1 in each year;
- (e) the Authorized Denominations of, and the manner of dating, numbering and lettering, such Series of Additional Bonds;
- (f) the place or places of payment of the principal of, Redemption Price, and interest on, such Series of Additional Bonds;
- (g) the Redemption Price or prices, if any, and, subject to the requirements of the Indenture, the redemption terms for such Series of Additional Bonds;
- (h) whether such Series of Additional Bonds are to be registered in the name of a Depository, or its nominee, and any provisions appropriate or necessary with respect to the arrangements made with the Depository for such Series of Additional Bonds;
- (i) the application of the proceeds of the sale of such Series of Additional Bonds including the amount, if any, to be deposited in the funds and accounts established under the Indenture;
- (j) the forms of such Series of Additional Bonds and of the Trustee's certificate of authentication thereon;
- (k) provisions relating to compliance with the continuing disclosure provisions of the Rule, if applicable;
- (l) written confirmation from each Rating Agency then rating the Bonds to the effect that the issuance of the Additional Bonds will not result in a downgrade or withdrawal of the rating then in effect on the Bonds then Outstanding; and
- (m) such other provisions as are necessary and appropriate and not inconsistent with the Indenture;
- (v) the amount, if any, necessary for deposit in the Reserve Account so that the amount in such account shall equal the Reserve Account Requirement calculated immediately after the authentication and delivery of such Series of Additional Bonds;
- (vi) a certificate of an Authorized Representative of the Authority stating that the Authority is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Indenture and applicable to the Authority; provided, however, that in the case of Refunding Bonds such certificate may state that upon the application of the proceeds of such Refunding Bonds in accordance with the Supplemental Indenture authorizing their issuance, the Authority shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Indenture and applicable to the Authority;
- (vii) a certificate of an Authorized Representative of the Borrower stating that the Borrower is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Loan Agreement and applicable to the Borrower; provided, however, that in the case of Refunding Bonds such certificate may state that upon the application of the proceeds of such Refunding Bonds in accordance with the Supplemental Indenture authorizing their issuance, the

Borrower shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Loan Agreement and applicable to the Borrower;

- (viii) an executed copy of the Loan Agreement amended so as to increase the Loan Repayments by such amounts and at such times at least sufficient to pay the principal of, Redemption Price, if any and interest on such series of Additional Bonds as the same become due, certified by an Authorized Representative of the Borrower to be in full force and effect;
- (ix) a copy of the written request from the Borrower to the Authority for issuance of the Additional Bonds;
- (x) a copy of the applicable Bond Resolution, certified by the Authority; and
- (xi) such further documents, moneys and securities as are required by the provisions of the Indenture or the applicable Supplemental Indenture.

The Loan Agreement

Loan Payments and Other Amounts Payable

Under the Loan Agreement, the Borrower agrees that, on or before the 30th day of each month commencing April of 2015, as long as any of the Bonds remain Outstanding under the Indenture, it shall pay or cause to be paid to the Trustee, as assignee of the Authority, for deposit in the Revenue Fund, Loan Repayments in amounts corresponding to a schedule of principal of and interest on the Bonds. In addition to Loan Repayments, the Loan Agreement also requires the Borrower to pay Additional Payments to the Authority or to the Trustee, as the case may be, 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 shall 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 shall 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 other Trustee amounts under the Indenture and as custodian under the Lease Blocked Account Agreement, 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 Deeds of Trust or the Indenture;
- (iv) the Authority's issuance fee, 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 Deeds of Trust, 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 which may at any time be instituted involving the Loan Agreement, the Deeds of Trust, 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 or the Deeds of Trust;

- (v) any amounts due and payable by the Borrower as arbitrage rebate under Section 148 of the Code, pursuant to the Borrower's covenants and agreements with respect thereto in the Loan Agreement and any amounts required to be deposited into the Rebate Fund under the Indenture;
- (vi) if any moneys have been transferred from the Reserve Account to the Interest Account or the Principal Account pursuant to the Indenture or if the Trustee has notified the Borrower and the Tenant of a deficiency in the Reserve Account pursuant to the Indenture, in twelve (12) equal installments an amount equal to the amount required to cause the total amount in the Reserve Account to equal the Reserve Account Requirement;
- (vii) unless the amount on deposit in the Repair and Replacement Fund on the first Business Day of any Fiscal Year, following the 2014-15 Fiscal Year, equals or exceeds the Repair and Replacement Fund Requirement (in which event no additional deposits are required), commencing with the first succeeding monthly payment and each monthly payment thereafter, substantially equal monthly amounts, unless otherwise prepaid, which total (i) \$50,000, or (ii) the deficiency in the Repair and Replacement Fund if such deficiency is less than \$50,000. The Borrower shall not be required to pay or cause to be paid to the Trustee any amounts which would result in moneys in excess of the Repair and Replacement Fund Requirement being held in the Repair and Replacement Fund. The foregoing notwithstanding, the Borrower will direct the Trustee to deposit \$10,000 into the Repair and Replacement Fund upon issuance of the Series 2015 Bonds; and
- (viii) the surveillance fees of the Rating Agency then maintaining a rating on the Bonds.

Under the Loan Agreement, such Additional Payments set forth in clauses (i) through (viii) above, except for clauses (iv) and (vii), shall be billed to the Borrower by the Authority or the Trustee from time-to-time. Additional Payments required under clause (vii) above shall be paid as specified in clause (vii). After such a demand (which is not required for the Authority's annual fee), the Borrower is required to pay, or shall cause the Tenant to pay under the Lease, the amounts so billed. With the exception of the Authority Additional Payments, which are required to be made by the Borrower directly to the Authority, such Additional Payments shall begin with the next succeeding monthly deposit into the Revenue Fund from the date of billing to the Borrower as required in the Indenture. See "APPENDIX D – DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS."

Limitations on Indebtedness

Under the Loan Agreement, the Borrower agrees that it will not, except under the conditions described below, and except for refunding obligations as permitted under the Loan Agreement, incur any additional Indebtedness secured in whole or in part by the Mortgaged property or the Property Revenues:

(a) The Borrower will be precluded under the Loan Agreement from incurring additional Indebtedness secured by liens on the Mortgaged Property or the Property Revenues which are senior to the Deeds of Trust on the Mortgaged Property and the security interest in the Property Revenues granted by the Deeds of Trust.

(b) So long as the Lease is in effect, and no default has occurred and is continuing under the Loan Agreement or the Lease, including, but not limited to, any covenant default thereunder, the Borrower may, and, in the case of Additional Bonds, with written confirmation by the Trustee that the requirements of the Indenture have been met, incur additional Indebtedness secured in whole or in part by a mortgage on the Mortgaged Property and a security interest in the Property Revenues on a parity with amounts secured by the mortgage on the Mortgaged Property and the security interest in the Property Revenues granted by the Deeds of Trust if an Independent Management Consultant reports that the Net Income Available for Debt Service will equal not less than 120% of the combined Maximum Annual Debt Service for

outstanding Long-Term Indebtedness and the Long-Term Indebtedness proposed to be incurred for the three consecutive Fiscal Years after the earlier of (a) the date the Facilities are placed into service or (b) the first Fiscal Year in which there is no capitalized interest available for debt service on any Additional Bonds.

(c) The Borrower may incur additional Indebtedness secured by liens on the Mortgaged Property or Revenues that is subordinate to the mortgage on the Mortgaged Property and the security interest in the Property Revenues granted by the Deeds of Trust.

(d) The Borrower may, with the written consent of the Corporation and written confirmation by the Trustee that the requirements of the Indenture have been met, incur additional Indebtedness secured in whole or in part by a mortgage on the Mortgaged Property and a security interest in the Property Revenues on a parity with amounts secured by the mortgage on the Mortgaged Property and the security interest in the Property Revenues granted by the Deeds of Trust if the Debt Service for each Fiscal Year on all Indebtedness Outstanding prior to incurring such additional Indebtedness is not more than 10% greater than the Debt Service for each Fiscal Year on all Indebtedness Outstanding immediately after incurring such additional Indebtedness.

Operation of the Facilities

Under the Loan Agreement, no later than March 1, 2020 and each fifth anniversary thereafter, the Borrower shall engage, or cause the Tenant to engage pursuant to the Lease, an Independent Consultant who shall make (i) an examination of and report on the physical condition of the Facilities and the Mortgaged Property and (ii) recommendations as to the amounts to be accumulated in the Repair and Replacement Fund for the proper maintenance and upkeep of the Mortgage Property and the Facilities. To the extent that the Independent Consultant recommends an amount to be accumulated in the Repair and Replacement Fund greater than the amount then on deposit, the Borrower is to fund the recommended amount in excess of the amount then on deposit in equal monthly installments over the next five years. The Borrower shall have the right to engage and accept the recommendations of another Independent Consultant in the event the recommendations outlined in the initial report are deemed by the Tenant to be unreasonable and/or inconsistent with the School's operation and maintenance practices.

Deeds of Trust; Collateral Assignment of Lease

Under the Loan Agreement, to secure the payment of Loan Repayments and Additional Payments, the performance by the Borrower of its other obligations under the Loan Agreement and the payment and performance of all obligations of the Borrower under any Parity Debt, the Borrower has entered into the Deeds of Trust which Deeds of Trust the Borrower agrees will be recorded simultaneously with acquisition of the real property underlying the Mortgaged Property. The Borrower agrees, as long as any of the Loan Repayments or Additional Payments remain unpaid, to supplement the Deeds of Trust or to execute and deliver such other deeds of trust in substantially the form of the Deeds of Trust as may be necessary from time to time to grant the Trustee a first priority Lien on the Mortgaged Property, subject to Permitted Liens and the Lease. The Borrower shall obtain or cause to be obtained, at its own cost and expense, ALTA policies of title insurance, or an endorsement to such policies at the time of and dated as of the date of acquisition of the Mortgaged Property, or, with respect to any Additional Bonds, the date of issuance of the Bonds or Parity Debt, in an aggregate amount not less than the aggregate principal amount of the Bonds or Parity Debt to be outstanding after the issuance of such Bonds or Parity Debt, payable to the Trustee, insuring the Trustee's lien on the Mortgaged Property owned by the Borrower in fee, subject only to Permitted Liens and the Lease, issued by a title insurance company qualified to do business in the State. Subsequent to the issuance of the Series 2015 Bonds and the filing of the initial Uniform Commercial Code financing statements filed by other parties, the Trustee shall file or cause to be filed continuation statements for the Uniform Commercial Code financing statements, and shall execute and deliver such other documents as may be necessary or reasonably requested by the Authority in order to perfect or maintain as perfected such security interest or give public notice thereof.

Under the Loan Agreement, to secure the obligation of the Borrower to make Loan Repayments and Additional Payments, the performance by the Borrower of its other obligations under the Loan Agreement and the payment and performance of all obligations of the Borrower under any Parity Debt, the Borrower collaterally grants,

transfers and assigns to the Trustee for the benefit of the Holders of the Bonds without recourse all of the Borrower's right, title and interest under the Lease, including without limitation the following: (i) all its rights to receive the Base Rent, and any other amount payable or to be paid by the Tenant under the Lease (except for payment of Additional Rent, the Authority's right to indemnification under the Lease and the Authority's rights as a third-party beneficiary of the Lease); and (ii) all rents, profits, products and proceeds from the Mortgaged Property to which the Borrower has any right or claim whatsoever under the Lease.

Under the Loan Agreement, in the event that at any time prior to repayment in full of the Series 2015 Bonds, the Lease is terminated or not renewed by the Tenant, the Borrower agrees that it shall use its commercially reasonable efforts to enter into another lease in substantially the same form as the terminated Lease with a 501(c)(3) Organization or a Governmental Unit with respect to the Facilities subject to the Lease that was terminated or not renewed.

The Lease

General

The term of the Lease commences on the date the Borrower acquires the Acquisition Facilities. The Lease will expire on June 30, 2040; provided, however, that under the Lease the Tenant has three additional, consecutive five-year options to extend the term of the Lease. See "APPENDIX D – DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS – THE LEASE – Term."

Payment of Rent; Limited to Gross Income of the School

The Lease provides for Base Rent and Additional Rent which, if paid when due, will be sufficient to pay the principal of and interest on the Series 2015 Bonds and all other amounts payable by the Borrower upon assignment of the Loan Agreement to the Borrower. Under the Lease, the Tenant's obligation to pay Base Rent, Additional Rent, and expenses (collectively, "Rent") is a special obligation of the Tenant's limited solely to Gross Income of the School.

Covenant Regarding Budgeting for Rent

In the Lease, the Tenant covenants to take such action as may be necessary to include payment of Rent in its annual budget for the School, 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.

Deposit of Gross Income of the Charter School for Rental Payments

Under the Lease, the Tenant agrees to establish and maintain with a commercial bank selected by the Tenant a bank deposit account that is a blocked account (the "Blocked Account") with standing instructions and direction to the commercial bank for the payment of Base Rent set forth in the Lease from the Blocked Account in accordance with such instructions and directions. The Tenant covenants and agrees to immediately deposit into the Blocked Account that portion of the Gross Income of the School that is otherwise paid to Tenant from the San Diego County Office of Education and/or the Riverside County Office of Education. Title to the Blocked Account shall be in the name of the Tenant, provided however, any changes to the standing instructions and directions to the commercial bank shall require the written authorization of both the Borrower and the Tenant. Immediately following the payment of Base Rent pursuant to such standing instructions and direction, the commercial bank shall have standing instructions to transfer the balance of all moneys remaining in the Blocked Account to a separate deposit account established by the Tenant, in its sole discretion, with a commercial banking or other financial institution. The failure of the Tenant to maintain the Blocked Account shall be deemed to be a default under the Lease.

Limitations on Liens on Gross Income of the School

Other than as provided in the Lease, , the Tenant covenants and agrees that it will not create, assume or suffer to exist any Lien or security interest upon the Gross Income of the School in the Blocked Account described above; provided, however, following the release of moneys out of the Blocked Account, Tenant is entitled to have created or assumed liens or security interests in such released moneys.

Fund Balance / Net Asset Covenant

Under the Lease, for so long as the Bonds are Outstanding, the Tenant covenants and agrees to maintain in aggregate a net asset balance in the general operating funds of the School (the "Unrestricted Account") which equals not less than 5% of Operating Expenses (as defined in the Indenture) for the School's prior fiscal year. Funds or other assets maintained in the Unrestricted Account shall be liable for the payment of Rent under the Lease.

Such balance requirement in the Unrestricted Account shall be tested on June 30 of each year (the "Calculation Date") and shall be based upon the audited financial results of the School. The Tenant shall provide the Borrower and the Authority with a certification no later than 30 days after receipt by Julian of its annual audited financial statements for each year that the balance requirement in the Unrestricted Account set forth above has been met.

If on any Calculation Date, the Tenant's minimum fund balance required as described above has not been met, the Tenant shall retain a minimum of 50% of the Excess Net Income of the School until such time as the Tenant is in compliance with the fund balance required. Under the Lease, in the event that the Tenant is unable to maintain the fund balance as set forth above within 12 months of the initial non-compliance, the Holders of a majority of the Outstanding Bonds shall have the right to direct the Trustee to require the Tenant to engage, at the Tenant's expense, an Independent Management Consultant acceptable to such Holders, which Independent Management Consultant shall deliver a written report to the Beneficial Owners, the Trustee, the Authority, the Borrower and the Tenant within 75 days following the Tenant's engagement of the Independent Management Consultant, containing recommendations concerning the Tenant's: (i) operations; (ii) financing practices and activities, including Short-Term Indebtedness, lease financing and investment activities; (iii) management practices, including the use of consultants, budgeting practices, and ongoing financial systems and monitoring of the Tenant's financial condition with respect to the School; (iv) governance and administration practices; and (v) other factors relevant to, and specifically made for the purpose of, restoring compliance with the fund balance covenant described above.

Under the Lease, upon submission of the Independent Management Consultant's report, the Tenant shall arrange for payment of the amount owed to the Independent Management Consultant and, within 30 days following receipt of the Independent Management Consultant's report, issue a written certificate to the Holders of the Outstanding Bonds, the Trustee, the Authority and the Borrower indicating the Tenant's acceptance or rejection of all or any material portion of the Independent Management Consultant's recommendations. Notwithstanding the foregoing, the Holders of a majority of the Outstanding Bonds shall have the right to require the Tenant to comply with any recommendation of the Independent Management Consultant with respect to items set forth in (i)-(v) above.

Liquidity Covenant

Under the Lease, the Tenant covenants to maintain Days Cash on Hand equal to at least 30 days. Days Cash on Hand means as of any date of determination, the product of 365 times a fraction, (i) the numerator of which is the amount of Julian's unrestricted cash, unrestricted investments and board designated funds that are not otherwise restricted (either permanently or temporarily) as to their use, and (ii) the denominator of which is total Operating Expenses of Julian's, in each case, for the period of four fiscal quarters ended on the date of determination, and determined in accordance with generally accepted accounting principles.

The Tenant will provide the Trustee and the Underwriter within 60 days of each June 30 and December 31 (the "Testing Date"), commencing June 30, 2015, with a certificate stating the Days Cash on Hand as of the applicable June 30 or December 31 based on unaudited financials.

If on any Testing Date, the Days Cash on Hand has not been met, thereafter, on an annual basis, Tenant shall retain 50% of the Excess Net Income of the School until such time as Tenant is in compliance with the Days Cash on Hand required; provided, however, that Tenant is not required to retain an amount which would cause it to exceed the Days Cash on Hand required. The Borrower's failure to meet the Days Cash on Hand requirement in the Lease within 12 months of the Borrower's initial failure to meet the Days Cash on Hand required in the Lease shall be an Event of Default thereunder.

If on any Testing Date, Tenant is unable to meet the Days Cash on Hand set forth above, the Holders of a majority of the Outstanding Bonds have the right to direct the Trustee to require Tenant to engage, at Tenant's expense, an Independent Management Consultant acceptable to such Holders, which Independent Management Consultant is to deliver a written report to the Beneficial Owners, the Trustee, the Authority, Landlord and Tenant within 75 days following Tenant's engagement of the Independent Management Consultant containing recommendations concerning Tenant with respect to the School's: (a) operations; (b) financing practices and activities, including Short-Term Indebtedness, lease financing and investment activities; (c) management practices, including use of consultants, budgeting practices, and on-going financial systems and monitoring of Tenant's financial condition with respect to the School; (d) governance and administrative practices; and (e) other factors relevant to maintaining compliance with the requirements under Section 19.06 hereof.

Upon submission of the Independent Management Consultant's report, Tenant is to arrange for payment of the amount owed to the Independent Management Consultant and, within 30 days following receipt of the Independent Management Consultant's report, issue a written certificate to the Holders of the Outstanding Bonds, the Trustee, the Authority, the Trustee and Landlord indicating Tenant's acceptance or rejection of all or any material portion of the Independent Management Consultant's recommendations. Notwithstanding the foregoing, the Holders of a majority of the Outstanding Bonds have the right to require Tenant to comply with any recommendation of the Independent Management Consultant with respect to items set forth in (i)-(v) above.

Coverage Ratio

Under the Lease, the Tenant covenants to deliver annually to the Borrower, Trustee and the Underwriter a certificate stating the Coverage Ratio (defined as the ratio obtained by dividing (i) the Tenant's Net Income Available for Debt Service, in aggregate, for the prior Fiscal Year by (ii) aggregate Rent under the Lease) for the Fiscal Year then ended, commencing with the Fiscal Year ending June 30, 2015. The Coverage Ratio shall be at or above 1.10 for any Fiscal Year. If such Coverage Ratio is below 1.10, but above 1.00, the Holders of at least a majority of the Outstanding Bonds shall have the right to direct the Trustee to require the Tenant to retain, at its expense, an Independent Management Consultant acceptable to the Holders to submit a written report and make recommendations with 60 days of being retained (a copy of such report and recommendations shall be filed with the Underwriter and the Trustee) with respect to increasing income of the School, decreasing Operating Expenses or other financial matters of the Tenant which are relevant to increasing the Coverage Ratio to at least the required level. The Tenant agrees that promptly upon the receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, or to the extent practical, it shall revise its methods of operation and take such other reasonable actions as shall be in conformity with the recommendations of the Independent Management Consultant. It is an event of default under the Lease if the Coverage Ratio falls below 1.00. The Trustee will notify Holders of the Outstanding Bonds if the Coverage Ratio is below 1.10.

Covenant Regarding Charter Contract; Non-Renewal

Pursuant to the Charter Schools Act, the charter pursuant to which Julian operates the School is subject to nonrenewal or revocation. The School charter has been renewed several times in the past and is currently set to expire on June 30, 2016. Julian will be required to apply for charter renewals to operate beyond that date. California law imposes renewal requirements on charter schools, including academic attainment requirements. A charter is also subject to nonrenewal or revocation for material violations of the charter, failure to meet or pursue any of the pupil outcomes identified in the charter, failure to meet generally accepted accounting principles or engagement in fiscal mismanagement, or violations of law. See "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF CALIFORNIA LAW – CHARTER SCHOOL STATUS AND OPERATIONS – Charter Terms, Renewals, Revocations and Appeals."

Rating Maintenance

Under the Lease, the Tenant covenants that it will at all times cooperate with the Borrower so that the Borrower may maintain, from one or more Rating Agencies (as defined in the Indenture) a rating on the Bonds. The Tenant and the Borrower further agree to notify the Trustee and the Authority within five Business Days of its receipt of an Investment Grade Notice.

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DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service requirements for the Series 2015 Bonds.

March 1	Principal	Interest	Annual Total
2016		\$1,377,506.67	\$1,377,506.67
2017	\$395,000	1,475,900.00	1,870,900.00
2018	425,000	1,450,225.00	1,875,225.00
2019	450,000	1,423,500.00	1,873,500.00
2020	475,000	1,401,000.00	1,876,000.00
2021	500,000	1,377,250.00	1,877,250.00
2022	525,000	1,352,250.00	1,877,250.00
2023	555,000	1,326,000.00	1,881,000.00
2024	580,000	1,298,250.00	1,878,250.00
2025	610,000	1,269,250.00	1,879,250.00
2026	625,000	1,238,750.00	1,863,750.00
2027	655,000	1,207,500.00	1,862,500.00
2028	700,000	1,173,937.50	1,873,937.50
2029	740,000	1,134,562.50	1,874,562.50
2030	780,000	1,092,937.50	1,872,937.50
2031	825,000	1,049,062.50	1,874,062.50
2032	870,000	1,002,656.26	1,872,656.26
2033	920,000	953,718.76	1,873,718.76
2034	970,000	901,968.76	1,871,968.76
2035	1,025,000	847,406.26	1,872,406.26
2036	1,085,000	789,750.00	1,874,750.00
2037	1,145,000	728,718.76	1,873,718.76
2038	1,210,000	664,312.50	1,874,312.50
2039	1,275,000	596,250.00	1,871,250.00
2040	1,350,000	524,531.26	1,874,531.26
2041	1,425,000	448,593.76	1,873,593.76
2042	1,505,000	368,437.50	1,873,437.50
2043	1,590,000	283,781.26	1,873,781.26
2044	1,680,000	194,343.76	1,874,343.76
2045	1,775,000	99,843.76	1,874,843.76
Total:	\$26,665,000	\$29,052,194.27	\$55,717,194.27

CHARTER SCHOOL FUNDING

This section provides a brief overview of California’s system for funding charter schools. Prospective purchasers of the Series 2015 Bonds should note that the overview contained below and the summary of relevant law noted by cross-reference in the sections that follow are provided for the convenience of prospective purchasers of the Series 2015 Bonds but are not and do not purport to be comprehensive. Additional information regarding various aspects of charter school funding in California is available on numerous State-maintained websites and through other publicly available sources.

This section first provides background on constitutional and statutory provisions meant to ensure a guaranteed minimum level of education funding (Proposition 98). Next, this section provides an overview of certain components of charter school funding. California’s 2013-14 state budget, signed into law by Governor Jerry Brown on June 27, 2013, contained a significant overhaul of the education funding system in the State, including funding for charter schools. The primary mechanism for funding education in the State is now through the Local Control Funding Formula (“LCFF”).

Proposition 98 (Minimum Aggregate Funding Level for K-14 Education)

On November 8, 1988, California voters approved Proposition 98, a combined constitutional and statutory initiative. Certain Proposition 98 provisions were subsequently modified by Proposition 111. Proposition 98, as amended, provides a constitutionally guaranteed minimum level of funding to K-12 schools and community colleges (collectively, K-14 education) from State aid and local property taxes. In particular, K-14 education is guaranteed a minimum funding equal to the greatest amount calculated under three tests, the third of which was added by Proposition 111. Various summaries of the Proposition 98 tests are publicly available, such as that included in the *Report on the Budget Act of 2008*, prepared by the Fiscal Policy Division of the California Department of Education (the “Report”). The Report states that the minimum guarantee of funding is based on the greater of:

Test 1: *Percentage of General Fund Revenues* – the percentage of State general fund tax revenues received by schools and community colleges in 1986-87 as adjusted for the impact of shifts in property taxes from local governments to schools, or

Test 2: *Maintenance of Prior-Year Service Levels* – the prior-year level of funding from State aid and local property taxes, increased for enrollment growth and inflation as measured by the change in per capita personal income. However, in years when the percentage growth in per capita general fund revenues is less than the percentage growth in per capita personal income and the difference exceeds 0.5%, the following alternative test is substituted for Test 2:

Test 3: *Adjustment Based on Available Revenues* – the prior-year level of funding from State aid and local property taxes increased for enrollment growth and inflation as measured by the change in per capita General Fund revenues plus 0.5%. Test 3 is meant to ensure that K-14 education bears a fair share of the State’s general fund revenue growth or decline in extraordinarily good or bad revenue growth years.

Test 3B: *“Equal Pain, Equal Gain”* – Test 3B is the same as Test 3, except that K-14 education cannot suffer more cuts than the rest of the State budget.

Restoration: If the Proposition 98 guarantee is reduced because of the application of Test 3 or a suspension of the guarantee, the amount lost is never repaid. The funding level must eventually be restored in the future, according to a formula that is tied to the pace of the state’s economic recovery.

As described in the Report, generally, in years of “normal” State revenue growth, K-14 education is guaranteed a level of State and local funding at least equal to the funding level received in the prior year, adjusted for changes in enrollment and per capita personal income. In years of extraordinarily good or bad revenue growth, K-14 education participates in the State’s gains or losses according to specified “fair share” formulas.

If the Proposition 98 guarantee is reduced because of the application of Test 3 or a suspension guarantee, the amount lost is never repaid. Instead, following a “fair share” reduction in the level of the Proposition 98 funding guarantee or a suspension of the guarantee (as described below), the State eventually must restore K-14 education funding to the level that would have been provided had no reduction occurred. The pace of this restoration is tied to the pace of the State’s economic recovery.

Proposition 98 may be suspended by statute passed with a two-thirds vote, enacted separately from the budget. For example, Senate Bill 1101 (Chapter 213, Statutes of 2004) suspended the Proposition 98 minimum guarantee and specified that the 2004-05 funding level would be \$2 billion less than would otherwise be required under the State Constitution. Because final General Fund revenues for 2004-05 were substantially higher than projected when the 2004-05 budget was enacted, the final suspension level was \$3.6 billion, or \$1.6 billion higher than the Chapter 213 target. As a result of the higher revenues in 2004-05, the Proposition 98 guarantee level for 2005-06 rose by another \$1.3 billion. When the Proposition 98 guarantee levels increased, the Legislature and then Governor Schwarzenegger did not provide additional funds for 2004-05 or 2005-06. In May 2006, the Governor proposed to settle the case of *California Teachers Association and O’Connell vs. Schwarzenegger*, a lawsuit brought in August 2005 by the California Teachers Association and State Superintendent of Public Instruction Jack O’Connell stemming from a disagreement over the suspension of Proposition 98 and its subsequent impact on 2004-05 and 2005-06. The settlement agreement was signed May 10, 2006, and provided for \$3 billion over a seven-year period beginning in 2007-08 to restore the Proposition 98 guarantee amounts for 2004-05 and 2005-06. Legislation to implement this agreement, SB 1133 (Chapter 751, Statutes of 2006), was passed by the Legislature and signed by the Governor on September 29, 2006.

Although the State Constitution requires that a statute be passed with a two-thirds vote, enacted separately from the budget, to suspend Proposition 98, certain actions of the Legislature may not have complied with this requirement. On June 15, 2011, the Legislature passed the State budget for the 2011-12 fiscal year, which was subsequently vetoed by the Governor, who cited, among other things, that it “...contains legally questionable maneuvers.” See “The Legislature Ignores Constitutional Requirement for Proposition 98 Suspension”, *The Fiscal Report*, Volume 31, No. 1, Publication Date: June 24, 2011, by the School Services of California, Inc. (the “Fiscal Report”). The Fiscal Report states that, “[T]he Budget Bills sent to the Governor underfunded the minimum guarantee by up to \$1.5 billion, but the Legislature did not vote to suspend Proposition 98.”

Proposition 98 amended Section 2 and added Section 5.5 of Article XIII B, and amended Section 8 and added Section 8.5 of Article XVI of the California Constitution. Proposition 98 also added Sections 14020.1, 14022, 33126, 35256 and 41300.1 of the California Education Code. Some of these provisions have since been amended. For a summary of these provisions, as amended, see “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF CALIFORNIA LAW – PROPOSITION 98.”

Local Control Funding Formula

Prior to the enactment of the State’s 2013-14 budget, charter schools were funded through general purpose entitlement block grants and categorical block grants. Legislation signed by Governor Jerry Brown on July 1, 2013 (and additional clean-up legislation signed on September 26, 2013, and June 20, 2014), enacted the most significant change in California’s school financing model in almost 40 years. Known as the Local Control Funding Formula (“LCFF”), LCFF eliminated most of the prior funding system and rolled virtually all prior revenue limit and categorical funding into the new LCFF grants, with only few exceptions, including special education programs, nutrition, After School Education and Safety program, SB 740 (charter school facility grants), mandates and federal programs. However, block grant revenues received in the 2012-13 fiscal year are one of the factors in determining the starting point for charter school funding in the transition to the LCFF. The LCFF is projected to be phased-in over eight years until target rates under the LCFF are attained.

The LCFF creates three funding mechanisms: (i) a base grant for all students; (ii) supplemental grants equal to 35% of the base grants for each English learning, economically disadvantaged or foster youth pupil; and (iii) concentration grants (for schools with English learner, economically disadvantaged and foster youth enrollment in excess of 55% of total enrollment) equal to 50% of the base grant provided for each student above the 55% threshold. For charter schools, the supplemental and concentration grants are capped at the percent of such high need pupils in the district in which the charter school is located. The base grant amount will vary between the grade

spans of K-3, 4-6, 7-8 and 9-12. The statutory base grants are: (i) for K-3 \$6,845, (ii) for 4-6 \$6,947, (iii) for 7-8 \$7,154, and (iv) for 9-12 \$8,289, but are adjusted annually for Cost of Living Adjustments. For 2013-14, the target base grant amounts were: (i) for K-3 \$6,952, (ii) for 4-6 \$7,056, (iii) for 7-8 \$7,266, and (iv) for 9-12 \$8,419. The 2014 Budget Act includes funding for a 0.85% cost-of-living-adjustment, and thus, the 2014-2015 target base grant amounts will be adjusted for the cost-of-living adjustment accordingly.

Apportionment of General Purpose Apportionment Funding

The majority of State funding is funded through the principal apportionment process. Other programs, such as categorical programs funded based on the actual hours of instruction provided, are provided outside of the apportionment process. A charter school may receive apportionment funds directly or through the local educational agency that either grants its charter or was designated by the State Board of Education. For charter schools that elect to receive their funding directly, funds are directed to the superintendent of schools of the county in which the local educational agency that approved the charter or was designated by the State Board of Education as the oversight agency, for deposit to the appropriate funds or accounts of the charter school in the county treasury. These amounts are provided monthly pursuant to a schedule set forth in the California Education Code. See “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF CALIFORNIA CHARTER SCHOOL LAW – GENERAL PURPOSE APPORTIONMENT FUNDING – Apportionment of General Purpose Funds,” “– Apportionment Dates and Amounts,” and “– Apportionment Requirements.”

Other Education Funding

The sections that follow provide an overview of other forms of education funding for which charter schools in California may qualify, including funding provided in lieu of property taxes, “other” categorical funding, lottery funding and SB 740 Facilities Grant Program funding, which are generally provided to charter schools outside the apportionment process and which (with the exception of funding provided in lieu of property taxes) generally may be used only for certain, restricted purposes.

Funding in Lieu of Property Taxes

Charter schools receive funding in lieu of property taxes from their sponsoring local educational agencies. Pursuant to Section 47635 of the Charter Schools Act, funding in lieu of property taxes is calculated as the lesser of: (i) the average amount of property taxes per unit of average daily attendance, including average daily attendance attributable to charter schools, received by the local educational agency, multiplied by the charter school’s average daily attendance, and (ii) the Statewide average local control formula grant funding computed per unit of average daily attendance received by school districts, as determined by the Department of Education, multiplied by the charter school’s average daily attendance in each of the four corresponding grade level ranges: kindergarten and grades 1, 2, and 3; grades 4, 5, and 6; grades 7 and 8; and grades 9 to 12, inclusive.

Sponsoring local educational agencies are required to transfer funding in lieu of property taxes to charter schools in monthly installments, in amounts determined pursuant to Section 47635. For more information, see “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF CALIFORNIA LAW – OTHER EDUCATION FUNDING – Funding in Lieu of Property Taxes.”

Other Categorical Funding

In addition to categorical block grant funding, a charter school may apply for other federal and State categorical program funding, to the extent the school is eligible for funding and meets the requirements for the particular program, other than with respect to certain categorical programs which are specifically excluded by law. For more information, see “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF CALIFORNIA LAW – OTHER EDUCATION FUNDING – Other Categorical Funding.”

Lottery Funding

In California, charter schools also receive funding from the State Lottery Fund, which receives all proceeds from, among other sources, the sale of lottery tickets. Lottery funding is allocated to charter schools per unit of average daily attendance. Lottery funds are distributed quarterly by the State Controller's Office. Funding is based on annual average daily attendance. Lottery funds are identified as either "Proposition 20" funds or "non-Proposition 20" funds. Proposition 20 lottery funds may only be used to purchase instructional materials. Non-Proposition 20 lottery funds are unrestricted, except that they may not be used for acquisition of property, construction of facilities, financing of research, or for other non-instructional purposes. Lottery funding is not included in the charter school categorical block grant. For more information, see "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF CALIFORNIA LAW – OTHER EDUCATION FUNDING – Lottery Funding."

SB 740 Facilities Grant Program Funding

Charter schools that meet certain criteria are eligible to receive up to \$750 per unit of average daily attendance to reimburse an amount up to 75% of their annual facilities rent and lease costs from amounts appropriated under the annual Budget Act (and, if insufficient amounts are appropriated, then on a pro-rata basis) pursuant to Chapter 892, Statutes of 2001, Section 47614.5 of the Charter Schools Act. To be eligible (i) 70% or more of the charter school's students must be eligible for free or reduced cost meals, or (ii) the charter school must be located in the attendance area of a public elementary school in which 70% or more of students are eligible for free or reduced cost meals. SB 740 facilities funding may be used for costs associated with facilities rents and lease (consistent with the definitions used in the California School Accounting Manual), and for costs associated with remodeling buildings, deferred maintenance, installing or extending service systems and other built-in equipment, and improving sites. SB 740 facilities funding is not included in the charter school categorical block grant. For more information, see "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF CALIFORNIA LAW – OTHER EDUCATION FUNDING – Charter School Facilities Grant Program under SB 740."

2014-15 State Budget

Overview

On June 20, 2014, Governor Jerry Brown signed the State's 2014-15 budget (the "Budget"). Certain provisions of the Budget that affect charter schools are detailed below.

Mandates Block Grant

The Budget appropriates approximately \$218 million for the Mandated Block Grant (MBG) program to reimburse schools for mandated activities. The mandates block grant funds are available for charter schools to access funding for certain activities associated with the existing education mandates. Funding is available for K-8 schools at a rate of \$28 per pupil, with grades 9-12 schools having funding available at a rate of \$56 per pupil. However, charter schools are only eligible to receive half of the per pupil amount that participating school districts receive because some of the program mandates do not apply to charter schools, resulting in per-pupil funding rates of \$14 for charter K-8 schools and \$42 for charter high schools.

Funding Deferral Reductions

The Budget eliminates K-12 intra-year deferrals and provides \$4.7 billion General Fund Proposition 98 to reduce K-12 inter-year deferrals, leaving a remaining deferral balance of \$897 million at the end of the 2014-15 fiscal year. In addition, the Budget includes a "trigger" to pay down the remaining K-12 deferral obligations if General Fund revenues exceed Budget projections.

LCFF Accountability

The Budget includes an increase of \$4.75 billion to the Proposition 98 General Fund to continue the State's transition to the LCFF. This formula commits most new funding to districts serving English language learners,

students from low-income families, and youth in foster care. This increase will close the remaining funding implementation gap by more the 29 percent. Additionally, the Budget addresses an administrative problem related to the collection of income eligibility forms that are used to determine student eligibility for free or reduced-price meals.

Governor's Proposed 2015-16 Budget

Overview

On January 9, 2015, Governor Jerry Brown released his budget proposal for the State's 2015-16 Fiscal Year (the "The Governor's Proposed 2015-16 Budget").

Proposition 98 Funding Guarantee

The Governor's Proposed 2015-16 Budget estimates an overall increase in K-14 funding of \$7.8 billion. The 2015-16 Proposed Budget is one-time and ongoing adjustments for K-14 schools. This increase would provide approximately \$9,667 per pupil in Proposition 98 funding for 2015-16, or \$306 more per pupil than the 2014-15 budget.

Acceleration Transition to Full Funding of LCFF

The Governor's Proposed 2016-16 Budget includes increase funding (over \$4 billion) for the LCFF, which closes the remaining gap between actual and target funding rates by 32 percent. Funds include an increase in LCFF target rates by a Cost of living Adjustment of 1.58 percent.

Deferrals

The Governor's Proposed 2015-16 Budget includes \$992 million to eliminate all remaining K-12 deferrals.

The Governor's Proposed 2015-16 Budget is only the first step in the budget process. The budget must be approved by a majority vote of each House of the Legislature and must be in balance. None of the parties hereto makes no assurance that the Governor's Proposed 2015-16 Budget will be adopted by the State and makes no representation on the content or amount of the final 2015-16 State budget. See also RISK FACTORS - Budget Delays and Restrictions on Disbursement of State Funds During a Budget Impasse for more information.

CERTAIN OTHER CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING EDUCATION REVENUES AND APPROPRIATIONS

This section provides a brief background on constitutional provisions that limit taxes on real property and that limit State and local government expenditures. This overview and the summary of relevant law noted by cross-reference in the sections that follow are provided for the convenience of prospective purchasers but are not and do not purport to be comprehensive.

Tax Rate Limit – Article XIII A of the California Constitution (Proposition 13)

On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the California Constitution. In 2000, California voters passed Proposition 39, which amended Section 1 of Article XIII A. Article XIII A, as amended, limits the amount of any ad valorem taxes on real property to 1% of "full cash value," and provides that such tax shall be collected by the counties and apportioned according to State law. Section 1(b) of Article XIII A provides that the 1% 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 of improvement of real property approved on or after July 1, 1978 by two-thirds or more of the votes cast on the proposition, or (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real

property for school facilities, approved by 55% or more of the voters of the district, but only if certain accountability measures are included in the proposition.

Article XIII A defines full cash value to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under ‘full cash value,’ or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” This full cash value may be increased at a rate not to exceed 2% per year until new construction or a change of ownership occurs. Article XIII A permits reduction of the “full cash value” base in the event of declining property values caused by substantial damage, destruction or other factors, to provide that there would be no increase in the “full cash value” base in the event of reconstruction of property damaged or destroyed in a disaster, and in various other minor or technical ways. For a summary of Article XIII A’s provisions, see “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF CALIFORNIA LAW – CERTAIN OTHER CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING EDUCATION REVENUES AND APPROPRIATIONS – Article XIII A Property Tax Rate Limit.”

Appropriations Limit – Article XIII B of the California Constitution

In November 1979, California voters approved Proposition 4, also commonly known as the “Gann Initiative.” Proposition 4 created Article XIII B of the California Constitution, which limits the amount of revenue that can be spent by all entities of government. Under Article XIII B, State and local governmental entities have an annual “appropriations limit,” and are not permitted to spend certain monies (which are called “appropriations subject to limitation,” and generally consist of tax revenues, State subventions and certain other funds) in an amount higher than the appropriations limit. Proposition 4 became effective in fiscal year 1980-81, but the formula for calculating appropriation limits is based on actual appropriations during the 1978-79 fiscal year and is increased each year using the growth of population and inflation. In June of 1990, the voters approved Proposition 111 (“Proposition 111”), which provided a new adjustment formula intended to make the appropriations limit more responsive to local growth issues, and requires annual review of the appropriations limit calculation. Not all revenues are restricted by the limit, only those that are referred to as proceeds of taxes. In addition, proceeds of taxes are allowed to be spent on several types of appropriations, which do not count against the limit. The law allows a city to spend tax proceeds on voter-approved debt and the costs of complying with court orders and federal mandates, with certain restrictions. Proposition 111 expanded these exempt categories to include expenditures for certain “qualified capital outlays” beginning in 1990-91. Proposition 111 also adjusted Article XIII B to measure “change in the cost of living” by the change in California per capita personal income. Proposition 111 also provided that the Article XIII B appropriations limit was to be recalculated beginning in 1990-91, to be based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Proposition 111 had been in effect. For a summary of Article XIII B’s provisions, see “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF CALIFORNIA LAW – CERTAIN OTHER CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING EDUCATION REVENUES AND APPROPRIATIONS – Article XIII B Appropriations Limit.”

BOOK-ENTRY-ONLY SYSTEM

The information in this section concerning The Depository Trust Company (“DTC”) and DTC’s book-entry-only system has been obtained from DTC. The Authority, the Borrower, the Tenant, the Trustee and the Underwriter assume no responsibility for the accuracy thereof.

The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the Series 2015 Bonds. The Series 2015 Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered Bond certificate in typewritten form will be issued for each stated maturity of the Series 2015 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2015 BONDS, REFERENCES HEREIN TO BONDHOLDERS OR OWNERS OF THE SERIES 2015 BONDS (OTHER THAN UNDER THE CAPTION “TAX MATTERS” HEREIN) SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2015 BONDS.

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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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 and www.dtc.org.

Purchases of the Series 2015 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2015 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 Series 2015 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 the Series 2015 Bonds, except in the event that use of the book-entry system for the Series 2015 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2015 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2015 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2015 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2015 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 Series 2015 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 such other DTC nominee) will consent or vote with respect to the Series 2015 Bonds unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Borrower as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Series 2015 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2015 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 Borrower 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 bonds 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 or the Tenant, 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 Borrower, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2015 Bonds at any time by providing reasonable notice. Under such circumstances, in the event that a successor securities 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 transfers through DTC (or a successor securities depository); in that event, the Bond certificates will be printed and delivered to the Participants for delivery to the Beneficial Owners. The information in this section concerning DTC and DTC's book entry system has been obtained from sources believed to be reliable, but neither the Authority, the Borrower nor the Tenant assume any responsibility for the accuracy thereof.

THE AUTHORITY, THE BORROWER, THE TENANT, THE TRUSTEE AND THE UNDERWRITER WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS OR THE BENEFICIAL OWNERS OF THE SERIES 2015 BONDS WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY THE DEPOSITORY OR ANY PARTICIPANT; (ii) THE PAYMENT BY THE DEPOSITORY TO ANY PARTICIPANT OR BY ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT, OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2015 BONDS; (iii) THE DELIVERY OF ANY NOTICE BY THE DEPOSITORY TO ANY PARTICIPANT OR BY ANY PARTICIPANT TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO BONDHOLDERS UNDER THE TERMS OF THE INDENTURE; (iv) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2015 BONDS; OR (v) ANY OTHER ACTION TAKEN BY THE DEPOSITORY AS OWNER OF THE SERIES 2015 BONDS.

The information herein concerning DTC and DTC's book-entry system has been obtained from sources believed to be reliable, but the Authority, the Borrower, the Tenant, the Trustee and the Underwriter take no responsibility for the accuracy thereof, and neither Participants nor Beneficial Owners should rely on the foregoing information with respect to such matters. Instead, they should confirm the same with DTC or the Participants, as the case may be. There can be no assurance that DTC will abide by its procedures or that such procedures will not be changed from time to time.

LEGAL MATTERS

General

All legal matters incident to the authorization, issuance, sale and delivery of the Series 2015 Bonds by the Authority are subject to the approving opinion of Kutak Rock LLP, Denver, Colorado, Bond Counsel, whose approving opinion will be delivered with the Series 2015 Bonds, and the proposed form of which is set forth in "APPENDIX E – FORM OF BOND COUNSEL OPINION." The legal opinion delivered may vary from that form if necessary to reflect facts and law on the date of delivery. Certain legal matters will be passed upon by Jones Hall, A Professional Law Corporation, San Francisco, California, as special counsel to the Authority and by Hooper, Lundy & Bookman, P.C., San Diego, California, as special counsel to the Borrower and the Tenant.

Certain legal matters will be passed upon by Quarles & Brady LLP, Milwaukee, Wisconsin, as counsel to the Underwriter. Quarles & Brady LLP has assisted the Underwriter with certain matters, but has not undertaken to independently verify the accuracy, completeness or sufficiency of this Official Statement or other offering material relating to the Series 2015 Bonds and assumes no responsibility whatsoever nor shall have any liability to any other party for the statements or information contained or incorporated by reference in this Official Statement. Further, Quarles & Brady LLP makes no representation as to the suitability of the Series 2015 Bonds for any investor.

The various legal opinions to be delivered concurrently with the delivery of the Series 2015 Bonds will speak only as of their dates of delivery and will be qualified in certain customary respects, including as to the enforceability of the various legal instruments by limitations imposed by state and federal law affecting remedies and by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, the application of equitable principles and the exercise of judicial discretion in appropriate cases. The legal opinions express the professional judgment of counsel rendering them, but are not binding on any court or other governmental agency and are not guarantees of a particular result. Certain fees paid to Bond Counsel, the Underwriter, the Trustee and the Financial Advisor for services rendered are contingent upon the issuance and delivery of the Series 2015 Bonds. Bond Counsel and counsel to the Authority undertake no responsibility for the accuracy, completeness or fairness of this Official Statement.

Pending and Threatened Litigation

No Proceedings Against the Borrower or the Tenant

In connection with the issuance of the Series 2015 Bonds, the Borrower and the Tenant will deliver certificates which will state that, as of the date of issuance of the Series 2015 Bonds, to the best of their knowledge, there is no action, suit, proceeding, inquiry or investigation at law or in equity before or by any court, public board or body pending or threatened against or affecting the Borrower or the Tenant, wherein an unfavorable decision, ruling or finding would adversely affect the transactions contemplated by the Indenture, the Loan Agreement, the Lease, the Bond Purchase Agreement (referred to in "MISCELLANEOUS – Underwriting"), or this Official Statement, the validity and enforceability of the Indenture, the Loan Agreement, the Lease, the Bond Purchase Agreement or the Series 2015 Bonds or the operations (financial or otherwise) of the Borrower or the Tenant.

While neither the Borrower nor the Tenant are parties to any litigation, there is litigation pending that could affect the Tenant's charter contract. See "Risk Factors - Litigation Regarding an Unrelated Classroom-Based Charter School Operating Within the Boundaries of San Diego Unified School District."

No Proceedings Against the Authority

To the knowledge of the Authority, there is no material litigation pending or threatened against the Authority concerning the validity of the Series 2015 Bonds or any proceedings of the Authority taken with respect to the issuance thereof.

TAX MATTERS

The Series 2015A Bonds

General Matters

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Series 2015A Bonds is excludable from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. The opinion described in the preceding sentence assumes the accuracy of certain representations and compliance by the Authority, the Borrower and the Tenant with covenants designed to satisfy the requirements of the Code that must be met subsequent to the issuance of the Series 2015A Bonds. Failure to comply with such covenants could cause interest on the Series 2015A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2015A Bonds. The Authority, the Borrower and the Tenant have covenanted to comply with such requirements. Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Series 2015A Bonds.

Notwithstanding Bond Counsel's opinion that interest on the Series 2015A Bonds is not a specific preference item for purposes of the federal alternative minimum tax, such interest will be included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their

alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses).

The accrual or receipt of interest on the Series 2015A Bonds may otherwise affect the federal income tax liability of the owners of the Series 2015A Bonds. The extent of these other tax consequences will depend on such owner's particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Series 2015A Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States of America), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers entitled to claim the earned income credit, taxpayers entitled to claim the refundable credit in Section 36B of the Code for coverage under a qualified health plan or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Series 2015A Bonds.

In the opinion of Bond Counsel, interest on the Series 2015A Bonds is exempt from State of California personal income taxes. Bond Counsel has expressed no opinion regarding other tax consequences arising with respect to the Series 2015A Bonds under the laws of the State of California or any other state or jurisdiction.

Backup Withholding

As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Series 2015A Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments to any owner of the Series 2015A Bonds who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The reporting requirement does not in and of itself affect or alter the excludability of interest on the Series 2015A Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

The Series 2015B Bonds

General Matters

Bond Counsel is of the opinion that interest on the Series 2015B Bonds is included in gross income for federal income tax purposes. Bond Counsel is also of the opinion that interest on the Series 2015B Bonds is exempt from State of California personal income taxes. Bond Counsel has expressed no opinion regarding other tax consequences arising with respect to the Series 2015B Bonds under the laws of the State of California or any other state or jurisdiction.

The following is a summary of certain anticipated federal income tax consequences of the purchase, ownership and disposition of the Series 2015B Bonds under the Code and the Regulations, and the judicial and administrative rulings and court decisions now in effect, all of which are subject to change or possible differing interpretations. The summary does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual circumstances, nor certain types of investors subject to special treatment under the federal income tax laws. Potential purchasers of the Series 2015B Bonds should consult their own tax advisors in determining the federal, state or local tax consequences to them of the purchase, holding and disposition of the Series 2015B Bonds.

In general, interest paid on the Series 2015B Bonds will be treated as ordinary income to the owners of the Series 2015B Bonds, and principal payments (excluding the portion of such payments, if any, characterized as original issue discount or accrued market discount) will be treated as a return of capital.

Unearned Income Medicare Contribution Tax

Pursuant to Section 1411 of the Code, as enacted by the Health Care and Education Reconciliation Act of 2010, an additional tax is imposed on individuals earning certain investment income. Holders of the Series 2015B Bonds should consult their own tax advisors regarding the application of this tax to interest earned on the Series 2015B Bonds and to gain on the sale of a Series 2015B Bond.

Sales or Other Dispositions

If an owner of a Series 2015B Bond sells the bond, such person will recognize gain or loss equal to the difference between the amount realized on such sale and such owner's basis in such bond. Ordinarily, such gain or loss will be treated as a capital gain or loss.

If the terms of a Series 2015B Bond were materially modified, in certain circumstances, a new debt obligation would be deemed created and exchanged for the prior obligation in a taxable transaction. Among the modifications that may be treated as material are those that relate to redemption provisions and, in the case of a nonrecourse obligation, those which involve the substitution of collateral. Each potential owner of a Series 2015B Bond should consult its own tax advisor concerning the circumstances in which such bond would be deemed reissued and the likely effects, if any, of such reissuance.

Defeasance

The legal defeasance of the Series 2015B Bonds may result in a deemed sale or exchange of such bonds under certain circumstances. Owners of such Series 2015B Bonds should consult their tax advisors as to the federal income tax consequences of such a defeasance.

Backup Withholding

An owner of a Series 2015B Bond may be subject to backup withholding at the applicable rate determined by statute with respect to interest paid with respect to the Series 2015B Bonds, if such owner, upon issuance of the Series 2015B Bonds, fails to provide to any person required to collect such information pursuant to Section 6049 of the Code with such owner's taxpayer identification number, furnishes an incorrect taxpayer identification number, fails to report interest, dividends or other "reportable payments" (as defined in the Code) properly, or, under certain circumstances, fails to provide such persons with a certified statement, under penalty of perjury, that such owner is not subject to backup withholding.

Foreign Investors

An owner of a Series 2015B Bond that is not a "United States person" (as defined below) and is not subject to federal income tax as a result of any direct or indirect connection to the United States of America in addition to its ownership of a Series 2015B Bond will generally not be subject to United States income or withholding tax in respect of a payment on a Series 2015B Bond, provided that the owner complies to the extent necessary with certain identification requirements (including delivery of a statement, signed by the owner under penalties of perjury, certifying that such owner is not a United States person and providing the name and address of such owner). For this purpose the term "United States person" means a citizen or resident of the United States of America, a corporation, partnership or other entity created or organized in or under the laws of the United States of America or any political subdivision thereof, or an estate or trust whose income from sources within the United States of America is includable in gross income for United States of America income tax purposes regardless of its connection with the conduct of a trade or business within the United States of America.

Except as explained in the preceding paragraph and subject to the provisions of any applicable tax treaty, a 30% United States withholding tax will apply to interest paid and original issue discount accruing on Series 2015B Bonds owned by foreign investors. In those instances in which payments of interest on the Series 2015B Bonds continue to be subject to withholding, special rules apply with respect to the withholding of tax on payments of interest on, or the sale or exchange of Series 2015B Bonds having original issue discount and held by foreign

investors. Potential investors that are foreign persons should consult their own tax advisors regarding the specific tax consequences to them of owning a Series 2015B Bond.

Tax-Exempt Investors

In general, an entity that is exempt from federal income tax under the provisions of Section 501 of the Code is subject to tax on its unrelated business taxable income. An unrelated trade or business is any trade or business that is not substantially related to the purpose that forms the basis for such entity's exemption. However, under the provisions of Section 512 of the Code, interest may be excluded from the calculation of unrelated business taxable income unless the obligation that gave rise to such interest is subject to acquisition indebtedness. Therefore, except to the extent any owner of a Series 2015B Bond incurs acquisition indebtedness with respect to such bond, interest paid or accrued with respect to such owner may be excluded by such tax-exempt owner from the calculation of unrelated business taxable income. Each potential tax-exempt holder of a Series 2015B Bond is urged to consult its own tax advisor regarding the application of these provisions.

ERISA Considerations

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain requirements on "employee benefit plans" (as defined in Section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "ERISA Plans") and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan. The prudence of any investment by an ERISA Plan in the Series 2015B Bonds must be determined by the responsible fiduciary of the ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment. Government and non-electing church plans are generally not subject to ERISA. However, such plans may be subject to similar or other restrictions under state or local law.

In addition, ERISA and the Code generally prohibit certain transactions between an ERISA Plan or a qualified employee benefit plan under the Code and persons who, with respect to that plan, are fiduciaries or other "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code. In the absence of an applicable statutory, class or administrative exemption, transactions between an ERISA Plan and a party in interest with respect to an ERISA Plan, including the acquisition by one from the other of the Series 2015B Bonds could be viewed as violating those prohibitions. In addition, Section 4975 of the Code prohibits transactions between certain tax-favored vehicles such as Individual Retirement Accounts and disqualified persons. Section 503 of the Code includes similar restrictions with respect to governmental and church plans. In this regard, the Authority or any dealer of the Series 2015B Bonds might be considered or might become a "party in interest" within the meaning of ERISA or a "disqualified person" within the meaning of the Code, with respect to an ERISA Plan or a plan or arrangement subject to Sections 4975 or 503 of the Code. Prohibited transactions within the meaning of ERISA and the Code may arise if the Series 2015B Bonds are acquired by such plans or arrangements with respect to which the Authority or any dealer is a party in interest or disqualified person.

In all events, fiduciaries of ERISA Plans and plans or arrangements subject to the above sections of the Code, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in the Series 2015B Bonds. The sale of the Series 2015B Bonds to a plan is in no respect a representation by the Authority, the Borrower, the Tenant or the Underwriter that such an investment meets the relevant legal requirements with respect to benefit plans generally or any particular plan. Any plan proposing to invest in the Series 2015B Bonds should consult with its counsel to confirm that such investment is permitted under the plan documents and will not result in a non-exempt prohibited transaction and will satisfy the other requirements of ERISA, the Code and other applicable law.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to under this heading "TAX MATTERS" or adversely affect

the market value of the Series 2015 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 of the Series 2015 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 Series 2015 Bonds or the market value thereof would be impacted thereby. Purchasers of the Series 2015 Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel 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 Series 2015 Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

INVESTOR LETTER

The initial purchasers of the Series 2015 Bonds will be required to execute an investor letter in substantially the form attached hereto. See “APPENDIX G – FORM OF INVESTOR LETTER.”

RATING

Standard & Poor’s Credit Markets Service (“S&P”) has assigned the rating of “BB-”, stable outlook to the Series 2015 Bonds. Such rating reflects only the views of S&P and any desired explanation of the significance of such rating should be obtained from S&P. Generally, rating agencies base their ratings on the information and materials furnished to them and on investigations, studies and assumptions of their own. There is no assurance that any such rating will continue for any given period of time or that any such rating will not be revised downward or withdrawn entirely by the rating agency, if, in the judgment of such agency, circumstances so warrant. Any such downward revision or withdrawal of any rating may have an adverse effect on the market price of the Series 2015 Bonds.

MISCELLANEOUS

Underwriting

Subject to the terms and conditions of a bond purchase agreement (the “Bond Purchase Agreement”) entered into by and among the Authority, the Borrower, the Tenant and Robert W. Baird & Co. Incorporated (the “Underwriter”), the Series 2015 Bonds are being sold by the Authority to the Underwriter at an underwriting discount of \$479,970.00 (\$466,290.00 with respect to the Series 2015A Bonds and \$13,680.00 with respect to the Series 2015B Bonds). Expenses associated with the issuance of the Series 2015 Bonds are being paid from proceeds of the Series 2015 Bonds. The right of the Underwriter to receive compensation in connection with the Series 2015 Bonds is contingent upon the actual sale and delivery of the Series 2015 Bonds. The Underwriter has initially offered the Series 2015 Bonds to the public at the prices set forth on the inside front cover page of this Official Statement. Such prices may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with dealers and other investment banking firms in offering the Series 2015 Bonds to the public.

Financial Advisor

Buck Financial Advisors LLC, Englewood, Colorado (“Buck Financial Advisors”) is serving as financial advisor to the Borrower and the Tenant. Buck Financial Advisors is not obligated and has not undertaken to make an independent verification or to assume responsibility for the accuracy or completeness of the information contained in this Official Statement.

The principal of Buck Financial Advisors is an investor in Verde. Verde provided loans to the Borrower to finance a portion of the cost of the acquisition of the Existing Facilities and such loans will be repaid with proceeds of the Series 2015 Bonds. Buck Financial Advisor was not serving as the financial advisor to the Borrower or the Tenant at the time the Borrower entered into the Verde loans. The principal of the Buck Financial Advisor’s

investment in Verde was disclosed to the Borrower and the Tenant at the time of the Verde loans and subsequently acknowledged by the Borrower and the Tenant in a provision of the contract for financial advisory services between the Borrower and the Tenant and Buck Financial Advisor.

Registration of Series 2015 Bonds

Registration or qualification of the offer and sale of the Series 2015 Bonds (as distinguished from registration of the ownership of the Series 2015 Bonds) is not required under the federal Securities Act of 1933, as amended, or the California Securities Act, as amended. THE AUTHORITY ASSUMES NO RESPONSIBILITY FOR QUALIFICATION OR REGISTRATION OF THE SERIES 2015 BONDS FOR SALE UNDER THE SECURITIES LAWS OF ANY JURISDICTION IN WHICH THE SERIES 2015 BONDS MAY BE SOLD, ASSIGNED, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED.

Continuing Disclosure Agreement

The Borrower and the Tenant will enter into and deliver a Continuing Disclosure Agreement (the “Continuing Disclosure Agreement”), with respect to the Series 2015 Bonds. The Continuing Disclosure Agreement is made for the benefit of the registered and Beneficial Owners (as defined in the Continuing Disclosure Agreement) of the Series 2015 Bonds and in order to assist the Underwriter in complying with its obligations pursuant to the Rule. See “APPENDIX F – FORM OF CONTINUING DISCLOSURE AGREEMENT.” Neither the Borrower nor the Tenant has previously been subject to a continuing disclosure obligation, and hence, in the previous five years, neither the Borrower nor the Tenant has ever failed to comply in all material respects with any previous undertaking required by the Rule.

The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the Series 2015 Bonds or to any decision to purchase, hold or sell Series 2015 Bonds and the Authority will not provide any such information. The Authority shall have no liability to the Beneficial Owners of the Bonds or any other person with respect to the Rule.

Financial Statements

The financial statements included in this Official Statement as “APPENDIX C – FINANCIAL STATEMENTS” have been audited by Hosaka, Rotherham & Company, Certified Public Accountants, San Diego, California (the “Auditor”) to the extent and for the periods indicated in their reports thereon. Such financial statements have been included in reliance upon the reports of the Auditor. The Tenant is not aware of any facts that would make such financial statements misleading.

Additional Information

Copies of constitutional provisions, statutes, resolutions, agreements, contracts, financial statements, reports, publications and other documents or compilations of data or information summarized or referred to herein are available upon written request to the Underwriter, 210 University Blvd., #460, Denver, Colorado 80206.

Official Statement Certification

The preparation of this Official Statement and its distribution have been authorized by the Authority, the Borrower and the Tenant. This Official Statement is not to be construed as an agreement or contract between the Authority, the Borrower or the Tenant and any purchaser, owner or holder of any Series 2015 Bond.

SDORI CHARTER SCHOOL PROPERTIES, LLC

By: /s/ _____
Sole Director

JULIAN CHARTER SCHOOL, INC.

By: /s/ _____
President

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF CALIFORNIA LAW

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF CALIFORNIA LAW

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

CHARTER SCHOOL STATUS AND OPERATIONS

Legislative Intent (California Education Code Ann. § 47601)

It is the intent of the Legislature to provide opportunities for teachers, parents, pupils, and community members to establish and maintain schools that operate independently from the existing school district structure, as a method to accomplish all of the following:

- (a) Improve pupil learning.
- (b) Increase learning opportunities for all pupils, with special emphasis on expanded learning experiences for pupils who are identified as academically low-achieving.
- (c) Encourage the use of different and innovative teaching methods.
- (d) Create new professional opportunities for teachers, including the opportunity to be responsible for the learning program at the school site.
- (e) Provide parents and pupils with expanded choices in the types of educational opportunities that are available within the public school system.
- (f) Hold the schools established hereunder accountable for meeting measurable pupil outcomes, and provide the schools with a method to change from rule-based to performance-based accountability systems.
- (g) Provide vigorous competition within the public school system to stimulate continual improvements in all public schools.

Maximum Total Number of Charter Schools (California Education Code Ann. § 47602)

In the 1998-99 school year, the maximum total number of charter schools authorized to operate shall be 250. In the 1999-2000 school year, and in each successive school year thereafter, an additional 100 charter schools are authorized to operate each successive school year.

Organization (California Education Code Ann. § 47604)

- (a) Charter schools may elect to operate as, or be operated by, a nonprofit public benefit corporation, formed and organized pursuant to the Nonprofit Public Benefit Corporation Law.
- (b) The governing board of a school district that grants a charter for the establishment of a charter school formed and organized pursuant to this section shall be entitled to a single representative on the board of directors of the nonprofit public benefit corporation.
- (c) An authority that grants a charter to a charter school to be operated by, or as, a nonprofit public benefit corporation is not liable for the debts or obligations of the charter school, or for claims arising from the

performance of acts, errors, or omissions by the charter school, if the authority has complied with all oversight responsibilities required by law, including, but not limited to, those required by Section 47604.32 and subdivision (m) of Section 47605.

Chartering Authority Duties (California Education Code Ann. § 47604.32)

Each chartering authority, in addition to any other duties imposed by this part, shall do all of the following with respect to each charter school under its authority:

- (a) Identify at least one staff member as a contact person for the charter school.
- (b) Visit each charter school at least annually.
- (c) Ensure that each charter school under its authority complies with all reports required of charter schools by law, including the annual update required pursuant to Section 47606.5.
- (d) Monitor the fiscal condition of each charter school under its authority.
- (e) Provide timely notification to the Department of Education if any of the following circumstances occur or will occur with regard to a charter school for which it is the chartering authority:
 - (1) A renewal of the charter is granted or denied.
 - (2) The charter is revoked.
 - (3) The charter school will cease operation for any reason.
- (f) The cost of performing the duties required by this section shall be funded with supervisory oversight fees collected pursuant to Section 47613.

Charter School Reporting (California Education Code Ann. § 47604.33)

(a) Each charter school shall annually prepare and submit the following reports to its chartering authority and the county superintendent of schools, or only to the county superintendent of schools if the county board of education is the chartering authority:

- (1) On or before July 1, a preliminary budget.
 - (2) On or before July 1, an annual update required pursuant to Section 47606.5.
 - (3) On or before December 15, an interim financial report. This report shall reflect changes through October 31.
 - (4) On or before March 15, a second interim financial report. This report shall reflect changes through January 31.
 - (5) On or before September 15, a final unaudited report for the full prior year.
- (b) The chartering authority shall use any financial information it obtains from the charter school, including, but not limited to, the reports required by this section, to assess the fiscal condition of the charter school pursuant to subdivision (d) of Section 47604.32.
- (c) The cost of performing the duties required by this section shall be funded with supervisory oversight fees collected pursuant to Section 47613.

State Board of Education Monitoring and Revocation Powers (California Education Code Ann. § 47604.5)

The State Board of Education, whether or not it is the authority that granted the charter, may, based upon the recommendation of the Superintendent of Public Instruction, take appropriate action, including, but not limited to, revocation of the school's charter, when the State Board of Education finds any of the following:

- (a) Gross financial mismanagement that jeopardizes the financial stability of the charter school.
- (b) Illegal or substantially improper use of charter school funds for the personal benefit of any officer, director, or fiduciary of the charter school.
- (c) Substantial and sustained departure from measurably successful practices such that continued departure would jeopardize the educational development of the school's pupils.
- (d) Failure to improve pupil outcomes across multiple state and school priorities identified in the charter pursuant to subparagraph (A) of paragraph (5) of subdivision (b) of Section 47605 or subparagraph (A) of paragraph (5) of subdivision (d) of Section 47605.6.

Establishment and Operation (California Education Code Ann. §§ 47605 - 47605.8)

Section 47605

(a) (1) Except as set forth in paragraph (2), a petition for the establishment of a charter school within any school district may be circulated by any one or more persons seeking to establish the charter school. A petition for the establishment of a charter school shall identify a single charter school that will operate within the geographic boundaries of that school district. A charter school may propose to operate at multiple sites within the school district, as long as each location is identified in the charter school petition. The petition may be submitted to the governing board of the school district for review after either of the following conditions is met:

(A) The petition is signed by a number of parents or guardians of pupils that is equivalent to at least one-half of the number of pupils that the charter school estimates will enroll in the school for its first year of operation.

(B) The petition is signed by a number of teachers that is equivalent to at least one-half of the number of teachers that the charter school estimates will be employed at the school during its first year of operation.

(b) No later than 30 days after receiving a petition, in accordance with subdivision (a), the governing board of the school district shall hold a public hearing on the provisions of the charter, at which time the governing board of the school district shall consider the level of support for the petition by teachers employed by the district, other employees of the district, and parents....

(c) (1) Charter schools shall meet all Statewide standards and conduct the pupil assessments required pursuant to Sections 60605 and 60851 and any other statewide standards authorized in statute or pupil assessments applicable to pupils in noncharter public schools.

(d) (1) In addition to any other requirement imposed under this part, a charter school shall be nonsectarian in its programs, admission policies, employment practices, and all other operations, shall not charge tuition, and shall not discriminate against any pupil on the basis of characteristics listed in Section 220....

(2) (A) A charter school shall admit all pupils who wish to attend the school.

(B) If the number of pupils who wish to attend the charter school exceeds the school's capacity, attendance, except for existing pupils of the charter school, shall be determined

by a public random drawing. Preference shall be extended to pupils currently attending the charter school and pupils who reside in the district except as provided for in Section 47614.5. Other preferences may be permitted by the chartering authority on an individual school basis and only if consistent with the law.

(m) A charter school shall transmit a copy of its annual, independent, financial audit report for the preceding fiscal year, as described in subparagraph (l) of paragraph (5) of subdivision (b), to its chartering entity, the State, the Controller, the county superintendent of schools of the county in which the charter school is sited, unless the county board of education of the county in which the charter school is sited is the chartering entity, and the State Department of Education by December 15 of each year.

Section 47605.5

A petition may be submitted directly to a county board of education in the same manner as set forth in Section 47605 for charter schools that will serve pupils for whom the county office of education would otherwise be responsible for providing direct education and related services. Any denial of a petition shall be subject to the same process for any other county board of education denial of a charter school petition pursuant to this part.

Section 47605.8

(a) A petition for the operation of a state charter school may also be submitted directly to the state board, and the board shall have the authority to approve a charter for the operation of a state charter school that may operate at multiple sites throughout the State. The State Board of Education shall adopt regulations, pursuant to the Administrative Procedure Act (Chapter 5 (commencing with Section 11500) of Part 1 of Division 3 of Title 2 of the Government Code) for the implementation of this section....

(b) The state board shall not approve a petition for the operation of a state charter school pursuant to this section unless the state board makes a finding, based on substantial evidence, that the proposed state charter school will provide instructional services of statewide benefit that cannot be provided by a charter school operating in only one school district, or only in one county....

(c) The state board, as a condition of charter petition approval, may enter into an agreement with a third party, at the expense of the charter school, to oversee, monitor, and report on, the operations of the charter school. The state board may prescribe the aspects of the charter school's operations to be monitored by the third party and may prescribe appropriate requirements regarding the reporting of information concerning the operations of the charter school to the state board.

Charter Description of Annual Goals (California Education Code Ann. § 47606.5)

(a) On or before July 1, 2015, and each year thereafter, a charter school shall update the goals and annual actions to achieve those goals identified in the charter pursuant to subparagraph (A) of paragraph (5) of subdivision (b) of Section 47605 or subparagraph (A) of paragraph (5) of subdivision (b) of Section 47605.6. The annual update shall be developed using the template adopted pursuant to Section 52064 and shall include all of the following:

(1) A review of the progress toward the goals included in the charter, an assessment of the effectiveness of the specific actions described in the charter toward achieving the goals, and a description of changes to the specific actions the charter school will make as a result of the review and assessment.

(2) A listing and description of the expenditures for the fiscal year implementing the specific actions included in the charter as a result of the reviews and assessment required by paragraph (1).

(b) The expenditures identified in subdivision (a) shall be classified using the California School Accounting Manual pursuant to Section 41010.

(c) For purposes of the review required by subdivision (a), a governing body of a charter school may consider qualitative information, including, but not limited to, findings that result from school quality reviews conducted pursuant to subparagraph (J) or paragraph (4) of subdivision (a) of Section 52052 or any other reviews.

(d) To the extent practicable, data reported pursuant to this section shall be reported in a manner consistent with how information is reported on a school accountability report card.

(e) The charter school shall consult with teachers, principals, administrators, other school personnel, parents, and pupils in developing the annual update.

Charter Terms, Renewals, Revocations and Appeals (California Education Code Ann. § 47607)

(a) (1) A charter may be granted pursuant to Sections 47605 (school district-sponsored charter schools), 47605.5 (county-sponsored charter schools), and 47606 (State Board of Education-sponsored charter schools) for a period not to exceed five years. A charter granted by a school district governing board, a county board of education or the State Board of Education, may be granted one or more subsequent renewals by that entity. Each renewal shall be for a period of five years. A material revision of the provisions of a charter petition may be made only with the approval of the authority that granted the charter. The authority that granted the charter may inspect or observe any part of the charter school at any time.

(2) Renewals and material revisions of charters are governed by the standards and criteria in Section 47605, and shall include, but not be limited to, a reasonably comprehensive description of any new requirement of charter schools enacted into law after the charter was originally granted or last renewed.

(3) (A) The authority that granted the charter shall consider increases in pupil academic achievement for all groups of pupils served by the charter school as the most important factor in determining whether to grant a charter renewal.

(B) For purposes of this section, “all groups of pupils served by the charter school” means a numerically significant pupil subgroup, as defined by paragraph (3) of subdivision (a) of Section 52052, served by the charter school.

(b) Commencing on January 1, 2005, or after a charter school has been in operation for four years, whichever date occurs later, a charter school shall meet at least one of the following criteria prior to receiving a charter renewal:

(1) Attained its Academic Performance Index (API) growth target in the prior year or in two of the last three years, or in the aggregate for the prior three years.

(2) Ranked in deciles 4 to 10, inclusive, on the API in the prior year or in two of the last three years.

(3) Ranked in deciles 4 to 10, inclusive, on the API for a demographically comparable school in the prior year or in two of the last three years.

(4) (A) The entity that granted the charter determines that the academic performance of the charter school is at least equal to the academic performance of the public schools that the charter school pupils would otherwise have been required to attend, as well as the academic performance of the schools in the school district in which the charter school is located, taking into account the composition of the pupil population that is served at the charter school.

(B) The determination made pursuant to this paragraph shall be based upon all of the following:

(i) Documented and clear and convincing data.

(ii) Pupil achievement data from assessments, including, but not limited to, the Standardized Testing and Reporting Program established by Article 4 (commencing with Section 60640) for demographically similar pupil populations in the comparison schools.

(iii) Information submitted by the charter school.

(C) A chartering authority shall submit to the Superintendent of Public Instruction copies of supporting documentation and a written summary of the basis for any determination made pursuant to this paragraph. The Superintendent of Public Instruction shall review the materials and make recommendations to the chartering authority based on that review. The review may be a basis for a recommendation made pursuant to Section 47604.5.

(D) A charter renewal may not be granted to a charter school prior to 30 days after that charter school submits materials pursuant to this paragraph.

(5) Has qualified for an alternative accountability system pursuant to subdivision (h) of Section 52052.

(c) (1) A charter may be revoked by the authority that granted the charter if the authority finds, through a showing of substantial evidence, that the charter school did any of the following:

(A) Committed a material violation of any of the conditions, standards, or procedures set forth in the charter.

(B) Failed to meet or pursue any of the pupil outcomes identified in the charter.

(C) Failed to meet generally accepted accounting principles, or engaged in fiscal mismanagement.

(D) Violated any provision of law.

(2) The authority that granted the charter shall consider increases in pupil academic achievement for all groups of pupils served by the charter school as the most important factor in determining whether to revoke a charter.

(d) Before revocation, the authority that granted the charter shall notify the charter public school of any violation of this section and give the school a reasonable opportunity to remedy the violation, unless the authority determines, in writing, that the violation constitutes a severe and imminent threat to the health or safety of the pupils.

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

(f) (1) If a school district is the chartering authority and it revokes a charter pursuant to this section, the charter school may appeal the revocation to the county board of education within 30 days following the final decision of the chartering authority.

(2) The county board may reverse the revocation decision if the county board determines that the findings made by the chartering authority are not supported by substantial evidence. The school district may appeal the reversal to the State Board of Education.

(3) If the county board does not issue a decision on the appeal within 90 days of receipt, or the county board upholds the revocation, the charter school may appeal the revocation to the state board.

(4) The state board may reverse the revocation decision if the state board determines that the findings made by the chartering authority under subdivision (e) are not supported by substantial evidence. The state board may uphold the revocation decision of the school district if the state board determines that the findings made by the chartering authority are supported by substantial evidence.

(g) (1) If a county office of education is the chartering authority and the county board revokes a charter pursuant to this section, the charter school may appeal the revocation to the state board within 30 days following the decision of the chartering authority.

(2) The state board may reverse the revocation decision if the state board determines that the findings made by the chartering authority under subdivision (e) are not supported by substantial evidence.

(h) If the revocation decision of the chartering authority is reversed on appeal, the agency that granted the charter shall continue to be regarded as the chartering authority.

(i) During the pendency of an appeal filed under this section is pending, a charter school whose revocation proceedings are based on subparagraph (A) or (B) of paragraph (1) of subdivision (c), shall continue to qualify as a charter school for funding and for all other purposes of this part, and may continue to hold all existing grants, resources, and facilities, in order to ensure that the education of pupils enrolled in the school is not disrupted.

(j) Immediately following the decision of a county board to reverse a decision of a school district to revoke a charter, the following shall apply:

(1) The charter school shall qualify as a charter school for funding and for all other purposes.

(2) The charter school may continue to hold all existing grants, resources, and facilities.

(3) Any funding, grants, resources, and facilities that had been withheld from the charter school, or that the charter school had otherwise been deprived of use, as a result of the revocation of the charter shall be immediately reinstated or returned.

(k) A final decision of a revocation or appeal of a revocation pursuant to subdivision (c) shall be reported to the chartering authority, the county board of education, and the department.

Nonrenewal Appeals (California Education Code Ann. § 47607.5)

If either a school district governing board or a county board of education, as a chartering agency, does not grant a renewal to a charter school pursuant to Section 47607, the charter school may submit its application for renewal pursuant to the procedures pertaining to a denial of a petition for establishment of a charter school, as provided in subdivision (j) of Section 47605.

Under Section 47607.3(a) if a charter school fails to improve outcomes for three or more pupil subgroups identified pursuant to Section 52052, or, if the charter school has less than three pupil subgroups, all of the charter school's pupil subgroups, in regard to one or more state or school priority identified in the charter pursuant to subparagraph (A) of paragraph (5) of subdivision (b) of Section 47605 or subparagraph (A) of paragraph (5) of subdivision (b) of Section 47605.6, in three out of four consecutive school years, all of the following shall apply:

(1) Using an evaluation rubric adopted by the state board pursuant to Section 52064.5, the chartering authority shall provide technical assistance to the charter school.

(2) The Superintendent may assign, at the request of the chartering authority and with the approval of the state board, the California Collaborative for Educational Excellence to provide advice and assistance to the charter school pursuant to Section 52074.

Under Section 47607.3(b) a chartering authority shall consider for revocation any charter school to which the California Collaborative for Educational Excellence has provided advice and assistance pursuant to subdivision (a) of this Section 47607.3 and about which it has made either of the following findings, which shall be submitted to the chartering authority:

(1) That the charter school has failed, or is unable, to implement the recommendations of the California Collaborative for Educational Excellence.

(2) That the inadequate performance of the charter school, based upon an evaluation rubric adopted pursuant to Section 52064.5, is either so persistent or so acute as to require revocation of the charter.

Under Section 47607.3(c) the chartering authority shall consider increases in pupil academic achievement for all pupil subgroups served by the charter school as the most important factor in determining whether to revoke the charter.

Under Section 47607.3(d) a chartering authority shall comply with the hearing process described in subdivision (e) of Section 47607 in revoking a charter. A charter school may not appeal a revocation of a charter made pursuant to this section.

PROPOSITION 98

In 1998, California voters passed Proposition 98, which amended Article XVI, Section 8 of the California Constitution and added Article XVI, Section 8.5 to the California Constitution. Those provisions, as further amended in 1990 by Proposition 111, are summarized as follows:

Section 8, Article XVI of the California Constitution

(a) From all State revenues there shall first be set apart the monies to be applied by the State for support of the public school system and public institutions of higher education.

(b) Commencing with the 1990-91 fiscal year, the monies to be applied by the State for the support of school districts and community college districts shall be not less than the greater of the following amounts:

(1) The amount which, as a percentage of General Fund revenues which may be appropriated pursuant to Article XIII B, equals the percentage of General Fund revenues appropriated for school districts and community college districts, respectively, in fiscal year 1986-87.

(2) The amount required to ensure that the total allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIII B and allocated local proceeds of taxes shall not be less than the total amount from these sources in the prior fiscal year, excluding any revenues allocated pursuant to subdivision (a) of Section 8.5, adjusted for changes in enrollment and adjusted for the change in the cost of living pursuant to paragraph (1) of subdivision (e) of Section 8 of Article XIII B. This paragraph shall be operative only in a fiscal year in which the percentage growth in California per capita personal income is less than or equal to the percentage growth in per capita General Fund revenues plus one half of one percent.

(3) (A) The amount required to ensure that the total allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIII B and allocated local proceeds of taxes shall equal the total amount from these sources in the prior fiscal year, excluding any revenues allocated pursuant to subdivision (a) of Section 8.5, adjusted for changes in enrollment and adjusted for the change in per capita General Fund revenues.

(B) In addition, an amount equal to one-half of one percent times the prior year total allocations to school districts and community colleges from General Fund proceeds of taxes appropriated pursuant to Article XIII B and allocated local proceeds of taxes, excluding any revenues allocated pursuant to subdivision (a) of Section 8.5, adjusted for changes in enrollment.

(C) This paragraph (3) shall be operative only in a fiscal year in which the percentage growth in California per capita personal income in a fiscal year is greater than the percentage growth in per capita General Fund revenues plus one half of one percent.

(c) In any fiscal year, if the amount computed pursuant to paragraph (1) of subdivision (b) exceeds the amount computed pursuant to paragraph (2) of subdivision (b) by a difference that exceeds one and one-half percent of General Fund revenues, the amount in excess of one and one-half percent of General Fund revenues shall not be considered allocations to school districts and community colleges for purposes of computing the amount of state aid pursuant to paragraph (2) or (3) of subdivision (b) in the subsequent fiscal year.

(d) In any fiscal year in which school districts and community college districts are allocated funding pursuant to paragraph (3) of subdivision (b) or pursuant to subdivision (h), they shall be entitled to a maintenance factor, equal to the difference between (1) the amount of General Fund monies which would have been appropriated pursuant to paragraph (2) of subdivision (b) if that paragraph had been operative or the amount of General Fund monies which would have been appropriated pursuant to subdivision (b) had subdivision (b) not been suspended, and (2) the amount of General Fund monies actually appropriated to school districts and community college districts in that fiscal year.

(e) The maintenance factor for school districts and community college districts determined pursuant to subdivision (d) shall be adjusted annually for changes in enrollment, and adjusted for the change in the cost of living pursuant to paragraph (1) of subdivision (e) of Section 8 of Article XIII B, until it has been allocated in full. The maintenance factor shall be allocated in a manner determined by the Legislature in each fiscal year in which the percentage growth in per capita General Fund revenues exceeds the percentage growth in California per capita personal income. The maintenance factor shall be reduced each year by the amount allocated by the Legislature in that fiscal year. The minimum maintenance factor amount to be allocated in a fiscal year shall be equal to the product of General Fund revenues from proceeds of taxes and one-half of the difference between the percentage growth in per capita General Fund revenues from proceeds of taxes and in California per capita personal income, not to exceed the total dollar amount of the maintenance factor.

(f) For purposes of this section, "changes in enrollment" shall be measured by the percentage change in average daily attendance. However, in any fiscal year, there shall be no adjustment for decreases in enrollment between the prior fiscal year and the current fiscal year unless there have been decreases in enrollment between the second prior fiscal year and the prior fiscal year and between the third prior fiscal year and the second prior fiscal year.

(g) Subparagraph (B) of paragraph (3) of subdivision (b) may be suspended for one year only when made part of or included within any bill enacted pursuant to Section 12 of Article IV. All other provisions of subdivision (b) may be suspended for one year by the enactment of an urgency statute pursuant to Section 8 of Article IV, provided that the urgency statute may not be made part of or included within any bill enacted pursuant to Section 12 of Article IV.

Section 8.5, Article XVI of the California Constitution

(a) In addition to the amount required to be applied for the support of school districts and community college districts pursuant to Section 8, the Controller shall during each fiscal year transfer and allocate all revenues available pursuant to paragraph 1 of subdivision (a) of Section 2 of Article XIII B to that portion of the State School Fund restricted for elementary and high school purposes, and to that portion of the State School Fund restricted for community college purposes, respectively, in proportion to the enrollment in school districts and community college districts respectively.

(1) With respect to funds allocated to that portion of the State School Fund restricted for elementary and high school purposes, no transfer or allocation of funds pursuant to this section shall be required at any time that the Director of Finance and the Superintendent of Public Instruction mutually determine that current annual expenditures per student equal or exceed the average annual expenditure per student of the 10 states with the highest annual expenditures per student for elementary and high schools, and that average class size equals or is less than the average class size of the 10 states with the lowest class size for elementary and high schools.

(2) With respect to funds allocated to that portion of the State School Fund restricted for community college purposes, no transfer or allocation of funds pursuant to this section shall be required at any time that the Director of Finance and the Chancellor of the California Community Colleges mutually determine that current annual expenditures per student for community colleges in this State equal or exceed the average annual expenditure per student of the 10 states with the highest annual expenditures per student for community colleges.

(b) Notwithstanding the provisions of Article XIII B, funds allocated pursuant to this section shall not constitute appropriations subject to limitation.

(c) From any funds transferred to the State School Fund pursuant to subdivision (a), the Controller shall each year allocate to each school district and community college district an equal amount per enrollment in school districts from the amount in that portion of the State School Fund restricted for elementary and high school purposes and an equal amount per enrollment in community college districts from that portion of the State School Fund restricted for community college purposes.

(d) All revenues allocated pursuant to subdivision (a) shall be expended solely for the purposes of instructional improvement and accountability as required by law.

(e) Any school district maintaining an elementary or secondary school shall develop and cause to be prepared an annual audit accounting for such funds and shall adopt a School Accountability Report Card for each school.

GENERAL PURPOSE APPORTIONMENT FUNDING

Local Control Funding Formula (California Education Code § 42238.02)

(a) The amount computed pursuant to this section shall be known as the school district and charter school local control funding formula.

(b) (1) For purposes of this section “unduplicated pupil” means a pupil enrolled in a school district or a charter school who is either classified as an English learner, eligible for a free or reduced-price meal, or is a foster youth. A pupil shall be counted only once for purposes of this section if any of the following apply:

(A) The pupil is classified as an English learner and is eligible for a free or reduced-price meal.

(B) The pupil is classified as an English learner and is a foster youth.

(C) The pupil is eligible for a free or reduced-price meal and is classified as a foster youth.

(D) The pupil is classified as an English learner, is eligible for a free or reduced-price meal, and is a foster youth.

(2) Under procedures and timeframes established by the Superintendent, commencing with the 2013-14 fiscal year, a school district or charter school shall annually submit its enrolled free and reduced-price meal eligibility, foster youth, and English learner pupil-level records for enrolled pupils to the Superintendent using the California Longitudinal Pupil Achievement Data System.

(3) (A) Commencing with the 2013-14 fiscal year, a county office of education shall review and validate certified aggregate English learner, foster youth, and free or reduced-price meal eligible pupil data for school districts and charter schools under its jurisdiction to ensure the data is reported accurately. The Superintendent shall provide each county office of education with appropriate access to school district and charter school data reports in the California Longitudinal Pupil Achievement Data System for purposes of ensuring data reporting accuracy.

(B) The Controller shall include the instructions necessary to enforce paragraph (2) in the audit guide required by Section 14502.1. The instructions shall include, but are not necessarily limited to, procedures for determining if the English learner, foster youth, and free or reduced-price meal eligible pupil counts are consistent with the school district's or charter school's English learner, foster youth, and free or reduced-price meal eligible pupil records.

(4) The Superintendent shall make the calculations pursuant to this section using the data submitted by local educational agencies, including charter schools, through the California Longitudinal Pupil Achievement Data System. Under timeframes and procedures established by the Superintendent, school districts and charter schools may review and revise their submitted data on English learner, foster youth, and free or reduced-price meal eligible pupil counts to ensure the accuracy of data reflected in the California Longitudinal Pupil Achievement Data System.

(5) The Superintendent shall annually compute the percentage of unduplicated pupils for each school district and charter school by dividing the enrollment of unduplicated pupils in a school district or charter school by the total enrollment in that school district or charter school pursuant to all of the following:

(A) For the 2013-14 fiscal year, divide the sum of unduplicated pupils for the 2013-14 fiscal year by the sum of the total pupil enrollment for the 2013-14 fiscal year.

(B) For the 2014-15 fiscal year, divide the sum of unduplicated pupils for the 2013-14 and 2014-15 fiscal years by the sum of the total pupil enrollment for the 2013-14 and 2014-15 fiscal years.

(C) For the 2015-16 fiscal year and each fiscal year thereafter, divide the sum of unduplicated pupils for the current fiscal year and the two prior fiscal years by the sum of the total pupil enrollment for the current fiscal year and the two prior fiscal years.

(D) (i) For purposes of the quotients determined pursuant to subparagraphs (B) and (C), the Superintendent shall use a school district's or charter school's enrollment of unduplicated pupils and total pupil enrollment in the 2014-15 fiscal year instead of the enrollment of unduplicated pupils and total pupil enrollment in the 2013-14 fiscal year if doing so would yield an overall greater percentage of unduplicated pupils.

(ii) It is the intent of the Legislature to review each school district and charter school's enrollment of unduplicated pupils for the 2013-14 and 2014-15 fiscal

years and provide one-time funding, if necessary, for a school district or charter school with higher enrollment of unduplicated pupils in the 2014-15 fiscal year as compared to the 2013-14 fiscal year.

(6) The data used to determine the percentage of unduplicated pupils shall be final once that data is no longer used in the current fiscal year calculation of the percentage of unduplicated pupils. This paragraph does not apply to a change that is the result of an audit that has been appealed pursuant to Section 41344.

(c) Commencing with the 2013-14 fiscal year and each fiscal year thereafter, the Superintendent shall annually calculate a local control funding formula grant for each school district and charter school in the state pursuant to this section.

(d) The Superintendent shall compute a grade span adjusted base grant equal to the total of the following amounts:

(1) For the 2013–14 fiscal year, a base grant of:

(A) Six thousand eight hundred forty-five dollars (\$6,845) for average daily attendance in kindergarten and grades 1 to 3, inclusive.

(B) Six thousand nine hundred forty-seven dollars (\$6,947) for average daily attendance in grades 4 to 6, inclusive.

(C) Seven thousand one hundred fifty-four dollars (\$7,154) for average daily attendance in grades 7 and 8.

(D) Eight thousand two hundred eighty-nine dollars (\$8,289) for average daily attendance in grades 9 to 12, inclusive.

(2) In each year the grade span adjusted base grants in paragraph (1) shall be adjusted by the percentage change in the annual average value of the Implicit Price Deflator for State and Local Government Purchases of Goods and Services for the United States, as published by the United States Department of Commerce for the 12-month period ending in the third quarter of the prior fiscal year. This percentage change shall be determined using the latest data available as of May 10 of the preceding fiscal year compared with the annual average value of the same deflator for the 12-month period ending in the third quarter of the second preceding fiscal year, using the latest data available as of May 10 of the preceding fiscal year, as reported by the Department of Finance.

(3) (A) The Superintendent shall compute an additional adjustment to the kindergarten and grades 1 to 3, inclusive, base grant as adjusted for inflation pursuant to paragraph (2) equal to 10.4 percent. The additional grant shall be calculated by multiplying the kindergarten and grades 1 to 3, inclusive, base grant, as adjusted by paragraph (2), by 10.4 percent.

(B) Until paragraph (4) of subdivision (b) of Section 42238.03 is effective, as a condition of the receipt of funds in this paragraph, a school district shall make progress toward maintaining an average class enrollment of not more than 24 pupils for each schoolsite in kindergarten and grades 1 to 3, inclusive, unless a collectively bargained alternative annual average class enrollment for each schoolsite in those grades is agreed to by the school district, pursuant to the following calculation:

(i) Determine a school district's average class enrollment for each schoolsite for kindergarten and grades 1 to 3, inclusive, in the prior year. For the 2013-14 fiscal year, this amount shall be the average class enrollment for each schoolsite for kindergarten and grades 1 to 3, inclusive, in the 2012-13 fiscal year.

(ii) Determine a school district's proportion of total need pursuant to paragraph (2) of subdivision (b) of Section 42238.03.

(iii) Determine the percentage of the need calculated in clause (ii) that is met by funding provided to the school district pursuant to paragraph (3) of subdivision (b) of Section 42238.03.

(iv) Determine the difference between the amount computed pursuant to clause (i) and an average class enrollment of not more than 24 pupils.

(v) Calculate a current year average class enrollment adjustment for each schoolsite for kindergarten and grades 1 to 3, inclusive, equal to the adjustment calculated in clause (iv) multiplied by the percentage determined pursuant to clause (iii).

(C) School districts that have an average class enrollment for each schoolsite for kindergarten and grades 1 to 3, inclusive, of 24 pupils or less for each schoolsite in the 2012-13 fiscal year, shall be exempt from the requirements of subparagraph (B) so long as the school district continues to maintain an average class enrollment for each schoolsite for kindergarten and grades 1 to 3, inclusive, of not more than 24 pupils, unless a collectively bargained alternative ratio is agreed to by the school district.

(D) Upon full implementation of the local control funding formula, as a condition of the receipt of funds in this paragraph, all school districts shall maintain an average class enrollment for each schoolsite for kindergarten and grades 1 to 3, inclusive, of not more than 24 pupils for each schoolsite in kindergarten and grades 1 to 3, inclusive, unless a collectively bargained alternative ratio is agreed to by the school district.

(E) The average class enrollment requirement for each schoolsite for kindergarten and grades 1 to 3, inclusive, established pursuant to this paragraph shall not be subject to waiver by the state board pursuant to Section 33050 or by the Superintendent.

(F) The Controller shall include the instructions necessary to enforce this paragraph in the audit guide required by Section 14502.1. The instructions shall include, but are not necessarily limited to, procedures for determining if the average class enrollment for each schoolsite for kindergarten and grades 1 to 3, inclusive, exceeds 24 pupils, or an alternative average class enrollment for each schoolsite pursuant to a collectively bargained alternative ratio. The procedures for determining average class enrollment for each schoolsite shall include criteria for employing sampling.

(4) The Superintendent shall compute an additional adjustment to the base grant for grades 9 to 12, inclusive, as adjusted for inflation pursuant to paragraph (2), equal to 2.6 percent. The additional grant shall be calculated by multiplying the base grant for grades 9 to 12, inclusive, as adjusted by paragraph (2), by 2.6 percent.

(e) The Superintendent shall compute a supplemental grant add-on equal to 20 percent of the base grants as specified in subparagraphs (A) to (D), inclusive, of paragraph (1) of subdivision (d), as adjusted by paragraphs (2) to (4), inclusive, of subdivision (d), for each school district's or charter school's percentage of unduplicated pupils calculated pursuant to paragraph (5) of subdivision (b). The supplemental grant shall be calculated by multiplying the base grants as specified in subparagraphs (A) to (D), inclusive, of paragraph (1), as adjusted by paragraphs (2) to (4), inclusive, of subdivision (d), by 20 percent and by the percentage of unduplicated pupils calculated pursuant to paragraph (5) of subdivision (b) in that school district or charter school. The supplemental grant shall be expended in accordance with the regulations adopted pursuant to Section 42238.07.

(f) (1) The Superintendent shall compute a concentration grant add-on equal to 50 percent of the base grants as specified in subparagraphs (A) to (D), inclusive, of paragraph (1) of subdivision (d), as adjusted by

paragraphs (2) to (4), inclusive, of subdivision (d), for each school district's or charter school's percentage of unduplicated pupils calculated pursuant to paragraph (5) of subdivision (b) in excess of 55 percent of the school district's or charter school's total enrollment. The concentration grant shall be calculated by multiplying the base grants as specified in subparagraphs (A) to (D), inclusive, of paragraph (1) of subdivision (d), as adjusted by paragraphs (2) to (4), inclusive, of subdivision (d), by 50 percent and by the percentage of unduplicated pupils calculated pursuant to paragraph (5) of subdivision (b) in excess of 55 percent of the total enrollment in that school district or charter school.

(2) (A) For a charter school physically located in only one school district, the percentage of unduplicated pupils calculated pursuant to paragraph (5) of subdivision (b) in excess of 55 percent used to calculate concentration grants shall not exceed the percentage of unduplicated pupils calculated pursuant to paragraph (5) of subdivision (b) in excess of 55 percent of the school district in which the charter school is physically located. For a charter school physically located in more than one school district, the charter school's percentage of unduplicated pupils calculated pursuant to paragraph (5) of subdivision (b) in excess of 55 percent used to calculate concentration grants shall not exceed that of the school district with the highest percentage of unduplicated pupils calculated pursuant to paragraph (5) of subdivision (b) in excess of 55 percent of the school districts in which the charter school has a school facility. The concentration grant shall be expended in accordance with the regulations adopted pursuant to Section 42238.07.

(B) For purposes of this paragraph and subparagraph (A) of paragraph (1) of subdivision (f) of Section 42238.03, a charter school shall report its physical location to the department under timeframes established by the department. For a charter school authorized by a school district, the department shall include the authorizing school district in the department's determination of physical location. For a charter school authorized on appeal pursuant to subdivision (j) of Section 47605, the department shall include the sponsoring school district in the department's determination of physical location. The reported physical location of the charter school shall be considered final as of the second principal apportionment for that fiscal year. For purposes of this paragraph, the percentage of unduplicated pupils of the school district associated with the charter school pursuant to subparagraph (A) shall be considered final as of the second principal apportionment for that fiscal year.

(g) The Superintendent shall compute an add-on to the total sum of a school district's or charter school's base, supplemental, and concentration grants equal to the amount of funding a school district or charter school received from funds allocated pursuant to the Targeted Instructional Improvement Block Grant program, as set forth in Article 6 (commencing with Section 41540) of Chapter 3.2, for the 2012-13 fiscal year, as that article read on January 1, 2013. A school district or charter school shall not receive a total funding amount from this add-on greater than the total amount of funding received by the school district or charter school from that program in the 2012-13 fiscal year. The amount computed pursuant to this subdivision shall reflect the reduction specified in paragraph (2) of subdivision (a) of Section 42238.03.

(h) The Superintendent shall compute an add-on to the total sum of a school district's or charter school's base, supplemental, and concentration grants equal to the amount of funding a school district or charter school received from funds allocated pursuant to the Home-to-School Transportation program, as set forth in former Article 2 (commencing with Section 39820) of Chapter 1 of Part 23.5, former Article 10 (commencing with Section 41850) of Chapter 5, and the Small School District Transportation program, as set forth in former Article 4.5 (commencing with Section 42290), for the 2012-13 fiscal year. A school district or charter school shall not receive a total funding amount from this add-on greater than the total amount received by the school district or charter school for those programs in the 2012-13 fiscal year. The amount computed pursuant to this subdivision shall reflect the reduction specified in paragraph (2) of subdivision (a) of Section 42238.03.

(i) (1) The sum of the local control funding formula rates computed pursuant to subdivisions (c) to (f), inclusive, shall be multiplied by:

(B) For charter schools, the total current year average daily attendance in the corresponding grade level ranges.

(2) The amount computed pursuant to Article 4 (commencing with Section 42280) shall be added to the amount computed pursuant to paragraphs (1) to (4), inclusive, of subdivision (d), as multiplied by subparagraph (A) or (B) of paragraph (1), as appropriate.

(j) The Superintendent shall adjust the sum of each school district's or charter school's amount determined in subdivisions (g) to (i), inclusive, pursuant to the calculation specified in Section 42238.03, less the sum of the following:

(1) (A) For school districts, the property tax revenue received pursuant to Chapter 3.5 (commencing with Section 75) and Chapter 6 (commencing with Section 95) of Part 0.5 of Division 1 of the Revenue and Taxation Code.

(B) For charter schools, the in-lieu property tax amount provided to a charter school pursuant to Section 47635.

(2) The amount, if any, received pursuant to Part 18.5 (commencing with Section 38101) of Division 2 of the Revenue and Taxation Code.

(3) The amount, if any, received pursuant to Chapter 3 (commencing with Section 16140) of Part 1 of Division 4 of Title 2 of the Government Code.

(4) Prior years' taxes and taxes on the unsecured roll.

(5) Fifty percent of the amount received pursuant to Section 41603.

(6) The amount, if any, received pursuant to the Community Redevelopment Law (Part 1 (commencing with Section 33000) of Division 24 of the Health and Safety Code), less any amount received pursuant to Section 33401 or 33676 of the Health and Safety Code that is used for land acquisition, facility construction, reconstruction, or remodeling, or deferred maintenance and that is not an amount received pursuant to Section 33492.15, or paragraph (4) of subdivision (a) of Section 33607.5, or Section 33607.7 of the Health and Safety Code that is allocated exclusively for educational facilities.

(7) The amount, if any, received pursuant to Sections 34177, 34179.5, 34179.6, 34183, and 34188 of the Health and Safety Code.

(8) Revenue received pursuant to subparagraph (B) of paragraph (3) of subdivision (e) of Section 36 of Article XIII of the California Constitution.

(k) A school district shall annually transfer to each of its charter schools funding in lieu of property taxes pursuant to Section 47635.

(l) (1) Nothing in this section shall be interpreted to authorize a school district that receives funding on behalf of a charter school pursuant to Section 47651 to redirect this funding for another purpose unless otherwise authorized in law pursuant to paragraph (2) or pursuant to an agreement between the charter school and its chartering authority.

(2) A school district that received funding on behalf of a locally funded charter school in the 2012-13 fiscal year pursuant to paragraph (2) of subdivision (b) of Section 42605, Section 42606, and subdivision (b) of Section 47634.1, as those sections read on January 1, 2013, or a school district that was required to pass through funding to a conversion charter school in the 2012-13 fiscal year pursuant to paragraph (2) of subdivision (b) of Section 42606, as that section read on January 1, 2013, may annually redirect for another purpose a percentage of the amount of the funding received on behalf of that charter school. The percentage of funding that may be redirected shall be determined pursuant to the following computation:

(A) (i) Determine the sum of the need fulfilled for that charter school pursuant to paragraph (3) of subdivision (b) of Section 42238.03 in the then current fiscal year for the charter school.

(ii) Determine the sum of the need fulfilled in every fiscal year before the then current fiscal year pursuant to paragraph (3) of subdivision (b) of Section 42238.03 adjusted for changes in average daily attendance pursuant to paragraph (3) of subdivision (a) of Section 42238.03 for the charter school.

(iii) Subtract the amount computed pursuant to paragraphs (1) to (3), inclusive, of subdivision (a) of Section 42238.03 from the amount computed for that charter school under the local control funding formula entitlement computed pursuant to subdivision (i) of Section 42238.02.

(iv) Compute a percentage by dividing the sum of the amounts computed to clauses (i) and (ii) by the amount computed pursuant to clause (iii).

(B) Multiply the percentage computed pursuant to subparagraph (A) by the amount of funding the school district received on behalf of the charter school in the 2012-13 fiscal year pursuant to paragraph (2) of subdivision (b) of Section 42605, Section 42606, and subdivision (b) of Section 47634.1, as those sections read on January 1, 2013.

(C) The maximum amount that may be redirected shall be the lesser of the amount of funding the school district received on behalf of the charter school in the 2012-13 fiscal year pursuant to paragraph (2) of subdivision (b) of Section 42605, Section 42606, and subdivision (b) of Section 47634.1, as those sections read on January 1, 2013, or the amount computed pursuant to subparagraph (B).

(3) Commencing with the 2013-14 fiscal year, a school district operating one or more affiliated charter schools shall provide each affiliated charter school schoolsite with no less than the amount of funding the schoolsite received pursuant to the charter school block grant in the 2012-13 fiscal year.

(m) Any calculations in law that are used for purposes of determining if a local educational agency is an excess tax school entity or basic aid school district, including, but not limited to, this section and Sections 42238.03, 41544, 47632, 47660, 47663, 48310, and 48359.5, and Section 95 of the Revenue and Taxation Code, shall be made exclusive of the revenue received pursuant to subparagraph (B) of paragraph (3) of subdivision (e) of Section 36 of Article XIII of the California Constitution.

(n) The funds apportioned pursuant to this section and Section 42238.03 shall be available to implement the activities required pursuant to Article 4.5 (commencing with Section 52060) of Chapter 6.1 of Part 28 of Division 4 of Title 2.

(o) A school district that does not receive an apportionment of state funds pursuant to this section, as implemented pursuant to Section 42238.03, excluding funds apportioned pursuant to the requirements of subparagraph (A) of paragraph (2) of subdivision (e) of Section 42238.03, shall be considered a “basic aid school district” or an “excess tax entity.”

Economic Recovery Target (California Education Code § 42238.025)

(a) In the 2013-14 fiscal year, the Superintendent shall compute an economic recovery target rate for each school district and charter school equal to the sum of the following:

(1)

(B) For each charter school, the charter school's general purpose funding as computed pursuant to Article 2 (commencing with Section 47633) of Chapter 6 of Part 26.8 of Division 4, as that article read on January 1, 2013, and the in-lieu property tax amount provided to the charter school pursuant to Section 47635, as that section read on January 1, 2013, divided by the 2012-13 fiscal year average daily attendance of the charter school computed pursuant to Section 42238.05. For purposes of this section, average daily attendance shall include any applicable charter school general purpose funding average daily attendance and shall be considered final for purposes of this section as of the annual apportionment for the 2012-13 fiscal year, as calculated for purposes of the certification required on or before February 20, 2014, pursuant to Sections 41332 and 41339.

(C) The amounts determined pursuant to subparagraphs (A) and (B) shall not reflect the deficit factor adjustments set forth in Section 42238.146 as that section read on January 1, 2013.

(D) The amounts determined pursuant to subparagraphs (A) and (B) shall be adjusted for the cost-of-living adjustment for the 2013-14 fiscal year pursuant to paragraph (2) of subdivision (d) of Section 42238.02 and an annual average cost-of-living adjustment of 1.94 percent for the 2014-15 fiscal year to the 2020-21 fiscal year, inclusive.

(2) (A) For each school district and charter school, the sum of the entitlements from items contained in Section 2.00 of the Budget Act of 2012 for Items 6110-104-0001, 6110-105-0001, 6110-108-0001, 6110-111-0001, 6110-124-0001, 6110-128-0001, 6110-137-0001, 6110-144-0001, 6110-156-0001, 6110-181-0001, 6110-188-0001, 6110-189-0001, 6110-190-0001, 6110-193-0001, 6110-195-0001, 6110-198-0001, 6110-204-0001, 6110-208-0001, 6110-209-0001, 6110-211-0001, 6110-212-0001, 6110-227-0001, 6110-228-0001, 6110-232-0001, 6110-240-0001, 6110-242-0001, 6110-243-0001, 6110-244-0001, 6110-245-0001, 6110-246-0001, 6110-247-0001, 6110-248-0001, 6110-260-0001, 6110-265-0001, 6110-267-0001, 6110-268-0001, 6360-101-0001, 2012-13 fiscal year funding for the Class Size Reduction Program pursuant to Chapter 6.10 (commencing with Section 52120) of Part 28 of Division 4, as it read on January 1, 2013, and 2012-13 fiscal year funding for pupils enrolled in community day schools who are mandatorily expelled pursuant to subdivision (d) of Section 48915, divided by the 2012-13 fiscal year average daily attendance of the school district computed pursuant to Section 42238.05. For purposes of this subparagraph, 2012-13 fiscal year entitlements shall be considered final as of the annual apportionment for the 2012-13 fiscal year, as calculated for purposes of the certification required on or before February 20, 2014, pursuant to Sections 41332 and 41339.

(B) The amounts determined pursuant to this subdivision shall not be adjusted for the reduction set forth in Section 12.42 of the Budget Act of 2012.

(b) Of the amounts computed for school districts pursuant to subdivision (a), the Superintendent shall determine the funding rate per unit of average daily attendance above which fall not more than 10 percent of the total number of school districts statewide.

(c) The Superintendent shall compute a 2020-21 fiscal year local control funding formula rate for each school district and charter school equal to the amount computed pursuant to Section 42238.02 for the 2013-14 fiscal year, adjusted for an annual average cost-of-living adjustment of 1.94 percent for the 2014-15 fiscal year to the 2020-21 fiscal year, inclusive, divided by the 2013-14 fiscal year average daily attendance of the school district or charter school computed pursuant to Section 42238.05. For purposes of this subdivision, the amount computed pursuant to Section 42238.02 for the 2013-14 fiscal year shall be considered final as of the second principal apportionment for the 2013-14 fiscal year, as calculated for purposes of the certification required on or before July 2, 2014, pursuant to Sections 41335 and 41339.

(d) (1) For each school district and charter school that has a funding rate per unit of average daily attendance computed pursuant to subdivision (a) that is equal to, or below, the funding rate per unit of average daily attendance determined pursuant to subdivision (b), the Superintendent shall subtract the amount computed pursuant to subdivision (c) from the amount computed pursuant to subdivision (a). Each school district or charter school for

which this calculation yields an amount greater than zero shall be eligible for an economic recovery target payment equal to the amount of the difference. A school district or charter school that has a funding rate per unit of average daily attendance calculated pursuant to subdivision (a) that exceeds the rate calculated pursuant to subdivision (b) shall not be eligible for an economic recovery target payment.

(2) Each school district or charter school eligible for an economic recovery target payment pursuant to paragraph (1) shall receive the following apportionments:

(A) For the 2013-14 fiscal year, one-eighth of the amount calculated pursuant to paragraph (1) multiplied by the 2012-13 fiscal year average daily attendance computed pursuant to Section 42238.05.

(B) For the 2014-15 fiscal year, one-quarter of the amount calculated pursuant to paragraph (1) multiplied by the 2012-13 fiscal year average daily attendance computed pursuant to Section 42238.05.

(C) For the 2015-16 fiscal year, three-eighths of the amount calculated pursuant to paragraph (1) multiplied by the 2012-13 fiscal year average daily attendance computed pursuant to Section 42238.05.

(D) For the 2016-17 fiscal year, one-half of the amount calculated pursuant to paragraph (1) multiplied by the 2012-13 fiscal year average daily attendance computed pursuant to Section 42238.05.

(E) For the 2017-18 fiscal year, five-eighths of the amount calculated pursuant to paragraph (1) multiplied by the 2012-13 fiscal year average daily attendance computed pursuant to Section 42238.05.

(F) For the 2018-19 fiscal year, three-quarters of the amount calculated pursuant to paragraph (1) multiplied by the 2012-13 fiscal year average daily attendance computed pursuant to Section 42238.05.

(G) For the 2019-20 fiscal year, seven-eighths of the amount calculated pursuant to paragraph (1) multiplied by the 2012-13 fiscal year average daily attendance computed pursuant to Section 42238.05.

(H) For the 2020-21 fiscal year and each fiscal year thereafter, the amount calculated pursuant to paragraph (1) multiplied by the 2012-13 fiscal year average daily attendance computed pursuant to Section 42238.05.

(3) In each fiscal year until a determination has been made that all school districts and charter schools equal or exceed the local control funding formula target computed pursuant to Section 42238.02, as determined by the calculation of a zero difference pursuant to paragraph (1) of subdivision (b) of Section 42238.03, the economic recovery target payment apportioned to each eligible school district or charter school pursuant to paragraph (2) shall be added to the school district's or charter school's funding amounts that are continuously appropriated pursuant to subdivision (a) of Section 42238.03 and included in the amount of funding that is subject to offset pursuant to subdivision (c) of Section 42238.03. The amount apportioned pursuant to paragraph (2) shall not receive a cost-of-living adjustment.

(4) Commencing with the first fiscal year in which all school districts and charter schools are apportioned funding pursuant to Section 42238.02, the economic recovery target calculated pursuant to subparagraph (H) of paragraph (2) shall be included as an add-on to the amounts computed pursuant to subdivisions (c) to (i), inclusive, of Section 42238.02 and included in the amount of funding that is subject to offset pursuant to subdivision (j) of Section 42238.02. The amount included as an add-on pursuant to this paragraph shall not receive a cost-of-living adjustment.

Transition to the Local Control Funding Formula (California Education Code § 42238.03)

(a) Commencing with the 2013-14 fiscal year and each fiscal year thereafter, the Superintendent shall calculate a base entitlement for the transition to the local control funding formula for each school district and charter school equal to the sum of the amounts computed pursuant to paragraphs (1) to (4), inclusive. The amounts computed pursuant to paragraphs (1) to (4), inclusive, shall be continuously appropriated pursuant to Section 14002.

(1) The current fiscal year base entitlement funding level shall be the sum of all of the following:

...

(B) (i) For charter schools, general purpose funding as computed pursuant to Article 2 (commencing with Section 47633) of Chapter 6, as that article read on January 1, 2013, and the amount of in-lieu property tax provided to the charter school pursuant to Section 47635, as that section read on June 30, 2013, divided by the 2012-13 average daily attendance of the charter school computed pursuant to Section 42238.05. That quotient shall be multiplied by the current fiscal year average daily attendance of the charter school computed pursuant to Section 42238.05.

(ii) The amount computed pursuant to clause (i) shall exclude funds received by a charter school pursuant to Section 47634.1, as that section read on January 1, 2013.

(C) The amount computed pursuant to subparagraph (A) shall exclude funds received pursuant to Section 47633, as that section read on January 1, 2013.

(D) For school districts, funding for qualifying necessary small high school and necessary small elementary schools shall be adjusted to reflect the funding levels that correspond to the 2012-13 necessary small high school and necessary small elementary school allowances pursuant to Article 4 (commencing with Section 42280) and Section 42238.146, as those provisions read on January 1, 2013.

(2) (A) Entitlements from items contained in Section 2.00, as adjusted pursuant to Section 12.42, of the Budget Act of 2012 for Items 6110-104-0001, 6110-105-0001, 6110-108-0001, 6110-111-0001, 6110-124-0001, 6110-128-0001, 6110-137-0001, 6110-144-0001, 6110-156-0001, 6110-181-0001, 6110-188-0001, 6110-189-0001, 6110-190-0001, 6110-193-0001, 6110-195-0001, 6110-198-0001, 6110-204-0001, 6110-208-0001, 6110-209-0001, 6110-211-0001, 6110-212-0001, 6110-227-0001, 6110-228-0001, 6110-232-0001, 6110-240-0001, 6110-242-0001, 6110-243-0001, 6110-244-0001, 6110-245-0001, 6110-246-0001, 6110-247-0001, 6110-248-0001, 6110-260-0001, 6110-265-0001, 6110-267-0001, 6110-268-0001, 6360-101-0001, 2012-13 fiscal year funding for the Class Size Reduction Program pursuant to Chapter 6.10 (commencing with Section 52120) of Part 28 of Division 4, as it read on January 1, 2013, and 2012-13 fiscal year funding for pupils enrolled in community day schools who are mandatorily expelled pursuant to subdivision (d) of Section 48915. The entitlement for basic aid school districts shall include the reduction of 8.92 percent as applied pursuant to subparagraph (A) of paragraph (1) of subdivision (a) of Section 3 of Chapter 2 of the Statutes of 2012.

...

(3) The allocations pursuant to Sections 42606 and 47634.1, as those sections read on January 1, 2013, divided by the 2012-13 average daily attendance of the charter school computed pursuant to Section 42238.05. That quotient shall be multiplied by the current fiscal year average daily attendance of the charter school computed pursuant to Section 42238.05.

(4) The amount allocated to a school district or charter school pursuant to paragraph (3) of subdivision (b) for the fiscal years before the current fiscal year divided by the average daily attendance of

the school district or charter school for the fiscal years before the current fiscal year computed pursuant to Section 42238.05. That quotient shall be multiplied by the current fiscal year average daily attendance of the school district or charter school computed pursuant to Section 42238.05.

(5) (A) For the 2013-14 and 2014-15 fiscal years only, a school district that, in the 2012-13 fiscal year, from any of the funding sources identified in paragraph (1) or (2), received funds on behalf of, or provided funds to, a regional occupational center or program joint powers agency established in accordance with Article 1 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code for purposes of providing instruction to secondary pupils shall not redirect that funding for another purpose unless otherwise authorized in law or pursuant to an agreement between the regional occupational center or program joint powers agency and the contracting school district.

(B) For the 2013-14 and 2014-15 fiscal years only, if a regional occupational center or program joint powers agency established in accordance with Article 1 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code for purposes of providing instruction to pupils enrolled in grades 9 to 12, inclusive, received, in the 2012-13 fiscal year, an apportionment of funds directly from any of the funding sources identified in subparagraph (A) of paragraph (2) of subdivision (a), the Superintendent shall apportion that same amount to the regional occupational center or program joint powers agency.

(6) (A) (i) For the 2013-14 and 2014-15 fiscal years only, a school district that, in the 2012-13 fiscal year, from any of the funding sources identified in paragraph (1) or (2), received funds on behalf of, or provided funds to, a home-to-school transportation joint powers agency established in accordance with Article 1 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code for purposes of providing pupil transportation shall not redirect that funding for another purpose unless otherwise authorized in law or pursuant to an agreement between the home-to-school transportation joint powers agency and the contracting school district.

(ii) For the 2013-14 and 2014-15 fiscal years only, if a home-to-school transportation joint powers agency established in accordance with Article 1 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code for purposes of providing pupil transportation received, in the 2012-13 fiscal year, an apportionment of funds directly from the Superintendent from any of the funding sources identified in subparagraph (A) of paragraph (2) of subdivision (a), the Superintendent shall apportion that same amount to the home-to-school transportation joint powers agency.

(B) In addition to subparagraph (A), of the funds a school district receives for home-to-school transportation programs the school district shall expend, pursuant to Article 2 (commencing with Section 39820) of Chapter 1 of Part 23.5, Article 10 (commencing with Section 41850) of Chapter 5, and the Small School District Transportation program, as set forth in Article 4.5 (commencing with Section 42290) of Chapter 7 of Part 24 of Division 3 of Title 2, no less for those programs than the amount of funds the school district expended for home-to-school transportation in the 2012-13 fiscal year.

(7) For the 2013-14 and 2014-15 fiscal years only, of the funds a school district receives for purposes of regional occupational centers or programs, or adult education, the school district shall expend no less than the amount of funds the school district expended for purposes of regional occupational centers or programs, or adult education, respectively, in the 2012-13 fiscal year. For purposes of this paragraph, a school district may include expenditures made by its county office of education within the school district for purposes of regional occupational centers or programs so long as the total amount of expenditures by the school district and the county office of education equal or exceed the total amount required to be expended for purposes of regional occupational centers or programs pursuant to this paragraph and paragraph (3) of subdivision (k) of Section 2575.

...

(b) Compute an annual local control funding formula transition adjustment for each school district and charter school as follows:

(1) Subtract the amount computed pursuant to paragraphs (1) to (4), inclusive, of subdivision (a) from the amount computed for each school district or charter school under the local control funding formula entitlements computed pursuant to Section 42238.02. School districts and charter schools with a negative difference shall be deemed to have a zero difference.

(2) Each school district's and charter school's total need, as calculated pursuant to paragraph (1), shall be divided by the sum of all school districts' and charter schools' total need to determine the school district's or charter school's respective proportions of total need.

(3) (A) Each school district's and charter school's proportion of total need shall be multiplied by any available appropriations specifically made for purposes of this subdivision, and added to the school district's or charter school's funding amounts as calculated pursuant to subdivision (a).

...

(4) If the total amount of funds appropriated for purposes of paragraph (3) pursuant to this subdivision are sufficient to fully fund any positive amounts computed pursuant to paragraph (1), the local control funding formula grant computed pursuant to subdivision (c) of Section 42238.02 shall be adjusted to ensure that any available appropriation authority is expended for purposes of the local control funding formula.

(5) Commencing with the first fiscal year after either paragraph (4) of this subdivision or paragraph (2) of subdivision (g) applies, the adjustments in paragraph (2) of subdivision (d) of Section 42238.02 shall be made only if an appropriation for those adjustments is included in the annual Budget Act.

(c) The Superintendent shall subtract from the amounts computed pursuant to subdivisions (a) and (b) the sum of the following:

(1)...

(B) For charter schools, the in-lieu property tax amount provided to a charter school pursuant to Section 47635.

(2) The amount, if any, received pursuant to Part 18.5 (commencing with Section 38101) of Division 2 of the Revenue and Taxation Code.

(3) The amount, if any, received pursuant to Chapter 3 (commencing with Section 16140) of Part 1 of Division 4 of Title 2 of the Government Code.

(4) Prior years' taxes and taxes on the unsecured roll.

(5) Fifty percent of the amount received pursuant to Section 41603.

(6) The amount, if any, received pursuant to the Community Redevelopment Law (Part 1 (commencing with Section 33000) of Division 24 of the Health and Safety Code), less any amount received pursuant to Section 33401 or 33676 of the Health and Safety Code that is used for land acquisition, facility construction, reconstruction, or remodeling, or deferred maintenance and that is not an amount received pursuant to Section 33492.15, or paragraph (4) of subdivision (a) of Section 33607.5, or Section 33607.7 of the Health and Safety Code that is allocated exclusively for educational facilities.

(7) The amount, if any, received pursuant to Sections 34177, 34179.5, 34179.6, 34183, and 34188 of the Health and Safety Code.

(8) Revenue received pursuant to subparagraph (B) of paragraph (3) of subdivision (e) of Section 36 of Article XIII of the California Constitution.

(d) A school district or charter school that has a zero difference pursuant to paragraph (1) of subdivision (b) in the prior fiscal year shall receive an entitlement equal to the amount calculated pursuant to Section 42238.02 in the current fiscal year and future fiscal years.

(e) Notwithstanding the computations pursuant to subdivisions (b) to (d), inclusive, and Section 42238.02, commencing with the 2013-14 fiscal year, a school district or charter school shall receive state-aid funding of no less than the sum of the amounts computed pursuant to paragraphs (1) to (3), inclusive.

(1) ...

(B) (i) For charter schools, general purpose funding in the 2012-13 fiscal year as computed pursuant to Article 2 (commencing with Section 47633) of Chapter 6, as that article read on January 1, 2013, and the amount of in-lieu property tax provided to the charter school in the 2012-13 fiscal year pursuant to Section 47635, as that section read on January 1, 2013, divided by the 2012-13 average daily attendance of the charter school computed pursuant to Section 42238.05. That quotient shall be multiplied by the current fiscal year average daily attendance of the charter school computed pursuant to Section 42238.05.

(ii) The amount computed pursuant to clause (i) shall exclude funds received by a charter school pursuant to Section 47634.1, as that section read on January 1, 2013.

(C) The amount computed pursuant to subparagraph (A) shall exclude funds received pursuant to Section 47633, as that section read on January 1, 2013.

(D) For school districts, the 2012-13 funding allowance provided for qualifying necessary small high schools and necessary small elementary schools pursuant to Article 4 (commencing with Section 42280) and Section 42238.146, as those provisions read on February 1, 2013.

(E) The amount computed pursuant to subparagraphs (A) to (D), inclusive, shall be reduced by the sum of the amount computed pursuant to paragraphs (1) to (8), inclusive, of subdivision (c).

(2) (A) Entitlements from items contained in Section 2.00, as adjusted pursuant to Section 12.42, of the Budget Act of 2012 for Items 6110-104-0001, 6110-105-0001, 6110-108-0001, 6110-111-0001, 6110-124-0001, 6110-128-0001, 6110-137-0001, 6110-144-0001, 6110-156-0001, 6110-181-0001, 6110-188-0001, 6110-189-0001, 6110-190-0001, 6110-193-0001, 6110-195-0001, 6110-198-0001, 6110-204-0001, 6110-208-0001, 6110-209-0001, 6110-211-0001, 6110-212-0001, 6110-227-0001, 6110-228-0001, 6110-232-0001, 6110-240-0001, 6110-242-0001, 6110-243-0001, 6110-244-0001, 6110-245-0001, 6110-246-0001, 6110-247-0001, 6110-248-0001, 6110-260-0001, 6110-265-0001, 6110-267-0001, 6110-268-0001, 6360-101-0001, 2012-13 fiscal year funding for the Class Size Reduction Program pursuant to Chapter 6.10 (commencing with Section 52120) of Part 28 of Division 4, as it read on January 1, 2013, and 2012-13 fiscal year funding for pupils enrolled in community day schools who are mandatorily expelled pursuant to subdivision (d) of Section 48915. Notwithstanding Section 39 of Chapter 38 of the Statutes of 2012, the entitlement for basic aid school districts shall include the reduction of 8.92 percent as applied pursuant to subparagraph (A) of paragraph (1) of subdivision (a) of Section 3 of Chapter 2 of the Statutes of 2012.

(B) The Superintendent shall annually apportion any entitlement provided to the state special schools from the items specified in subparagraph (A) to the state special schools in the same amount as the state special schools received from those items in the 2012-13 fiscal year.

...

(3) The allocations pursuant to Sections 42606 and 47634.1, as those sections read on January 1, 2013, divided by the 2012-13 average daily attendance of the charter school. That quotient shall be multiplied by the current fiscal year average daily attendance of the charter school.

(f) (1) For purposes of this section, commencing with the 2013-14 fiscal year and until all school districts and charter schools equal or exceed their local control funding formula target computed pursuant to Section 42238.02, as determined by the calculation of a zero difference pursuant to paragraph (1) of subdivision (b), a newly operational charter school shall be determined to have a prior year per average daily attendance funding amount equal to the lesser of:

(A) The prior year funding amount per unit of average daily attendance for the school district in which the charter school is physically located. The Superintendent shall calculate the funding amount per unit of average daily attendance for this purpose by dividing the total local control funding formula entitlement, calculated pursuant to subdivisions (a) and (b), received by that school district in the prior year by prior year funded average daily attendance of that school district. For purposes of this subparagraph, a charter school that is physically located in more than one school district shall use the calculated local control funding entitlement per unit of average daily attendance of the school district with the highest prior year funding amount per unit of average daily attendance.

(B) The charter school's local control funding formula rate computed pursuant to subdivisions (c) to (i), inclusive, of Section 42238.02.

(2) For charter schools funded pursuant to paragraph (1), the charter school shall be eligible to receive growth funding pursuant to subdivision (b) toward meeting the newly operational charter school's local control funding formula target.

(3) Upon a determination that all school districts and charter schools equal or exceed the local control funding formula target computed pursuant to Section 42238.02, as determined by the calculation of a zero difference pursuant to paragraph (1) of subdivision (b) for all school districts and charter schools, this subdivision shall not apply and the charter school shall receive an allocation equal to the amount calculated under Section 42238.02 in that fiscal year and future fiscal years.

...

(g) (1) In each fiscal year the Superintendent shall determine the percentage of school districts that are apportioned funding pursuant to this section that is less than the amount computed pursuant to Section 42238.02 as of the second principal apportionments of the fiscal year. If the percentage is less than 10 percent, the Superintendent shall apportion funding to school districts and charter schools equal to the amount computed pursuant to Section 42238.02 in that fiscal year.

(2) For each fiscal year thereafter, the Superintendent shall apportion funding to a school district and charter school equal to the amount computed pursuant to Section 42238.02.

General Purpose Entitlement (Block Grant) Funding (California Education Code § 47633)

The Superintendent shall annually compute a general-purpose entitlement, funded from a combination of State aid and local funds, for each charter school as follows:

(a) The Superintendent shall annually compute the Statewide average amount of general-purpose funding per unit of average daily attendance received by school districts for each of four grade level ranges: (kindergarten and grades 1, 2, and 3; grades 4, 5, and 6; grades 7 and 8; and grades 9 to 12, inclusive. For purposes of making these computations, both of the following conditions apply:

(1) Revenue limit funding attributable to pupils in kindergarten and grades 1 to 5, inclusive, must equal the Statewide average revenue limit funding per unit of average daily attendance received by elementary school districts; revenue limit funding attributable to pupils in grades 6, 7, and 8, must equal the Statewide average revenue limit funding per unit of average daily attendance received by unified school districts; and revenue limit funding attributable to pupils in grades 9 to 12, inclusive, must equal the statewide average revenue limit funding per unit of average daily attendance received by high school districts.

(2) Revenue limit funding received by school districts shall exclude the value of any benefit attributable to the presence of “necessary small schools” or “necessary small high schools” within the school district.

(b) The Superintendent shall multiply each of the four amounts computed in subdivision (a) by the charter school’s average daily attendance in the corresponding grade level ranges. The resulting figure is the amount of the charter school’s “general-purpose entitlement,” which must be funded through a combination of State aid and local funds. From funds appropriated for such purpose, the Superintendent of Public Instruction apportions to each charter school the required amount, less local funds allocated to the charter school pursuant to Section 47635 and any amount received pursuant to paragraph (B) of paragraph (3) of subdivision (e) of Section 36 of Article XIII of the California Constitution.

(c) General-purpose entitlement funding may be used for any public school purpose determined by the governing body of the charter school.

(d) Commencing with the 2013-14 fiscal year, this section shall be used only for purposes of allocating revenues received pursuant to subparagraph (B) of paragraph (3) of subdivision (e) of Section 36 of Article XIII of the California Constitution.

(e) This section shall become inoperative on July 1, 2021, and, as of January 1, 2022, is repealed, unless a later enacted statute, that becomes operative on or before January 1, 2022, deletes or extends the dates on which it becomes inoperative and is repealed.

Apportionment of General Purpose Funds (California Education Code §§ 47650-47652)

Section 47650

A charter school shall be deemed to be a school district for purposes of determining the manner in which warrants are drawn on the State School Fund pursuant to Section 14041. For purposes of Section 14041, a charter school’s “total amount certified” means the state aid portion of the charter school’s total local control funding formula allocation pursuant to Section 42238.02, as implemented by Section 42238.03.

Section 47651

(a) A charter school may receive the state aid portion of the charter school’s total local control funding formula allocation pursuant to Section 42238.02, as implemented by Section 42238.03, directly or through the local educational agency that either grants its charter or was designated by the state board.

(1) In the case of a charter school that elects to receive its funding directly, the warrant shall be drawn in favor of the county superintendent of schools of the county in which the local educational agency that granted the charter or was designated by the state board as the oversight agency pursuant to paragraph (1) of subdivision (k) of Section 47605 is located, for deposit to the appropriate funds or accounts of the charter school in the county treasury. The county superintendent of schools is authorized to establish appropriate funds or accounts in the county treasury for each charter school.

(2) In the case of a charter school that does not elect to receive its funding directly pursuant to this section, the warrant shall be drawn in favor of the county superintendent of schools of the county in

which the local educational agency that granted the charter is located or was designated the oversight agency by the state board pursuant to paragraph (1) of subdivision (k) of Section 47605, for deposit to the appropriate funds or accounts of the local educational agency.

(3) In the case of a charter school, the charter of which was granted by the state board, but for which the state board has not delegated oversight responsibilities pursuant to paragraph (1) of subdivision (k) of Section 47605, the warrant shall be drawn in favor of the county superintendent of schools in the county where the local educational agency is located that initially denied the charter that was later granted by the state board. The county superintendent of schools is authorized to establish appropriate funds or accounts in the county treasury for each charter school.

(b) On or before June 1 of each year, a charter school electing to receive its funding directly shall so notify the county superintendent of schools of the county in which the local educational agency that granted the charter is located or, in the case of charters for which the state board has designated an oversight agency pursuant to paragraph (1) of subdivision (k) of Section 47605, the county superintendent of schools of the county in which the designated oversight agency is located. An election to receive funding directly shall apply to all funding that the charter school is eligible to receive including, but not limited to, the local control funding formula allocation pursuant to Section 42238.02, as implemented by Section 42238.03, other state and federal categorical aid, and lottery funds.

Section 47652

(a) Notwithstanding Section 41330, a charter school in its first year of operation shall be eligible to receive funding for the advance apportionment based on an estimate of average daily attendance for the current fiscal year, as approved by the local educational agency that granted its charter and the county office of education in which the charter-granting agency is located. For charter schools approved by the state board, estimated average daily attendance shall be submitted directly to, and approved by, the department. Not later than five business days following the end of the first 20 schooldays, a charter school receiving funding pursuant to this section shall report to the department its actual average daily attendance for that first month, and the Superintendent shall adjust immediately, but not later than 45 days, the amount of its advance apportionment accordingly.

(b) In addition to funding received pursuant to Section 41330, a charter school in its second or later year of operation also shall be eligible to receive an advance apportionment pursuant to the process and conditions described in subdivision (a) in any year in which the charter school is adding at least one grade level. The average daily attendance funded for a new grade level shall not exceed the portion of the certified average daily attendance at the second principal apportionment for the prior year that was attributable to pupils in the highest grade served by the charter school.

(c) A charter school in its first year of operation may only commence instruction within the first three months of the fiscal year beginning July 1 of that year. A charter school shall not be eligible for an apportionment pursuant to subdivision (a), or any other apportionment for a fiscal year in which instruction commenced after September 30 of that fiscal year.

Apportionment Dates and Amounts (California Education Code §§ 14041 & 14041.5)

Section 14041

(a) The Controller shall draw warrants on the State Treasury in favor of the county treasurer of each county in each month of each year in the amounts and manner as herein prescribed so as to provide in each warrant a portion of the total amount certified by the Superintendent as apportioned during the fiscal year from the State School Fund to the school districts under the jurisdiction of the county superintendent of schools of the county, to the county school service fund, and to the county school tuition fund of the county.

...

(2) Warrants for amounts apportioned to school districts and county school service funds for classes maintained by county superintendents of schools and to the county school tuition funds shall be for amounts equal to 6 percent in July, 12 percent in August, and 8 percent in September, October, November, December, and January, of the amounts certified by the Superintendent of Public Instruction as a part of the advance apportionment.

(3) Warrants in the months of February to May, inclusive, shall be for amounts equal to one-sixth of the difference between the amounts certified by the Superintendent of Public Instruction for school districts and county school service funds for classes maintained by county superintendents of schools and county school tuition funds as the first principal apportionment and the amounts required by paragraph (2). An additional one-sixth of such difference shall be included in the warrants for the month of February.

(4) Warrants for the month of June shall be for amounts equal to the difference between the amounts certified by the Superintendent of Public Instruction for school districts and county school service funds for classes maintained by county superintendents of schools and county school tuition funds as the second principal apportionment and the amounts required by paragraphs (2) and (3).

...

Section 14041.5

(a) Notwithstanding subdivision (a) of Section 14041, for the 2002-03 fiscal year to the 2013-14 fiscal year, inclusive, warrants for the principal apportionments for the month of June instead shall be drawn in July of the same calendar year pursuant to the certification made pursuant to Section 41335.

(b) Except as provided in subdivisions (c) and (d), for purposes of making the computations required by Section 8 of Article XVI of the California Constitution, the warrants drawn pursuant to subdivision (a) shall be deemed to be "General Fund revenues appropriated to school districts," as defined in subdivision (c) of Section 41202 for the fiscal year in which the warrants are drawn and included within the "total allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIII B" as defined in subdivision (e) of Section 41202, for the fiscal year in which the warrants are drawn.

(c) For the 2003-04 school year, the amount of apportionments for revenue limits computed pursuant to Section 42238 from any of the apportionments made pursuant to Section 14041 that are deemed "General Fund revenues appropriated for school districts," as defined in subdivision (c) of Section 41202 for the following fiscal year and included within the "total allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIII B" as defined in subdivision (e) of Section 41202, for the 2004-05 fiscal year shall be seven hundred twenty-six million two hundred seventy thousand dollars (\$726,270,000). Any amount in excess of seven hundred twenty-six million two hundred seventy thousand dollars (\$726,270,000) that is apportioned in July of 2004 is deemed "General Fund revenues appropriated for school districts," as defined in subdivision (c) of Section 41202 for the 2003-04 fiscal year and included within the "total allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIII B" as defined in subdivision (e) of Section 41202, for the 2003-04 fiscal year.

(d) For the 2004-05 school year to the 2007-08 school year, inclusive, the amount of apportionments for revenue limits computed pursuant to Section 42238 from any of the apportionments made pursuant to Section 14041 that are deemed "General Fund revenues appropriated for school districts," as defined in subdivision (c) of Section 41202 for the following fiscal year and included within the "total allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIII B" as defined in subdivision (e) of Section 41202, for the following fiscal year shall be seven hundred fifteen million one hundred eighteen thousand dollars (\$715,118,000). Any amount in excess of seven hundred fifteen million one hundred eighteen thousand dollars (\$715,118,000) that is apportioned in July of any year is deemed "General Fund revenues appropriated for school districts," as defined in subdivision (c) of Section 41202 for the prior fiscal year and included within the "total allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIII B" as defined in subdivision (e) of Section 41202, for the prior fiscal year.

(e) For the 2008-09 school year to the 2013-14 school year, inclusive, the amount of apportionments for revenue limits computed pursuant to Section 42238 from any of the apportionments made pursuant to Section 14041 that are deemed “General Fund revenues appropriated for school districts,” as defined in subdivision (c) of Section 41202 for the following fiscal year and included within the “total allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIII B” as defined in subdivision (e) of Section 41202, for the following fiscal year shall be one billion one hundred one million six hundred fifty-five thousand dollars (\$1,101,655,000). Any amount in excess of one billion one hundred one million six hundred fifty-five thousand dollars (\$1,101,655,000) that is apportioned in July of any year is deemed “General Fund revenues appropriated for school districts,” as defined in subdivision (c) of Section 41202 for the prior fiscal year and included within the “total allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIII B” as defined in subdivision (e) of Section 41202, for the prior fiscal year.

Apportionment Requirements (California Education Code Ann. §§ 47612 - 47612.5)

Section 47612

(a) A charter school shall be deemed to be under the exclusive control of the officers of the public schools for purposes of Section 8 of Article IX of the California Constitution, with regard to the appropriation of public monies to be apportioned to any charter school, including, but not limited to, appropriations made for the purposes of this chapter.

(b) The average daily attendance in a charter school may not, in any event, be generated by a pupil who is not a California resident. To remain eligible for generating charter school apportionments, a pupil over 19 years of age shall be continuously enrolled in public school and make satisfactory progress towards award of a high school diploma.

...

(c) A charter school shall be deemed to be a “school district” for purposes of Article 1 (commencing with Section 14000) of Chapter 1 of Part 9, Section 41301, Section 41302.5, Article 10 (commencing with Section 41850) of Chapter 5 of Part 24, Section 47638, and Sections 8 and 8.5 of Article XVI of the California Constitution.

(d) For purposes of calculating average daily attendance, no pupil shall generate more than one day of attendance in a calendar day. Notwithstanding any other law, a charter school that operates a multitrack calendar shall comply with all of the following:

- (1) Calculate attendance separately for each track. The divisor in the calculation shall be the calendar days in which school was taught for pupils in each track.
- (2) Operate no more than five tracks.
- (3) Operate each track for a minimum of 175 days. If the charter school is a conversion school, the charter school may continue its previous schedule as long as it provides no fewer than 163 days of instruction in each track.
- (4) For each track, provide the total number of instructional minutes, as specified in Section 47612.5.
- (5) No track shall have less than 55 percent of its schooldays before April 15.
- (6) Unless otherwise authorized by statute, no pupil shall generate more than one unit of average daily attendance in a fiscal year.

(e) Compliance with the conditions set forth in this section shall be included in the audits conducted pursuant to Section 41020.

Section 47612.1

(a) Except for the requirement that a pupil be a California resident, subdivision (b) of Section 47612 shall not apply to a charter school whose charter was granted by its chartering authority before July 1, 2014, and that provides instruction exclusively in partnership with any of the following:

- (1) The federal Workforce Investment Act of 1998 (Public Law No. 105-220; 29 U.S.C. Sec. 2801 et seq.).
- (2) Federally affiliated Youth Build programs.
- (3) Federal job corps training or instruction provided pursuant to a memorandum of understanding with the federal provider.
- (4) The California Conservation Corps or local conservation corps certified by the California Conservation Corps pursuant to Sections 14406 or 14507.5 of the Public Resources Code.

(b) This section shall become inoperative on July 1, 2015, and, as of January 1, 2016, is repealed, unless a later enacted statute, that becomes operative on or before January 1, 2016, deletes or extends the dates on which it becomes inoperative and is repealed.

Section 47612.5

(a) Notwithstanding any other provision of law and as a condition of apportionment, a charter school shall do all of the following:

- (1) For each fiscal year, offer, at a minimum, the following number of minutes of instruction:
 - (A) To pupils in kindergarten, 36,000 minutes.
 - (B) To pupils in grades 1 to 3, inclusive, 50,400 minutes.
 - (C) To pupils in grades 4 to 8, inclusive, 54,000 minutes.
 - (D) To pupils in grades 9 to 12, inclusive, 64,800 minutes.
- (2) Maintain written contemporaneous records that document all pupil attendance and make these records available for audit and inspection.
- (3) Certify that its pupils have participated in the State testing programs specified in Chapter 5 (commencing with Section 60600) of Part 33 in the same manner as other pupils attending public schools as a condition of apportionment of state funding.

...

Regular Average Daily Attendance for Charter Schools (Cal. Code Regs. Title 5, § 11960)

As used in California Education Code section 47612, “attendance” means the attendance of charter school pupils while engaged in educational activities required of them by their charter schools, on days when school is actually taught in their charter schools. “Regular average daily attendance” shall be computed by dividing a charter school’s total number of pupil-days of attendance by the number of calendar days on which school was actually

taught in the charter school. For purposes of determining a charter school's total number of pupil-days of attendance, no pupil may generate more than one day of attendance in a calendar day.

The State Superintendent of Public Instruction shall proportionately reduce the amount of funding that would otherwise have been apportioned to a charter school on the basis of average daily attendance for a fiscal year, if school was actually taught in the charter school on fewer than 175 calendar days during that fiscal year.

OTHER EDUCATION FUNDING

Funding in Lieu of Property Taxes (California Education Code §47635)

(a) A sponsoring local educational agency shall annually transfer to each of its charter schools funding in lieu of property taxes equal to the lesser of the following two amounts:

(1) The average amount of property taxes per unit of average daily attendance, including average daily attendance attributable to charter schools, received by the local educational agency, multiplied by the charter school's average daily attendance.

(2) The local control funding formula grant funding computed pursuant to subdivision (d) of Section 42238.02, per unit of average daily attendance, multiplied by the charter school's average daily attendance in each of the four corresponding grade level ranges: kindergarten and grades 1, 2, and 3; grades 4, 5, and 6; grades 7 and 8; and grades 9 to 12, inclusive.

(3) Notwithstanding paragraph (2), until the Superintendent determines that a charter school is funded pursuant to Section 42238.02 in the prior fiscal year, the Superintendent shall apportion funding per unit of average daily attendance pursuant to this article. The base grant for purposes of paragraph (2) shall be the sum of the entitlements for the charter school in the specified fiscal year as computed pursuant to paragraphs (1) to (4), inclusive, of subdivision (a) of Section 42238.03 and paragraph (3) of subdivision (b) of Section 42238.03, multiplied by the ratio of local control funding formula base grant funding computed pursuant to subdivision (d) of Section 42238.02 to the local control funding formula amount for the fiscal year computed pursuant to Section 42238.02.

(4) If the sum of the funding transferred pursuant to this subdivision and the funding calculated pursuant to subdivision (e) of Section 42238.03 exceeds the sum of the amounts calculated pursuant to subdivisions (a) and (b) of Section 42238.03, the excess funding shall be used to offset funding calculated pursuant to subdivision (e) of Section 42238.03.

(b) The sponsoring local educational agency shall transfer funding in lieu of property taxes to the charter school in monthly installments, by no later than the 15th of each month.

(1) For the months of August to February, inclusive, a charter school's funding in lieu of property taxes is computed based on the amount of property taxes received by the sponsoring local educational agency during the preceding fiscal year, as reported to the Superintendent of Public Instruction for purposes of the second principal apportionment. A sponsoring local educational agency shall transfer to the charter school the charter school's estimated annual entitlement to funding in lieu of property taxes as follows:

(A) Six percent in August;

(B) Twelve percent in September;

(C) Eight percent each month in October, November, December, January, and February.

(2) For the months of March to June, inclusive, a charter school's funding in lieu of property taxes shall be computed based on the amount of property taxes estimated to be received by the sponsoring local educational agency during the fiscal year, as reported to the Superintendent for purposes of the first principal apportionment. A sponsoring local educational agency shall transfer to each of its charter schools an amount equal to one-sixth of the difference between the school's estimated annual entitlement to funding in lieu of property taxes and the amounts provided pursuant to paragraph (1). An additional one-sixth of this difference shall be included in the amount transferred in the month of March.

(3) For the month of July, a charter school's funding in lieu of property taxes shall be computed based on the amount of property taxes estimated to be received by the sponsoring local educational agency during the prior fiscal year, as reported to the Superintendent for purposes of the second principal apportionment. A sponsoring local educational agency shall transfer to each of its charter schools an amount equal to the remaining difference between the school's estimated annual entitlement to funding in lieu of property taxes and the amounts provided pursuant to paragraphs (1) and (2).

(4) Final adjustments to the amount of funding in lieu of property taxes allocated to a charter school shall be made in February, in conjunction with the final reconciliation of annual apportionments to schools.

(5) Subdivision (a) and paragraphs (1) to (4), inclusive, do not apply for pupils who reside in, and are otherwise eligible to attend a school in, a basic aid school district, but who attend a charter school in a nonbasic aid school district. With regard to these pupils, the sponsoring basic aid school district shall transfer to the charter school an amount of funds equivalent to the local control funding formula grant pursuant to Section 42238.02, as implemented by Section 42238.03, earned through average daily attendance by the charter school for each pupil's attendance, not to exceed the average property tax share per unit of average daily attendance for pupils residing and attending in the basic aid school district. The transfer of funds shall be made in not fewer than two installments at the request of the charter school, the first occurring not later than February 1 and the second not later than June 1 of each school year. Payments shall reflect the average daily attendance certified for the time periods of the first and second principal apportionments, respectively. The Superintendent may not apportion any funds for the attendance of pupils described in this subdivision unless the amount transferred by the basic aid district is less than the local control funding formula grant pursuant to Section 42238.02, as implemented by Section 42238.03, earned by the charter school, in which event the Superintendent shall apportion the difference to the charter school from state funds.

(c) Notwithstanding subdivisions (a) and (b), for a pupil attending a county charter program school authorized pursuant to Section 47605.6 for whom the county office of education is not educationally responsible, the county charter program school may seek in-lieu property tax reimbursement from the pupil's school district of residence in an amount agreed upon by the county charter program school and the school district of residence.

Other Categorical Funding (California Education Code § 47634.4)

(a) A charter school that elects to receive its funding directly, pursuant to Section 47651 of the California Education Code, may apply individually for federal and state categorical programs, not excluded under Section 47634.4 of the California Education Code, but only to the extent it is eligible for funding and meets the provisions of the particular program. For purposes of determining eligibility for, and allocation of, state or federal categorical aid, a charter school that applies individually shall be deemed to be a school district, except as otherwise provided in Chapter 6 of the California Education Code.

(b) A charter school that does not elect to receive its funding directly, pursuant to Section 47651 of the California Education Code, may, in cooperation with its chartering authority, apply for federal and state categorical programs not specified in Section 47634.4, but only to the extent it is eligible for funding and meets the provisions of the particular program.

(c) Notwithstanding any other provision of law, for the 2006-07 fiscal year and each fiscal year thereafter, a charter school may not apply directly for categorical programs for which services are exclusively or almost exclusively provided by a county office of education.

(d) A charter school may not receive direct funding for any of the following county-administered categorical programs:

- (1) American Indian Education Centers;
- (2) The California Association of Student Councils;
- (3) California Technology Assistance Project;
- (4) The Center for Civic Education;
- (5) County Office Fiscal Crisis and Management Assistance Team; and
- (6) The K-12 High Speed Network.

(e) A charter school may apply separately for district-level or school-level grants associated with any of the categorical programs specified in subdivision (d).

(f) Notwithstanding any other provision of law, for the 2006-07 fiscal year and each fiscal year thereafter, in addition to the programs listed in subdivision (d), a charter school may not apply for any of the following categorical programs (citations omitted):

- (1) Agricultural Career Technical Education Incentive Program;
- (2) Bilingual Teacher Training Assistance Program;
- (3) California Peer Assistance and Review Program for Teachers;
- (4) College preparation programs;
- (5) Foster youth programs;
- (6) Gifted and talented pupil programs;
- (7) Home-to-school transportation programs;
- (8) International Baccalaureate Diploma Program;
- (9) Mathematics and Reading Professional Development Program;
- (10) Principal Training Program;
- (11) Professional Development Block Grant;
- (12) Program to Reduce Class Size in Two Courses in Grade 9 (formerly The Morgan-Hart Class Size Reduction Act of 1989);
- (13) Pupil Retention Block Grant;
- (14) Reader services for blind teachers;

- (15) School and Library Improvement Block Grant;
- (16) School Safety Consolidated Competitive Grant;
- (17) School safety programs;
- (18) Specialized secondary schools;
- (19) State Instructional Materials Fund;
- (20) Targeted Instructional Improvement Block Grant;
- (21) Teacher dismissal apportionment;
- (22) The deferred maintenance program;
- (23) The General Fund contribution to the State Instructional Materials Fund; and
- (24) Year-Round School Grant Program.

Other Operational Funding Available to Charter Schools (California Education Code § 47636)

(a) The Charter Schools Act does not prevent a charter school from negotiating with a local educational agency for a share of operational funding from sources not otherwise set forth in Chapter 6 of the Education Code including, but not limited to, all of the following:

- (1) Forest reserve revenues and other operational revenues received due to harvesting or extraction of minerals or other natural resources.
- (2) Sales and use taxes, to the extent that the associated revenues are available for non-capital expenses of public schools.
- (3) Parcel taxes, to the extent that the associated revenues are available for non-capital expenses of public schools.
- (4) Ad valorem property taxes received by a school district which exceed its local control funding formula entitlement pursuant to Section 42238.02, as implemented by Section 42238.03.
- (5) “Basic aid” received by a school district pursuant to Section 6 of Article IX of the California Constitution.

(b) This section became operative July 1, 2006.

Lottery Funding (California Gov’t. Code § 8880 et. seq., California Education Code §§ 14600 et. seq.; 47638)

There is a special fund known as the “State Lottery Fund” within the State Treasury which is continuously appropriated for carrying out the purposes of the California State Lottery Act (Chapter 12.5 of the California Government Code, Section 8880). The fund receives all proceeds from the sales of lottery tickets or shares, the temporary line of credit for initial startup costs, and all other monies credited to the Lottery from any other source. (California Government Code § 8880.61).

Revenues of the State Lottery are allocated under California Government Code § 8880.4 as follows:

(a) Not less than 87% of the total annual revenues from the sale of State lottery tickets or shares shall be returned to the public in the form of prizes and net revenues to benefit public education.

(1) The California State Lottery Commission shall determine the percentage of total annual revenues that shall be returned to the public in the form of prizes as described in this chapter, however the percentage shall not be less than 50 percent of the total revenues.

(2) (A) The percentage of the total annual revenues to be allocated to the benefit of public education, as specified in Section 8880.5, shall be established by the California State Lottery Commission at a level that maximizes the total net revenues allocated to the benefit of public education.

(B) However, for the 1998-99 fiscal year and each fiscal year thereafter, 50% of any increase in the amount calculated pursuant to this paragraph from the amount calculated in the 1997-98 fiscal year shall be allocated to school districts and community college districts for the purchase of instructional materials, on the basis of an equal amount per unit of average daily attendance, as defined by law, and through a fair and equitable distribution system across grade levels.

(3) All unclaimed prize money shall revert to the benefit of public education, as provided for in subdivision (e) of Section 8880.32.

(4) All of the interest earned upon funds held in the State Lottery Fund shall be allocated to the benefit of public education, as specified in Section 8880.5. This interest is in addition to, and shall not be considered as any part of, the total annual revenues that are required to be allocated for the benefit of public education as specified in paragraph (2).

(5) No more than 13% of the total annual revenues shall be allocated for payment of expenses of the lottery as described in this chapter. To the extent that expenses of the lottery are less than 13 percent of the total annual revenues, any surplus funds also shall be allocated to the benefit of public education, as specified in this section or in Section 8880.5.

(b) Funds allocated for the benefit of public education pursuant to subdivision (a) are in addition to other funds appropriated or required under existing constitutional reservations for educational purposes. No program shall have the amount appropriated to support that program reduced as a result of funds allocated pursuant to subdivision (a). Funds allocated for the benefit of public education pursuant to subdivision (a) shall not supplant funds committed for child development programs.

Under California Government Code § 8880.65, funds remaining in the State Lottery Fund after accrual of all revenues to the State Lottery Fund, and after accrual of all obligations of the Lottery for prizes, expenses, and the repayment of any funds advanced from the temporary line of credit for initial startup costs and interest thereon shall be deemed to be the net revenues of the Lottery. The net revenues of the Lottery shall be transferred from the State Lottery Fund not less than quarterly to the California State Lottery Education Fund.

Under California Government Code § 8880.5, the California State Lottery Education Fund is created within the State Treasury, and is continuously appropriated for carrying out the purposes of this chapter. The Controller shall draw warrants on this fund and distribute them quarterly in the following manner, provided that the payments specified in subdivisions (a) to (g), inclusive, shall be equal per capita amounts.

(a) (1) Payments shall be made directly to public school districts, including county superintendents of schools, serving kindergarten and grades 1 to 12, inclusive, or any part thereof, on the basis of an equal amount for each unit of average daily attendance, as defined by law and adjusted pursuant to subdivision (l).

(2) For purposes of this paragraph, in each of the 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, and 2014-15 fiscal years, the number of units of average daily attendance in each of those fiscal years for programs for public school districts, including county superintendents of schools,

serving kindergarten and grades 1 to 12, inclusive, shall include the same amount of average daily attendance for classes for adults and regional occupational centers and programs used in the calculation made pursuant to this subdivision for the 2007-08 fiscal year.

(b) Payments shall also be made directly to public school districts serving community colleges, on the basis of an equal amount for each unit of average daily attendance, as defined by law.

(c) Payments shall also be made directly to the Board of Trustees of the California State University on the basis of an amount for each unit of equivalent full-time enrollment. Funds received by the trustees shall be deposited in and expended from the California State University Lottery Education Fund, which is hereby created or, at the discretion of the trustees, deposited in local trust accounts in accordance with subdivision (j) of Section 89721 of the Education Code.

(d) Payments shall also be made directly to the Regents of the University of California on the basis of an amount for each unit of equivalent full-time enrollment.

(e) Payments shall also be made directly to the Board of Directors of the Hastings College of the Law on the basis of an amount for each unit of equivalent full-time enrollment.

(f) Payments shall also be made directly to the Department of the Youth Authority for educational programs serving kindergarten and grades 1 to 12, inclusive, or any part thereof, on the basis of an equal amount for each unit of average daily attendance, as defined by law.

(g) Payments shall also be made directly to the two California Schools for the Deaf, the California School for the Blind, and the three Diagnostic Schools for Neurologically Handicapped Children, on the basis of an amount for each unit of equivalent full-time enrollment.

(h) Payments shall also be made directly to the State Department of Developmental Services and the State Department of State Hospitals for clients with developmental or mental disabilities who are enrolled in state hospital education programs, including developmental centers, on the basis of an equal amount for each unit of average daily attendance, as defined by law.

(i) No Budget Act or other statutory provision shall direct that payments for public education made pursuant to this chapter be used for purposes and programs (including workload adjustments and maintenance of the level of service) authorized by Chapters 498, 565, and 1302 of the Statutes of 1983, Chapter 97 or 258 of the Statutes of 1984, or Chapter 1 of the Statutes of the 1983-84 Second Extraordinary Session.

(j) School districts and other agencies receiving funds distributed pursuant to this chapter may at their option utilize funds allocated by this chapter to provide additional funds for those purposes and programs prescribed by subdivision (i) for the purpose of enrichment or expansion.

(k) As a condition of receiving any moneys pursuant to subdivision (a) or (b), each school district and county superintendent of schools shall establish a separate account for the receipt and expenditure of those moneys, which account shall be clearly identified as a lottery education account.

(l) Commencing with the 1998-99 fiscal year, and each year thereafter, for purposes of subdivision (a), average daily attendance shall be increased by the statewide average rate of excused absences for the 1996-97 fiscal year as determined pursuant to the provisions of Chapter 855 of the Statutes of 1997. The statewide average excused absence rate, and the corresponding adjustment factor required for the operation of this subdivision, shall be certified to the Controller by the Superintendent of Public Instruction.

(m) It is the intent of this chapter that all funds allocated from the California State Lottery Education Fund shall be used exclusively for the education of pupils and students and no funds shall be spent for acquisition of real property, construction of facilities, financing of research, or any other noninstructional purpose. (California Government Code § 8880.5)

Under California Education Code § 47638, for purposes of determining eligibility for, and allocations of, lottery funds, a charter school shall be deemed to be a school district. The State Department of Education shall determine each charter school's appropriate share of statewide total average daily attendance and include this information in its transmittals to the Controller for use in computing allocations of lottery funds.

Charter School Facilities Funding under Proposition 39 (California Education Code § 47614)

(a) The intent of the people in amending Section 47614 is that public school facilities should be shared fairly among all public school pupils, including those in charter schools.

(b) Each school district shall make available to each charter school operating in the school district facilities sufficient for the charter school to accommodate all of the charter school's in-district students in conditions reasonably equivalent to those in which the students would be accommodated if they were attending other public schools of the district. Facilities provided shall be contiguous, furnished, and equipped, and shall remain the property of the school district. The school district shall make reasonable efforts to provide the charter school with facilities near to where the charter school wishes to locate, and shall not move the charter school unnecessarily.

(1) The school district may charge the charter school a pro rata share (based on the ratio of space allocated by the school district to the charter school divided by the total space of the district) of those school district facilities costs which the school district pays for with unrestricted general fund revenues. The charter school shall not be otherwise charged for use of the facilities. No school district shall be required to use unrestricted general fund revenues to rent, buy, or lease facilities for charter school students.

(2) Each year each charter school desiring facilities from a school district in which it is operating shall provide the school district with a reasonable projection of the charter school's average daily classroom attendance by in-district students for the following year. The district shall allocate facilities to the charter school for that following year based upon this projection. If the charter school, during that following year, generates less average daily classroom attendance by in-district students than it projected, the charter school shall reimburse the district for the over-allocated space at rates to be set by the State Board of Education.

(3) Each school district's responsibilities under this section shall take effect three years from the effective date of the measure which added this subparagraph, or if the school district passes a school bond measure prior to that time on the first day of July next following such passage.

(4) Facilities requests based upon projections of fewer than 80 units of average daily classroom attendance for the year may be denied by the school district.

(5) The term "operating," as used in this section, shall mean either currently providing public education to in-district students, or having identified at least 80 in-district students who are meaningfully interested in enrolling in the charter school for the following year.

(6) The State Department of Education shall propose, and the State Board of Education may adopt, regulations implementing this subdivision, including but not limited to defining the terms "average daily classroom attendance," "conditions reasonably equivalent," "in-district students," "facilities costs," as well as defining the procedures and establishing timelines for the request for, reimbursement for, and provision of, facilities.

Charter School Facilities Grant Program under SB 740 (California Education Code § 47614.5)

(a) The Charter School Facility Grant Program is hereby established, and shall be administered by the California School Finance Authority. The grant program is intended to provide assistance with facilities rent and lease costs for pupils in charter schools.

(b) Subject to the annual Budget Act, eligible charter schools shall receive an amount of up to, but not more than, seven hundred fifty dollars (\$750) per unit of average daily attendance, as certified at the second principal apportionment, to provide an amount of up to, but not more than, 75 percent of the annual facilities rent and lease costs for the charter school. In any fiscal year, if the funds appropriated for purposes of this section by the annual Budget Act are insufficient to fully fund the approved amounts, the California School Finance Authority shall apportion the available funds on a pro rata basis.

(c) For purposes of this section, the California School Finance Authority shall do all of the following:

(1) Inform charter schools of the grant program.

(2) Upon application by a charter school, determine eligibility, based on the geographic location of the charter schoolsite, pupil eligibility for free or reduced-price meals, and a preference in admissions, as appropriate. Eligibility for funding shall not be limited to the grade level or levels served by the school whose attendance area is used to determine eligibility. A charter schoolsite is eligible for funding pursuant to this section if the charter schoolsite meets either of the following conditions:

(A) The charter schoolsite is physically located in the attendance area of a public elementary school in which 70 percent or more of the pupil enrollment is eligible for free or reduced-price meals and the charter schoolsite gives a preference in admissions to pupils who are currently enrolled in that public elementary school and to pupils who reside in the elementary school attendance area where the charter schoolsite is located.

(B) Seventy percent or more of the pupil enrollment at the charter schoolsite is eligible for free or reduced-price meals.

(3) Inform charter schools of their grant eligibility.

(4) Make apportionments to a charter school for eligible expenditures according to the following schedule:

(A) An initial apportionment by August 31 of each fiscal year or 30 days after enactment of the annual Budget Act, whichever is later, provided the charter school has submitted a timely application for funding, as determined by the California School Finance Authority. The initial apportionment shall be 50 percent of the charter school's estimated annual entitlement as determined by this section.

(B) A second apportionment by March 1 of each fiscal year. This apportionment shall be 75 percent of the charter school's estimated annual entitlement, as adjusted for any revisions in cost, enrollment, and other data relevant to computing the charter school's annual entitlement, less any funding already apportioned to the charter school.

(C) A third apportionment within 30 days of the end of each fiscal year or 30 days after receiving the data and documentation needed to compute the charter school's total annual entitlement, whichever is later. This apportionment shall be the charter school's total annual entitlement less any funding already apportioned to the charter school.

(D) Notwithstanding subparagraph (A), the initial apportionment in the 2013-14 fiscal year shall be made by October 15, 2013, or 105 days after enactment of the Budget Act of 2013, whichever is later.

(d) For the purposes of this section:

(1) The California School Finance Authority shall use prior year data on pupil eligibility for free or reduced-price meals for the charter schoolsite and prior year rent or lease costs provided by charter

schools to determine eligibility for the grant program until current year data and actual rent or lease costs become known or until June 30 of each fiscal year.

(2) If prior year rent or lease costs are unavailable, and the current year lease and rent costs are not immediately available, the California School Finance Authority shall use rent or lease cost estimates provided by the charter school.

(3) The California School Finance Authority shall verify that the grant amount awarded to each charter school is consistent with eligibility requirements as specified in this section and in regulations adopted by the authority. If it is determined by the California School Finance Authority that a charter school did not receive the proper grant award amount, either the charter school shall transfer funds back to the authority as necessary within 60 days of being notified by the authority, or the authority shall provide an additional apportionment as necessary to the charter school within 60 days of notifying the charter school, subject to the availability of funds.

(e) Funds appropriated for purposes of this section shall not be apportioned for any of the following:

(1) Units of average daily attendance generated through nonclassroom-based instruction as defined by paragraph (2) of subdivision (e) of Section 47612.5 or that does not comply with conditions or limitations set forth in regulations adopted by the state board pursuant to this section.

(2) Charter schools occupying existing school district or county office of education facilities, except that charter schools shall be eligible for the portions of their facilities that are not existing school district or county office of education facilities.

(3) Charter schools receiving reasonably equivalent facilities from their chartering authorities pursuant to Section 47614, except that charter schools shall be eligible for the portions of their facilities that are not reasonably equivalent facilities received from their chartering authorities.

(f) Funds appropriated for purposes of this section shall be used for costs associated with facilities rents and leases, consistent with the definitions used in the California School Accounting Manual or regulations adopted by the California School Finance Authority. These funds also may be used for costs, including, but not limited to, costs associated with remodeling buildings, deferred maintenance, initially installing or extending service systems and other built-in equipment, and improving sites.

(g) If an existing charter school located in an elementary attendance area in which less than 50 percent of pupil enrollment is eligible for free or reduced-price meals relocates to an attendance area identified in paragraph (2) of subdivision (c), admissions preference shall be given to pupils who reside in the elementary school attendance area into which the charter school is relocating.

(h) The California School Finance Authority annually shall report to the department and the Director of Finance, and post information on its Internet Web site, regarding the use of funds that have been made available during the fiscal year to each charter school pursuant to the grant program.

(i) The California School Finance Authority shall annually allocate the facilities grants to eligible charter schools according to the schedule in paragraph (4) of subdivision (c) for the current school year rent and lease costs. However, the California School Finance Authority shall first use the funding appropriated for this program to reimburse eligible charter schools for unreimbursed rent or lease costs for the prior school year.

(j) It is the intent of the Legislature that the funding level for the Charter School Facility Grant Program for the 2012-13 fiscal year be considered the base level of funding for subsequent fiscal years.

(k) The Controller shall include instructions appropriate to the enforcement of this section in the audit guide required by subdivision (a) of Section 14502.1.

(l) The California School Finance Authority, effective with the 2013-14 fiscal year, shall be considered the senior creditor for purposes of satisfying audit findings pursuant to the audit instructions to be developed pursuant to subdivision (k).

(m) The California School Finance Authority may adopt regulations to implement this section. Any regulations adopted pursuant to this section may be adopted as emergency regulations in accordance with the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of the Title 2 of the Government Code). The adoption of these regulations shall be deemed to be an emergency and necessary for the immediate preservation of the public peace, health and safety, or general welfare.

(n) Notwithstanding any other law, a charter school shall be subject, with regard to this section, to audit conducted pursuant to Section 41020.

CERTAIN OTHER CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING EDUCATION REVENUES AND APPROPRIATIONS

Article XIII A Property Tax Rate Limit

In 1978, California voters passed Proposition 13, added Article XIII A of the California Constitution. In 2000, California voters passed Proposition 39, which amended Section 1 of Article XIII A of the California Constitution. Pertinent provisions of Article XIII A are summarized as follows:

(a) The maximum amount of any ad valorem tax on real property shall not exceed one percent (1%) of the full cash value of such property. The one percent (1%) tax to be collected by the counties and apportioned according to law to the districts within the counties.

(b) The limitation provided for in subdivision (a) shall not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any of the following:

(1) Indebtedness approved by the voters prior to July 1, 1978.

(2) Bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition.

(3) Bonded indebtedness incurred by a school district, community college district, or county office of education for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district or county, as appropriate, voting on the proposition on or after the effective date of the measure adding this paragraph. This paragraph shall apply only if the proposition approved by the voters and resulting in the bonded indebtedness includes all of the following accountability requirements:

(A) A requirement that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIII A, Section 1(b)(3), and not for any other purpose, including teacher and administrator salaries and other school operating expenses.

(B) A list of the specific school facilities projects to be funded and certification that the school district board, community college board, or county office of education has evaluated safety, class size reduction, and information technology needs in developing that list.

(C) A requirement that the school district board, community college board, or county office of education conduct an annual, independent performance audit to ensure that the funds have been expended only on the specific projects listed.

(D) A requirement that the school district board, community college board, or county office of education conduct an annual, independent financial audit of the proceeds from the sale of the bonds until all of those proceeds have been expended for the school facilities projects.

(c) Notwithstanding any other provisions of law or of this Constitution, school districts, community college districts, and county offices of education may levy a 55 percent vote ad valorem tax pursuant to subdivision (b).

“Full cash value” means the county assessor’s valuation of real property as shown on the 1975-76 tax bill under “full cash value” or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment. All real property not already assessed up to the 1975-76 full cash value may be reassessed to reflect that valuation. For purposes of this section, “newly constructed” does not include real property that is reconstructed after a disaster, as declared by the Governor, where the fair market value of the real property, as reconstructed, is comparable to its fair market value prior to the disaster. Also, the term “newly constructed” does not include the portion of reconstruction or improvement to a structure, constructed of unreinforced masonry bearing wall construction, necessary to comply with any local ordinance relating to seismic safety during the first 15 years following that reconstruction or improvement. The full cash value base may reflect from year to year the inflationary rate not to exceed 2 percent for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced to reflect substantial damage, destruction, or other factors causing a decline in value.

From and after the effective date of this article, any changes in state taxes enacted for the purpose of increasing revenues collected pursuant thereto whether by increased rates or changes in methods of computation must be imposed by an Act passed by not less than two-thirds of all members elected to each of the two houses of the Legislature, except that no new ad valorem taxes on real property, or sales or transaction taxes on the sales of real property may be imposed.

Article XIIB Appropriations Limit

The total annual appropriations subject to limitation of the State and of each local government shall not exceed the appropriations limit of the entity of government for the prior year adjusted for the change in the cost of living and the change in population, except as otherwise provided in this article. (Section 1).

The annual calculation of the appropriations limit under this article for each entity of local government shall be reviewed as part of an annual financial audit. (Section 1.5)

(a) (1) 50% of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount which may be appropriated by the State in compliance with this article during that fiscal year and the fiscal year immediately following it shall be transferred and allocated, from a fund established for that purpose, pursuant to Section 8.5 of Article XVI.

(2) 50% of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount which may be appropriated by the State in compliance with this article during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years.

(b) All revenues received by an entity of government, other than the State, in a fiscal year and in the fiscal year immediately following it in excess of the amount which may be appropriated by the entity in compliance with this article during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years. (Section 2)

The appropriations limit for any fiscal year pursuant to Sec. 1 shall be adjusted as follows:

(a) In the event that the financial responsibility of providing services is transferred, in whole or in part, whether by annexation, incorporation or otherwise, from one entity of government to another, then for the year in

which such transfer becomes effective the appropriations limit of the transferee entity shall be increased by such reasonable amount as the said entities shall mutually agree and the appropriations limit of the transferor entity shall be decreased by the same amount.

(b) In the event that the financial responsibility of providing services is transferred, in whole or in part, from an entity of government to a private entity, or the financial source for the provision of services is transferred, in whole or in part, from other revenues of an entity of government, to regulatory licenses, user charges or user fees, then for the year of such transfer the appropriations limit of such entity of government shall be decreased accordingly.

(c) (1) In the event an emergency is declared by the legislative body of an entity of government, the appropriations limit of the affected entity of government may be exceeded provided that the appropriations limits in the following three years are reduced accordingly to prevent an aggregate increase in appropriations resulting from the emergency.

(2) In the event an emergency is declared by the Governor, appropriations approved by a two-thirds vote of the legislative body of an affected entity of government to an emergency account for expenditures relating to that emergency shall not constitute appropriations subject to limitation. As used in this paragraph, "emergency" means the existence, as declared by the Governor, of conditions of disaster or of extreme peril to the safety of persons and property within the State, or parts thereof, caused by such conditions as attack or probable or imminent attack by an enemy of the United States, fire, flood, drought, storm, civil disorder, earthquake, or volcanic eruption. (Section 3)

The appropriations limit imposed on any new or existing entity of government by this Article may be established or changed by the electors of such entity, subject to and in conformity with constitutional and statutory voting requirements. The duration of any such change shall be as determined by said electors, but shall in no event exceed four years from the most recent vote of said electors creating or continuing such change. (Section 4)

Each entity of government may establish such contingency, emergency, unemployment, reserve, retirement, sinking fund, trust, or similar funds as it shall deem reasonable and proper. Contributions to any such fund, to the extent that such contributions are derived from the proceeds of taxes, shall for purposes of this Article constitute appropriations subject to limitation in the year of contribution. Neither withdrawals from any such fund, nor expenditures of (or authorizations to expend) such withdrawals, nor transfers between or among such funds, shall for purposes of this Article constitute appropriations subject to limitation. (Section 5)

The Legislature shall establish a prudent State reserve account in such amount as it shall deem reasonable and necessary. Contributions to, and withdrawals from, the fund shall be subject to the provisions of Section 5 of this Article. (Section 5.5)

(a) Whenever the Legislature or any state agency mandates a new program or higher level of service on any local government, the State shall provide a subvention of funds to reimburse that local government for the costs of the program or increased level of service, except that the Legislature may, but need not, provide a subvention of funds for the following mandates:

(1) Legislative mandates requested by the local agency affected.

(2) Legislation defining a new crime or changing an existing definition of a crime.

(3) Legislative mandates enacted prior to January 1, 1975, or executive orders or regulations initially implementing legislation enacted prior to January 1, 1975.

(4) Legislative mandates contained in statutes within the scope of paragraph (7) of subdivision (b) of Section 3 of Article I.

(b) (1) Except as provided in paragraph (2), for the 2005-06 fiscal year and every subsequent fiscal year, for a mandate for which the costs of a local government claimant have been determined in a preceding fiscal year to be payable by the State pursuant to law, the Legislature shall either appropriate, in the annual Budget Act, the full payable amount that has not been previously paid, or suspend the operation of the mandate for the fiscal year for which the annual Budget Act is applicable in a manner prescribed by law.

(2) Payable claims for costs incurred prior to the 2004-05 fiscal year that have not been paid prior to the 2005-06 fiscal year may be paid over a term of years, as prescribed by law.

(3) Ad valorem property tax revenues shall not be used to reimburse a local government for the costs of a new program or higher level of service.

(4) This subdivision applies to a mandate only as it affects a city, county, city and county, or special district.

(5) This subdivision shall not apply to a requirement to provide or recognize any procedural or substantive protection, right, benefit, or employment status of any local government employee or retiree, or of any local government employee organization, that arises from, affects, or directly relates to future, current, or past local government employment and that constitutes a mandate subject to this section.

(c) A mandated new program or higher level of service includes a transfer by the Legislature from the State to cities, counties, cities and counties, or special districts of complete or partial financial responsibility for a required program for which the State previously had complete or partial financial responsibility. (Section 6)

Nothing in this Article shall be construed to impair the ability of the State or of any local government to meet its obligations with respect to existing or future bonded indebtedness. (Section 7)

As used in this article and except as otherwise expressly provided herein:

(a) "Appropriations subject to limitation" of the State means any authorization to expend during a fiscal year the proceeds of taxes levied by or for the State, exclusive of state subventions for the use and operation of local government (other than subventions made pursuant to Section 6) and further exclusive of refunds of taxes, benefit payments from retirement, unemployment insurance, and disability insurance funds.

(b) "Appropriations subject to limitation" of an entity of local government means any authorization to expend during a fiscal year the proceeds of taxes levied by or for that entity and the proceeds of state subventions to that entity (other than subventions made pursuant to Section 6) exclusive of refunds of taxes.

(c) "Proceeds of taxes" shall include, but not be restricted to, all tax revenues and the proceeds to an entity of government, from (1) regulatory licenses, user charges, and user fees to the extent that those proceeds exceed the costs reasonably borne by that entity in providing the regulation, product, or service, and (2) the investment of tax revenues. With respect to any local government, "proceeds of taxes" shall include subventions received from the State, other than pursuant to Section 6, and, with respect to the State, proceeds of taxes shall exclude such subventions.

(d) "Local government" means any city, county, city and county, school district, special district, authority, or other political subdivision of or within the State.

(e) (1) "Change in the cost of living" for the State, a school district, or a community college district means the percentage change in California per capita personal income from the preceding year.

(2) "Change in the cost of living" for an entity of local government, other than a school district or a community college district, shall be either (A) the percentage change in California per capita personal income from the preceding year, or (B) the percentage change in the local assessment roll from the preceding year for the jurisdiction due to the addition of local nonresidential new construction. Each entity

of local government shall select its change in the cost of living pursuant to this paragraph annually by a recorded vote of the entity's governing body.

(f) "Change in population" of any entity of government, other than the State, a school district, or a community college district, shall be determined by a method prescribed by the Legislature. "Change in population" of a school district or a community college district shall be the percentage change in the average daily attendance of the school district or community college district from the preceding fiscal year, as determined by a method prescribed by the Legislature.

"Change in population" of the State shall be determined by adding (1) the percentage change in the State's population multiplied by the percentage of the State's budget in the prior fiscal year that is expended for other than educational purposes for kindergarten and grades one to 12, inclusive, and the community colleges, and (2) the percentage change in the total statewide average daily attendance in kindergarten and grades one to 12, inclusive, and the community colleges, multiplied by the percentage of the State's budget in the prior fiscal year that is expended for educational purposes for kindergarten and grades one to 12, inclusive, and the community colleges.

Any determination of population pursuant to this subdivision, other than that measured by average daily attendance, shall be revised, as necessary, to reflect the periodic census conducted by the United States Department of Commerce, or successor department.

(g) "Debt service" means appropriations required to pay the cost of interest and redemption charges, including the funding of any reserve or sinking fund required in connection therewith, on indebtedness existing or legally authorized as of January 1, 1979, or on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for that purpose.

(h) The "appropriations limit" of each entity of government for each fiscal year is that amount which total annual appropriations subject to limitation may not exceed under Sections 1 and 3. However, the "appropriations limit" of each entity of government for fiscal year 1978-79 is the total of the appropriations subject to limitation of the entity for that fiscal year. For fiscal year 1978-79, state subventions to local governments, exclusive of federal grants, are deemed to have been derived from the proceeds of state taxes.

(i) Except as otherwise provided in Section 5, "appropriations subject to limitation" do not include local agency loan funds or indebtedness funds, investment (or authorizations to invest) funds of the State, or of an entity of local government in accounts at banks or savings and loan associations or in liquid securities. (Section 8)

"Appropriations subject to limitation" for each entity of government do not include:

(a) Appropriations for debt service.

(b) Appropriations required to comply with mandates of the courts or the federal government which, without discretion, require an expenditure for additional services or which unavoidably make the provision of existing services more costly.

(c) Appropriations of any special district which existed on January 1, 1978, and which did not as of the 1977-78 fiscal year levy an ad valorem tax on property in excess of 12 1/2 cents per \$100 of assessed value; or the appropriations of any special district then existing or thereafter created by a vote of the people, which is totally funded by other than the proceeds of taxes.

(d) Appropriations for all qualified capital outlay projects, as defined by the Legislature.

(e) Appropriations of revenue which are derived from any of the following:

(1) That portion of the taxes imposed on motor vehicle fuels for use in motor vehicles upon public streets and highways at a rate of more than nine cents (\$0.09) per gallon.

(2) Sales and use taxes collected on that increment of the tax specified in paragraph (1).

(3) That portion of the weight fee imposed on commercial vehicles which exceeds the weight fee imposed on those vehicles on January 1, 1990. (Section 9)

This Article shall be effective commencing with the first day of the fiscal year following its adoption. (Section 10)

For fiscal years beginning on or after July 1, 1990, the appropriations limit of each entity of government shall be the appropriations limit for the 1986-87 fiscal year adjusted for the changes made from that fiscal year pursuant to this article, as amended by the measure adding this section, adjusted for the changes required by Section 3. (Section 10.5)

If any appropriation category shall be added to or removed from appropriations subject to limitation, pursuant to final judgment of any court of competent jurisdiction and any appeal therefrom, the appropriations limit shall be adjusted accordingly. If any section, part, clause or phrase in this Article is for any reason held invalid or unconstitutional, the remaining portions of this Article shall not be affected but shall remain in full force and effect. (Section 11)

“Appropriations subject to limitation” of each entity of government shall not include appropriations of revenue from the Cigarette and Tobacco Products Surtax Fund created by the Tobacco Tax and Health Protection Act of 1988. No adjustment in the appropriations limit of any entity of government shall be required pursuant to Section 3 as a result of revenue being deposited in or appropriated from the Cigarette and Tobacco Products Surtax Fund created by the Tobacco Tax and Health Protection Act of 1988. (Section 12)

“Appropriations subject to limitation” of each entity of government shall not include appropriations of revenue from the California Children and Families First Trust Fund created by the California Children and Families First Act of 1998. No adjustment in the appropriations limit of any entity of government shall be required pursuant to Section 3 as a result of revenue being deposited in or appropriated from the California Children and Families First Trust Fund. The surtax created by the California Children and Families First Act of 1998 shall not be considered General Fund revenues for the purposes of Section 8 of Article XVI. (Section 13)

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APPENDIX B

THE CHARTER SCHOOL AND THE BORROWER

APPENDIX B

THE CHARTER SCHOOL AND THE BORROWER

General

Julian Charter School, Inc. (the “Charter School” or “Julian”) is a California nonprofit public benefit corporation incorporated on November 3, 1999 and is an organization described under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”). Its initial charter was authorized and approved on November 22, 1999, in accordance with the Charter Schools Act of 1992 (California Education Code Sections 47600 *et seq*) (the “Charter Schools Act”), by the Julian Union Elementary School District in San Diego County, California (the “District”) and has been renewed three times (the “Charter”). The current Charter expires on June 30, 2016.

SDORI Charter School Properties, LLC (the “Borrower”) is a California limited liability company formed on May 20, 2013 for the purpose of acquiring, improving and leasing real property to Julian for use as educational facilities. The Borrower currently owns the Temecula and Murrieta properties. See Table B-2 for which of Julian’s facilities are owned, which will be purchased with a portion of the Series 2015 Bond proceeds and which are leased.

Julian was established to meet the needs of students who are underserved by traditional delivery systems of education and for families who have a strong desire to home school. As such, Julian operates as an independent study school and must comply with California’s independent study laws (California Education Code Sections 51745-517493.3) and the provisions of the Charter Schools Act governing independent study in charter schools (collectively, the “Independent Study Laws”). According to the California Department of Education (“CDE”), the Independent Study Laws provide an alternative instructional strategy for students, not an alternative curriculum. Under the Independent Study Laws, students are required to work independently, according to a written agreement and under the general supervision of a credentialed teacher or teachers. While Julian students are required to follow the curriculum adopted by the Charter School and meet both the State board of education graduation requirements and the additional Charter School graduation requirements, independent study offers Julian students the flexibility to meet their individual needs, interests and styles of learning.

California Independent Study Laws Requirements

Curriculum

Independent Study Laws require all courses and materials to be aligned to California content standards. Julian departmental and curricular teams select the core and ancillary instructional materials to comply with such standards and textbooks used by Julian meet the standards of the California State Board of Education. Julian selects the curriculum based on what is appropriate for each student, and includes curriculum such as SRA (Science Reading Associates) for reading mastery, Zaner Bloser for spelling and phonics and Saxon for math. In addition, for math, social studies and English, Julian uses selections from Glencoe, Houghton Mifflin and Prentice Hall.

Master Agreement

The Independent Study Laws require a written, master agreement for each student (the “Master Agreement”) to be created each semester by the student and parent with the assistance of a Julian teacher responsible for supervising the student. The Master Agreement must contain information such as:

- a list of subjects or courses in which the student is enrolled,
- the number of course credits to be earned,
- the learning objectives for the courses,
- the assignments attempted under the agreement,
- the methods of study (including the student activities selected by the supervising teacher that the student will complete in order to meet the course objectives),
- the methods of evaluation that will be used to determine if the student met the learning objectives,
- the requirements of reporting and returning assignments to the teacher, and
- the time(s), frequency and location of meetings with the teacher which can be online or in person.

Teachers

Under the Independent Study Laws, Julian teachers are required to meet the same professional requirements as classroom-based teachers. As required by the No Child Left Behind Act of 2001, all Julian teachers who teach core academic subjects, such as English/language arts/reading, math, science, social science (the “Core Classes”) must have demonstrated subject matter competence in such Core Classes.

Julian works with its students and parents by providing them with appropriate educational resources; an assigned teacher of record or academy coordinator and access to a team of education professionals who can provide additional support services as appropriate. The teacher of record is responsible for regular, periodic evaluation of student progress and academic achievement.

The Independent Study Laws also require that the ratio of students to teachers must not exceed the equivalent ratio of students to teachers for other educational programs with respect to such programs operated by the largest California school district within the geographic boundaries of the Charter School but in no event no greater than a 25 to 1 ratio in each grade band. A recent amendment to the California Education Code requires student teacher ratios to be calculated within grade bands with a required maximum ratio no greater than 25 to 1. The Governor of the State of California has waived this requirement for independent study schools for the 2014-2015 school year and the California Governor's 2015-2016 Budget Omnibus Education Trailer Bill proposes waiving this requirement for independent study schools permanently. Although there is currently a waiver for compliance with the grade band student teacher ratio for independent study schools, Julian is in compliance with the foregoing student teacher ratio set forth by grade band on Table B-1 below.

Grade Range	Ratio
K-3	22:1
4-6	21:1
7-8	18:1
9-12	16:1
K-12	21.7:1

See “Employees and Labor Relations” below for a description of how Julian matches the number of teachers it needs and student enrollment.

Testing

All students at Julian participate in state-mandated testing programs (i.e., Statewide Testing and Reporting (“STAR”) program, the California High School Exit Examination (“CAHSEE”), the California English Language Development Test (“CELDT”), and the physical performance test (“PFT”)) and must meet performance objectives which are consistent with state accountability targets as defined by the California Academic Performance Index (“API”). In addition, Julian conducts an annual evaluation of each student’s academic performance and also assesses student performance through a balanced system of multiple assessments, which are aligned to state content standards and curriculum frameworks. See “Student Performance” below.

Julian’s Students and Parents

Under its Charter, Julian is authorized to provide its school programs to K-12 students in San Diego, Orange, Riverside and Imperial Counties¹ and is intended for students and parents seeking a non-traditional, home-based or small-learning community-based educational setting. Under California state law, Julian must have more than 50% of its aggregate student enrollment matriculate from the county in which it is sponsored as a charter school which is San Diego County. Accordingly, Julian’s aggregate student enrollment in Orange, Riverside and Imperial Counties must not equal or exceed the aggregate student enrollment in San Diego County.

¹ Currently, Julian does not have any students enrolled from Imperial County.

The CDE gives the following reasons that students and parents choose independent study education verses traditional classroom-based education:

- Students who want an individualized approach that allows them to delve more deeply into areas of special interest.
- Students who are at risk of dropping out of school.
- Students who seek to resolve scheduling problems or who have recently transferred schools and need to take a course that is not available when needed.
- Students that are extraordinarily creative, talented or gifted in a particular field, or performers in areas of physical or artistic expertise who need the flexibility and adaptability of independent study.
- Students with disabilities or special needs to provide for an individualized instructional strategy (which can lead to increased self-esteem).
- Students who travel, including those who move because their parents are migrant workers or travel to perform in their area of talent or skill.
- Students who need different learning strategies.
- Students who find they are not successful in a traditional school for any of the following reasons:
 - They failed classes in the past and feel embarrassed or that it is impossible to “catch up”,
 - They are anxious around peers,
 - They are hyperactive and find it difficult to sit through class,
 - They are bullied or feel unsafe,
 - Their family needs them as a part-time wage earner
- Students in the juvenile justice system.

As of January 2015, there were twenty-eight (28) independent study charter schools similar to Julian in San Diego County, three (3) in Orange County and three (3) in Riverside County serving a total of 25,491 students. Julian competes with some of these other schools for student enrollment. See *Competing Schools* and Tables B-20 through B-26 for comparative data.

Julian Programs

When a student enrolls with Julian, the family selects either a home study program (the “Home Study Program”) or academy classes (the “Academy Program”).

Academy Program (K-12)

The Academy Programs offer a broad range of educational programs depending on the grade level and need of each student. Approximately 50% of Julian’s students select the Academy Program. The Academy Programs are typically “all-inclusive” educational program that are offered to students in San Diego and Riverside Counties at the locations found on Table B-2 below. The Academy Programs are designed to support parents who want less direct involvement in the student’s education, but still desire personalized instruction and flexible curriculum design with more teacher support in their children’s education. Students attend Academy Program classes in core and elective subjects between two and four days per week and in academic electives one day per week depending on the location of the Academy Program, but students never attend more than 4 days of such classes each week. Students in the Academy Programs receive direct instruction from teachers in the subject area of instruction and then complete homework and projects at home, much like in a traditional classroom.

K-8 Academy Programs

Julian offers K-8 students a number of innovative four day a week programs which feature nurturing but rigorous academic environments. These lessons are thoughtfully created and chosen by teachers in a collaborative environment rather than by only using the next assignment from a textbook, and Julian utilizes a wide range of digital and text-based learning resources. In this environment there is minimal direct instruction by Julian; instead students learn the subjects through standards-based projects with real-world applications.

6-8 Academy Programs

Julian offers students in grades 6-8 two to four days per week of instruction in academic core and elective subjects. These programs are designed to prepare students for the rigor of high school while providing the intimate and safe classroom environment needed for these students to thrive with a focus on developing and maintaining healthy relationships with family, peers and teachers.

9-12 Academy Programs

Students in grades 9-12 have the option to choose one of the high school Academy Programs which are offered two to four days per week in core and elective subjects. The high school students that plan to attend college are provided with the academic rigor of college preparatory courses which have been approved by the University of California and the California State University, and are taught by Julian teachers.

Below is a table that provides the basic information on the physical locations of Julian's Learning Centers and Academies as well as the number of students enrolled in the Home Study Program. In addition, although Home Study students are not included in the number of students that attend programs at each of the facilities, Home Study students may use the facilities to meet with coordinators as needed. See also "Table B-9 through B-11: Historical and Future Projected Enrollment" below for a total number of students enrolled at Julian.

Home Study Program (K-12)

Approximately 50% of Julian's students select the Home Study Program. The Home Study Program is designed for students whose parents are actively involved in the students' education. The parents have a strong sense of what they want their children to study and are actively involved in the lesson planning, instruction, and correcting of assignments for their children. Julian provides a supervising teacher for each Home Study student who, together with the student and parent(s), develop the Master Agreement. The supervising teacher, student and parent(s) must meet in accordance with the Master Agreement, but in no event less than 20 school days to review assignments, collect assignments and discuss any problems or areas of concern. The supervising teacher will then assign, with parental input, the next month's assignments. The student's personal interests are incorporated into the assignments as well as activities and assignments that complement the student's learning style.

Students and parents may elect to supplement the Home Study Program with one or more Core Classes or specialty classes at one of the Julian learning centers (the "Learning Centers") or at a community vendor. See Table B-2 below for the locations of Julian Learning Centers. Classes at Learning Centers are generally available to students one day per week on the day the Learning Center is not being used for the Academy Program (see below). Throughout that day, students engage in various reading, writing, math, science, social studies, art and P.E. activities that coincide with skills they are learning in the Home Study Program. Classes are offered by grade level: K-1, 2-3, 4-6 and 7-8. At the beginning of a semester, parents can choose one or two classes or an all-day option. Enrollment in one or more classes at a Learning Center may be limited by site capacity or geographic location.

Parents have significant input into what classes are offered at Julian Learning Centers. The parents are surveyed and offer feedback on the types of classes they would like Julian to offer and Julian develops classes largely designed around the responses to these surveys.

Julian students are located in a large geographic area throughout San Diego County, Riverside County and Orange County; therefore, many Julian students are not able to take part in Learning Center classes provided by Julian but still desire to supplement their Home Study with classroom instruction. In an effort to serve these students, Julian partners with local vendors throughout San Diego County, Riverside County and Orange County. Julian is authorized by the Independent Study Laws to utilize the State board of education authorized local vendors to supplement its students' education. These local vendors are often recruited by parents but are required to comply with the California Education Code and the Charter Schools Act. These community-based classes offer enrichment and supplemental learning classes such as piano classes, karate lessons and foreign language study. These programs are taught by teachers, community professionals and college-age student tutors.

In addition to the traditional Home Study Program, Julian also offers the "INSITE Program" for high school students with parents who are not highly involved in their education and for whom a traditional comprehensive high school is not an appropriate placement. The INSITE program is offered at three different

locations: the Alpine Academy, San Diego Academy of Creative and Critical Thought and the Murrieta site. See Table B-2 below. Students attending the INSITE Program are overseen by a small team of teachers and attend classes anywhere from one day a week to four days per week depending on the needs of the student. Students take two to three classes at a time with a deeper focus on a smaller number of classes for a shorter period of time than a semester. The INSITE teachers teach and tutor students individually and in small groups and assign and grade all of the students work.

In addition to the Master Agreement, each high school student develops a four-year plan in collaboration with parents, Julian staff, and a Julian academic counselor. Julian assigns a subject area teacher for core courses to each high school student. These teachers assist students in the assignment and evaluation of coursework, are available for consultation and tutoring during the semester, and are responsible for the final examinations, which must be taken in all core courses (math, English, science and social science) to graduate in California.

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**TABLE B-2:
JULIAN CHARTER SCHOOL FACILITIES ENROLLMENT**

Facilities	County	Grades Offered	Current Enrollment	Physical Capacity at Facility	Lease Term End Date	Years Operating at Facility	Programs Offered	2014 Pre and Post-Lottery Waitlist+
Alpine Academy ("AA") 1832 Alpine Boulevard Alpine, CA 91901	San Diego	9-12	60	90	7/31/18	8	Academy and INSITE	None
Hope ("Hope")**** 29141 Vallejo Avenue Temecula, CA 92592	Riverside	6-8 9-12	84 160	85 175	Borrower Acquiring	7	Academy	None
Innovation Centre Encinitas ("ICE")* 510 South El Camino Real Encinitas, CA 92024	San Diego	K-6	73	80	6/30/15	3	Academy	123 34
Innovation Centre La Mesa ("ICLM") 5300 Jackson Drive La Mesa, CA 91942	San Diego	K-5	142	144	7/1/22	3	Academy and Learning Center	45 55
Innovation Center Temecula ("ICT")*** 27235 Madison Avenue Temecula, CA 92590	Riverside	K-8	202	202	Borrower Owns	5	Academy and Learning Center	141 103
Murrieta*** 39665 Avenida Acacia, Suite G Murrieta, CA 92563	Riverside	9-12	0	150	Borrower Owns	5	INSITE	None
North Coast**** Learning Center 539 Encinitas Boulevard Encinitas, CA 92115	San Diego	K-8	0	330	Borrower Acquiring	Not yet Occupied	Will offer Academy and Learning Center	N/A
Phoenix Learning Center Encinitas ("PLC")** 777 Santa Fe Drive Encinitas, CA 92024	San Diego	K-8	207	208	6/30/15	8	Learning Center	170 69
Pine Valley Academy ("PVA") 28876 Old Highway 80 P.O. Box 1438 Pine Valley, CA 91963	San Diego	6-12	97	95	Month to Month	10	Academy	None
Ramona Learning Center ("Ramona") 1191 Meadowlark Way Ramona, CA 92065	San Diego	K-5	0	75	Month to Month	3	Learning Center	None
San Diego Academy of Creative and Critical Thought Program ("SDA-CCT") and INSITE Program 6112 Lorca Drive San Diego, CA 92115	San Diego	9-12	53	60	7/31/15	9	Academy and INSITE	None
San Diego Academy of Performing Arts ("SDAPA") 4579 Mission Gorge Place San Diego, CA 92120	San Diego	6-8	56	56	7/31/15	3	Academy	0 5
San Diego Middle School Academy of Art and Science Program ("SDA-AS") 6104 Adelaide Avenue San Diego, CA 92115	San Diego	6-8	71	80	7/31/15	6	Academy	None
Academy and Learning Center Enrollment			Subtotal	1,205			Total Pre-Lottery Waitlist	479
Home Study Enrollment^			Subtotal	1,256			Total Post-Lottery Waitlist	266
Combined Academy and Home Study Enrollment			Total	2,461				

Source: Julian Charter School

* Julian will be vacating Innovation Centre Encinitas by August, 2015 and the students currently attending classes at the Innovation Centre Encinitas will be moving to the PLC.

**The students currently attending classes at the Phoenix Learning Centre Encinitas location will be moved to the North Coast facility upon completion of improvements to the North Coast facility in 2015.

***ICT and Murrieta facilities are owned by the Borrower and leased to Julian. A portion of the Bond proceeds will be used to refinance the properties. See "Table B-6 Estimated Costs" and "Plan of Finance - Existing Properties" for more information about the refinancing.

****The North Coast and Hope facilities will be acquired by the Borrower with a portion of the Bond proceeds and leased to Julian. Once Julian occupies the entire premises of the Hope facility, capacity at Hope will increase to 330. See "Table B-6 Estimated Costs" and "Plan of Finance - Acquisition Properties" for more information about these properties.

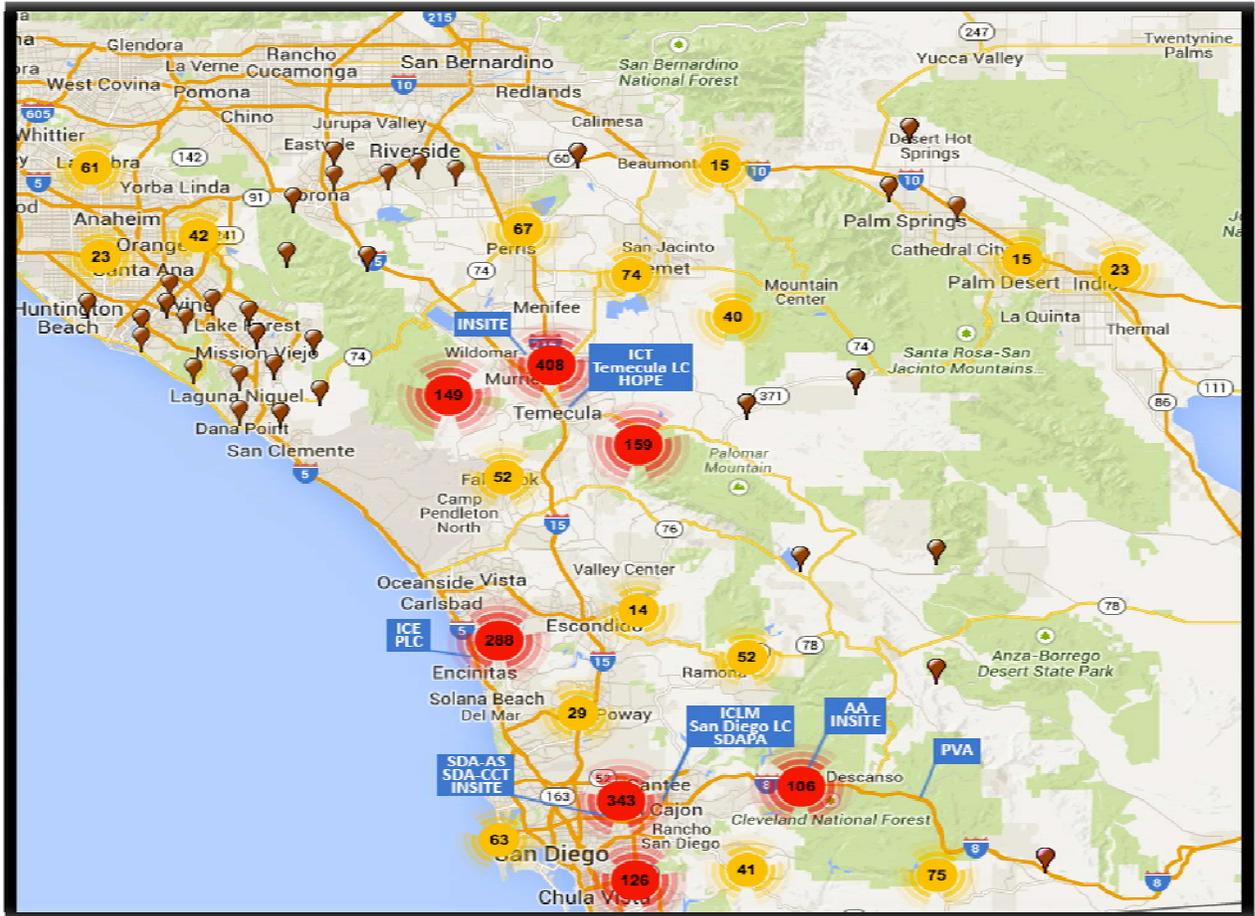
+Pre-lottery waitlists numbers are compiled at the end of March for the next school year. Post-lottery waitlist numbers are compiled in January for those still waiting to attend for the then-current year. Therefore, typically the number of students on the pre-lottery waitlist is higher than those students on the post-lottery waitlist, given that many will drop off the waitlist as the school year starts.

^The Charter School does not have a waitlist for the Home Study Program because the Charter School is able to accommodate all students who would like to enroll in the Home Study Program either by hiring more teachers or by increasing the full time equivalent of a teacher's roster.

In addition, as of October of 2014, approximately thirty-four percent (34%) of the Charter School student population (including Home Study students) qualify for free or reduced lunch. As of October of 2013 and October

2012, approximately thirty-three percent (33%) and twenty-eight percent (28%), respectively, of the Charter School student population (including Home Study students) qualified for free or reduced lunch.

Below is a map showing the locations of Julian’s Learning Centers and Academy Programs, and the student population. The red, yellow and brown notations on the map indicate student enrollment in those areas, as determined by the student’s zip code. The Charter School’s facilities are primarily located where there is a high concentration of the student population.



The red locations indicate student populations of greater than 75 students, the yellow locations indicate student populations of between 15 and 75 students and the brown locations indicate student populations of less than 15 students. The acronym's correspond to the facility acronym in Table B-2.

The table below shows the Charter School’s aggregate student enrollment by county.

**TABLE B-3:
STUDENT ENROLLMENT BY COUNTY**

County	Enrollment
San Diego	1,317
Riverside	1,020
Orange	161
Total	2,498*

Source: The Charter School.

*The enrollment data in Table B-3 was calculated as of January 2015, whereas the enrollment data in Tables B-2 and B-11 were calculated as of October 2014. Accordingly, the aggregate enrollment data in Table B-3 shows a slightly higher enrollment than the enrollment data in Tables B-2 and B-11, which were calculated as of October 2014.

WASC Accreditation

Julian received its original preliminary accreditation in 2001 by the Western Association of Schools and Colleges (“WASC”) through 2010, and its original full accreditation in 2004. The most recent full accreditation was extended through June 30, 2016 with a mid-term review, which was conducted in February, 2013. As such, all secondary courses are transferable to other public high schools and eligible to meet college entrance requirements. In addition, Julian offers courses approved by the University of California and the California State University which are creditable under the university’s “a” to “g” college admissions criteria. This information about secondary courses is provided to parents through the Teacher of Record, academic counselor(s), a parent handbook, information mailed to families and the Julian web site. All Teachers of Record assigned high school students are trained in the requirements of the university’s “a” to “g” college coursework and high school graduation policies and procedures. The “a” to “g” subject requirements are history/social science; English; mathematics, laboratory science; languages other than English; visual and performing arts; and college-preparatory electives.

Extracurricular Activities

Due to the distance-learning nature of Julian, there is no official extra-curricular program. In each geographic area, however, local specialists, as part of the school program, offer classes and experiences in topics from art to agriculture. In addition, Julian students participate in a variety of club and group activities, including 4-H, scouts, YMCA programs, youth groups, club and team sports, etc. Many students are active in these activities at the leadership level. Additionally, Julian offers intramural sports programs (flag football, volleyball, basketball and soccer) for students in the Academy Programs who are in grades 7-12.

Mission

Julian’s mission is to empower learners with educational choice and to provide an exemplary personalized learning program in a supportive, resource-rich learning environment. It is dedicated to excellence and committed to nurturing passionate lifelong learners.

Educational Philosophy

Julian believes that in order to develop educated and contributing 21st century students, students must have the skills, knowledge and expertise needed to succeed in work and life based on a blending of content knowledge, specific skills, and the expertise and literacy’s outlined in the Julian Charter School Expected Schoolwide Learning Results (ESLR) which is a requirement of the WASC process. Within the context of core academic subject knowledge and understanding (English, reading or language arts, mathematics, science, world languages, arts, economics, geography, history and government and civics), students must be:

- Prepared for complex life and work environments in the 21st century with learning and innovation skills that include: critical thinking and problem solving, communication and innovations, creativity and innovation;
- Exhibit a range of functional and critical thinking skills in the technology and media-driven environment of the 21st century such as: information literacy, media literacy and, communication and technology literacy;

- Able to navigate complex life and work environments in the globally competitive information age with life and career skills that include: flexibility and adaptability, initiative and self-direction, social and cross-cultural skills, productivity and accountability, leadership, character and responsibility.

Core Values

The core values that guide Julian’s decision-making and priorities are:

- Creativity and Innovation: Envision and explore rich teaching and learning opportunities;
- Commitment: Educate each student to his/her full potential and uphold the greater good of the school;
- Choice: Empower individual paths and goals through personalized learning;
- Excellence: Foster a climate of high expectations, quality and accountability and
- Integrity and Compassion: Model honesty, dignity, fairness and responsibility while demonstrating respect and understanding

Recent Accomplishments

Julian has regularly been recognized for its accomplishments that include, in recent school years:

- Julian Charter School has maintained an average API score exceeding 800 for the past three years. See Table B-20.
- Julian Charter School has the greatest percentage of students scoring advanced or proficient than its peer independent study competitors. See Tables B-24 and B-25 for more information.
- The Phoenix Learning Center students had the opportunity to participate in a NASA educational program offered by the Sally Ride Science program at the University of California in San Diego. In this educational program, students were able to think and act like scientists by controlling the cameras of the International Space Station;
- In 2014, Julian received a \$1,000 grant from Bright Ideas which was used to create a collaborative “walk-in” art installation that was featured at the San Diego Festival of Science and Engineering (the “Festival”) and one student was granted the opportunity to speak before the city council at the Festival;
- Biocom, one of the Festival donors, invited the Julian student that spoke at the Festival to speak at their summer 2014 conference; and
- In 2014, Julian received a \$1,000 grant from the San Diego Teacher’s Fund for a project involving Rady Children’s Hospital in San Diego. The students participated in an exercise in starting a nonprofit, practiced preparing budget projections and drafted a grant request letter. The funds from the students “grant request letter” (i.e., the funds of the \$1,000 grant from the San Diego Teacher’s Fund) will be used to purchase demonstration dolls for the doctors at Rady’s Children’s Hospital which will enable the doctors to better explain medical procedures to children.

Funding

General

Under the Charter Schools Act, 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 ((i) K-3, (ii) 4-6, (iii) 7-8 and (iv) 9-12) and is multiplied by the charter school’s Average Daily Attendance (“ADA”) in each grade level range.

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

Calculation of ADA

The funding amount for each Julian student is the same per student whether that student is in the Home Study Program or Academy Programs. The determination of a student’s ADA depends upon the documentation showing that the students performed what is, in the discretion of Julian and the assigned certificated teacher, the minimum amount of work necessary to constitute a day’s worth of work done by a student. The minimum amount of work performed by a student in a day must be done on the day for which it is claimed as attendance for ADA. Any extra amount of work performed by the student on that given day generates no further ADA credit.

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

As described above, Julian students may combine elements of classroom-based and nonclassroom-based instruction; but for purposes of ADA calculations (due to the regulatory definition of nonclassroom-based ADA), all are considered to be nonclassroom-based programs. Thus, Home Study Program students and Academy Program students are allocated ADA on the same basis, and receive the same per-pupil revenue, even though the levels of participation may vary considerably.

This practice is possible because, as mentioned above, the assigned certificated teacher and Julian have discretion to determine what documentation is required to show the minimum amount of work necessary to constitute a day’s worth of work done by a student in a nonclassroom-based independent study program. Accordingly, although the documentation required to show the students performed the amount of work necessary to constitute a day’s worth of work for each student is different, the end result is the same.

Funding Determination Process

Nonclassroom-based independent study programs are required to request a funding determination from the State Board of Education before it will receive their apportionments based on ADA. Schools are not required to reapply annually for a funding determination when the information submitted has not materially changed. Furthermore, schools with a 6 or better on the API (Academic Performance Index) for two (2) years prior to a request for a funding determination are entitled to a funding determination of five (5) years, unless there is, a material revision to the information requested. See “Student Performance - Academic Performance Index” below for more information regarding Julian’s API.

Through the funding determination process, the State Board of Education, through recommendations of the Advisory Committee on Charter Schools (“ACCS”), approves the charter school’s request for a specific percentage

of funding based upon the charter school's ADA using specific criteria outlined in Title 5 of the California Code of Regulations.

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

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

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

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

Julian submitted its most recent funding determination request for 100% in 2011. It was granted and the funding determination expires in June of 2016. While the State Board of Education maintains authority to request a new funding determination request at charter renewal and within its discretion at any time, Julian has not been provided any notice that it will be required to submit such a funding determination renewal request.

The per student target funding and the per student actual funding for the 2014-2015 and 2013-2014 school years are shown in the tables below.

TABLE B-4: CALIFORNIA BASE GRANT FUNDING FOR 2014-15		
Grade Level	Per Student Target Funding	Per Student Actual Funding
K-3	\$7,012	\$5,913
4-6	\$7,117	\$6,001
7-8	\$7,328	\$6,180
9-12	\$8,491	\$7,170

Source: The Per Student Target Funding is calculated by the Fiscal Crisis Management Assistance Team from numbers obtained from the California Department of Finance. The target funding represents the local control funding formula ("LCFF") target at the end of the eight year rollout. See "CHARTER SCHOOL FUNDING - Local Control Funding Formula". The Per Student Actual Funding data was provided by the Charter School.

**TABLE B-5:
CALIFORNIA BASE GRANT FUNDING FOR 2013-14**

Grade Level	Per Student Target Funding	Per Student Actual Funding
K-3	\$6,952	\$5,447
4-6	\$7,056	\$5,528
7-8	\$7,266	\$5,693
9-12	\$8,419	\$6,596

Source: The Per Student Target Funding is calculated by the Fiscal Crisis Management Assistance Team from numbers obtained from the California Department of Finance. The target funding represents the LCFF target at the end of the eight year rollout. See "CHARTER SCHOOL FUNDING - Local Control Funding Formula". The Per Student Actual Funding data was provided by the Charter School.

Budget

Julian sets a budget each year based on expected enrollment. The budget can be adjusted on a monthly basis based on actual enrollment in the Home Study Program and the Academy Program. See "Employees and Labor Relations" for an explanation of how Julian makes adjustments to teacher capacity as needed, which thereby affects the budget.

Plan of Finance

Pursuant to the Loan Agreement, the California Municipal Finance Authority (the "Authority") will loan the proceeds of the Charter School Series 2015A and 2015B Revenue Bonds (collectively, the "Series 2015 Bonds") to the Borrower, the sole member of which is Julian, for the following purposes: (1) to refinance the outstanding loans from Verde Charter Capital, LLLP ("Verde")² and Western Alliance Bank (formerly known as Torrey Pines Bank), used to acquire the facility located at 39665 Avenida Acacias, Murrieta, California (Riverside County) (the "Murrieta" facility), (2) to refinance the outstanding loans from Verde and Western Alliance Bank used to acquire the facility located at 27235 Madison Avenue, Temecula, California (Riverside County) (the "Temecula" facility, and collectively with the Murrieta facility, the "Existing Facilities"), (3) to finance the acquisition of a facility currently leased by Julian, located at 29141 Vallejo Avenue, Temecula, California (Riverside County) (the "Hope" facility) currently owned by Hope Lutheran Church of Temecula, California (the "Hope Facility Seller") and any improvements thereto, (4) to finance the acquisition of a facility in a complex known as the North Coast Business Park, currently leased by Julian, located at 539 Encinitas Boulevard, Encinitas, California (San Diego County) (the "North Coast" facility, and collectively with the Hope facility, the "Acquisition Facilities") and any improvements thereto, (5) to fund any capitalized interest with respect to the Series 2015 Bonds, (6) to fund a reserve fund with respect to the Series 2015 Bonds and (7) to pay certain costs incurred in connection with the issuance for the Series 2015 Bonds.

The following table shows the use of a portion of the Bond proceeds for the Project.

TABLE B-6: ESTIMATED COSTS

Refinancing of the Murrieta facility	\$3,243,334
Refinancing of the Temecula facility	3,369,659
Acquisition of the Hope facility	4,220,000
Improvements to the Hope facility	1,000,000
Acquisition of the North Coast facility	8,750,000
Improvements to the North Coast facility	2,000,000
Architect and Engineering	<u>569,386</u>
Subtotal for the Estimated Costs	\$ 23,152,379

² The principal of the financial advisor to the Charter School and the Borrower is an investor in Verde. The financial advisor was not serving as the financial advisor to the Charter School or the Borrower at the time the Borrower entered into the Verde loans. The principal of the financial advisor's investment in Verde was disclosed to the Charter School and Borrower at the time of the Verde loans and subsequently acknowledged by the Charter School in provision of the contract for financial advisory services between the Charter School and the financial advisor.

Existing Facilities

Murrieta facility

The Borrower financed the purchase of the Murrieta facility in 2014 with proceeds of a loan from Western Alliance Bank and a subordinate loan from Verde. The Charter School has operated in the Murrieta facility since 2010.

The Murrieta facility, built in 2006, consists of one building containing seven (7) suites (A-G) totaling approximately 14,946 square feet located on approximately 2.25 acres. This facility is owned by the Borrower and leased to Julian. Originally used as retail space, Julian obtained a conditional use permit from the City of Murrieta, California to use the facility, suites A, E, F and G, as a public charter school. Julian has begun the application process with the City of Murrieta to add suites B, C and D to the conditional use permit, and Julian expects to receive approval to add suites B, C and D to the conditional use permit by Spring 2015. Julian currently does not house any students generating ADA out of suites B, C, and D.

Julian currently occupies Suites E, F and G which include two classrooms, eight offices, an employee lounge, a science storage room and a conference room. Julian also currently occupies Suite D and utilizes it as administrative space pending approval of adding Suite D to the conditional use permit. The Murrieta facility can accommodate approximately 150 students on any given day.

The remaining suites A, B and C (approximately 31% of the square footage) is currently leased to two tenants. The tenant under one of the leases, which was expected to expire in September of 2015, has given written notice exercising its option to extend the lease for an additional 5 years, as permitted under the lease. Under the lease, the rent amount during any extended term is subject to negotiation between the Borrower, as landlord, and the tenant. If the parties do not ultimately agree on the new rent amount and the lease is terminate the remaining tenant, Diego Plus Education Corporation (which operates "Diego Hills Charter School"), an organization described under Section 501(c)(3) of the Code, will move into that space and would be expected to continue leasing the three suites following the issuance of the Series 2015 Bonds. Julian does not expect to move into the leased portion of the Murrieta facility in the foreseeable future. The term of the lease with Diego Hills Charter School is currently scheduled to terminate in June of 2019.

Temecula facility

The Borrower financed the purchase of the Temecula facility in 2013 with proceeds of a loan from Western Alliance Bank and a subordinate loan from Verde. The Charter School has operated in the Temecula facility since 2009.

The Temecula facility consists of five suites totaling approximately 13,245 square feet on approximately 1.13 acres. Julian currently occupies 5 suites. The Temecula facility was built in 2007. Over an 18-month period, Julian worked with the City of Temecula to re-zone the property for use as a charter school. Julian then partnered with Saddleback Associates, Inc., and Tim Shook, a general contractor, to design and build-out improvements to the suites. The Temecula facility currently has eight classrooms (approximately 700 square feet each) a 2,000 square foot gym, a teachers' lounge, two sets of restroom facilities for students, an open entry and reception area, a coordinator's office, and a special education room. The Temecula facility can accommodate approximately 200 students on any given day.

Acquisition Facilities

Hope facility

Julian has operated Academy programs at the Hope facility since 2007 and currently occupies approximately thirty percent (30%) of the facility under a lease agreement entered into with the Hope Facility Seller, while the remainder of the facility has been occupied by the Hope Facility Seller. Julian has entered into a Standard Offer, Agreement and Escrow Instructions for Purchase of Real Estate with the Hope facility Seller dated June 4, 2014 (the "Hope Purchase Offer"), for the purchase of the Hope facility. The Hope Purchase Offer specifies a total purchase price of \$4,220,000.

The Hope facility was built in 1985 and consists of two buildings totaling approximately 38,187 square feet, on approximately 6.4 acres. The first building consists of a sanctuary and offices of the Hope Facility Seller. The second building, the education building, is a three-story building with six classrooms on the first, six classrooms on the second floor, with each classroom on the first and second floor approximating 700 square feet, and three classrooms on the third floor each approximating 700 square feet. There are restrooms on each floor. The facility also has a large outdoor eating area, playground and field.

Julian has entered into a sublease agreement with the Hope Facility Seller, and upon the purchase of the Hope facility, Julian will sublease the portion of the property currently used by the Hope Facility Seller for the operation of its pre-school. The sublease is scheduled to expire on June 30, 2016, and, following its expiration, Julian intends to occupy the entire premises of the Hope facility and capacity will increase to 330. Following the Borrower's purchase, none of the Hope facility will be used for sectarian or religious activities. During the 17-month term of the sublease agreement, the Hope Facility Seller will continue operating only its existing children's center pre-school program while completing construction of its planned new facility.

Improvements will be made to the Hope facility, including installing a sprinkler system into the older portions of the building, installing an elevator where classrooms are located, painting and carpeting, fixing the bathrooms (from preschool to student size), improvements to ensure Americans with Disabilities Act compliance, and certain improvements to the parking lot.

Julian estimates using [\$1,280,000] of the bond proceeds to finance the cost of the Hope improvements. Julian expects to sign contracts by the summer of 2015. If the cost under the contracts exceeds [\$1,280,000], Julian will delay certain projects or improvements until funds become available to complete such projects or improvements.

North Coast facility

Julian has entered into a Purchase Agreement and Escrow Instructions dated July 25, 2014 (the "North Coast Purchase Agreement") which specifies a total purchase price of \$8,750,000. A portion of the proceeds of the Series 2015 Bonds will be used to fund the purchase of the North Coast facility.

The North Coast facility is an office complex built in 1985 and is located on Lot 4 in the North Coast Business Park, in a building ("Building 5") which is approximately 34,992 square feet, on approximately 1.75 acres. Julian will use approximately [\$1,250,000] of the bond proceeds to convert the office complex to usable space for classrooms, and to build out new restroom facilities and an elevator. Upon completion, the North Coast facility will have approximately 17 classrooms, each approximately 700 square feet in size and will be able to accommodate over 300 students. There will also be a storage space, a lunch room, a physical education space, a meeting center for educational facilitator's, a lab, a kitchen and two administrative offices. If the cost of the improvements to the North Coast facility exceeds [\$1,250,000], Julian will delay certain projects or improvements until funds become available to complete such projects or improvements.

Julian will acquire the North Coast facility subject to five (5) leases which will terminate no later than March 31, 2015. The North Coast Purchase Agreement provides that Julian is entitled to all rents from such leases from the date of the close of escrow until lease expiration. Upon the termination of the leases, Julian will commence construction of improvements at the North Coast facility, and upon completion, intends to occupy the entire facility. Julian is scheduled to move into the facility in July, 2015 and will begin serving students at the beginning of the 2015-16 school year. Julian is in the process of obtaining the permitting from the city of Encinitas for the build out of tenant improvements to the North Coast facility and expects to obtain approval by Spring 2015.

Appraisals of the Facilities

Murrieta facility

Westates/Connolly Commercial, Temecula, California ("Connolly") appraised the site and buildings comprising the Murrieta facility as set forth in an appraisal report dated January 10, 2014 (the "Murrieta Appraisal Report"), which estimated that the "as-is" market value was \$3,400,000, subject to certain conditions. At the time of the Murrieta Appraisal Report, the Murrieta facility was in escrow to be purchased for \$3,400,000, and accordingly, the Murrieta Appraisal Report states that the purchase price was estimated to be at fair market value.

The Murrieta Appraisal Report includes the following summary of market value opinions:

- Using the “income approach” the estimated “as-is” market value of a fee simple interest in the Murrieta facility as of January 2, 2014 was \$2,850,000; and
- Using the “sales comparison approach” the estimated “as-is” market value of a fee simple interest in the Murrieta facility as of January 2, 2014 was \$3,510,000

The Murrieta Appraisal Report states that “sales comparison approach” and “cost approach” were the relevant approaches for determining the market value, but that the “sales comparison approach” carried the strongest weight because, although the property was then currently leased (i.e., at the time of the appraisal), it was to be purchased by the majority lessee who would then be the owner.

Temecula facility

TERRA Real Estate Services, Temecula, California (“TERRA”) appraised the site and buildings comprising the Temecula facility as set forth in a summary appraisal report dated April 29, 2013 (the “Temecula Appraisal Report”) which estimated that the (i) “as-is” market value of a fee simple interest in the Temecula facility as of April 17, 2013, was \$2,620,000, subject to certain conditions, and (ii) insurable value as of that date was estimated at \$2,075,000. At the time of the Temecula Appraisal Report the Temecula facility was in escrow to be purchased for \$3,100,000, and the Temecula Appraisal Report states that given that the then existing (as of April 2013) current lease of the facility is considerably above market, the cost of ownership would be significantly less than the current scheduled rent even at the contract price of \$3,100,000.

The Temecula Appraisal Report includes the following summary of market value opinions:

- Using the “income approach” the estimated “as-is” market value of a fee simple interest in the Temecula facility as of April 17, 2013 was \$1,630,000; and
- Using the “sales comparison approach” the estimated “as-is” market value of a fee simple interest in the Temecula facility as of April 17, 2013 was \$2,620,000.

The Temecula Appraisal Report states that TERRA did not use the “cost approach” because the cost approach is most applicable in new or proposed improvements. Accordingly, given that the Temecula property was built in 2007, the cost approach would not provide a reliable value estimate for this property type. The Temecula Appraisal Report also concluded that the “income approach” was not appropriate in determining the value because the purchasers would be operating the property and not leasing it to third parties. The Temecula Appraisal Report states that the “sales comparison approach” is the appropriate and most reliable method of valuation for the subject property because the “sales comparison approach” is based on the premise that transactions between independent parties buying, selling, developing and utilizing real estate are evidence of the value, and because the scope of the Temecula Appraisal Report is to value the fee simple interest in the property, the “sales comparison report” warranted sole consideration.

Hope facility

Connolly appraised the site and buildings comprising the Hope facility as set forth in an appraisal report dated February 3, 2014 (the “Hope Appraisal Report”). The Hope Appraisal Report estimated that the market value of a fee simple interest in the Hope facility as of January 21, 2014, was \$4,390,000, subject to certain conditions as listed in the Hope Appraisal Report. The Hope Purchase Offer specifies a total purchase price of \$4,220,000.

The Hope Appraisal Report includes the following summary of market value opinions:

- Using the “sales comparison approach” the estimated “as-is” market value of a fee simple interest in the Hope facility as of January 21, 2014, was \$4,390,000.

The Hope Appraisal Report states that the “income approach” is not warranted because the Hope facility is owner-occupied and rarely leased, and that the “cost approach” was not performed because there were very few sources from which it could derive a reliable estimate of the land and building. Accordingly, the Hope Appraisal Report only utilized the “sales comparison approach” in determining valuation.

The Hope Appraisal Report was restricted by Connolly to client-use only and was intended for use in estimating the market value of the property for purchase negotiations by the client but not for financing purposes related to any sale of the property.

North Coast facility

Connolly appraised the site and buildings comprising the North Coast facility as set forth in an appraisal report dated November 7, 2014 (the “North Coast Appraisal Report”). The North Coast Appraisal Report estimated that the “as-is” market value of the of the fee simple interest in the facility as of October 29, 2014, was \$8,750,000, subject to certain conditions, as listed in the North Coast Appraisal Report. The North Coast facility is and was at October 29, 2014, in escrow with a \$8,750,000 purchase price, and accordingly, the North Coast Appraisal Report estimated that the purchase price was at market price.

The North Coast Appraisal Report includes the following summary of market value opinions:

- Using the “income approach” the estimated “as-is” market value of a fee simple interest in the North Coast facility as of October 29, 2014, is \$8,550,000.
- Using the “sales comparison approach” the estimated “as-is” market value of a fee simple interest in the North Coast facility as of October 29, 2014, is \$8,920,000.

The North Coast Appraisal Report used the “income approach” and the “sales comparison approach” in determining the estimated value of the North Coast facility. The North Coast Appraisal states that the “sales comparison approach” was given primary weight in determining the value of the North Coast facility because the North Coast facility will not be a leased investment upon close of escrow, thereby warranting the least weight be given to the “income approach” as a value indicator.

The summaries above are not meant to be exhaustive and reference should be made to each related report for a complete recital of its terms. Copies of the above-described appraisals are available upon request, as described under “MISCELLANEOUS – Additional Information.” Each property value estimate in the appraisal reports represents only the opinion of the related appraiser and only as of the respective effective date of the appraisal. Property values fluctuate, and none of the appraisal companies has been engaged to update or revise the estimates contained in its report since the respective date thereof. See “RISK FACTORS – Value of Property May Fluctuate; Limitations of Appraisals.”

Environmental Assessments

Murrieta facility

Odic Environmental, Los Angeles, California (“ODIC”), performed a Phase I Environmental Site Assessment with respect to the Murrieta facility. ODIC’s report, dated January 14, 2014 (the “Murrieta Phase I Report”), states that ODIC’s study of the subject property was to identify, to the extent feasible pursuant to the processes outlined in the Murrieta Phase I Report, Recognized Environmental Conditions (“RECs) in connection with the subject property.

The Murrieta Phase I Report states that the assessment revealed no evidence of RECs in connection with the subject property.

Temecula facility

ODIC performed a Phase I Environmental Site Assessment with respect to the Temecula facility. ODIC’s report, dated April 18, 2013 (the “Temecula Phase I Report”), states that ODIC’s study of the subject property was to identify, to the extent feasible pursuant to the processes outlined in the Temecula Phase I Report, RECs in connection with the subject property.

The Temecula Phase I Report states that the assessment revealed no evidence of RECs in connection with the subject property.

Hope facility

National Due Diligence Services (“NDDS”) performed a Phase 1 Environmental Site Assessment with respect to the Hope facility. NDDS’s report dated November 4, 2014 (the “Hope Phase 1 Report”) states that NDDS’s study of the subject property was to identify, to the extent feasible pursuant to the processes outlined in the Hope Phase 1 Report, Recognized Environmental Conditions (“RECs”), controlled RECs and historical RECs in connection with the subject property.

The Hope Phase 1 Report states that the assessment revealed no evidence of RECs, a controlled REC or a historical REC in connection with the subject property. However, the Hope Phase 1 Report states that, due to the age of the first building (a chapel and a gym), there is a potential that asbestos containing materials (“ACMs”) and suspect lead-based paints (“SLBPs”) could be present. The Hope Phase 1 Report states that if renovations and/or demolitions are required, the potential ACMs would need to be sampled to confirm the presence and/or absence of asbestos prior to any renovation or demolition activities to prevent potential exposure to workers and/or building occupants.

North Coast facility

NDDS performed a Phase 1 Environmental Site Assessment with respect to the North Coast facility. NDDS’s issued report dated October 21, 2014 (the “North Coast Phase 1 Report”) states that NDDS’s study of the subject property was to identify, to the extent feasible pursuant to the processes outlined in the North Coast Phase 1 Report, Recognized Environmental Conditions (“RECs”), controlled RECs and historical RECs in connection with the subject property

The North Coast Phase 1 Report states that the assessment revealed no evidence of RECs, controlled RECs or historical RECs in connection with the subject property.

Charter

The Charter Schools Act authorizes teachers, parents and/or community members to establish publicly funded charter schools by filing a petition with a school district, a county office of education or the State Board of Education (a “Charter School Authorizer”) which may grant a charter to the petitioners as described in the Charter Schools Act. A charter defines a charter school’s goals, standards, education design, governance and operations. The degree of authority to be exercised by the charter school on such issues as personnel, curriculum and facilities is negotiated between the charter petitioners and the Charter School Authorizer. Pursuant to California Education Code § 47607, an initial charter petition may be approved for a period not to exceed five years and may be renewed for successive periods of five years each. The Charter School’s charter was initially executed in 1999 for a term of two years. The charter was renewed in 2001, 2006 and again in 2011, for a term of five years through June 30, 2016.

Charters are subject to certain renewal requirements, including academic performance requirements (including without limitation attainment with respect to the State’s Academic Performance Index (“API”). Charters are also subject to nonrenewal or revocation for material violations of their charters, failure to meet or pursue any of the pupil outcomes identified in the charters, failure to meet generally accepted accounting principles or engagement in fiscal mismanagement, failure to comply with applicable health and safety standards, and/or failure to comply with other applicable provisions of law. In connection with charter revocation, the Charter School Authorizer that granted the charter is required to notify the charter school of the relevant violations and provide the charter school with a reasonable opportunity to remedy the violation, unless the authority determines that the violation constitutes a severe and imminent threat to the health or safety of pupils. For more information regarding (i) the conditions under which the charters may be revoked or not renewed, and (ii) applicable revocation and non-renewal notice, hearing, determination and appeal procedures, refer to “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF CALIFORNIA LAW – CHARTER SCHOOL STATUS AND OPERATIONS – Charter Terms, Renewals, Revocations and Appeals”.

Although Julian’s charter is currently in good standing and although Julian believes that the Charter School will continue to satisfy the relevant requirements for renewal, there can be no guarantee in that regard. Any relevant failure could lead to the revocation or nonrenewal of the charter would jeopardize the Charter School’s ability to generate revenues necessary to make payments under the Lease representing debt service on the Series 2015 Bonds.

See “RISK FACTORS – Nonrenewal or Revocation of Charter Contract” and “– Default under the Lease; Expiration and Nonrenewal of the Lease; No Assurance Regarding Subsequent Tenant.”

Governance and Administration

Julian is governed by its five directors (“Julian Board”) which may be increased from time to time by an amendment of the Bylaws. The Julian Board is comprised of: one director appointed by the District, one parent chosen by the community from each of the three counties served and one community member. Each member appointed or chosen as a board member is presented to the Julian Board for final approval. Julian Board members serve for a two-year term from and until a successor has been elected and qualified. The following section provides information regarding the current members of the Julian Board.

Suzanne Schumacher – President

Suzanne Schumacher serves as President of the Julian Board and has served on the Julian Board since 2007, and her current term as a board member expires in June of 2015. Ms. Schumacher is currently investing in real estate. For the past 13 years, Ms. Schumacher was an Usborne Books Independent Supervisor. She has also worked for Hughes Aircraft, General Dynamics Space Systems Division (San Diego), and Sony Electronics. Ms. Schumacher has also homeschooled four children through Julian. She is active in her church and homeschooling community. Ms. Schumacher received her bachelor’s degree from the University of San Diego.

Kevin Ogden – Secretary

Kevin Ogden serves as Secretary of the Julian Board and has served on the Julian Board since 2000 and is currently serving an indefinite term. Mr. Ogden is a retired Superintendent of the District. His professional career includes being an elementary teacher, serving as Vice Principal for the District and serving as Principal at Painted Rock Elementary School. Mr. Ogden is also an adjunct professor at Point Loma Nazarene University in the field of administrative leadership. Mr. Ogden received his bachelor’s degree and his master’s degree from Point Loma Nazarene University.

Teresa Saueressig – Treasurer / Director

Teresa Saueressig serves as Treasurer of the Julian Board and has served on the Julian Board since 2010, and her current term as a board member expires in June of 2016. Ms. Saueressig is currently an Administrative Assistant with The Tarnutzer Company in Newport Beach. Previously, Ms. Saueressig worked two years as a data processor, five years as an administrative assistant for Weight Watchers and three years as a paraprofessional in School District #380 in Marysville, Kansas. Ms. Saueressig works with Olive Crest, a nonprofit organization, in their fundraising division and serves as a volunteer with Hospice Care of the West.

Roxanne Huebscher – Member

Roxanne Huebscher serves as a member of the Julian Board and has served on the Julian Board since 2000, and her current term as a board member expires in February of 2015. From 1985 to 2000, Ms. Huebscher worked as a speech pathologist in three different private speech practices. In 2000, she left the field to homeschool her three children through Julian. She is active in the homeschooling community. Ms. Huebscher received her bachelor’s degree from the University of Southern California, her master’s degree from Whittier College and a Certificate of Clinical Competence from the American Speech-Language and Hearing Association.

Julie Moore – Member

Julie Moore serves as a member of the Julian Board and has served on the Julian Board since September, 2014, and her current term as a board member expires in June of 2016. Ms. Moore has homeschooled her daughter through Julian for the past seven years. Previously, Ms. Moore worked in banking, finance, nonprofit fundraising, property appraisal and has also taught high school. She has volunteered extensively with Girl Scouts, Toast Masters and Friends of the Library. Ms. Moore received her bachelor’s degree from Kansas State University.

Administration

Certain information concerning the background and experience of Julian's administrative team is set forth below.

Jennifer Cauzza, Executive Director

Jennifer Cauzza has been the Executive Director of Julian since 1999. As Executive Director, Ms. Cauzza is responsible for organizing, reorganizing and/or employing such management/supervisory personnel as are necessary to best serve Julian; recommending hiring, placement, transfer and reassignment of all personnel; reviewing criticisms, complaints or suggestions referred to the Executive Director by the Julian Board and to make appropriate recommendations for disposition to the Board; administering the instructional and business affairs of Julian; awarding and/or executing contracts on behalf of Julian in accordance with applicable law. Previously, Ms. Cauzza taught grades K-12 for thirteen years. In addition to teaching, Ms. Cauzza held various leadership positions, including Union President, Mentor Teacher and Friends of the Library Chairperson. Ms. Cauzza attended San Diego State University and obtained her Multiple Subject Teaching Credential with supplementary authorizations in English and Technology. She received her master's degree in Educational Leadership from Point Loma Nazarene University. In 2005, she completed a Charter School Leadership course through Harvard University.

Chad Leptich, Chief Business Officer

Chad Leptich has served as Chief Business Officer at Julian since 2009. As Chief Business Officer, Mr. Leptich is responsible for planning, organizing, implementing and controlling the total business services of Julian, including all aspects of financial operations. Prior to his work at Julian, Mr. Leptich spent three years as the Assistant Superintendent of Business in Winterhaven, California at San Pasqual Valley Unified School District. Mr. Leptich has over 20 years of multi-cultural business experience, including school finance, ocean transportation, fuel commodity market and jet engine repair. He has background in sales, accounting, finance, operations, inventory control and general management with considerable experience in organizational management, quality control management and vendor/public relations. Mr. Leptich received his bachelor's degree in Accounting from Fort Lewis College in Durango, Colorado and his master's degree from the University of Redlands in California. In 2008, he completed the California Association of School Business Officials Chief Business Official program certification in school finance.

Melanie Marks, Director of Education

Melanie Marks has served as the Director of Education of Julian since 2007. As Director of Education, Ms. Marks directs and supervises the instructional leadership team and assists the Executive Director in directing and administering other significant administrative functions and activities. Ms. Marks has over 20 years experience in teaching, peer coaching and administration at the middle and high school level in both small and large school districts. She has also worked overseas in international trading, as well as serving as the Director of an international nonprofit for educational software. Ms. Marks received her bachelor's degree in Cultural Anthropology and Sociology with a minor in Asian studies from Occidental College and her master's degree in educational leadership from Point Loma Nazarene University.

Cameron Byrd, Director of Human Resources/Operations

Cameron Byrd has served as the Director of Human Resources/Operations of Julian since 2006. As Director of Human Resources, Mr. Byrd directs Julian's human resources programs at all locations in the areas of recruitment, employment, compensation, classification, performance management, labor relations, training and organizational development and oversees employer-sponsored benefit programs. Mr. Byrd also assists Julian's education department by teaching ASL (American Sign Language) at several of its academy programs. Mr. Byrd has 20 years of experience working in various human resource situations. Mr. Byrd received his bachelor's degree in Deaf Studies/Education from California State University at Northridge and his master's degree in Business Administration with an emphasis in Strategic Leadership from Western Governors University.

Services Provider

Julian has entered into a memorandum of understanding (“MOU”) with the District, in accordance with the terms of the Charter, which details the responsibilities for the provision of special education services by Julian and the manner in which special education funding will flow through the District to Julian students. The MOU is valid for the term of the Charter and is expected to be updated and renewed with the renewal of the School’s Charter.

Employees and Labor Relations

The Charter School currently employs 183 full time equivalent employees as set forth in the following table. The Charter School’s goal for student-teacher ratio is 20:1.

TABLE B-7: EMPLOYEES	
Teachers	130
Counselors	1
Administration	8.5
Other/Classified Staff	43.5
Total:	<u>183</u>
Student-Teacher Ratio	21:7:1

Source: The Charter School.

All of Julian’s full time equivalent teachers are at will employees and of the 130 full time equivalent teachers, approximately 82% are full-time and 18% are part-time. Julian has the flexibility to match the number of teachers it needs to student enrollment in the Home Study Program by increasing or decreasing the number of students assigned to each teacher, based on each teachers capacity. Julian also has the ability to increase teacher capacity for those that are not at full capacity in the event Julian has additional students that it can serve in the Home Study Program. In the event all of its teachers are at 100% capacity, the Charter School has the flexibility to work with its current teachers to add additional capacity, and increase such teachers pay by 8.3%, until additional teachers are hired and fully trained. Generally, when the Charter School is in need of additional teaching staff, the Charter School will advertise teaching positions that are at less than full capacity, which allows for any new hires to learn the school system and create capacity for additional students as needed. The following tables show the number of students that teachers serve in the Home Study Program when they are hired at 25%, 50%, 75% and 100% capacity.

TABLE B-8: HOME STUDY TEACHER CAPACITY	
Teacher Capacity	Number of Students
25%	9
50%	18
75%	27
100%	36

All of the Charter School’s teachers, support staff and additional employees are employees of and are compensated by the Charter School. The Charter School pays its pre-authorized vendors upon receipt of an invoice from the vendor for the services provided to the Charter School students. All employees are employed pursuant to “at-will” agreements with Julian. The Charter School believes that the faculty and administration’s relationship is excellent. The Charter School represents that, from the 2012-13 school year to the 2013-14 school year, it retained approximately 97% of its teachers; and from the 2013-14 school year to the 2014-15 school year, it retained approximately 95% of its teachers.

Students of the Charter School benefit from parent-teachers and instructional staff members who have ongoing professional development that promotes and supports the Charter School's vision. The professional development plan, including Professional Learning Communities and a corollary parent-teacher program, plus the Beginning Teacher Support and Assessment program, was developed to meet the needs of parent-teachers, instructional and support staff, as well as the needs of the Charter School. Typical elements include regular collaboration between parent-teachers and staff; parent-teacher support groups, individual and group mentoring, modeling, curriculum/instruction events, webinars, instructional videos, curriculum, software and courseware training; two-day intensive staff preparation session prior to beginning of the school year; and various meetings, trainings, webinars, professional/program development forums and Professional Learning Communities, including differentiated opportunities to meeting individual professional development plans, to support curriculum and instruction, technology competencies, adopted software and courseware, systems and assessment tools.

Retirement Fund Commitments

The Charter School's qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State. Certificated employees are members of the State Teachers Retirement System ("CalSTRS") and classified employees are members of the California Public Employees' Retirement System ("CalPERS").

From time to time there has been various proposals or there may be legislation introduced that proposes to change the statewide retirement plans in the State. It cannot be predicted whether any such legislation will be introduced or adopted in the future. The economic impact of any such legislation on the Charter School cannot be predicted and may be material.

CalSTRS

Benefit provisions under CalSTRS are established by State statutes. For the year ended June 30, 2014, active plan members were required to contribute 8% of their salary. The Charter School is required to contribute an actuarially determined rate, as determined by the CalSTRS Board. The Charter School's total contributions for the years ended June 30, 2014 and June 30, 2013 was \$610,513 and \$556,270, respectively, which each equaled 100% of the required contribution.

CalSTRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. The report may be viewed at the Cal STRS's website as follows:

<http://www.calstrs.com/actuarial-financial-and-investor-information>

Such information is prepared by the entity maintaining such website and not by any of the parties to this transaction, and no such information is incorporated herein by this reference.

See the Notes to the Charter School's Financial Statements for the fiscal year ended June 30, 2014 in Appendix C of this Official Statement for a more complete discussion of the Charter School's obligations under CalSTRS.

CalPERS

Benefit provisions under CalPERS are established by State statutes. For the year ended June 30, 2014, active plan members were required to contribute 7% of their salary. The Charter School is required to contribute an actuarially determined rate, as determined by the CalPERS Board of Administration. The Charter School's total contributions for the years ended June 30, 2014 and June 30, 2013 was \$125,363 and \$109,070, respectively, which each equaled 100% of the required contribution.

CalPERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. The report may be viewed at CalPERS's website at <http://www.calpers.ca.gov/>. Such information is prepared by the entity maintaining such website and not by any of the parties to this transaction, and no such information is incorporated herein by this reference.

See the Notes to the Charter School’s Financial Statements for the fiscal year ended June 30, 2014 in Appendix C of this Official Statement for a more complete discussion of the Charter School’s obligations under CalPERS.

Admissions and Enrollment

Julian is secular in its admission policies and does not discriminate against any pupil on the basis of ethnicity, national origin, gender or disability or any other characteristics described in Education Code Section 220. In addition, except as required by Education Code Section 47605(d)(2), admission to Julian is not determined according to the place of residence of the pupils, or of their parents or guardians, as long as it is within San Diego County or its contiguous counties as required by Education Code Section 51747.3. No individual with exceptional needs, as defined in Education Code Section 56026, may participate in independent study, unless his or her individualized education program (“IEP”) specifically provides for that participation. Julian attempts to achieve a racial and ethnic balance of students that reflects the general population of the District. This is accomplished through an open enrollment policy and active outreach activities and recruitment of underrepresented minorities.

Each year, the Julian Board establishes the maximum enrollment limit capacity of Julian. Preference for enrollment is given to employees’ children, then siblings of current students, students who reside within the District and students from San Diego County. Students who are currently enrolled in a Julian program trying to get into an impacted program (a program that has reached capacity) should have been enrolled in the Home Study Program at least three learning periods before transferring into an impacted program. All prospective students and their parents or guardians must complete an enrollment application before admission.

The following tables sets forth data provided by Julian regarding the Charter School’s historical and projected enrollment for the Home Study Program, the Academy Programs and the combined enrollment for the Charter School’s enrollment. For the years 2009-10 through 2014-15 the numbers are based on actual student counts as of the fall student count dates. For 2015-16 and thereafter, the numbers are projections provided by Julian, and are subject to the general qualifications and limitations described under “INTRODUCTION – Caution Regarding Forward-Looking Statements,” above.

TABLE B-9: ACADEMY HISTORICAL AND FUTURE PROJECTED ENROLLMENT

Grade	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	<i>Historical</i>				<i>Projected</i>			
K	61	84	78	82	100	125	134	134
1	70	86	80	76	90	105	110	114
2	82	96	77	71	90	105	110	114
3	56	88	91	81	90	105	110	114
4	61	90	100	86	90	105	110	114
5	59	86	100	85	109	114	120	130
6	91	95	97	120	150	150	150	150
7	92	114	111	120	140	150	145	150
8	87	109	131	158	120	134	144	140
9	87	75	88	90	95	115	130	134
10	85	86	91	83	85	90	110	125
11	68	64	86	74	77	80	85	105
12	87	73	54	79	76	75	75	80
Total:	986	1,146	1,184	1,205	1,322	1,453	1,533	1,604

Source: the Charter School.

TABLE B-10: HOME STUDY HISTORICAL AND FUTURE PROJECTED ENROLLMENT

Grade	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	<i>Historical</i>				<i>Projected</i>			
K	77	86	76	75	83	86	86	86
1	90	87	119	84	80	90	90	90
2	90	106	111	107	90	85	85	85
3	99	106	117	111	111	90	90	90
4	99	108	122	100	115	113	113	113
5	90	99	131	128	105	117	117	117
6	95	81	102	104	131	106	106	106
7	85	99	86	89	99	125	125	125
8	59	77	94	76	90	95	120	120
9	100	93	70	88	90	90	90	90
10	102	118	100	91	90	90	90	90
11	104	98	118	94	90	90	90	90
12	76	98	74	109	90	90	90	90
Total:	1,166	1,256	1,320	1,256	1,264	1,267	1,292	1,292

Source: the Charter School.

TABLE B-11: COMBINED HISTORICAL AND FUTURE PROJECTED ENROLLMENT

Grade	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	<i>Historical</i>				<i>Projected</i>			
K	138	170	154	157	193	211	220	220
1	160	173	199	160	170	195	200	204
2	172	202	188	178	180	190	195	199
3	155	194	208	192	201	195	200	204
4	160	193	207	186	205	218	223	227
5	149	177	216	213	214	231	237	247
6	186	172	201	224	281	256	256	256
7	177	221	212	209	239	275	270	275
8	146	195	238	234	210	229	264	260
9	187	168	158	178	185	205	220	224
10	187	204	191	174	175	180	200	215
11	172	162	204	168	167	170	175	195
12	163	171	128	188	166	165	165	170
Total:	2,152	2,402	2,504	2,461	2,586	2,720	2,825	2,896

Source: the Charter School.

The foregoing projections in Tables B-9 through B-11 estimate an increase for the Phoenix Learning Center program of students in kindergarten and grades 6-8 for the 2015-16 year and an increase for the Hope facility of students in grades K-5 for the 2016-17 school year once the current tenant vacates the property. There is also additional room for growth in the Home Study Program as well as growth for the Innovation Center Encinitas location once the students currently enrolled in programs at the Innovation Center Encinitas location are moved to the Phoenix Learning Center location. The San Diego Academy of Performing Arts program will slowly build its high school program beginning in the 2015-2016 year starting with adding a 9th grade class. The Murrieta High School Academy (Hope facility) will be adding non-college prep classes to serve additional students in that Academy program beginning in the 2015-2016 year. This track may pull students from the Home Study program into an Academy program as well as attract students who are not currently enrolled in Julian Charter School.

Wait List

Julian can generally accommodate all students who would like to enroll in the Home Study program either by hiring more teachers or by increasing the FTE (Full Time Equivalent) of a teacher's roster. In the Academy Programs, however, it is more difficult because the Academy Program enrollment is limited to Julian's facility constraints.

In the Academy Program students are put on a waitlist until a seat becomes available. When a seat becomes available, the first person on the waitlist (with preference first to students of employees and then to siblings of students already attending the school), without regard to grade, is contacted to see if they are still interested. In this way, Julian's waitlist is flexible relative to classroom-based programs. If the student is no longer interested, they are crossed off the list and the next student is contacted until the seat is filled. Students selected through this process have thirty (30) days to sign a commitment letter to indicate that the pupil will attend the school. If the signed commitment letter is not returned within the allotted period of time, Julian will proceed to offer enrollment to the next student on the waitlist. The waitlist is normally generated at the end of March for all Academy Programs that have more students than the facility can accommodate. After the school year has begun, applications for enrollment continue to be accepted and date/time stamped on a rolling basis, with students accepted for enrollment on the basis of available capacity. Waitlists are much larger in the Spring prior to the new school year starting, and will generally drop as the school year starts as often times parents do not want to move their children mid-year. However, students are notified in their order on the waitlist until each available spot is filled. Waitlists are purged after enrollment ends at the beginning of March and the process begins again for the following school year.

The following table shows waiting list data compiled for the 2013-14 and 2014-15 school years by grade.

TABLE B-12: WAIT LIST*				
Grade	2013-14 (Pre-Lottery)	2013-14 (Post-Lottery)	2014-15 (Pre-Lottery)	2014-15 (Post-Lottery)
K	105	40	119	60
1	59	39	63	30
2	57	30	62	39
3	65	20	55	48
4	48	28	63	27
5	45	20	51	32
6	34	7	41	27
7	17	-	15	3
8	9	-	10	-
9	-	-	-	-
10	-	-	-	-
11	-	-	-	-
12	-	-	-	-
Total	439	184	479	266

Trends in Home Study

The United States Department of Education released a survey in 2008 demonstrating that there is a growing trend in students that are homeschooled. The survey indicated that from 1999 to 2007, students that were homeschooled increased from 1.7% of all students to 2.9% of all students, a 74% increase in the percentage of students that are homeschooled. The CDE also noted that a significant and steadily increasing number of students throughout the state of California are members of families that prefer to educate their children at home for a variety of philosophical and pragmatic reasons. As of January 2015, approximately 104,902 students in the state of California are enrolled in an independent study charter school. The CDE identified several student groups that may choose to pursue independent study as further discussed above under "Julian's Students and Parents".

Student Retention

The following table shows the number of Julian students at the end of the respective school year who returned at the beginning of the following school year for the last three years.

**TABLE B-13: STUDENT
RETENTION DATA**

2011	2012	2013
86%	85%	85%

Source: the Charter School from data obtained from Data Quest.

Interest in independent study and schooling with Julian is steadily increasing and is primarily from students and parents seeking a long term solution to traditional schooling. However, not all students at Julian are seeking a long-term solution to traditional schooling, i.e., for those in the juvenile justice system or for those seeking to “catch up” in certain areas. In those circumstances, once the short-term solution is reached through home study and schooling with Julian, the student may choose to return to a traditional school setting, which is the primary reason a student at Julian would not return the following year. This type of mobility rate is fairly common among Independent Study Charter Schools.

Service Area and Competing Schools

According to the Charter School, in 2015, Riverside County, San Diego County and Orange County had thirty-four (34) independent study schools similar to Julian and which Julian reports it competes with for student enrollment. The following nine (9) independent study charter schools are those with which Julian competes in San Diego, Riverside and Orange Counties and which demonstrate the significant demand for independent study programs in this geographic area. These schools serve similar grade levels and have comparative program offerings as Julian. The performance of such schools is shown on tables B-20 through B-26 and the names of the schools are listed below as well as the enrollment numbers as compared to Julian’s student enrollment on Table B-14.

**TABLE B-14:
COMPETING SCHOOLS**

School	Grades Offered	Current Enrollment	Year Opened
Julian	K-12	2,461	1999
River Springs Charter	K-12	5,229	2006
Dehesa Charter	K-12	1,047	2001
Greater San Diego Academy	K-12	386	1999
Pacific View Charter	K-12	400	1999
Bayshore Preparatory Charter	K-12	138	2005
Classical Academy	K-8	1,118	1999
Learning Choice Academy	K-12	963	2004
Diego Hills Charter	9-12	776	2009
Diego Valley Charter	9-12	519	2011

Source: The Charter School, with information provided by the CDE.

See Tables B-20 through B-26 for a comparison of Julian’s academic performance to the foregoing competing schools.

As a general matter, the Charter School faces competition from other schools in the area for students, and there can be no assurance that the Charter School will continue to attract and retain the number of students that are needed to generate sufficient revenues for Julian to make payments under the Lease representing debt service on the Series 2015 Bonds. See “RISK FACTORS – Competition for Students.”

Population

The following table sets forth population statistics for San Diego County, Riverside County, Orange County and the State of California.

TABLE B-15: COMPARATIVE POPULATION								
Year	San Diego County	Percent Change	Riverside County	Percent Change	Orange County	Percent Change	State of California	Percent Change
1990	2,498,016	N/A	1,170,143	N/A	2,410,556	N/A	29,760,021	N/A
2000	2,813,833	10.2%	1,545,387	32.1%	2,846,289	18.1%	33,871,648	13.8%
2010	3,095,313	6.9%	2,189,641	41.7%	3,010,232	5.8%	37,253,956	10.0%

Source: U.S. Census Bureau, Census 2010, Census 2000, and 1990 Census.

Median Age

The median age for the residents of San Diego County is 34.6 years. The median age for the residents of Riverside County is 33.7 years. The median age for the residents of Orange County is 36.2 years. The State-wide median age is 35.2 years. (Source: U.S. Department of Commerce, Bureau of the Census, 2010 Census.)

Housing Stock

The following table sets forth housing unit information for San Diego County, Riverside County and Orange County.

TABLE B-16: HOUSING UNITS			
	2000	2010	Percent Change
San Diego County	1,040,149	1,164,786	12.0%
Riverside County	506,218	800,707	58.2%
Orange County	969,484	1,048,907	8.2%

Source: U.S. Census Bureau, Census 2000, Census 2010.

Income

The following table set forth per capita personal income for San Diego County, Riverside County, Orange County, the State of California and the United States.

TABLE B-17: PER CAPITA PERSONAL INCOME					
	2008	2009	2010	2011	2012
San Diego County	46,851	44,767	45,431	48,066	49,719
Riverside County	30,808	29,433	29,563	31,074	31,742
Orange County	51,688	48,841	48,769	50,642	52,342
State of California	43,609	41,569	42,297	44,666	46,477
United States	40,873	39,357	40,163	42,298	43,735

Source: U.S. Department Commerce, Bureau of Economic Analysis.

Building Permit Activity

The following table provides information regarding the number of residential building permits issued in San Diego County, Riverside County and Orange County for the years indicated.

**TABLE B-18:
HISTORY OF
ESTIMATED RESIDENTIAL BUILDING PERMIT ACTIVITY**

Year	San Diego County	Riverside County	Orange County
2009	1,900	3,457	1,404
2010	2,416	4,047	1,701
2011	2,418	2,291	1,984
2012	2,490	3,170	2,570
2013	2,817	4,423	3,965

Source: U.S. Census Bureau.

Student Performance

Academic Performance Index

In response to recent legislation, the Academic Performance Index (“API”) is in a state of transition. While the summary below reflects the most up-to-date information available, further changes may develop that could significantly change how API is calculated and utilized.

API measures the performance and growth of schools and districts based on the test scores of students in grades 2 through 12. The system operates on a two-year cycle that gives a “Base” score for the first year and a “Growth” score in the second year. The Base API, historically released in spring (for example 2013), comes from the previous spring’s test scores (2012). The Growth API, historically released in October (2013), comes from 2013 spring test scores. Academic improvement is measured by comparing the Base API score of the previous year to the Growth API score of the following year.

API scores were initially calculated using results of the Standardized Testing and Reporting (“STAR”) program and the California High School Exit Examination (“CAHSEE”). However, Assembly Bill 484, signed into law by Governor Jerry Brown on October 2, 2013, deleted certain provisions of State law establishing the STAR program and replaced them with the California Assessment of Student Performance and Progress program (“CAASPP”), effective July 1, 2014. As a means to assess certain elementary and secondary pupils, CAASPP is composed of: (i) summative assessments in English language arts (“ELA”) and mathematics for grades 3 to 8 inclusive, and grade 11 (and alternative assessments in ELA and mathematics for students with significant cognitive disabilities); (ii) science assessments in grades 5, 8, and 10, measuring specified content standards (currently comprised of the California Standards Test (“CST”) for students in public schools, the California Modified Assessment (“CMA”) for students with an individualized education program, and the California Alternate Performance Assessment (“CAPA”) for students with significant cognitive disabilities); and (iii) Standards-based Tests in Spanish (“STS”) for reading and language arts in grades 2 to 11 inclusive (optional). In addition, the API will also continue to include results from CAHSEE in ELA and mathematics for grade ten (and for grades eleven and twelve if needed).

Due to the transition to CAASPP, and pursuant to Assembly Bill 484, on March 13, 2014, the California State Board of Education (“SBE”) approved the recommendation of the State Superintendent of Public Instruction not to calculate the 2014 Growth and Base APIs and 2015 Growth APIs for elementary, middle, and high schools, and LEA’s. Since the first CAASPP assessment results will be available after the spring 2015 administration of the assessments, Base to Growth comparisons will be reported in 2015–16. Specifically, the 2016 CAASP assessment results will be used to calculate the 2016 Growth API for comparison to the 2015 Base API.

Though the API will not be calculated in 2013–14 and 2014–15, in past years, the CDE has calculated the API and disseminated the results directly to schools and on the Internet. The API is a single number on a scale of 200 to 1,000 that indicates how well students in a school or district performed on the previous spring’s tests. The API is calculated for the whole school plus its “numerically significant subgroups,” including ethnic groups, socio-economically disadvantaged students, English learners and students with disabilities.

The SBE sets the statewide API target at 800 out of a possible 1,000. The Public Schools Accountability Act calls for schools to improve their performance each year by 5% of the difference between their API and the statewide target of 800, with a minimum target of five points’ growth. For example, a school with an API of 340

would have a growth target of 23. A school with an API between 700 and 795 would need to gain five points. A school with an API between 796 and 799 would have a growth target of the difference between its API and 800. A school that is at or above 800 is expected to stay above that threshold. A school's Base API score plus its growth target becomes that school's goal for its next Growth API. The process repeats each year. These calculations are illustrated in Table B-18, below.

**TABLE B-19:
API GROWTH TARGET REQUIREMENT**

Growth Target	School-wide or Subgroup Base API			
	200 to 690	691 to 795	796 to 799	800 or more
School-wide or Subgroup	5% difference between Base API and 800	5-point gain	796 = 4 point gain 797 = 3 point gain 798 = 2 point gain 799 = 1 point gain	Maintain

The table below shows historical API data for Julian and the schools Julian has identified as main competition for students.

**TABLE B-20:
ACADEMIC PERFORMANCE INDEX (API) GROWTH DATA**

	2012-13				
	2013 Growth	2012 Base	12-13 Growth Target	12-13 Growth	Met School-Wide Growth Target
Julian Charter School (K-12)	817	***	***	***	***
River Springs Charter (K-12)	780	755	5	25	Yes
Dehesa Charter (K-12)	756	759	5	-3	No
Greater San Diego Academy (K-12)	793	786	5	7	Yes
Pacific View Charter (K-12)	720	688	6	32	Yes
Bayshore Preparatory Charter (K-12)	795	743	5	52	Yes
Classical Academy (K-8)	838	857	*	-19	Yes
Learning Choice Academy (K-12)	771	759	5	12	Yes
Diego Hills Charter (9-12)	600	625	9	-25	No
Diego Valley Charter (9-12)	647	659	7	-12	No
	2011-12				
	2012 Growth	2011 Base	11-12 Growth Target	11-12 Growth	Met School-Wide Growth Target
Julian Charter School (K-12)	801	804	*	-3	Yes
River Springs Charter (K-12)	750	728	5	22	Yes
Dehesa Charter (K-12)	755	745	5	10	Yes
Greater San Diego Academy (K-12)	780	747	5	33	Yes
Pacific View Charter (K-12)	685	703	5	-18	No
Bayshore Preparatory Charter (K-12)	742	735	5	7	Yes
Classical Academy (K-8)	855	845	*	10	Yes
Learning Choice Academy (K-12)	753	731	5	22	Yes
Diego Hills Charter (9-12)	627	583	11	44	Yes
Diego Valley Charter (9-12)	652	**	**	**	-

Source: the Charter School, from information made available by the CDE.

*School or Student Groups scored at or above the statewide performance target of 800 in the 2012 Base.

**School did not have a valid prior year Base API and will not have any growth or target information.

***School had significant demographic changes and does not have any growth or target information.

Schools and LEA's that do not have an API calculated in 2013–14 and 2014–15 must use one of the following to meet legislative and/or programmatic requirements: (a) the most recent API calculation; (b) an average of the three most recent annual API calculations (which was produced by the CDE in spring of 2014); or (c) alternative measures that show increases in pupil academic achievement for all groups of pupils school wide and

among significant student groups. In order to assist the field with their accountability obligations, the CDE produced both a weighted and a non-weighted three-year API average for schools in the spring of 2014. The weighted three-year API average represents the weighted mean of the past three consecutive Growth APIs: 2011, 2012 and 2013. The number of valid scores from each year contributes to the weight. The non-weighted three-year API average represents the mean of the past three consecutive Growth APIs: 2011, 2012 and 2013. Those averages, for both Julian and the schools Julian has identified as main competition for students, are outlined in the table below.

**TABLE B-21:
3-YEAR AVERAGE API SCHOOL REPORT**

	Non- Weighted 3- Year Average API	Weighted 3-Year Average API
Julian Charter School (K-12)	808	808
River Springs Charter (K-12)	753	754
Dehesa Charter (K-12)	752	752
Greater San Diego Academy (K-12)	774	774
Pacific View Charter (K-12)	704	704
Bayshore Preparatory Charter (K-12)	762	764
Classical Academy (K-8)	846	846
Learning Choice Academy (K-12)	752	753
Diego Hills Charter (9-12)	607	605
Diego Valley Charter (9-12)	N/A	N/A

Source: the Charter School, from information made available by the CDE.

Comparative Statewide Academic Performance Index Rank

API scores have historically been ranked in two ways: (1) a Statewide ranking according to type, and (2) a similar schools ranking that compared each school with 100 others that had similar characteristics. For the Statewide ranking, the API scores were divided into 10 equal groups (deciles) for elementary, middle and high schools. For each type of school, 10% of the schools were placed in each decile group; the groups were numbered from 1 (the lowest) to 10 (the highest). A school’s statewide rank was the decile into which it fell. However, due to AB 484 (discussed above), schools will no longer be receiving ranks. The Similar Schools ranking indicates the decile rank of a school’s API compared with APIs of 100 other schools with similar demographic characteristics, educational challenges and opportunities. The 2013 ranks are the final set of ranks reported. The tables below show the historical Statewide and Similar Schools rankings for Julian and the schools that Julian has identified as those that the majority of its students would attend if they did not attend Julian.

The API is used in meeting state requirements under the California Public Schools Accountability Act and federal Adequate Yearly Progress (“AYP”) requirements under the Elementary and Secondary Education Act (“ESEA”). Under state requirements, if a school meets certain API participation and growth criteria, it may be eligible to become a California Distinguished School, National Blue Ribbon School, or Title I Academic Achievement Awards School. If a school does not meet or exceed its growth targets and is ranked in the lower part of the statewide distribution of the Base API, it may be identified for participation in state intervention programs which are designed to help the school improve its academic performance. Under federal ESEA requirements, the API is one of the additional indicators for AYP.

**TABLE B-22:
COMPARATIVE STATEWIDE API RANK**

School	2009	2010	2011	2012	2013
Julian Charter School	4	5	5	5	6
River Springs Charter	1	2	2	2	4
Dehesa Charter	1	2	2	3	3
Greater San Diego Academy	3	4	2	4	4
Pacific View Charter	4	6	3	2	3
Bayshore Preparatory Charter	4	-	-	-	7
Classical Academy	8	7	7	7	7
Learning Choice Academy	3	2	2	3	3
Diego Hills Charter	-	-	-	-	-
Diego Valley Charter	-	-	-	-	-

Source: the Charter School, from information made available by the CDE.

**TABLE B-23:
COMPARATIVE SIMILAR SCHOOLS API RANK**

School	2009	2010	2011	2012	2013
Julian Charter School	8	7	8	9	7
River Springs Charter	2	1	2	3	3
Dehesa Charter	1	1	1	1	1
Greater San Diego Academy	8	7	6	8	9
Pacific View Charter	9	10	10	5	4
Bayshore Preparatory Charter	1	-	-	-	-
Classical Academy	2	1	2	1	1
Learning Choice Academy	6	4	8	5	5
Diego Hills Charter	-	-	-	-	-
Diego Valley Charter	-	-	-	-	-

Source: the Charter School, from information made available by the CDE.

California Standards Tests

Prior to January 1, 2014, Julian administered the CSTs as part of the STAR Program. The purpose of the CSTs is to measure the degree to which students are achieving the academically rigorous content standards adopted by the California State Board of Education. CSTs are developed by California educators and test developers specifically for California. They measure progress toward California's academic content standards, which describe what students should know and be able to do in each grade and subject tested. Students in grades 2-11 take multiple-choice CSTs in various subjects. Students in grades 4 and 7 complete a writing assessment as part of the CST English language arts test. As described above, the CST is also used to calculate API. Student performance in these subjects is categorized into five achievement levels: "advanced," "proficient," "basic," "below basic," and "far below basic."

The following table provides data comparing the percentage of the Julian's students scoring "advanced" or "proficient" to the performance of the schools Julian has identified as those that the majority of Julian's students would be required to attend if they did not attend Julian, as well as data regarding the District and the State.

**TABLE B-24: COMPARATIVE CST DATA
PERCENTAGE OF STUDENTS SCORING ADVANCED OR PROFICIENT**

2012-13				
	English/ Language Arts	History	Math	Science (Grades 5, 8 and 10)
State of California	56.3	49.3	51.2	59.1
Julian Union Elementary School District	59.5	69.8	54.9	71.2
Julian Charter School	65.0	44.6	48.5	63.9
River Springs Charter	55.5	41.8	46.2	55.0
Dehesa Charter	57.3	40.5	38.9	51.4
Greater San Diego Academy	58.4	50.6	40.0	53.6
Pacific View Charter	42.7	26.1	15.5	34.8
Bayshore Preparatory Charter	57.3	53.6	27.0	53.7
Classical Academy (K-8)	70.6	73.7	65.3	72.7
Learning Choice Academy	62.2	28.1	30.9	48.9
Diego Hills Charter (9-12)	14.9	8.5	2.8	7.3
Diego Valley Charter (9-12)	13.5	14.7	3.9	27.3
2011-12				
School	English/ Language Arts	History	Math	Science (Grades 5, 8 and 10)
State of California	57.2	48.8	51.5	59.5
Julian Union Elementary School District	56.3	50.0	48.3	68.8
Julian Charter School	63.2	43.3	46.2	59.1
River Springs Charter	54.9	35.4	34.9	50.0
Dehesa Charter	58.9	42.9	37.0	46.5
Greater San Diego Academy	59.6	43.2	36.0	56.0
Pacific View Charter	42.6	24.2	13.6	35.9
Bayshore Preparatory Charter	57.9	58.1	14.6	51.2
Classical Academy (K-8)	76.6	68.8	61.1	76.4
Learning Choice Academy	58.6	32.5	28.8	42.8
Diego Hills Charter (9-12)	15.5	12.4	3.3	13.3
Diego Valley Charter (9-12)	17.1	7.1	10.5	-

Source: the Charter School, from information made available by the CDE.

As described above, Assembly Bill 484 established the CAASPP System on January 1, 2014. The CAASPP replaces the STAR Program, which became inoperative on July 1, 2014. For 2014-15, the CAASPP System encompasses the following required assessments:

- Smarter Balanced Summative Assessments for ELA and mathematics in grades 3 through 8 and grade 11 (administered as part of the CAASPP System);
- Early Assessment Program (“EAP”) which will use the Smarter Balanced Summative Assessments in grade 11;
- Alternate assessment field test for ELA and mathematics in grades 3 through 8 and grade 11;
- Science assessments in grades 5, 8 and 10 (i.e., CST, CMA and CAPA); and
- STS for reading-language arts in grades 2 through 11 (optional).

The Smarter Balanced Assessment System utilized computer adaptive tests and performance tasks that allow students to show what they know and are able to do. This system is based on the Common Core State Standards (“CCSS”) for ELA and mathematics. The Smarter Balanced Assessment System has three components: the Summative Assessments, designed for accountability purposes; Interim Assessments, designed to support teaching and learning throughout the year; and the Digital Library, designed to support classroom-based formative assessment processes.

The first full administration of assessments aligned with the CCSS for ELA and mathematics shall occur in the 2014-15 school year. Education Code Section 60640 required the statewide administration of the Smarter Balanced Field Test in 2013-14 (“Field Test”) to help California LEA’s transition from a paper-pencil system to a technology-enabled assessment system. 2015 CAASPP results will be used to inform the 2015 Base API and the 2015 AYP.

The following table provides data comparing the 2014 CAASPP System CST paper-based test results for the percentage of the Julian’s students scoring “advanced” or “proficient” to the performance of the schools Julian has identified as those that the majority of Julian’s students would be required to attend if they did not attend Julian, as well as data regarding the District and the State.

**TABLE B-25: COMPARATIVE CST DATA
PERCENTAGE OF STUDENTS SCORING ADVANCED OR PROFICIENT**

School	2013-14 CST Science		
	Grade 5	Grade 8	Grade 10
State of California	60	66	56
Julian Union Elementary School District	74	66	-
Julian Charter School	76	71	68
River Springs Charter	59	53	47
Dehesa Charter	65	50	57
Greater San Diego Academy	76	59	20
Pacific View Charter	-	48	35
Bayshore Preparatory Charter	-	-	51
Classical Academy (K-8)	83	79	-
Learning Choice Academy	56	43	46
Diego Hills Charter (9-12)	-	-	17
Diego Valley Charter (9-12)	-	-	15

Source: the Charter School, from information made available by the CDE.

AYP Status

The No Child Left Behind Act of 2001 (the “NCLB”) uses Adequate Yearly Progress (“AYP”) to measure and hold schools and school districts that receive federal funding responsible for student achievement. Prior to 2014, in California, the NCLB required school districts to make a determination of AYP for every school in their district. In order for a district or school to meet AYP, it had to meet four sets of requirements. The requirements included:

- (i) student participation rate on statewide tests;
- (ii) percentage of students scoring at the proficient level or above in English-language arts and mathematics on statewide tests;
- (iii) Growth API; and
- (iv) graduation rate (if grade 12 students are enrolled).

On March 7, 2014, the U.S. Department of Education approved California’s testing waiver for certain statutory and regulatory requirements of Title 1, Part A of the Elementary and Secondary Education Act (ESEA) of 1965, as amended. Specifically, a one-year waiver was granted that allows flexibility in making AYP determinations for elementary schools and middle schools and elementary and unified school districts participating in the Smarter Balanced Field Test. Therefore, the CDE only produced 2014 AYP reports for high schools and high school LEA’s that had enrollment in grades, nine, ten, eleven and/or twelve on Fall Census Day in October 2013. The required AYP indicators for the 2014 AYP reports are amended from above to include: (i) participation rate; (ii) percent proficient; and (iii) graduation rate. The CDE provides information regarding district and school AYP attainment.

Under California law, charters may be terminated if charter schools fail to make or meet reasonable progress toward achievement of goals, objectives, content standards, pupil performance standards or applicable federal requirements. Failure of Julian to meet the requirements of NCLB in the future may have a material adverse effect on Julian’s ability to generate the revenues necessary to make payments under the Lease representing debt service on the Series 2015 Bonds. See “RISK FACTORS – Compliance with No Child Left Behind Act of 2001.”

Reports published by the CDE indicate that the Charter School met 13 out of 20 AYP criteria in 2011, 13 out of 22 AYP criteria in 2012 and 6 out of 22 AYP criteria in 2013. Although the Charter School did not meet AYP criteria in these years, according to the Charter School, it is not in Program Improvement status and has never been in Program Improvement status because the Charter School has made reasonable progress toward the achievement of goals, objectives, content standards and pupil performance standards and the Charter School does not receive federal funding, except with respect to special education, which would subject it to the NCLB requirements.

The California Department of Education website (<http://www.cde.ca.gov/ta/ac/ay>) provides details about AYP results. These include enrollment (by subgroup) on the first day of testing, the number of students tested, participation rates, the number of valid scores, and the number and percent of students testing proficient or above.

The following table presents (i) AYP attainment information and (ii) Program Improvement status for Julian as well as the schools that Julian has identified as those that the majority of Julian’s students would be required to attend if they did not attend Julian.

TABLE B-26: COMPARATIVE AYP DATA

School	Met AYP Status			Program Improvement Status**
	2011-12	2012-13	2013-14*	
Julian Charter (K-12)	No	No	N/A	Not in PI
River Springs Charter (K-12)	No	No	N/A	Year 5
Dehesa Charter (K-12)	No	No	N/A	Not in PI
Greater San Diego Academy (K-12)	No	No	N/A	Not in PI
Pacific View Charter (K-12)	No	No	N/A	Not in PI
Bayshore Preparatory Charter (K-12)	Yes	Yes	N/A	Not in PI
Classical Academy (K-8)	No	No	N/A	Not in PI
Learning Choice Academy (K-12)	No	No	N/A	Year 5
Diego Hills Charter (9-12)	No	No	No	Not in PI
Diego Valley Charter (9-12)	Yes	Yes	No	Not in PI

Source: The Charter School, from information made available by the California Department of Education.

*The U.S. Department of Education granted California a one-year waiver to allow flexibility in making AYP determinations for elementary and middle schools and elementary and unified school districts; therefore, AYP determinations were not released for 2013-14. Source: The California Department of Education, 2013-14 Accountability Progress Report dated September 19, 2014.

**As a result of the one-year waiver granted by the U.S. Department of Education, discussed above, no new schools were entered into or exited Program Improvement Status for the 2013-14 year, except for high schools that received AYP determinations.

Debt Summary

Other than the outstanding loans from Western Alliance Bank and Verde used to fund the acquisition of the Existing Facilities and which will be refinanced with a portion of the proceeds of the Series 2015 Bonds, the Charter School currently has no outstanding indebtedness or liens against the revenues of the Charter School.

Future Financings

The Charter School presently has no additional borrowing plans in the next 12 months.

Debt History

The Charter School has no record of default on prior debt financings.

Internal Controls

The Charter School has established financial and academic internal controls:

- the Charter School’s Executive Director is the only authorized signatory for contracts, and contracts are approved by the Board;
- a supervisor must approve all original invoices that exceed the limit (\$500 Assistant Director; \$1,000 Director of Education; \$3,000 Executive Director). All warrants within the Executive Director’s approval range (up to \$3,000) can be sent but they are first formally approved at quarterly Board meetings. Checks are stamped by the Chief Business Officer using the Executive Director’s signature stamp.

- reviewing bank reconciliations and deposits/withdrawals is conducted continually by the Finance Department in weekly meetings and as needed using the bank statements, which information is also available for review by the Board;
- the Executive Director is the only staff member with school issued credit cards, and the following protections are in place for its use: (i) all receipts must be submitted to the accounting clerk with accompanying written explanation of charges before payment is authorized and (ii) the credit card has a \$10,000 limit; There is also an American Express Credit Card with an unlimited limit, subject to the foregoing protections for its use.

The Board does not review vendor contracts (including special education vendors), but they do review all of the warrants written for vendors. Generally, the remaining contracts are included in quarterly Board packets.

Conflicts

Julian's bylaws currently state that no more than forty-nine percent (49%) of the persons serving on the Julian Board may be an interested person. An interested person is (1) any person currently being compensated by the corporation for services rendered to it within the previous 12 months, whether as a full-time or part-time employee, independent contractor or otherwise, excluding any reasonable compensation paid to a trustee as trustee; or (2) any sibling, ancestor, descendant, spouse, sister-in-law, brother-in-law, daughter-in-law, son-in-law, mother-in-law, father-in-law of any such person.

Julian has adopted a conflict of interest code. The code states that individuals holding designated positions shall file their statements of economic interests with Julian, which will make the statements available for public inspection and reproduction. Upon receipt of the statements for top officials, Julian shall make and retain copies and forward the originals to the Fair Political Practices Commission. Although Julian has not previously provided statements to the Fair Political Practices Commission and is not otherwise legally obligated to do so, Julian is in the process of becoming compliant with its conflict of interest code, which compliance Julian intends to complete by June 2015. All other statements will be retained by Julian. Members of the Julian Board must report: (i) interests in real property which are located in whole or in part within the boundaries of any county in which Julian operates, (ii) investments in, income, including gifts, loans and travel payments, from and in business positions in any business entity of the type which engages in the acquisition or disposal of real property or are engaged in building construction or design, (iii) investments in, income, including gifts, loans and travel payments, from and in business positions in any business entity of the type which engages in the manufacture, sale, repair, rental or distribution of school supplies, books, materials, school furnishings or equipment utilized by Julian, its parents, teachers and students for educational purposes, which includes, but is not limited to, educational supplies, textbooks and items used for extracurricular courses. The Executive Director of the Charter School, the Director of Education, the Director of Human Resources, the Chief Business Official and certain consultants, in addition to the obligation to report activities listed in (i) through (iii), must also report investments in, income, including gifts, loans, and travel payments, from, sources which are engaged in the performance of work or services of the type to be utilized by Julian, its parents, teachers and students for educational purposes. This includes, but is not limited to, student services commonly provided in public schools such as speech therapists and counselors.

The Julian Board has also adopted a conflict of interest policy. In accordance with such policy no employee may (i) accept any gift, favor, service or accommodation that might give the appearance of tending to influence the discharge of duties, (ii) offer or accept any money or any accommodation, material or service value for or in consideration of obtaining an appointment, promotion or privilege within the school, (iii) disclose information gained by virtue of office or employment to any person not entitled thereto or otherwise use such information for personal gain or benefit or for the unjust gain or benefit of another or (iv) sell any books, instructional supplies, musical instruments, equipment or other school supplies to any student or to the parents / guardian of a student who attends the school served by the employee unless prior approval has been obtained from the executive director. Any employee with a material financial interest in a transaction under consideration by Julian must disclose such interest to his or her supervisor. No employee shall be a contractor or a subcontractor with Julian or have a material financial interest in any contract or subcontract with Julian. A material financial interest shall include a personal and pecuniary interest accruing to an employee or spouse or to any other relative who resides in the same household. Ownership of an interest of five percent or more in a firm, partnership or other business or aggregate annual income, exclusive of dividend and interest income, of \$5,000 or more from a firm, partnership or other business shall be deemed a material financial interest in such firm, partnership or business.

Roxanne Huebshoer, a Julian Board member, is also an employee of Julian Charter School. Ms. Huebshoer will recuse herself from any issues addressed by the Julian Board which involve employees and compensation.

Projected Revenues and Expenditures

This Preliminary Official Statement contains certain “forward-looking” statements of the type described in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. See “INTRODUCTION – Caution Regarding Forward-Looking Statements” above. Although the Charter School believes that the assumptions upon which the forward-looking statements contained in this Preliminary Official Statement are based are reasonable, any of the assumptions could prove to be inaccurate and, as a result, the forward-looking statements based on those assumptions could also be incorrect. All phases of the operations of the Charter School involve risks and uncertainties, many of which are outside of the Charter School’s control and any one of which, or a combination of which, could materially affect the Charter School’s results with respect to operation of the Charter School. Factors that could cause actual results to differ from those expected include, but are not limited to, general economic conditions; the willingness of the State to fund public schools including charter schools at present or increased levels; competitive conditions within the Charter School’s service areas; lower-than-projected enrollment; unanticipated expenses; changes in government regulation including changes in the law governing charter schools in California; future claims for accidents against the Charter School and the extent of insurance coverage for such claims; and other risks discussed in this Official Statement. See “RISK FACTORS” above.

NO REPRESENTATION OR ASSURANCE CAN BE GIVEN THAT THE CHARTER SCHOOL WILL REALIZE REVENUES IN AMOUNTS SUFFICIENT TO MAKE ALL REQUIRED DEBT SERVICE PAYMENTS ON THE SERIES 2015 BONDS. THE REALIZATION OF FUTURE REVENUES DEPENDS ON, AMONG OTHER THINGS, THE MATTERS DESCRIBED IN “RISK FACTORS,” AND FUTURE CHANGES IN ECONOMIC AND OTHER CONDITIONS THAT ARE UNPREDICTABLE AND CANNOT BE DETERMINED AT THIS TIME. THE UNDERWRITER MAKES NO REPRESENTATION AS TO THE ACCURACY OF THE PROJECTIONS CONTAINED HEREIN, NOR AS TO THE ASSUMPTIONS ON WHICH THE PROJECTIONS ARE BASED.

The Charter School has prepared the following Historical and Projected Revenues and Expenses table, in a format prescribed by its financial advisor, for illustrative purposes only. The revenue projections are based on the Charter School’s enrollment information and revenues anticipated to be received with respect to the Charter School as discussed herein. The expense projections are based upon historical operations with respect to the Charter School and any additional expenses associated with the Project. No feasibility studies have been prepared in connection with the projections and the projections have not been independently verified.

The following Historical and Projected Revenues and Expenses table is not presented in the format of the financial statements included herein (see “APPENDIX C – FINANCIAL STATEMENTS”), was not prepared in accordance with accounting principles generally accepted in the United States (“GAAP”), and has not been prepared or reviewed by the certified public accounting firm that prepares the school’s audited financial statements.

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**TABLE B-27:
HISTORICAL AND PROJECTED REVENUES AND EXPENSES**

Key Assumptions

Assumed General Expense Inflation Rate (California CPI)	2.0%	2.2%	2.4%	2.6%	2.7%	2.8%	3.0%
Academy Program Enrollment	1,146	1,184	1,205	1,322	1,453	1,533	1,604
Home Study Program	1,256	1,320	1,256	1,264	1,267	1,292	1,292

Total Enrollment	2,402	2,504	2,461	2,586	2,720	2,825	2,896
Assumed ADA	98%	96%	96%	96%	96%	96%	96%
Number of Teachers (FTE)	130	130	130	134	136	137	139
Number of Administrators (FTE)	6.5	7.5	8.5	8.5	8.5	8.5	8.5
Number of Total Employees (FTE)	168	169	182	186	188	189	191
Assumed Prop 98 Funding Growth Rate ²	0.0%	1.65%	6.68%	5.54%	2.00%	2.00%	2.00%
Average Per Pupil Funding - LCFF		\$6,288	\$6,708	\$7,080	\$7,221	\$7,366	\$7,513
Special Ed	\$405	\$412	\$439	\$464	\$473	\$482	\$492
Lottery	\$154	\$157	\$157	\$157	\$157	\$157	\$157

Fiscal Year Ended June 30	2012-2013	2013-2014	2014-2015	2015-2016	2016-17	2017-18	2018-19
	<i>Audited</i>	<i>Audited</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>

Revenues

State Revenues							
Education Protection Account	11,740,450	14,221,103	15,681,370	16,348,570	17,604,481	18,699,029	19,585,093
Special Education Entitlement	1,015,090	1,205,781	1,170,397	1,150,697	1,234,529	1,307,830	1,367,513
Lottery	379,723	431,073	444,090	388,622	408,760	424,539	435,209
Other State Revenues	1,032,628	647,738	103,069	108,779	110,955	113,174	115,437

Sub-Total State Revenues	\$ 14,167,891	\$ 16,505,695	\$ 17,398,926	\$ 17,996,668	\$ 19,358,725	\$ 20,544,571	\$ 21,503,253
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Federal Revenues	262,565						
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Local Revenues

Funding in Lieu of Property Taxes	1,249,783	1,162,650	1,162,650	1,227,064	1,251,605	1,276,637	1,302,170
Debt Service Reserve Fund		-	25,000	25,000	25,000	25,000	25,000
Other Revenue	222,884	348,776	285,830	285,830	285,830	285,830	285,830

Sub-Total Local Revenues	\$ 1,472,667	\$ 1,511,426	\$ 1,473,480	\$ 1,537,894	\$ 1,562,435	\$ 1,587,467	\$ 1,613,000
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GROSS REVENUES

	\$ 15,903,123	\$ 18,017,121	\$ 18,872,406	\$ 19,534,562	\$ 20,921,160	\$ 22,132,039	\$ 23,116,253
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Operating Expenses

Instructional Salaries and Bonuses 1100	5,747,152	6,225,223	6,641,811	6,874,498	7,165,484	7,420,280	7,754,464
Administrative and Support Salaries 1300	231,446	246,075	264,300	271,172	278,493	286,291	294,880
Other Certificated 1900	957,047	993,840	1,168,345	1,225,068	1,271,673	1,314,233	1,367,985
Classified Salaries 2000-2999	955,524	1,174,865	1,353,066	1,418,757	1,472,730	1,522,020	1,584,270
Benefits 3000-3999	2,295,750	2,693,886	2,828,257	2,936,848	3,056,514	3,162,847	3,300,479
Books & Supplies 4100-4999	557,820	867,816	808,031	829,040	851,424	875,264	901,522
Travel & Subscriptions 5200-5399	94,212	165,277	162,601	166,829	171,333	176,130	181,414
Insurance 5400	208,287	100,884	100,950	101,960	102,979	105,000	105,000
Utilities & Housekeeping 5500	160,915	173,539	183,510	188,281	193,365	198,779	204,742
Existing Facility Leases	855,129	720,960	904,892	927,514	950,702	974,470	998,831
Copier/Computer/Etc. Leases 7200 or 1000-5600-000	143,295	127,945	173,050	177,549	182,343	187,449	193,072
Consultants 5800-5899	2,288,059	2,527,534	2,175,575	2,232,140	2,292,408	2,356,595	2,427,293
Other Expenses	224,403	341,109	282,584	275,000	282,425	290,333	299,043
Communications 5900	123,295	118,267	122,955	126,152	129,558	133,186	137,181
Interest Expense 5800-010	238,192	106,152	22,000				

TOTAL OPERATING EXPENSES	15,080,526	16,583,373	17,191,927	17,750,807	18,401,432	19,002,877	19,750,177
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Net Revenues Available for SDORI Leases	822,597	1,433,748	1,680,479	1,783,755	2,519,728	3,129,161	3,366,076
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% of Gov't Rev by Op Exp. (excl. Existing Facility Leases)	90.72%	89.78%	87.75%	87.51%	84.67%	82.62%	82.22%
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Madison Lease Payments	358,283	367,156	181,561				
Murietta Crossing Lease Payments	80,757	159,750	214,739				
Hope Lutheran Payments	120,000	130,000	89,267				
2015 Bond Lease Payments			639,557	1,423,400	1,873,063	1,874,363	1,874,750
Less: Capitalized Interest			(250,000)	(250,000)			
Total SDORI Leases	559,040	656,906	875,123	1,173,400	1,873,063	1,874,363	1,874,750

Excess Net Revenues	263,557	776,842	805,356	610,355	646,665	1,254,799	1,491,326
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Remaining Surplus	263,557	776,842	805,356	610,355	646,665	1,254,799	1,491,326
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Estimated Coverage of Lease Payments by Net Revenues	0.77	2.18	1.92	1.52	1.35	1.67	1.80
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Estimated Debt Burden	3.52%	3.65%	4.64%	6.01%	8.95%	8.47%	8.11%
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Non-Capitalized Improvements	(23,870)	(193,025)	(11,000)	(50,000)	(75,000)	(100,000)	(125,000)
Estimated Beginning Unrestricted Fund Balance	1,655,278	1,996,507	2,533,425	3,037,783	3,248,140	3,419,807	4,099,607
Depreciation	(23,433)	(22,794)	(150,000)	(175,000)	(200,000)	(250,000)	(275,000)
Other	124,974	(24,107)	(100,000)	(125,000)	(150,000)	(175,000)	(200,000)
Repair & Replacement Fund			(40,000)	(50,000)	(50,000)	(50,000)	(50,000)
Estimated Ending Unrestricted Fund Balance	1,996,507	2,533,425	3,037,783	3,248,140	3,419,807	4,099,607	4,940,935
Estimated Required Unrestricted Fund Balance	754,026	829,169	859,596	887,540	920,072	950,144	987,509

15,686,869

Estimated Cash Balance							
Beginning Cash Balance	342,721	2,036,626	859,037	1,613,393	1,818,571	2,016,903	2,494,303
Remaining Surplus	263,557	776,842	805,356	610,355	646,665	1,254,799	1,491,326
R&R Deposits and Non-Capitalized Improvements	(23,870)	(193,025)	(51,000)	(100,000)	(125,000)	(150,000)	(175,000)
Net Cash from Working Capital Financing	800,000	(3,000,000)	(1,000,000)				
Other Operating Sources (Uses) of Cash	654,218	1,238,594	1,000,000	(305,178)	(323,333)	(627,399)	(745,663)
Est Ending Cash Balance	2,036,626	859,037	1,613,393	1,818,571	2,016,903	2,494,303	3,064,966

Estimated Days Cash on Hand	49.29	18.91	34.25	37.39	40.01	47.91	56.64
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Source: the Charter School. Projected information constitutes forward-looking statements. See "INTRODUCTION - Caution Regarding Forward-Looking Statements," see also "RISK FACTORS - Operating History; Reliance on Projections."

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APPENDIX C
FINANCIAL STATEMENTS



Hosaka, Rotherham & Company
Certified Public Accountants

James A. Rotherham, CPA
CEO & Managing Partner

.....
Roy T. Hosaka, CPA
Retired

James C. Nagel, CPA
Retired

December 18, 2014

Jennifer Cauzza, Executive Director
Julian Charter School, Inc.
P.O. Box 2470
Julian, CA 92036

Dear Ms. Cauzza:

Please find enclosed two (2) bound copies of the audit report on the examination of the financial statements of Julian Charter School, Inc., and two (2) bound copies of the Board of Directors Report, for the fiscal year ended June 30, 2014.

We have filed a copy of the audit report on the examination of the financial statements for Julian Charter School, Inc. with each of the following organizations:

Julian Union School District (Efiled)
San Diego County Office of Education (Efiled)
California Department of Education (Efiled)
State Controller's Office (Efiled)

We would like to thank you and your staff for the cooperation and assistance in the performance of the audit. If you should have any questions on the above, please let me know.

Sincerely,

James A. Rotherham, CPA

James A. Rotherham, CPA
HOSAKA, ROTHERHAM & COMPANY

JAR:az

Enclosures

REC'D DEC 22 2014



Hosaka, Rotherham & Company
Certified Public Accountants

James A. Rotherham, CPA
CEO & Managing Partner

.....
Roy T. Hosaka, CPA
Retired

James C. Nagel, CPA
Retired

**JULIAN CHARTER SCHOOL, INC.
INDEPENDENT AUDITORS' REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2014**

JULIAN CHARTER SCHOOL, INC.

INTRODUCTORY SECTION

JUNE 30, 2014

**JULIAN CHARTER SCHOOL, INC.
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JULIAN CHARTER SCHOOL, INC.

FINANCIAL SECTION

JUNE 30, 2014



INDEPENDENT AUDITORS' REPORT

Board of Directors
Julian Charter School, Inc.
Julian, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Julian Charter School, Inc. (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and cash flows for the fiscal year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

INDEPENDENT AUDITORS' REPORT

Page 2

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Julian Charter School, Inc. as of June 30, 2014, and the changes in its net assets and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2014, on our consideration of Julian Charter School, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Julian Charter School, Inc.'s internal control over financial reporting and compliance.

Hosaka, Rotherham & Company

San Diego, California

November 24, 2014

JULIAN CHARTER SCHOOL, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

	Julian Charter	SDORI	Eliminations	Total
ASSETS				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 859,037	\$ 101,416	\$ -	\$ 960,453
Accounts receivable (Note 4)	3,289,316	-	-	3,289,316
Prepaid expenses, net of amortization	43,385	253,898	-	297,283
Advances to related party	62,558	-	(62,558)	-
Total current assets	<u>4,254,296</u>	<u>355,314</u>	<u>(62,558)</u>	<u>4,547,052</u>
Fixed assets, net of depreciation (Note 5)	<u>341,907</u>	<u>6,148,032</u>	<u>-</u>	<u>6,489,939</u>
TOTAL ASSETS	<u>\$ 4,596,203</u>	<u>\$ 6,503,346</u>	<u>\$ (62,558)</u>	<u>\$ 11,036,991</u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable	\$ 789,910	\$ -	\$ -	\$ 789,910
Accrued expenses	197,725	-	-	197,725
Deposits	-	13,343	-	13,343
Advances from related party	-	62,558	(62,558)	-
Deferred rent	75,146	-	-	75,146
Short-term notes (Note 7)	1,000,000	-	-	1,000,000
Current portion of long-term debt	-	66,088	-	66,088
Total current liabilities	<u>2,062,781</u>	<u>141,989</u>	<u>(62,558)</u>	<u>2,142,212</u>
Long-term liabilities				
Long-term debt - less current portion (Note 8)	-	6,524,834	-	6,524,834
Total long-term liabilities	<u>-</u>	<u>6,524,834</u>	<u>-</u>	<u>6,524,834</u>
Total liabilities	<u>2,062,781</u>	<u>6,666,823</u>	<u>(62,558)</u>	<u>8,667,046</u>
Net assets:				
Temporarily restricted (Note 9)	236,285	-	-	236,285
Unrestricted	2,297,137	(163,477)	-	2,133,660
Total net assets	<u>2,533,422</u>	<u>(163,477)</u>	<u>-</u>	<u>2,369,945</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,596,203</u>	<u>\$ 6,503,346</u>	<u>\$ (62,558)</u>	<u>\$ 11,036,991</u>

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

**JULIAN CHARTER SCHOOL, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Julian Charter	SDORI	Elimination	Total
REVENUES				
Revenue limit sources:				
State apportionments	\$ 11,375,336	\$ -	\$ -	\$ 11,375,336
Education protection account	2,845,767	-	-	2,845,767
In-lieu of property taxes	1,162,650	-	-	1,162,650
State revenues	2,284,592	-	-	2,284,592
Local revenues:				
Rental income	-	391,263	(367,156)	24,107
Interest	6,789	-	-	6,789
Miscellaneous	317,880	-	-	317,880
Total revenues before transfers	17,993,014	391,263	(367,156)	18,017,121
Net assets transfer to restrictions	(236,285)	-	-	(236,285)
TOTAL REVENUES	17,756,729	391,263	(367,156)	17,780,836
EXPENSES				
Program services:				
Education	13,999,309	-	-	13,999,309
Support services:				
Management and general	3,456,789	-	(367,156)	3,089,633
Operating expenses	-	554,740	-	554,740
TOTAL EXPENSES	17,456,098	554,740	(367,156)	17,643,682
CHANGE IN UNRESTRICTED NET ASSETS	300,631	(163,477)	-	137,154
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	236,285	-	-	236,285
CHANGE IN NET ASSETS	536,916	(163,477)	-	373,439
NET ASSETS, BEGINNING OF YEAR	1,996,506	-	-	1,996,506
NET ASSETS, END OF YEAR	<u>\$ 2,533,422</u>	<u>\$ (163,477)</u>	<u>\$ -</u>	<u>\$ 2,369,945</u>

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

**JULIAN CHARTER SCHOOL, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Julian Charter	SDORI	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Change in net assets	\$ 536,916	\$ (163,477)	\$ 373,439
Adjustments to reconcile change in net assets to net cash flows provided by (used in) operating activities:			
Depreciation	22,794	121,968	144,762
(Increase) decrease in operating assets:			
Accounts receivable	547,633	-	547,633
Prepaid expenses	3,111	(253,898)	(250,787)
Advances to related party	(62,558)	-	(62,558)
Increase (decrease) in operating liabilities:			
Accounts payable	666,938	-	666,938
Accrued expenses	32,431	-	32,431
Deposits	-	13,343	13,343
Advances from related party	-	62,558	62,558
Deferred rent	75,146	-	75,146
Net cash flows provided by (used in) operating activities	<u>1,822,411</u>	<u>(219,506)</u>	<u>1,602,905</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets	-	(6,270,000)	(6,270,000)
Net cash flows used in investing activities	<u>-</u>	<u>(6,270,000)</u>	<u>(6,270,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of short-term debt	1,000,000	-	1,000,000
Proceeds from issuances of long-term debt	-	6,627,566	6,627,566
Payments on long-term liabilities	(4,000,000)	(36,644)	(4,036,644)
Net cash flows provided by (used in) financing activities	<u>(3,000,000)</u>	<u>6,590,922</u>	<u>3,590,922</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(1,177,589)</u>	<u>101,416</u>	<u>(1,076,173)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,036,626</u>	<u>-</u>	<u>2,036,626</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 859,037</u>	<u>\$ 101,416</u>	<u>\$ 960,453</u>
SUPPLEMENTAL DISCLOSURES:			
Cash paid for interest	<u>\$ 106,152</u>	<u>\$ 331,474</u>	<u>\$ 437,626</u>

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

JULIAN CHARTER SCHOOL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - ORGANIZATION AND MISSION

Julian Charter School, Inc. (Organization) was incorporated in the State of California on November 8, 1999, under the Nonprofit Public Benefit Corporation Law for public and charitable purposes. The Organization received its charter renewal on July 1, 2011, under the sponsorship of the Julian Union School District (the District), calling for the Organization to enter into a mutually agreeable memorandum of understanding, regarding the funding entitlements of the Organization and the District, pursuant to Education Code Section 47612 and 47613.5, and to define the operational and oversight arrangements between the Organization and the District, and to define and resolve other matters of mutual interest. The Organization's charter school is located at 1704 Cape Horn Drive, in Julian, California.

The Organization is a grades Kindergarten through 12 charter school and was granted its charter pursuant to the terms of the Charter Schools Act (Act) of 1992, as amended. The Act authorizes the formation of charter schools for the purpose among others, of developing new, innovative, and more flexible ways of educating children within the public schools system. The Organization receives its funding in the same way as do traditional public schools and is open to all students.

The mission of the Organization is to enable students to become competent contributing members of society equipped with reading, writing, math, technology, and problem solving skills necessary for success in a rapidly changing world.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Consolidation

The accompanying consolidated financial statements of the Organization have been prepared on the accrual basis and include SDORI Charter School Properties, LLC (SDORI). SDORI was created by the Organization to purchase school facilities to be utilized by the Organization. The Organization is the sole member of SDORI. During the fiscal year ended June 30, 2014, the Organization leased two facilities from SDORI. All significant inter-organizational accounts have been eliminated.

B. Financial statement presentation

The financial statements are presented in conformity with Accounting Standards Codification (ASC) 958-205, *Non-For-Profit Entities – Presentation of Financial Statements*. Under ASC 958-205, the Organization reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets: Unrestricted net assets are available to support all activities of the Organization, and are not subject to donor-imposed stipulations. These generally result from revenues generated by providing services, receiving unrestricted contributions, and receiving interest from investments, less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Temporarily restricted net assets: Net assets that are subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. There were temporarily restricted net assets of \$236,285 as of June 30, 2014.

JULIAN CHARTER SCHOOL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial statement presentation (continued)

Permanently restricted net assets: Net assets that are subject to donor-imposed stipulations that the restrictions be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on the related investments for general or specific purposes. There were no permanently restricted assets as of June 30, 2014.

C. Accounting method - basis of accounting

The consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the consolidated financial statements. Basis of accounting related to the timing of measurement made, regardless of the measurement focus applied. The Organization uses the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

D. Income taxes

The Organization is exempt from income taxes under Internal Revenue Code Section (IRC §) 501(c)(3). It is, however, subject to income taxes from activities unrelated to its tax-exempt purpose. The Organization uses the same accounting methods for tax and financial reporting.

Generally accepted accounting principles (GAAP) provides accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

E. Functional allocation of expenses

The costs of providing the program services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services based on employees' time incurred and management's estimates of the usage of resources.

F. Cash and cash equivalents

Cash and cash equivalents are from time to time variously composed of cash on hand and in banks, and liquid investments with original maturities of three months or less.

JULIAN CHARTER SCHOOL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Fixed assets

Fixed assets are recorded at cost and depreciated under the straight-line method over their estimated useful lives of 5 to 25 years. Repair and maintenance costs, which do not extend the useful lives of the asset, are charged to expense. The cost of assets sold or retired and related amounts of accumulated depreciation are eliminated from the accounts in the year of disposal, and any resulting gain or loss is included in the earnings. Management has elected to capitalize and depreciate all assets costing \$5,000 or more; all other assets are charged to expense in the year incurred.

H. Revenue sources and recognition

The Organization receives federal, state and local revenues for the enhancement of various educational programs. This assistance is generally received based on applications submitted to and approved by various granting agencies.

The Organization primarily receives the funds from California Department of Education (CDE). Amounts received from the CDE are recognized by the Organization based on the average daily attendance (ADA) of students.

The Organization recognizes federal revenue to the extent that eligible expenditures have been incurred.

Revenue that is restricted is recorded as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other restricted revenues are reported as increases in temporarily restricted net assets.

I. Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3 - CASH AND CASH EQUIVALENTS

A. Cash and cash equivalents

Cash and cash equivalents at June 30, 2014, consisted of the following:

	Julian Charter	SDORI	Total
Concentration of Risk			
Pooled Funds:			
Cash in County Treasury	\$ 327,328	\$ -	\$ 327,328
Deposits:			
Cash in banks	531,709	101,416	633,125
Total cash and cash equivalents	<u>\$ 859,037</u>	<u>\$ 101,416</u>	<u>\$ 960,453</u>

JULIAN CHARTER SCHOOL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

A. Cash in County Treasury

The Organization maintains substantially all of its cash in the County Treasury as part of the common investment pool (\$327,328 as of June 30, 2014). The fair value of the Organization's portion of this pool as of that date, as provided by the pool sponsor, was \$327,361. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. Government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

B. Cash in banks

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The Organization maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts. At June 30, 2014, the Organization had \$171,899 in excess of FDIC insured limits.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2014, consisted of the following:

Revenue limit sources:		
State apportionments		\$ 2,380,326
State revenues		142,903
Local revenues:		
Interest		1,279
Sponsoring District		755,662
Miscellaneous		9,146
Total accounts receivable		<u>\$ 3,289,316</u>

NOTE 5 - FIXED ASSETS

Fixed assets at June 30, 2014, consisted of the following:

	Julian Charter	SDORI	Total
Land	\$ -	\$ 808,632	\$ 808,632
Buildings	455,877	5,461,368	5,917,245
Equipment	108,443	-	108,443
Less: accumulated depreciation	(222,413)	(121,968)	(344,381)
Total fixed assets, net of depreciation	<u>\$ 341,907</u>	<u>\$ 6,148,032</u>	<u>\$ 6,489,939</u>

During the fiscal year ended June 30, 2014, \$144,762 was charged to depreciation expense.

JULIAN CHARTER SCHOOL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 6 - REVOLVING LOAN WITH DISTRICT

On September 14, 2011, the Organization entered into a revolving loan agreement with the Julian Union School District, not to exceed \$1,000,000. The note bears interest at 4.00% above the cost of funds for loans utilized for cash flow requirements and fair market interest rates for loans utilized for other purposes. As of June 30, 2014, there was no outstanding balance.

NOTE 7 - SHORT-TERM NOTES

A. Short-Term Notes Activity

Changes in obligations for the fiscal year ended June 30, 2014, are as follows:

	Julian Charter				
	Balance July 1, 2013	Additions	Payments	Balance June 30, 2014	Due in One year
T.J. Moore					
Note Payable II	\$ 4,000,000	\$ -	\$ (4,000,000)	\$ -	\$ -
BBAN, LLC					
Note Payable	-	1,000,000	-	1,000,000	1,000,000
Total	<u>\$ 4,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ (4,000,000)</u>	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>

B. T.J. Moore Note Payable II

On January 15, 2013, the Organization entered into a loan agreement, not to exceed \$4,000,000. The note bears interest at a fixed rate of 18.00%. As of June 30, 2014, the loan was paid in full.

C. BBAN, LLC Note Payable

On May 6, 2014, the Organization entered into a loan agreement, in the amount of \$1,000,000, secured by future accounts receivables in the amount of \$1,052,632. The difference reflects the discount factor of \$52,632. The note was for cash flow purposes.

NOTE 8 - LONG-TERM LIABILITIES

A. Long-term liabilities activity

Long-term liabilities activity includes debt and other long-term liabilities. Changes in obligations for the fiscal year ended June 30, 2014, are as follows:

	SDORI				
	Balance July 1, 2013	Additions	Payments	Balance June 30, 2014	Due in One year
Western Alliance					
Note Payable I	\$ -	\$ 1,441,000	\$ (25,877)	\$ 1,415,123	\$ 30,869
Western Alliance					
Note Payable II	-	1,730,000	(10,767)	1,719,233	35,219
Verde Charter					
Capital I	-	1,656,566	-	1,656,566	-
Verde Charter					
Capital I	-	1,800,000	-	1,800,000	-
Total	<u>\$ -</u>	<u>\$ 6,627,566</u>	<u>\$ (36,644)</u>	<u>\$ 6,590,922</u>	<u>\$ 66,088</u>

JULIAN CHARTER SCHOOL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 8 - LONG-TERM LIABILITIES (CONTINUED)

B. Western Alliance Note Payable I

On June 28, 2013, SDORI entered into a note payable agreement with Western Alliance for \$1,441,000, with payments of principal and interest in the amount of \$8,492 for the first sixty months commencing August 3, 2013 at an interest rate of 5.00% per annum. Commencing August 3, 2018 the principal and interest payment increases to \$8,573 and will carry an interest rate based on the five year LIBOR/Swap rate (1.70% at June 30, 2014) plus 3.50 percentage points per annum through July 3, 2023, at which point a principal and interest balloon payment of \$1,078,031 will become due. Required payments of principal on the long-term notes payable as of June 30, 2014, including maturities, are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 30,869	\$ 71,032	\$ 101,901
2016	32,279	69,622	101,901
2017	34,146	67,755	101,901
2018	35,917	65,984	101,901
2019	37,555	65,245	102,800
2020 - 2024	1,244,357	245,197	1,489,554
	<u>\$ 1,415,123</u>	<u>\$ 584,835</u>	<u>\$ 1,999,958</u>

C. Western Alliance Note Payable II

On February 24, 2014, SDORI entered into a note payable agreement with Western Alliance for \$1,730,000, with payments of principal and interest in the amount of \$10,342 commencing March 28, 2014 at an interest rate of 5.147% per annum through February 28, 2024, at which point a principal and interest balloon payment of \$1,299,406 will become due. Required payments of principal on the long-term notes payable as of June 30, 2014, including maturities, are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 35,219	\$ 88,889	\$ 124,108
2016	36,862	87,246	124,108
2017	39,072	85,036	124,108
2018	41,160	82,948	124,108
2019	43,360	80,748	124,108
2020 - 2024	1,523,560	344,671	1,868,231
	<u>\$ 1,719,233</u>	<u>\$ 769,538</u>	<u>\$ 2,488,771</u>

D. Verde Charter Capital Note Payable I

On July 2, 2013, SDORI entered into a note payable agreement with Verde Charter Capital for \$1,656,566, with payments of interest only at the rate of 10.5% per annum through July 2, 2016, at which point the balance of the loan and all accrued and unpaid interest will be due. The note is secured by the underlying property located in Temecula, California. The loan contains an early payment provision allowing SDORI to pay the note in part or in total commencing on or after July 2, 2014.

JULIAN CHARTER SCHOOL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 8 - LONG-TERM LIABILITIES (CONTINUED)

D. Verde Charter Capital Note Payable II

On February 27, 2014, SDORI entered into a note payable agreement with Verde Charter Capital for \$1,800,000, with payments of interest only at the rate of 11.0% per annum through February 27, 2017, at which point the balance of the loan and all accrued and unpaid interest will be due. The note is secured by the underlying property located in Murrieta, California. The loan contains an early payment provision allowing SDORI to pay the note in part or in total commencing on or after February 27, 2015.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of entitlements received by not expended as of June 30, 2014. At June 30, 2014, temporarily restricted net assets consisted of the following:

Common Core State Standards Implementation Funds	\$ 134,535
Proposition 39 - California Clean Energy Jobs Act	<u>101,750</u>
Total Temporarily Restricted Net Assets	<u><u>\$ 236,285</u></u>

NOTE 10 - EMPLOYEE RETIREMENT SYSTEMS

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

Plan Description and Funding Policy

STRS

Plan Description

The Organization contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. Plan information for STRS is not publicly available. 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. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2013, total plan net assets are \$152.5 billion, the total actuarial present value of accumulated plan benefits is \$277.3 billion, contributions from all employers totaled \$2.1 billion, and the plan is 66.9% funded. The Organization did not contribute more than 5% of the total contributions to the plan.

Copies of the STRS annual financial reports may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826 and www.calstrs.com.

JULIAN CHARTER SCHOOL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 10 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the Organization is required to contribute 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 2013-2014 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The Organization's contributions to STRS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$556,270, \$501,018, and \$488,300, respectively, and equal 100% of the required contributions for each fiscal year.

CalPERS

Plan Description

The Organization contributes 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. Plan information for PERS is not publicly available. 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.

According to the most recently available Actuarial Valuation Report for the year ended June 30, 2012, the Schools Pool total plan assets are \$44.9 billion, the total actuarial present value of accumulated plan benefits is \$69.7 billion, contributions from all employers totaled \$1.8 billion, and the plan is 75.5% funded. The Organization did not contribute more than 5% of the total contributions to the plan.

Copies of the CalPERS' annual financial reports may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814 and www.calpers.ca.gov.

Funding Policy

Active plan members are required to contribute 7.0% of their salary (7% of monthly salary over \$133.33 if the member participates in Social Security), and the Organization is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2013-2014 was 11.417% of annual payroll based on PERS reduction transfers. The contribution requirements of the plan members are established by the state statute. The Organization's contributions to CalPERS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$109,070, \$98,483, and \$101,493, respectively, and equal 100% of the required contributions for each fiscal year.

NOTE 11 - OPERATING LEASE

The Organization leases facilities from SDORI through June 2023 and June 2024, and the lease payments are included in the future minimum lease payment schedule. The Organization leases other facilities through June 2022 and equipment through August 2019. SDORI subleases a portion of their facilities through June 2019.

JULIAN CHARTER SCHOOL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 11 - OPERATING LEASE (CONTINUED)

The future minimum lease payments are as follows:

Year Ending June 30,	SDORI Lease Payments	Other Lease Payments	Sublease Income	Total
2015	\$ 597,948	\$ 926,445	\$ (92,737)	\$ 1,431,656
2016	597,948	556,384	(68,771)	1,085,561
2017	597,948	375,900	(70,834)	903,014
2018	597,948	354,819	(72,959)	879,808
2019	597,948	195,209	(75,148)	718,009
2020-2024	2,898,968	554,501	-	3,453,469
Total future lease payments	<u>\$ 5,888,708</u>	<u>\$ 2,963,258</u>	<u>\$ (380,449)</u>	<u>\$ 8,471,517</u>

The Organization will not receive or pay any contingent rentals associated with these leases. For the fiscal year ended June 30, 2014, operating lease expense was \$1,505,811, of which \$367,156 was paid to SDORI. Operating lease income for the fiscal year ended June 30, 2014 was \$13,376.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

A. Accrued Vacation

For the year ended June 30, 2014, there was \$74,774 in accrued vacation liability. This amount is included in accrued expenses on the Consolidated Statement of Financial Position.

B. State Allowances, Awards, and Grants

The Organization has received state funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, management believes that any required reimbursement will not be material.

NOTE 13 - SUBSEQUENT EVENT

The Organization's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through November 24, 2014, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

JULIAN CHARTER SCHOOL, INC.
SUPPLEMENTARY INFORMATION SECTION
JUNE 30, 2014

**JULIAN CHARTER SCHOOL, INC.
ORGANIZATION
JUNE 30, 2014**

Julian Charter School, Inc. [#267] is a Grade Kindergarten through 12 Charter School and was granted its charter renewal by the Julian Union School District on July 1, 2011, pursuant to the terms of the Charter School Act of 1992, as amended.

The Board of Directors for the fiscal year ended June 30, 2014, was comprised of the following members:

<u>Name</u>	<u>Office</u>	<u>Term</u>	<u>Term Expiration</u>
Susan Schumacher	President	2 Years	June 30, 2014
Teresa Saueressig	Treasurer	2 Years	June 30, 2014
Kevin Ogden	Secretary	Indefinite	N/A
Roxanne Huebscher	Member	2 Years	June 30, 2014
Julie Moore	Member	2 Years	June 30, 2014

Administration

<u>Name</u>	<u>Position</u>
Jennifer Cauzza	Executive Director
Chad Leptich	Chief Business Officer

**JULIAN CHARTER SCHOOL, INC.
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary		
Kindergarten - Grade 3	740.99	741.95
Grades 4 - 6	610.36	611.00
Grades 7 - 8	<u>449.24</u>	<u>449.86</u>
Total Elementary	<u>1,800.59</u>	<u>1,802.81</u>
High School		
Grades 9 -12	<u>670.57</u>	<u>672.62</u>
Total High School	<u>670.57</u>	<u>672.62</u>
Total Elementary and High School	<u><u>2,471.16</u></u>	<u><u>2,475.43</u></u>

The Organization is 100% independent study and generates no ADA from a full-time classroom-based program.

**JULIAN CHARTER SCHOOL, INC.
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The Organization operates a 100% independent study program; therefore, a Schedule of Instructional Time is not required.

**JULIAN CHARTER SCHOOL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Julian Charter School, Inc.

	Program Services	Support Services	
	Education	Management and General	Total
Certificated salaries	\$ 7,421,639	\$ 43,500	\$ 7,465,139
Classified salaries	927,490	247,375	1,174,865
Employee benefits	2,586,121	107,765	2,693,886
Books and supplies	849,453	18,363	867,816
Travel and conferences	69,424	47,000	116,424
Dues and memberships	48,853	-	48,853
Operation and housekeeping services	-	173,539	173,539
Rental, leases, repairs, and non-capitalized improvements	112,099	1,958,643	2,070,742
Insurance	-	100,884	100,884
Professional/consulting services and operating expenditures	1,869,682	627,055	2,496,737
Interest	-	106,152	106,152
Communications	114,548	3,719	118,267
Depreciation	-	22,794	22,794
Total expenses	<u>\$ 13,999,309</u>	<u>\$ 3,456,789</u>	<u>\$ 17,456,098</u>

SDORI Charter School Properties, LLC

	Operating Expenses
Professional/consulting services and operating expenditures	\$ 78,762
Interest	331,474
Depreciation and amortizaion	144,504
Total expenses	<u>\$ 554,740</u>

**JULIAN CHARTER SCHOOL, INC.
RECONCILIATION OF CHARTER SCHOOL UNAUDITED ACTUALS FINANCIAL
REPORT -- ALTERNATIVE FORM WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Charter School
June 30, 2014, Charter School Unaudited Actuals Financial Report -- Alternative Form, Ending Fund Balance	\$ 2,525,419
Adjustments and reclassifications:	
Increasing (decreasing) the fund balance:	
Prepaid expenditures overstatement	43,385
Other current assets overstatement	62,558
Fixed assets understatement	(22,794)
Other current liabilities understatement	(75,146)
Net adjustments and reclassifications	8,003
June 30, 2014, audited financial statement net assets	\$ 2,533,422

JULIAN CHARTER SCHOOL, INC.
OTHER INDEPENDENT AUDITORS' REPORTS SECTION
JUNE 30, 2014



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

Board of Directors
Julian Charter School, Inc.
Julian, California

We have audited, in accordance with the 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, the financial statements of Julian Charter School, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Julian Charter School, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Julian Charter School, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Julian Charter School, Inc.'s internal control.

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Page 2

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hosaka, Rotherham & Company

San Diego, California
November 24, 2014



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Directors
Julian Charter School, Inc.
Julian, California

Report on Compliance for Each State Program

We have audited Julian Charter School, Inc.'s compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Education Agencies 2013-14*, published by the Education Audit Appeals Panel, that could have a direct and material effect on each of Julian Charter School, Inc.'s state programs for the fiscal year ended June 30, 2014. Julian Charter School, Inc.'s state programs are identified below.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Julian Charter School, Inc.'s state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State's Audit Guide, *Standards and Procedures for Audits of California K-12 Local Education Agencies 2013-14*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a state program occurred. An audit includes examining, on a test basis, evidence about Julian Charter School, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each state program. However, our audit does not provide a legal determination of Julian Charter School, Inc.'s compliance. In connection with the audit referred to above, we selected transactions and records to determine the Organization's compliance with the state laws and regulations applicable to the following items:

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE
Page 2

Description	Procedures In Audit Guide	Procedures Performed
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	Yes
After School Education and Safety Program		
General Requirements	4	Not Applicable
After School	5	Not Applicable
Before School	6	Not Applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula		
Pupil Counts	3	Yes
Contemporaneous Records of Attendance, for charter schools	8	Yes
Mode of Instruction, for charter schools	1	Not Applicable
Nonclassroom-Based Instruction/Independent Study, for charter schools	15	Yes
Determination of Funding for Nonclassroom-Based Instruction, for charter schools	3	Yes
Annual Instructional Minutes - Classroom Based, for charter schools	4	Not Applicable
Charter School Facility Grant Program	1	Not Applicable

The term "Not Applicable" is used above to mean either that the Organization did not offer the program during the current fiscal year, or that the program applies only to a different type of local education agency.

Opinion on State Programs

In our opinion, Julian Charter School, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its state programs for the fiscal year ended June 30, 2014.

The purpose of this report on state compliance is solely to describe the scope of our testing of state compliance and the results of that testing based on the requirements of *Standards and Procedures for Audits of California K-12 Local Education Agencies 2013-14*. Accordingly, this report is not suitable for any other purpose.

Hosaka, Rotherham & Company

San Diego, California
November 24, 2014

JULIAN CHARTER SCHOOL, INC.
FINDINGS AND RECOMMENDATIONS SECTION
JUNE 30, 2014

**JULIAN CHARTER SCHOOL, INC.
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes N/A No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes N/A None Reported

Type of auditors' report issued on compliance for major programs: N/A

Any audit findings disclosed that are required to be reported in accordance with section .510(a) or Circular A-133? Yes N/A No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
-----------------------	---

The Organization did not have over \$500,000 in Federal Expenditures.

Dollar threshold used to distinguish between type A and type B programs: N/A

Auditee qualified as low-risk auditee? Yes N/A No

**JULIAN CHARTER SCHOOL, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2014**

<u>Findings/Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Implemented</u>
None	N/A	N/A



Hosaka, Rotherham & Company
Certified Public Accountants

James A. Rotherham, CPA
CEO & Managing Partner

.....
Roy T. Hosaka, CPA
Retired

James C. Nagel, CPA
Retired

JULIAN CHARTER SCHOOL, INC.

**COUNTY OF SAN DIEGO
JULIAN, CALIFORNIA**

**REPORT TO THE
BOARD OF DIRECTORS**

JUNE 30, 2014



Hosaka, Rotherham & Company
Certified Public Accountants

James A. Rotherham, CPA
CEO & Managing Partner

.....
Roy T. Hosaka, CPA
Retired

James C. Nagel, CPA
Retired

To the Board of Directors
Julian Charter School, Inc.
San Diego, California

We have audited the financial statements of Julian Charter School, Inc. (the Organization), for the year ended June 30, 2014, and have issued our report thereon dated November 24, 2014. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and thus are fairly presented in accordance with U. S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Organization. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Organization's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provision.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Organization are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2014. We noted no transactions entered into by the Organization during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Organization's financial reporting process (that is, cause future financial statements to be materially misstated).

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, there discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the Audit Committee, Board of Directors, and Management of the Organization and is not intended to be and should not be used by anyone other than these specified parties.

Hosaka, Rotherham & Company

San Diego, California
November 24, 2014

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APPENDIX D

DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS

APPENDIX D

DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS

DEFINITIONS

The following are definitions of certain terms used in the Indenture, the Loan Agreement, the Lease and this Official Statement. Additional capitalized terms used but not otherwise defined herein have the meaning set forth in this Official Statement, the Indenture, the Loan Agreement or the Lease.

“*Abandonment*” shall mean the failure to occupy or conduct business within the Facilities for 20 consecutive days during the Term of the Lease, excluding scheduled holidays, summer vacation, and other scheduled breaks.

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

“*Act*” or “*Joint Powers Act*” means Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the Government Code of the State of California.

“*Additional Bonds*” means all revenue bonds of the Authority, other than the Series 2015 Bonds, authorized by and at any time Outstanding pursuant to the Indenture and executed, issued and delivered in accordance with the Indenture.

“*Additional Charges*” shall mean all fines, penalties, interest and costs resulting from Tenant’s nonpayment or late payment of amounts due under the Lease.

“*Additional Payments*” means the payments so designated and required to be made by the Borrower described in this Official Statement under “SECURITY FOR THE BONDS—The Loan Agreement—Loan Payments and Other Amounts Payable.”

“*Additional Rent*” means Additional Payments excluding (a) moneys required to be deposited into the Rebate Fund as described in the Loan Agreement, and (b) moneys transferred from the Reserve Account to the Interest Account or the Principal Account as described in the Loan Agreement.

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

“*Affiliate*” means a Person organized under the laws of the United States of America or a state thereof which is directly or indirectly controlled by the Borrower or the Corporation, as appropriate. For purposes of this definition, control means the power to direct the management and policies of a Person (a) through the ownership of at least a majority of its voting securities, (b) through the right to designate or elect at least a majority of the members of its governing body, or (c) by contract or otherwise.

“*Aggregate Debt Service*” means, as of any date of calculation and with respect to any period and any Indebtedness, the sum of amounts of Debt Service existing as of such date of calculation.

“*Agreement*” or “*Loan Agreement*” means that certain Loan Agreement, dated as of March 1, 2015, by and between the Authority and the Borrower, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms of the Loan Agreement and of the Indenture.

“*Annual Debt Service*” means the principal and interest payment requirements with respect to all Long-Term Indebtedness of the Borrower or the Corporation, as the case may be, outstanding for any succeeding Bond Year.

“Approved Institutional Buyer” means (1) a “qualified institutional buyer” as defined in Rule 144A promulgated under the Securities Act of 1933, as in effect on the date hereof (the “Securities Act”); (2) an “accredited investor” as defined in paragraphs (1) through (3) of subsection (a) of Section 501 (“Section 501”) of Regulation D promulgated under the Securities Act; (3) an entity that is directly or indirectly wholly owned or controlled by the purchaser/bondholder representative (being a financial institution described in (1) above); (4) an “accredited investor” as defined in paragraph (5) of subsection (a) of said Section 501, provided that the minimum net worth shall be \$5,000,000; (5) an “accredited investor” as defined in paragraph (6) of subsection (a) of said Section 501, provided that the minimum income (individual or joint) shall be \$1,000,000; (6) an entity all of the investors in which are described in (1), (2) or (3) above; or (7) a custodian or trustee for a party described in (1), (2), (3), (4) or (5) above.

“Authority” means the California Municipal Finance Authority, or its successors and assigns, a joint exercise of powers authority formed by the Joint Powers Agreement.

“Authority Annual Fee” means the greater of (i) 1.5 basis points times the outstanding principal amount of the Bonds on the first day of the month in which the anniversary of the issuance date occurs or (ii) \$500. For purposes of this definition, the full original principal amount of the Bonds will be deemed to have been drawn down and outstanding on the Closing Date, and shall only be reduced by the amount of any Bonds that have been redeemed.

“Authorized Denominations” means, (a) in the case of the Series 2015 Bonds, \$250,000 or any multiple of \$5,000 in excess of \$250,000 or the outstanding principal amount of the Series 2015 Bonds, if less; provided, however, that upon the receipt by the Trustee of an Investment Grade Notice, such denominations shall be reduced to \$5,000 or any multiple thereof; and (b) in the case of Additional Bonds, the amount specified in the Supplemental Indenture authorizing the issuance thereof.

“Authorized Representative” or *“Authorized Officer”* means (a) with respect to the Borrower, the sole director, the President or the Secretary of the Borrower or any other person designated as an Authorized Representative of the Borrower by a statement of the Borrower signed by the sole director, the President or the Secretary of the Borrower and filed with the Trustee, each acting alone; (b) with respect to the Corporation, the President or Secretary of the Board of Directors of the Corporation or the Executive Director of the Corporation or any other person designated as an Authorized Representative of the Corporation by a statement of the Corporation; and (c) with respect to the Authority, any member of the Board of Directors of the Authority, the Executive Director of the Authority or any other person designated as an Authorized Representative in a certificate signed by a member of the Board of Directors of the Authority and filed with the Trustee.

“Base Rent” means monthly installments in amounts set forth in the Lease.

“Beneficial Owner” means any Person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including Persons holding Bonds through nominees, depositories or other intermediaries).

“Bond Counsel” means any firm of nationally recognized municipal bond attorneys, selected by the Corporation with the consent of the Authority, experienced in the issuance of municipal bonds and matters relating to the exclusion of the interest thereon from gross income for federal income tax purposes.

“Bond Purchase Agreement” means, as to the Series 2015 Bonds, the Bond Purchase Agreement, by and among the Authority, the Underwriter and the Borrower and any similar agreement with respect to Additional Bonds.

“Bond Resolution” means (a) when used with reference to the Series 2015 Bonds, the resolution of the Governing Body providing for their issuance and approving the Loan Agreement, the Indenture, the Tax Regulatory Agreement and the Bond Purchase Agreement and related matters; and (b) when used with reference to an issue of Additional Bonds, the resolution of the Governing Body providing for the issuance of the Additional Bonds and approving any amendment or supplement to the Loan Agreement, any Supplemental Indenture and related matters.

“*Bonds*” means the Series 2015 Bonds and all Additional Bonds of any Series authorized by and at any time Outstanding pursuant to the Indenture.

“*Bond Year*” means the period of 12 consecutive months ending on March 1 in any year in which Bonds are Outstanding, except that the first Bond Year will commence on the date the Series 2015 Bonds are issued and end on March 1, 2016.

“*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 SDORI Charter School Properties, LLC, LLC, a California limited liability company the sole member of which is Julian Charter School, Inc., duly organized and existing under the laws of the State, or any entity which is the surviving, resulting or transferee entity in any consolidation, merger or transfer of assets permitted under the Loan Agreement.

“*Borrower Continuing Disclosure Agreement*” means the Borrower Continuing Disclosure Agreement entered into between the Trustee, as dissemination agent, and the Borrower.

“*Borrower Documents*” means, collectively, the Loan Agreement, the Tax Regulatory Agreement, the Borrower Continuing Disclosure Agreement, the Lease, the Bond Purchase Agreement, and the Deeds of Trust.

“*Business Day*” means any day which is not one of the following: (a) a Saturday, Sunday or legal holiday as set forth by the Federal Reserve Bank of San Francisco; (b) any other day on which banks in San Diego, California or New York, New York are authorized or required to be closed by the appropriate regulatory authorities; or (c) a day on which the New York Stock Exchange is authorized or required to be closed.

“*Certificate*,” “*Statement*,” “*Order*,” “*Request*” or “*Requisition*” of the Authority, the Corporation or the Borrower means, respectively, a written certificate, statement, order, request or requisition signed in the name of the Authority by an Authorized Representative of the Authority, in the name of the Corporation by an Authorized Representative of the Corporation, or in the name of the Borrower by an Authorized Representative of the Borrower. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument will include the statements provided for in the Indenture.

“*Charter School Law*” means Charter School Act of 1992, constituting Part 26.8 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*” means, with respect to the Series 2015 Bonds, the date of delivery of and payment for the Series 2015 Bonds, being March 25, 2015, and with respect to any Additional Bonds, the date of delivery and payment for such Additional Bonds.

“*Code*” means the Internal Revenue Code of 1986, as amended, and the regulations issued thereunder or any successor thereto. Reference to any particular Code section will, in the event of such successor Code, be deemed to be reference to the successor to such Code section.

“*Commencement Date*” means the date the close of escrow on which Landlord purchases the Facilities.

“*Consultant*” means a firm (and not an individual) which (a) is not, and no member, stockholder, director, officer or employee of which is, an officer or employee of the Borrower, the Corporation or any Affiliate of either; and (b) is a firm having the skill and experience necessary to render the particular report required by the provision of the Indenture or the Loan Agreement in which such requirement appears.

“*Corporation Continuing Disclosure Agreement*” means the Continuing Disclosure Agreement entered into between the Trustee, as dissemination agent, and the Corporation.

“*Corporation*” means initially Julian Charter School, Inc., and any other lessee of the Facilities while the Bonds are Outstanding.

“*Costs of Issuance*” means all items of expense directly or indirectly payable by or reimbursable to the Authority, the Borrower or the Corporation and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Trustee and its counsel, legal fees and charges, fees and disbursements of consultants and professionals, Rating Agency fees, if any, fees and charges for preparation, execution, transportation and safekeeping of Bonds, and any other cost, charge or fee in connection with the original issuance of any Series of Bonds.

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

“*Debt Service*” means, as of any date of calculation and with respect to any period and any Indebtedness, the sum of (A) the interest falling due on the outstanding Long-Term Indebtedness of the Borrower or the Corporation, as the case may be, during such period (except to the extent that such interest is payable from moneys set aside solely for such purpose); and (B) the principal (or mandatory sinking fund or installment purchase price or lease rental or similar) payments or deposits required with respect to such Long-Term Indebtedness during such period (except to the extent such principal is payable from moneys set aside solely for such purpose); computed on the assumption that no portion of such Long-Term Indebtedness will cease to be outstanding during such period except by reason of the application of such scheduled payments; provided, however, that for purposes of such computation: (a) if interest is capitalized with respect to such Long-Term Indebtedness, Debt Service on such Long-Term Indebtedness will be included in computations of Debt Service only to the extent interest is payable in the then current Fiscal Year from sources other than amounts funded to pay such interest; (b) with respect to a Guarantee, there will be included in the Debt Service (i) 25% of the maximum possible monetary liability under the Guarantee in any Fiscal Year unless the Guarantee is drawn upon; and (ii) 100% of the monetary liability under a Guarantee which has been drawn upon, until such time as all amounts drawn upon the Guarantee have been repaid and for two Fiscal Years thereafter; and (c) if moneys or Investment Securities described in clause (a) of the definition thereof contained in the Indenture (not callable by the issuer thereof prior to maturity) have been deposited with a trustee or escrow agent in an amount, together with earnings thereon, sufficient to pay the principal of or interest on Long-Term Indebtedness as it comes due, such principal or interest, as the case may be, will not be included in computations of Debt Service.

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

“*Determination of Taxability*” means, with respect to a Series 2015A Bonds, (i) the enactment of legislation or the adoption of final regulations or a final decision, ruling or technical advice by any federal judicial or administrative authority which has the effect of requiring interest on a Series 2015A Bond to be included in the gross income of the Owner for federal income tax purposes or (ii) the receipt by the Trustee of a written opinion of nationally recognized bond counsel selected by the Borrower to the effect that interest on a Series 2015A Bond must be included in the gross income of the Owner for federal income tax purposes. A Determination of Taxability will not result from the inclusion of interest on any Series 2015A Bond in the computation of the alternative minimum tax imposed by Section 55 of the Code, the branch profits tax on foreign corporations imposed by Section 884 of the Code or the tax imposed on the net passive income of certain S corporations under Section 1375 of the Code.

“*District*” means the Julian Union School District.

“*Electronic Means*” means telecopy, facsimile transmissions, e-mail transmissions or other similar electronic means of communication providing evidence of transmission.

“*Environmental Lien*” means a lien in favor of any Governmental Borrower for (a) any liability under federal or state environmental laws or regulations; or (b) damages arising from, or costs incurred by such Governmental Borrower in response to, a Release or threatened Release of a Hazardous Substances into the environment.

“*Environmental Regulation*” 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 below under the heading “THE INDENTURE—Events of Default.”

“*Executive Director*” means the individual employed and/or appointed by the Board of Directors to perform the duties of executive director of the Corporation and the School.

“*Expense Account*” means the account by that name in the Revenue Fund established under the Indenture.

“*Expenses*” means all costs and expenses of the ownership, operation, utilities, maintenance, repair or replacement, and insurance on and/or for the Facilities, as determined by GAAP, including, by way of illustration only, and not by way of limitation, to the extent they apply to the Facilities:

- (a) gross receipts taxes, whether assessed against the Landlord or assessed against the Tenant and collected by the Landlord;
- (b) water, sewage, and waste or refuse removal charges;
- (c) utilities;
- (d) reasonable costs incurred in the day-to-day management of the Facilities, including the actual cost of management personnel;
- (e) air conditioning and heating, if any;
- (f) elevator maintenance, if any;
- (g) supplies, materials, labor, equipment, and utilities used in or related to the operation and maintenance of the Facilities;
- (h) all maintenance, replacement and repair costs including, without limitation, costs described in the Lease, janitorial, cleaning and repair services relating to the Facilities 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), and cost of compliance with applicable laws;
- (i) amortization (along with reasonable financing charges) of capital improvements made to the Facilities which may be required by any government authority or which will improve the operating efficiency of the Facilities;
- (j) Real Property Taxes including all taxes, assessments (general and special) and other impositions or charges which may be taxed, charged, levied, assessed or imposed upon all or any portion of the Facilities or any portion thereof, any leasehold estate in the Facilities or measured by rent from the Facilities, including any increase caused by the transfer, sale encumbrance of the Facilities or any portion thereof;

(k) any other costs or expenses incurred by Landlord under the Lease and not otherwise reimbursed by tenants of the Facilities, excluding depreciation on the Facilities or equipment therein, loan payments, executive salaries or real estate brokers' commissions; and

(l) insurance premiums for insurance required to be maintained under the Loan Agreement and the Lease.

“*Facilities*” means the buildings, structures, fixtures, equipment and underlying land as described in Exhibit A of the Loan Agreement, included as part of the “Mortgaged Property” as defined in the Deeds of Trust.

“*Favorable Opinion of Bond Counsel*” means, with respect to any action, the occurrence of which requires such an opinion, an opinion of Bond Counsel to the effect that such action is permitted under the Indenture and will not, in and of itself, cause interest on the Tax-Exempt Bonds to be included in gross income for purposes of federal income taxation.

“*Financing*” means the issuance of the California Municipal Finance Authority, Charter School Revenue Bonds (Julian Charter School Project), Series 2015A and (Taxable) Series 2015B for the purpose of financing or refinancing of the acquisition of and renovations to certain educational facilities financing or refinancing the acquisition, construction, improvement, renovation and equipping by Landlord of the educational facilities comprised of the Facilities.

“*Fiscal Year*” means the period beginning on July 1 of each year and ending on the next succeeding June 30 or any other 12-month period hereafter selected and designated as the official fiscal year period of the Corporation.

“*Fitch*” means Fitch, Inc., its successors and their assigns, or, if such corporation will be dissolved or liquidated or will no longer perform the function of a securities rating agency, any other nationally recognized securities rating agency designated by the Borrower by notice to the Authority and the Trustee.

“*501(c)(3) Organization*” means an organization described in Section 501(c)(3) of the Code.

“*GAAP*” shall mean generally accepted accounting principles in the United States as in effect from time to time.

“*Governing Body*” means the governing body of the Authority.

“*Governmental Borrower*” means any nation or government, any federal, state, local or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

“*Governmental Unit*” has the meaning set forth in Section 150 of the Code.

“*Gross Income of the School*” means all revenues, income, receipts and moneys received by the School or on behalf of the School, including from any applicable district or county or from the State pursuant to the Charter School Law from any categorical block grant, general purpose entitlement or revenue limit or from gifts, grants, bequests and contributions (including income and profits therefrom) specifically restricted by the donor or maker thereof to the School (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); provided, that “Gross Income of the School” will not include: (a) any moneys derived from any revenues or assets attributable to, or designated by any third party for, any other school operated by the Corporation or pledged by the Corporation to secure loans to or financings or leases for such other schools; (b) income and revenues directly or indirectly derived by Corporation’s operation of other schools, including without limitation per pupil revenues and from any applicable district or county other funding received from the State of California or by virtue of the charter granted to the Corporation for the other schools and all gifts, grants, bequests and contributions (including income and profits therefrom) to the extent specifically restricted by the donor or maker thereof to the other schools; and (c) net insurance or condemnation

proceeds received or payable to the Corporation on account of damage or destruction of the other school or its property or other loss incurred by the Corporation with respect to its operation of the other school or their respective properties. Gross Income of the School also includes net insurance or condemnation proceeds received or payable to the Corporation on account of damage or destruction of the Mortgaged Property or other loss incurred by the Corporation with respect to its operation of the School or the Mortgaged Property.

“*Guarantee*” means any obligation of the Corporation or the Borrower, payable from Gross Income of the School or Property Revenues, respectively, guaranteeing in any manner, whether directly or indirectly, any obligation of any Person which would, if such Person were the Corporation or the Borrower, constitute Long-Term Indebtedness.

“*Hazardous Substances*” means (a) any oil, flammable substance, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other wastes, materials or pollutants which (i) pose a hazard to the Facilities or to persons on or about the Facilities or (ii) cause the Facilities 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 Mortgaged Property or the owners and/or occupants of property adjacent to or surrounding the Mortgaged Property, or any other person coming upon the Mortgaged Property or adjacent property; or (e) any other chemical, materials or substance which may or could pose a hazard to the environment.

“*Holder*” or “*Bondholder*” means, whenever used in the Indenture with respect to a Bond, the Person in whose name such Bond is registered in the books maintained by the Trustee.

“*Indebtedness*” means (a) any Guarantee; and (b) any indebtedness or obligation of the Borrower or the Corporation, as the case may be, payable from Property Revenues or Gross Income of the School, respectively (other than accounts payable and accruals), as determined in accordance with generally accepted accounting principles, including obligations under 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.

“*Indenture*” means the Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

“*Independent*” when used with respect to any Person means such a Person who (i) is independent in fact, (ii) does not have a direct financial interest or any material indirect financial interest in the Corporation or the Borrower, and (iii) is not connected with the Corporation or the Borrower as an officer, employee, promoter or member of the governing body thereof.

“*Initial Lease Year*” means Commencement Date to June 30, 2015.

“*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 March 1 and September 1 of each year commencing September 1, 2015.

“*Investment Grade Notice*” means any official notice released by any Rating Agency that the Bonds have been given an Investment Grade Rating.

“*Investment Grade Rating*” means a rating by S&P or Fitch of “BBB-” or higher, or by Moody’s of “Baa3” or higher.

“*Investment Securities*” means any of the following which at the time are legal investments under the laws of the State for moneys held and then proposed to be invested:

(a) Government Obligations: bills, certificates of indebtedness, notes, bonds or similar securities which are direct obligations of, or the principal and interest of which are unconditionally guaranteed by, the United States of America;

(b) direct and general obligations of any state of the United States of America or any municipality or political subdivision of such state, or obligations of any corporation, if such obligations are in one of the two highest Rating Categories by any Rating Agency;

(c) negotiable or nonnegotiable certificates of deposit, demand deposits, time deposits, deposit accounts, or other similar banking arrangements, issued by any nationally or state chartered bank (including the Trustee) or trust company or any savings and loan association, if either (i) the long-term obligations of such bank or trust company are rated in one of the two highest Rating Categories by Fitch, S&P or Moody’s; or (ii) the deposits are continuously secured as to principal, but only to the extent not insured by the Federal Deposit Insurance Corporation, or similar corporation chartered by the United States of America; (A) by lodging with a bank or trust company, as collateral security, obligations described in clause (a) or (b) above or, with the approval of the Corporation, other marketable securities eligible as security for the deposit of trust funds under applicable regulations of the Comptroller of the Currency of the United States of America or applicable state law or regulations, having a market value (exclusive of accrued interest) not less than the amount of such deposit; or (B) if the furnishing of security as provided in clause (A) of this paragraph is not permitted by applicable law, in such manner as may then be required or permitted by applicable state or federal laws and regulations regarding the security for the deposit of trust funds;

(d) repurchase agreements with respect to obligations listed in clause (a) or (b) above if entered into with a nationally or state chartered bank (including the Trustee), trust company or a broker or dealer (as defined by the Securities Exchange Act of 1934, as amended) which is a member of the Securities Investors Protection Corporation if (i) such obligations that are the subject of such repurchase agreement are delivered to the Trustee or are supported by a safekeeping receipt issued by a depository satisfactory to the Corporation; provided that such repurchase agreement must provide that the value of the underlying obligations will be maintained at current market value, calculated no less frequently than monthly, of not less than the repurchase price; (ii) a prior perfected security interest in the obligations which are the subject of such repurchase agreement has been granted to the Trustee; and (iii) such obligations are free and clear of any adverse third party claims;

(e) commercial paper rated in the highest Rating Category by any Rating Agency;

(f) money market mutual funds invested solely in obligations listed in clause (a), (b), (c) or (d) above, including funds for which the Trustee or an affiliate of the Trustee acts as an investment provider or provides other services;

(g) investment agreements continuously secured by the obligations listed in clause (a), (b) or (c) above, or (i) below, with any nationally or state chartered bank, trust company or broker or dealer (as defined by the Securities Exchange Act of 1934, as amended) which is a member of the Securities Investors Protection Corporation if (i) such obligations are delivered to the Trustee or supported by a safekeeping receipt issued by a depository satisfactory to the Corporation; provided that such investment agreements must provide that the value of the underlying obligations will be maintained at a current market value, calculated no less frequently than monthly, of not less than the amount deposited thereunder; (ii) a first priority perfected security interest in the obligations which are securing such agreement has been granted to the Trustee; (iii) such agreement has been granted to the Trustee; and (iv) such obligations are free and clear of any adverse third-party claims;

(h) investment agreements with any nationally or state chartered bank, financial institution, insurance company, trust company, or any other publicly traded corporation which has long-term debt obligations rated in one of the two highest Rating Categories by any Rating Agency;

(i) certificates or receipts issued by any nationally or state chartered bank, trust company or broker or dealer (as defined by the Securities Exchange Act of 1934, as amended) which is a member of the Securities Investors Protection Corporation, organized and existing under the laws of the United States of America or any state thereof, the outstanding unsecured long-term debt of which is rated in either of the two highest Rating Categories by any Rating Agency, or, upon the discontinuance of either rating service or both of such rating services, any other nationally recognized rating service, in the capacity of custodian, which certificates or receipts evidence ownership of a portion of the principal of or interest on Government Obligations held (which may be in book-entry form) by such bank, trust company or broker or dealer (as defined by the Securities Exchange Act of 1934, as amended); and

(j) tax-exempt obligations (as defined in Section 150(a)(6) of the Code and which are not “investment property” as defined in Section 148(b)(2) of the Code) rated in one of the two highest Rating Categories by any Rating Agency;

provided that “Investment Securities” shall not include a financial instrument, commonly known as a “derivative,” whose performance is derived, at least in part, from the performances of any underlying asset, including, without limitation, futures, options on securities, options on futures, forward contracts, swap agreements, structured notes and participations in pools of mortgages or other assets;

“*Joint Powers Agreement*” means the Joint Exercise of Powers Agreement relating to the California Municipal Finance Authority, dated as of January 1, 2004, by and among certain California cities, counties and special districts, as may be amended from time to time, pursuant to the provisions of the Joint Powers Act.

“*Julian Charter School, Inc.*” means Julian Charter School, Inc., a California nonprofit public benefit corporation and a 501(c)(3) Organization.

“*Landlord*” means the Borrower.

“*Lease*” means the Lease Agreement, dated as of March 1, 2015, by and between the Borrower, as lessor, and the Corporation, as lessee, pursuant to which the Corporation is leasing the Facilities from the Borrower.

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

“*Loan*” means the loan by the Authority to the Borrower of the proceeds received from the sale of the Bonds.

“*Loan Default Event*” means any of the events specified below under the heading “THE LOAN AGREEMENT—Events of Default.”

“*Loan Repayments*” means the payments so designated and required to be made by the Borrower as described below under the heading “THE LOAN AGREEMENT—Payments of Loan repayments.”

“*Long-Term Indebtedness*” means Indebtedness having an original maturity later than one year from the date of original incurrence or issuance.

“*Management Consultant*” means a firm of professional management consultants, a municipal advisor or a school management organization, knowledgeable in the operation of public or private schools and having a favorable reputation for skill and experience in the field of public or private school management consultation, which term may include any Person formally serving as financial advisor to the Corporation or the Borrower, and reasonably acceptable to the Corporation.

“*Mandatory Sinking Account Payment*” means the amount so designated which is established pursuant to the Indenture with respect to the Series 2015 Bonds and Indenture with respect to Term Bonds included in any other Series of Bonds.

“*Maximum Annual Debt Service*” means as of any date of calculation, the highest principal and interest payment requirements with respect to all Long-Term Indebtedness of the Borrower or the Corporation, as the case may be, outstanding for any succeeding Bond Year.

“*Moody’s*” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their 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 by notice to the Authority and the Trustee.

“*Mortgaged Property*” has the meaning set forth in the Deeds of Trust, which includes, without limitation, the Facilities.

“*Net Income Available for Debt Service*” means, for any period of determination thereof, the Gross Income of the School for such period, minus Operating Expenses (to the extent not including Rent under such Lease) for such period but excluding (a) any profits or losses which would be regarded as extraordinary items under Generally Accepted Accounting Principles; (b) gain or loss in the extinguishment of Indebtedness; (c) proceeds of any Series of Bonds and any other Indebtedness permitted by the Loan Agreement; (d) proceeds of insurance policies, other than policies for business interruption insurance, maintained by or for the benefit of the Borrower or the Corporation with respect to the operation of the School; (e) the proceeds of any sale, transfer or other disposition of the Facilities or any other of the Borrower’s assets by the Borrower; and (f) any condemnation or any other damage award received by or owing to the Borrower or the Corporation related to the Facilities.

“*Net Proceeds*” means, when used with respect to any insurance payment or condemnation award, the gross proceeds hereof less expenses (including attorneys’ fees incurred in the collection of such gross proceeds).

“*Operating Expenses*” means all reasonable and necessary current expenses of the Corporation related solely to and arising solely from the operations of the School as public charter schools and provision of educational services related to the Facilities, both paid or accrued, and as included in the annual budget of the School, including without limitation (a) salaries and administrative expenses; (b) the cost of instructional supplies and materials; (c) insurance premiums; (d) professional services; and (e) any payments made under the Lease which constitute Additional Rent and Expenses; provided however, there will be excluded from Operating Expenses (i) any allowance for depreciation or amortization; (ii) expenses incurred in connection with capital improvements; (iii) expenses or other amounts paid into and from the Repair and Replacement Fund and the Reserve Account; (iv) expenses paid from grants from state, federal or local sources, or from any Person, which were not included as part of Gross Income of the School; and (v) payments of Debt Service, including Base Rent payments and any similar rental or other payments made for the lease-purchase or financing of capital improvements.

“*Opinion of Counsel*” means a written opinion of counsel (who 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*” means, when used as of any particular time with reference to Bonds (subject to the provisions in the Indenture), all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except:

- (a) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (b) Bonds with respect to which all liability of the Authority will have been discharged in accordance with the Indenture, including Bonds (or portions of Bonds) referred to in the Indenture;
- (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds will have been authenticated and delivered by the Trustee pursuant to the Indenture; and
- (d) with respect to any voting or consents of rights, Bonds held by the Borrower or the Corporation.

“*Parity Debt*” means the obligations of the Borrower or the Corporation related to Additional Bonds and secured equally and ratably with the obligations of the Borrower under the Loan by a lien on and security interest in the Revenues, assignment of Lease, and the lien of the Deeds of Trust.

“*Permitted Liens*” means:

- (a) Liens arising by reason of good faith deposits by the Borrower or the Corporation, 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 or the Corporation, as applicable 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 or the Corporation, as applicable so long as such judgment is being contested in good faith and execution thereon is stayed;
- (d) (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 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 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 Deeds of Trust and (v) landlord's liens;

(e) any Lien which is existing on the date of delivery of the Series 2015 Bonds, as identified in Schedule B of the copy of the title policies delivered to the Trustee pursuant to the Indenture by this reference; provided that no such Lien (or the amount of Indebtedness secured thereby) may be increased, extended, renewed or modified to apply to any Property of the Borrower not subject to such Lien on such date unless such Lien as so increased, extended, renewed or modified (i) otherwise qualifies as a Permitted Lien under the Indenture, or (ii) the maturity date of the Indebtedness secured by such Lien is not extended and either the total principal and interest requirements or the maximum annual principal and interest requirements (calculated in a manner consistent with the calculation of Debt Service) on such Indebtedness is not increased as a result of the refinancing of such Indebtedness;

(f) Liens on Property received by the Borrower or the Corporation through gifts, grants or bequests, only to the extent that the fair market value of such property is equal to or exceeds the amount of indebtedness secured by such Lien;

(g) Liens related to leases which are considered operating leases under generally accepted accounting principles;

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

(i) any Lien securing the obligations of the Borrower under the Loan Agreement and with respect to Parity Debt on a parity basis, including the Lien of the Deeds of Trust;

(j) any Lien securing Subordinate Indebtedness, which Lien is to be subordinate to the Lien described in clause (i) above; or

(k) any Lien that constitutes a purchase money security interest or the interests of a lessor under a lease required to be capitalized under generally accepted accounting principles.

“*Person*” or words importing persons means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

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

“*Principal Corporate Trust Office*” means the principal corporate trust office of the Trustee, which at the date of the execution of the Indenture is located at Zions First National Bank, Ste 700, 800 W. Main Street, Boise, Idaho 83702, Attention: Corporate Trust Department; provided that for purposes of exchange, transfer, cancellation, payment, redemption and surrender of Bonds such term includes additional offices as may be designated by the Trustee.

“*Principal Payment Date*” means the principal and Mandatory Sinking Account Payment dates for the Bonds, which dates occur March 1 of each year commencing March 1, 2017.

“*Project*” means, collectively, the refinancing of the acquisition of the Facilities, together with certain improvements and renovations thereto.

“*Project Costs*” means all costs incurred by or with the approval of the Borrower or the Corporation at any time prior to or after the issuance of the Bonds for or in connection with the Facilities and will include, but not be limited to, (a) the retirement of the existing loans with respect to the Facilities; and (b) any sums required to reimburse the Borrower or the Corporation for advances and payments made by it at any time prior to or after the

issuance of the Bonds for capital expenditures related to the Facilities, or for any other cost incurred or work done by or with the approval of the Borrower or the Corporation which is properly chargeable to the Facilities, including, but not limited to fees for title insurance policies.

“*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 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.

“*Property Revenues*” means all payments received by the Borrower or the Trustee, as collateral assignee, from the Corporation under the Lease, together with all revenues, income, rentals, fees, third party payments, receipts, donations, contributions and money received by the Borrower from the Mortgaged Property, including the rights to receive such revenues (each subject to Permitted Liens), all as calculated in accordance with sound accounting practices, including, but not limited to, any revenues received from rentals of the Mortgaged Property, including, without limitation, rentals received pursuant to the Lease; proceeds derived from insurance, condemnation proceeds, accounts, contract rights and other rights and assets, whether now or hereafter owned, held or possessed by the Borrower which are derived from Mortgaged Property; and all gifts, grants, bequests and contributions to the Borrower (including income and profits therefrom) either specifically restricted by the donor or maker thereof to the Mortgaged Property, or, to the extent not specifically restricted by the donor or maker thereof to a particular purpose not inconsistent with their use for any of the payments of the Borrower required under the Loan Agreement.

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

“*Rating Category*” means one of the general rating categories of S&P’s or Moody’s, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

“*Real Property Taxes*” means any form of assessment, levy, penalty, charge or tax (other than estate, inheritance, net income, or franchise taxes) imposed by any authority having a direct or indirect power to tax or charge, including, without limitation, any city, county, state federal or any improvement or other district, whether such tax is: (a) determined by the value of the Facilities or the rent or other sums payable under the Lease; (b) upon or with respect to any legal or equitable interest of Landlord in the Facilities or any part thereof; (c) upon this transaction or any document to which Tenant is a party creating a transfer in any interest in the Facilities; (d) in lieu of or as a direct substitute in whole or in part of or in addition to any real property taxes on the Facilities; (e) based on any parking spaces or parking facilities provided in the Facilities; or (f) in consideration for services, such as police protection, fire protection, street, sidewalk and roadway maintenance, refuse removal or other services that may be provided by any governmental or quasi-governmental agency from time to time which were formerly provided without charge or with less charge to property owners or occupants.

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

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

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

“*Redemption Price*” means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

“*Release*” means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, disposing, depositing or dispersing into the indoor or outdoor environment or into or out of the property, including, but not limited to, the movement of Hazardous Substances through or in the air, soil, surface water, groundwater or the property and the abandonment or discard of barrels, containers, and other open or closed receptacles containing any Hazardous Substances.

“*Related Person*” has the meaning set forth in Section 144(a)(3) of the Code.

“*Rent*” means Base Rent and Additional Rent.

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

“*Repair and Replacement Fund Requirement*” means a maximum amount equal to \$250,000; provided, however, that such amount is to be increased to the extent required pursuant to the Loan Agreement.

“*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) Maximum Annual Debt Service with respect to the Bonds Outstanding, (b) 125% of average Annual Debt Service with respect to the Bonds Outstanding, or (c) 10% of the original principal amount of the Bonds Outstanding; *provided, however*, in calculating the Maximum Annual Debt Service on the final maturity date for the Series 2015 Bonds Outstanding, or each Series of Additional Bonds Outstanding, as applicable, an amount equal to the Reserve Account Requirement may be subtracted from the debt service amount for said year. Annual Debt Service and average Annual Debt Service, for purposes of this definition, shall be calculated on the basis of 12-month periods ending on March 1 of any year in which Bonds are Outstanding, commencing March 1, 2016. For purposes of the calculation to be made pursuant to this defined term, the proceeds or Annual Debt Service may be aggregated for each Series of Additional Bonds which are issued and delivered on the same Closing Date.

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

“*Revenues*” means all amounts received by the Authority or the Trustee for the account of the Authority pursuant or with respect to the Loan Agreement, including, without limiting the generality of the foregoing, payments of Base Rent and Additional Rent to the Trustee as collateral assignee. Loan Repayments and Additional Payments (including both timely and delinquent payments and any late charges, and whether paid from any source), prepayments, insurance proceeds, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture, but not including any Administrative Fees and Expenses or any moneys required to be deposited in the Rebate Fund.

“*S&P*” means S&P Ratings Services, a division of The McGraw Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their 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 Corporation by notice to the Authority and the Trustee.

“*School*” means the Albert Einstein Academy Charter School, the Albert Einstein Academy Charter Middle School, or any other public schools operated by Julian Charter School, Inc.

“*Serial Bonds*” means Bonds for which no Mandatory Sinking Account Payments are provided.

“*Series*” means, when used with reference to the Bonds, all of the Bonds authenticated and delivered on original issuance and identified pursuant to the Indenture as a separate Series of Bonds, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Indenture, regardless of variations in maturity, interest rate, sinking fund installments or other provisions.

“*Series 2015A Bonds*” means the California Municipal Finance Authority Charter School Revenue Bonds (Julian Charter School Project), Series 2015A, authorized by, and at any time Outstanding pursuant to, the Indenture.

“*Series 2015B Bonds*” means the California Municipal Finance Authority Charter School Revenue Bonds (Julian Charter School Project) (Taxable) Series 2015B, authorized by, and at any time Outstanding pursuant to, the Indenture.

“*Series 2015 Bonds*” means the Series 2015A Bonds and the Series 2015B Bonds.

“*Series 2015 Capitalized Interest Subaccount*” means the Series 2015 Capitalized Interest Subaccount established in the Interest Account pursuant to the Indenture.

“*Short-Term Indebtedness*” means Indebtedness having an original maturity less than or equal to one year and not renewable at the sole option of the borrower thereof for a term greater than one year from the date of original incurrence or issuance.

“*Sinking Account*” means each subaccount in the Principal Account so designated and established pursuant to the Indenture.

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

“*Sponsoring Entity*” means the Julian Union School District or any other chartering entity authorized under the Charter School Law to grant a charter, including to the Corporation for its operation of the School or any subsequent tenant with respect to the Facilities.

“*State*” means the State of California.

“*Sole Director*” means the individual duly appointed or elected by the Corporation to be and act as the sole director of the Borrower.

“*Subordinate Indebtedness*” means Indebtedness that is subordinate as to payment and security to all Bonds and Parity Debt.

“*Supplemental Indenture*” means any indenture hereafter duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“*Taxable Bonds*” means the Series 2015B Bonds and those Bonds the interest on which, in the opinion of Bond Counsel delivered at the time of issuance thereof, is not excludable from gross income of the Beneficial Owners thereof for federal income tax purposes.

“*Tax-Exempt*” means, with respect to interest on any obligations of a state or local government, including the Series 2015A Bonds, that such interest is excluded from gross income for federal income tax purposes (other than in the case of a Holder of any Bond who is a substantial user of the Facilities or a related person within the meaning of Section 147(a) of the Code), whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating tax liabilities, including any alternative minimum tax or environmental tax under the Code.

“*Tax-Exempt Bonds*” means the Series 2015A Bonds and those Bonds the interest on which, in the opinion of Bond Counsel delivered at the time of issuance thereof, is excludable from gross income of the Beneficial Owner thereof for federal income tax purposes.

“*Tax Regulatory Agreement*” means the Tax Regulatory Agreement as to arbitrage with respect to the Tax-Exempt Bonds executed and delivered by the Authority, the Borrower and the Corporation as originally executed and as the same may be amended and supplemented from time-to-time in accordance with the terms thereof.

“*Tenant*” means Julian Charter School, Inc. (and its charter schools located in the Facilities).

“*Tenant’s Parties*” shall mean any of Tenant’s employees, students, customers, or other invitees that enter upon the Facilities.

“*Tenant’s Property*” shall mean all movable partitions, business and trade fixtures, machinery and equipment, communications equipment and office equipment located in the Facilities and acquired by or for the account of Tenant, without expense to Landlord, which can be removed without structural damage to the buildings of which the Facilities are a part, and all furniture, furnishings and other articles of movable personal property owned by Tenant and located in the Facilities.

“*Term*” means the term of the Lease commencing on the Commencement Date and ending on the Termination Date.

“*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.

“*Termination Date*” means June 30, 2040, subject to extension for the optional renewal periods identified in the Lease.

“*Treasury Regulations*” mean the regulations promulgated under the Code and set forth in Title 26 of the Code of Federal Regulations.

“*Trustee*” means Zions First National Bank, a national banking association organized and existing under the laws of the United States of America, or its successor, as Trustee under the Indenture as provided in the Indenture.

“*Unassigned Authority Rights*” means (a) the rights of the Authority under the Loan Agreement to receive any Administrative Fees and Expenses or Additional Payments, including Corporation fees and reimbursement of Corporation for expenses, to the extent payable to the Authority, (b) any rights of the Authority pertaining to expenses of and indemnification of the Authority under the Loan Agreement and indemnification of the Authority and its role as a third-party beneficiary under the Lease, and (c) the enforcement of certain rights of the Authority provided under the Loan Agreement.

“*Underwriter*” means (a) with respect to the Series 2015 Bonds, Robert W. Baird & Co. Incorporated; and (b) with respect to any Additional Bonds, the underwriter of such Additional Bonds.

SUMMARY OF THE INDENTURE, THE LOAN AGREEMENT AND THE LEASE

The following constitutes summaries of certain portions of the Indenture, the Loan Agreement and the Lease. The summaries do not purport to be complete and reference is made to the full text of each such document for a complete description thereof.

THE INDENTURE

General

The Indenture is a contract between the Authority and the Trustee for the benefit of the owners of the Bonds issued pursuant to the Indenture.

Trust Estate

The Authority absolutely assigns to the Trustee, and to its successors in trust, and its and their assigns, all right, title and interest of the Authority in and to (a) the Revenues, including, without limitation, all Loan Repayments and other amounts receivable by or on behalf of the Authority under the Loan Agreement in respect of repayment of the Loan and all moneys and investments in the Project Fund, the Revenue Fund, and the Redemption Fund; (b) the Loan Agreement, except for the Unassigned Authority Rights; (c) the Deeds of Trust; and (d) the Lease.

Additional Bonds

At the request of the Borrower, the Authority may (but will not be required to) issue Additional Bonds on behalf of the Borrower, from time to time for any purpose permitted by the Act; provided that:

Any Additional Bonds will be on a parity with the Series 2015 Bonds and any Additional Bonds theretofore or thereafter issued and Outstanding as to the assignment to the Trustee of the Authority's right, title and interest in the Revenues and the Loan Agreement, and the Borrower's right, title and interest in any Revenues comprised of undisbursed Bond proceeds on deposit in the Project Fund to provide for payment of Debt Service on the Bonds; provided, that nothing in the Indenture will prevent payment of Debt Service on any series of Additional Bonds from (a) being otherwise secured and protected from sources or by property or instruments not applicable to the Series 2015 Bonds and any one or more series of Additional Bonds, or (b) not being secured or protected from sources or by property or instruments applicable to the Series 2015 Bonds or one or more series of Additional Bonds.

In addition to the items set forth in the Indenture, the Trustee will have received an opinion or report of an independent certified public accountant to the effect that the conditions for the incurrence of additional Indebtedness set forth in the Loan Agreement have been met.

Regulations With Respect to Exchanges and Transfers

In all cases in which the privilege of exchanging Bonds or transferring Bonds is exercised, the Authority will execute and the Trustee will authenticate and deliver Bonds in accordance with the provisions of the Indenture. All Bonds surrendered in any such exchanges or transfers will forthwith be delivered to the Trustee and cancelled by the Trustee. Unless the Indenture provides that such transfer or exchange will be made without charge to the Holder, for every such exchange or transfer of Bonds, whether temporary or definitive, the Authority or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid and any other cost incurred by the Authority or the Trustee with respect to such exchange or transfer.

The Bonds may not be registered in the name of, or transferred to, any person except an Approved Institutional Buyer, unless the Authority has received an Investment Grade Notice, in which case transfers shall not be restricted to Approved Institutional Buyers. Only (a) Beneficial Owners or (b) the person(s) in whose name(s) the Bonds are registered under the Indenture will be treated as Holders and will have the rights of Holders under the Indenture.

Selection of Bonds to Be Redeemed

If less than all of the Bonds of like maturity of any Series will be called for redemption, except as otherwise provided in the Indenture, and any arrangements with a Depository with respect to Bonds registered in the name of a

Depository or its nominee, the particular Bonds or portions of Bonds to be redeemed will be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate; provided, however, that the portion of any Bond of a Series of a denomination greater than the minimum Authorized Denomination for the Bonds of such Series to be redeemed will be redeemed in part only in Authorized Denominations and that, in selecting portions of Bonds of a Series for redemption, the Trustee will treat each Bond of such Series as representing that number of Bonds of the minimum Authorized Denomination for such Series which is obtained by dividing the principal amount of such Bond to be redeemed in part by the minimum Authorized Denomination for such Series.

Payment of Redeemed Bonds

Notice having been given in the manner provided in the Indenture, the Bonds or portions thereof so called for redemption will become due and payable on the date fixed for redemption so designated at the Redemption Price, plus, if applicable, interest accrued and unpaid to the date fixed for redemption, and, upon presentation and surrender thereof at the office specified in such notice, such Bonds, or portions thereof, will be paid at the Redemption Price, plus, if applicable, interest accrued and unpaid to the date fixed for redemption. If there will be called for redemption less than all of the full principal amount of a Bond, the Authority will execute and the Trustee will authenticate and the Trustee will deliver, upon the surrender of such Bond, without charge to the Holder thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, a Bond or Bonds of like Series, terms, and maturity in any of the Authorized Denominations. If, on the date fixed for redemption, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, and, if applicable, interest accrued but unpaid on the principal amount of the Bonds to be redeemed to the date fixed for redemption, will be held by the Trustee so as to be available therefor on said date and if notice of redemption will have been given as aforesaid, then, from and after the date fixed for redemption interest on the Bonds or portions thereof so called for redemption will cease to accrue and become payable. If said moneys will not be so available on the date fixed for redemption, such Bonds or portions thereof will continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

If the date fixed for redemption for any Bond will be a date other than an Interest Payment Date for such Bond, accrued interest payable on the redemption of such Bond will be paid to the Holder of such Bond as of the date fixed for redemption.

Pledge and Assignment; Revenue Fund

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, Redemption Price and interest on the Bonds in accordance with their terms and the provisions of the Indenture, all of the Revenues and the right to receive the Revenues and any other amounts (including proceeds of the sale of Bonds) held in any fund or account established pursuant to the Indenture, excepting only moneys on deposit in the Rebate Fund and any Administrative Fees and Expenses, and all proceeds thereon or therefrom and any and all other property, rights and interests of every kind or description that from time to time hereafter is granted, conveyed, pledged, transferred, assigned or delivered as additional security, in each case. Said pledge will constitute a first lien on and security interest in such assets and will attach and be valid and binding from and after delivery by the Trustee of the Bonds, without any physical delivery thereof or further act.

The Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Holders from time-to-time of the Bonds, all of the Revenues and other assets pledged in in the preceding paragraph and all of the right, title and interest of the Authority in the Loan Agreement (except for the Unassigned Authority Rights, the right to receive Administrative Fees and Expenses to the extent payable to the Authority and any rights of the Authority to receive amounts paid by the Borrower pursuant to the Loan Agreement), and in and to the Deeds of Trust. Such assignment to the Trustee is solely to the Trustee in its capacity as Trustee and is subject to the provisions of the Indenture. The Trustee will be entitled to and will collect and receive all of the Revenues, and any Revenues 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, subject to the provisions of the Indenture, will take all steps, actions and proceedings

reasonably necessary in its judgment to enforce all of the rights of the Authority and all of the obligations of the Borrower under the Loan Agreement and the Deeds of Trust.

All Loan Repayments pursuant to the Loan Agreement and, except as set forth in the Indenture, all Additional Payments pursuant to the Loan Agreement and all other Revenues, will be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Revenue Fund" which the Trustee will establish, maintain and hold in trust, except as otherwise provided in the Indenture and except that all moneys received by the Trustee and required by the Loan Agreement to be deposited in the Redemption Fund will be promptly deposited in the Redemption Fund, which the Trustee will establish, maintain and hold in trust. All Revenues deposited with the Trustee will be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

If the Trustee has not received the amounts required to make the transfers and deposits required the Indenture on or before the thirtieth day of each month, unless such deficiency has been cured prior to such notification, the Trustee will notify the Borrower and the Corporation of such deficiency by no later than the fifteenth day of the following month and the Loan Agreement will provide that the Borrower will forthwith pay the amount of any such deficiency to the Trustee by no later than two Business Days after notice thereof to the Borrower and the Corporation. If by the tenth day preceding any Interest Payment Date, the Trustee has not received Revenues sufficient to make the transfers required by the Indenture, the Trustee will immediately notify the Borrower and the Corporation of such insufficiency by Electronic Means.

It is the intent of the parties to the Indenture that by reason of the Loan Agreement, the Borrower will not have any rights, title or interest in or to the Revenue Fund. If notwithstanding such intent, the Borrower is determined to have rights in the Revenue Fund, the Borrower pledges and grants a lien on and a security interest in the Revenue Fund to the Trustee to secure the payment of interest and principal on the Bonds.

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 the Unassigned Authority Rights) 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 Interest Account and Establishment of Subaccount

All amounts in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds and interest with respect to Parity Debt, in each case, as it will become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture).

The Trustee shall establish and maintain within the Interest Account a separate subaccount for the Series 2015 Bonds designated as the "Series 2015 Capitalized Interest Subaccount." Amounts deposited in the Series 2015 Capitalized Interest Subaccount pursuant to the Indenture shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Series 2015 Bonds as it shall become due and payable on September 1, 2015 and March 1, 2016.

Application of Principal Account

All amounts in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal or Mandatory Sinking Account Payments of the Bonds and principal with respect to Parity Debt when due and payable, as provided in the Indenture with respect to Bonds, and in the instrument relating to the incurrence of Parity Debt with respect to Parity Debt.

The Trustee will establish and maintain within the Principal Account a separate subaccount for the Bonds, designated as the "_____ Sinking Account," inserting therein the Series and maturity (if more than one such account established) for each Term Bond. On or before March 1 in each year, commencing March 1, 2017, the Trustee will transfer the amount deposited in the Principal Account on that date pursuant to the Indenture from the Principal Account to the Sinking Account for the purpose of making a Mandatory Sinking Account Payment (if such

deposit is required in such month). With respect to the Sinking Account, on each Mandatory Sinking Account Payment date established for the Sinking Account, the Trustee will transfer the amount deposited in the Principal Account pursuant to the Indenture for the purpose of applying the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Bonds, upon the notice and in the manner provided in the Indenture; provided that, at any time prior to giving such notice of such redemption, the Trustee will apply such moneys to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Borrower may direct, in writing, except that the purchase price (excluding accrued interest) will not exceed the par amount of such Bonds. If, during the 12-month period immediately preceding said Mandatory Sinking Account Payment date, the Trustee has purchased Bonds with moneys in the Sinking Account, or, during said period and prior to giving said notice of redemption, the Borrower or the Corporation have deposited Bonds with the Trustee, or Bonds were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Bonds so purchased or deposited or redeemed will be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Bonds purchased or deposited pursuant to this paragraph will be delivered to the Trustee and cancelled. Any amounts remaining in the Sinking Account when all of the Bonds are no longer Outstanding will be withdrawn by the Trustee and transferred to the Revenue Fund. All Bonds purchased from the Sinking Account or deposited by the Borrower or the Corporation with the Trustee will be allocated first to the next succeeding Mandatory Sinking Account Payment, then to the remaining Mandatory Sinking Account Payments as the Borrower directs.

Application of Reserve Account

All amounts in the Reserve Account will be used and withdrawn by the Trustee solely for the purpose of making up any deficiency in the Interest Account or the Principal Account, or (together with any other funds available) for the payment or redemption of all Outstanding Bonds.

Amounts on deposit in the Reserve Account will be valued by the Trustee at their fair market value, plus accrued interest to such valuation date, each March 1, commencing on March 1, 2016, and the Trustee will notify the Borrower of the results of such valuation in the event of a deficiency. If the amount on deposit in the Reserve Account on the first Business Day following such valuation is less than 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 Business Day following such valuation is greater than the Reserve Account Requirement, the excess will be withdrawn from the Reserve Account and transferred to the Revenue Fund.

Notwithstanding the foregoing, the Reserve Account may also secure Parity Debt provided that the Reserve Account is funded in an amount equal to the Reserve Account Requirement assuming that the term "Bonds" in the definition of Reserve Account Requirement includes the Bonds and such Parity Debt.

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 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. All Bonds purchased or redeemed from the Redemption Fund will be allocated to applicable Mandatory Sinking Account Payments designated in a Certificate of the Borrower (or if the Borrower fails to deliver such a Certificate to the Trustee, in inverse order of their payment dates).

Rebate Fund

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 written instructions of the Borrower given pursuant to the terms and conditions of the Tax Regulatory Agreement. Subject to the transfer provisions provided in the following paragraphs, 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 Regulatory Agreement), for payment to the federal government of the United States of America. Neither the Authority, the Borrower, 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 Indenture and by the Tax Regulatory Agreement. 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 Regulatory Agreement, and will have no liability or responsibility to enforce compliance by the Borrower, the Borrower or the Authority with the terms of the Tax Regulatory Agreement 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 or 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.

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 Regulatory Agreement. The Trustee will supply to the Borrower, and/or the Authority all necessary information in the manner provided in the Tax Regulatory Agreement to the extent such information is reasonably available to the Trustee.

The Trustee will have no obligation to rebate any amounts required to be rebated pursuant to the language contained under the above heading, other than from moneys held in the funds and accounts created under the Indenture or from other moneys provided to it by the Borrower.

At the written direction of the Borrower, the Trustee will invest all amounts held in the Rebate Fund in Investment Securities, subject to the restrictions set forth in the Tax Regulatory Agreement. Moneys will not be transferred from the Rebate Fund except as provided in the paragraphs below. The Trustee will not be liable for any consequences arising from such investment.

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, 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 or 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.

Notwithstanding any other provision of the Indenture, the obligation to remit the Rebate Requirement to the United States and to comply with all other requirements of the Indenture and the Tax Regulatory Agreement will survive the defeasance or payment in full of the Bonds.

Establishment and Application of Project Fund

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 used and withdrawn by the Trustee to pay the Project Costs. No moneys in the Project Fund will be used to pay Costs of Issuance or Operating Expenses.

Before any payment from the Project Fund will be made, the Borrower will file or cause to be filed with the Trustee a Requisition, in substantially the form attached to the Indenture signed by an Authorized Representative of the Borrower. 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 Project 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.

The completion date of the Project will be evidenced to the Trustee by the furnishing of a Certificate signed by the Authorized Representative of the Borrower, stating that the Project has been completed. Any Bond proceeds (including investment proceeds) remaining in the Project Fund on the date of receipt of the completion certificate will on such date be deposited by the Trustee in the Interest Account.

Investment of Moneys in Funds and Accounts

Except as set forth in the Indenture, all moneys in any of the funds and accounts established pursuant to the Indenture will be invested and reinvested by the Trustee, upon the written direction of the Borrower, solely in Investment Securities. The Trustee will be entitled to rely upon any investment direction provided to it under the Indenture as a certification to the Trustee that such investment constitutes an Investment Security. In the absence of written investment directions from the Borrower, the Trustee will invest solely in Investment Securities set forth in clause (f) of the definition thereof. All Investment Securities will be acquired subject to the limitations set forth in the Indenture, the limitations as to maturities hereinafter set forth and such additional limitations or requirements consistent with the foregoing as may be established by Request of the Borrower. The Trustee is authorized to trade with itself, or with any bank affiliated with it, in the purchase and sale of Investment Securities.

Moneys in all funds and accounts (other than the Reserve Account) will be invested in Investment Securities maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Indenture. Moneys in the Reserve Account will be invested in Investment Securities with a maturity of or ability to withdraw in full not to exceed five years from the date of investment. Investment Securities purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Trustee may deliver such Investment Securities for repurchase under such agreement. Investment Securities that are registerable securities will be registered in the name of the Trustee or its nominee.

All interest, profits and other income received from the investment of moneys in the Rebate Fund will be deposited when received in such fund. All interest, profits and other income received from the investment of moneys in any other fund or account established pursuant to the Indenture (other than the Rebate Fund and the Reserve Account) will be deposited when received (a) prior to the completion of the Project, in the Project Fund; and (b) thereafter, in the Revenue Fund. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security will be credited to the fund or account for the credit of which such Investment Security was acquired.

Investment Securities acquired as an investment of moneys in any fund or account established under the Indenture will be credited to such fund or account. For the purpose of determining the amount in any such fund or account (other than the Reserve Account), all Investment Securities credited to such fund or account will be valued at the lower of cost (exclusive of accrued interest after the first payment of interest following acquisition) or market value (plus, prior to the first payment of interest following acquisition, the amount of interest paid as part of the purchase price).

The Authority (and the Borrower by its execution of the Loan Agreement) acknowledges that regulations of the Comptroller of the Currency grant the Authority and/or the Borrower the right to receive broker confirmations of security transactions as they occur. The Authority and the Borrower specifically waive such notification to the extent permitted by law and acknowledges that the Authority and the Borrower will receive periodic cash transaction statements, which will detail all investment transactions. Unless contrary to written investment directions previously submitted to the Trustee, an account statement delivered by the Trustee to the Borrower will be deemed written confirmation by the Authority or the Borrower, as applicable, that the investment transactions identified therein accurately reflect the investment directions given to the Trustee by the Authority or the Borrower, as applicable, unless the Authority or the Borrower, as applicable, notify the Trustee in writing to the contrary within 30 days after the date of such statement.

Establishment and Application of Repair and Replacement Fund

The Trustee will establish, maintain and hold in trust a separate fund designated as the “Repair and Replacement Fund” pursuant to the provisions of the Loan Agreement

Amounts held in the Repair and Replacement Fund will be applied by the Trustee upon receipt of a Requisition from an Authorized Representative of the Borrower for costs of operating and maintaining the Facilities, including without limitation, performing capital maintenance.

Upon issuance of the Series 2015 Bonds, the Borrower will cause \$10,000 to be deposited with the Trustee from funds on deposit with Zions First National Bank, as master trustee for a portion of the obligations being refunded with proceeds of the Bonds.

Subsequent to the issuance of the Series 2015 Bonds, the Borrower will cause annual installments of \$50,000 to be deposited in the Repair and Replacement Fund pursuant to the provisions of the Loan Agreement until the Repair and Replacement Fund Requirement is met.

Establishment and Application of Expense Account

The Trustee will establish, maintain and hold in trust a separate account designated as the “Expense Account”

The Trustee is to transfer the Additional Payments constituting the Authority Annual Fee to or at the direction of the Authority when due, to the extent of amounts received from the Borrower therefor.

All amounts in the Expense Account are to be used and withdrawn by the Trustee solely for the purpose of paying the fees and expenses set forth in the Indenture when due upon receipt of a requisition from an Authorized Representative of the Borrower, except for fees and expenses payable to the Trustee and the Authority that may be withdrawn from the Expense Account by the Trustee when due without requisition therefor.

Power To Issue Bonds and Make Pledge and Assignment

The Authority is duly authorized pursuant to the Act to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned under the Indenture in the manner and to the extent provided in the Indenture. The Authority has duly authorized the execution and delivery of the Bonds and the Indenture under the terms and provisions of the Act and a resolution adopted by its Board of Directors. The Authority represents that all requirements have been met and procedures have occurred in order to ensure the enforceability against the Authority of the Bonds and the Indenture. The Authority represents that it has taken all necessary action and has complied with all provisions of the Act required to make the Bonds and the Indenture the valid, legal and binding limited obligations of the Authority.

Events of Default

Any one or more of the following events will be Events of Default: (a) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same will become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise; (b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment will become due and payable; (c) default by the Authority in the observance of any of the covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default will have continued for a period of 60 days after written notice thereof, specifying such default and requiring the same to be remedied, will have been given to the Authority, the Corporation and the Borrower by the Trustee, or to the Authority, the Borrower, the Corporation and the Trustee by the Holders of not less than 25% in aggregate principal amount of the Bonds at the time Outstanding; or (d) a Loan Default Event.

Acceleration of Maturities

If an Event of Default occurs and is continuing, the Trustee may, upon notice in writing to the Authority and the Borrower, (a) declare the principal of the Bonds, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same will become and will be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding; and (b) exercise any and all rights and remedies of the Trustee provided for in the Loan Agreement and the Deeds of Trust.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due will have been obtained or entered, the Authority or the Borrower will deposit with the Trustee a sum sufficient to pay all the principal or Redemption Price of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rates borne by the respective Bonds, and the reasonable fees, charges and expenses of the Trustee, including those of its attorneys and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) will have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate will have been made therefor, then, and in every such case, the Trustee, by written notice to the Authority and the Borrower, will rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment will extend to or will affect any subsequent default, or will impair or exhaust any right or power consequent thereon.

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 the Unassigned Authority Rights) 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 Revenues and Other Funds After Default

If an Event of Default will occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (subject to the provisions of the Indenture and other than moneys required to be deposited in the Rebate Fund) will be applied by the Trustee as follows and in the following order:

(a) to the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture; and

(b) to the payment of the principal or Redemption Price of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:

(i) unless the principal of all of the Bonds will have become or have been declared due and payable:

FIRST, to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available will not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

SECOND, to the payment to the persons entitled thereto of the unpaid principal (including Mandatory Sinking Account Payments) or Redemption Price of any Bonds which will have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available will not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date to the persons entitled thereto, without any discrimination or preference; and

(ii) if the principal of all of the Bonds will have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available will not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

Limitation on Bondholders' Right To Sue

No Holder of any Bond will have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Loan Agreement, the Deeds of Trust, or applicable provisions of any law with respect to such Bond, unless (a) such Holder will have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Holders of not less than 25% in aggregate principal amount of the Bonds then Outstanding will have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (c) such Holder or said Holders will have tendered to the Trustee indemnity satisfactory to it 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 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 or under law; 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 affect, disturb or prejudice the security of the Indenture or the rights of any other Holders of Bonds, or to enforce any right under the Indenture, the Loan Agreement, the Deeds of Trust, or applicable provisions of any law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right will be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

Duties, Immunities and Liabilities of Trustee

The Authority appoints Zions First National Bank as Trustee. 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, and, except to the extent required by law, no implied covenants or obligations will be read into the Indenture against the Trustee. 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 such person's own affairs.

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

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

The Trustee will not be relieved of its duties under the Indenture until its successor Trustee has accepted its appointment and assumed the duties of Trustee under the Indenture. 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 30 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 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 confirming 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 clause, the Authority will cause such Trustee to mail a notice of the succession of such Trustee to the trusts under the Indenture to the Bondholders at the addresses shown on the registration books maintained by the Trustee.

Any successor Trustee will be a trust company or bank having the powers of a trust company having (or, in the case of a trust company or bank included in a bank holding company system, with a bank holding company having) a combined capital and surplus of at least \$50,000,000.00 and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this paragraph the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. 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.

Amendments Permitted

The Indenture and the rights and obligations of the Authority, of the Trustee and of the Holders of the Bonds may be modified or amended from time to time and at any time by a Supplemental Indenture, which the

Authority and the Trustee may enter into only with the written consent of the Borrower, and when the written consent of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding will have been filed with the Trustee (the procedure for which is described below). No such modification or amendment will (a) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment, or reduce the rate of interest thereon, or change the method of determining the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected; or (b) reduce the aforesaid percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture (except as expressly permitted by the Indenture, as in the issuance of Additional Bonds), or deprive the Holders of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Holders of all Bonds then Outstanding. It will not be necessary for the consent of the Bondholders to approve the particular form of any 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 this paragraph, the Trustee will mail a notice, setting forth in general terms the substance of such Supplemental Indenture to the Bondholders at the addresses shown on the registration books maintained by the Trustee. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

If at any time the Borrower shall request the Trustee to enter into a Supplemental Indenture for any of the purposes of this section, the Trustee shall mail by first-class mail notice of the proposed execution of such Supplemental Indenture to the Holders of the Bonds at their addresses as the same shall last appear upon the registration records. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that copies thereof are on file at the designated office of the Trustee for inspection by all Holders. If, within 60 days following the mailing of such notice, the Owners of the requisite principal amount of the Bonds Outstanding at the time of the execution of any such Supplemental Indenture shall have consented to and approved the execution thereof as herein provided, no Owner of any Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof.

Notwithstanding anything to the contrary therein, the Indenture and the rights and obligations of the Authority, of the Trustee and of the Holders of the Bonds may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into without the consent of any Bondholders, but only with the written consent of the Borrower, only to the extent permitted by law and only for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Authority in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Authority in the Indenture; provided, that no such covenant, agreement, pledge, assignment or surrender will materially 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 or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority, the Borrower or the Trustee may deem necessary or desirable and not inconsistent with the Indenture, and which will not materially adversely affect the interests of the Holders of the Bonds;

(c) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which will not materially adversely affect the interests of the Holders of the Bonds;

(d) to provide any additional procedures, covenants or agreements to maintain the exclusion from gross income for federal income tax purposes of the interest on the Tax-Exempt Bonds, including the amendment of any Tax Regulatory Agreement;

(e) to provide for the issuance of Additional Bonds; or

(f) to make any other changes which will not materially adversely affect the interests of the Holders of the Bonds.

The Trustee may in its discretion, but will not be obligated to, enter into any such Supplemental Indenture authorized by the Indenture which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise. In executing, or accepting the additional trusts created by, any Supplemental Indenture permitted by the Indenture or the modifications thereby of the trusts created by the Indenture, the Trustee will be entitled to receive, and will be fully protected in relying upon, an Opinion of Counsel stating that the execution of such Supplemental Indenture is authorized by and in compliance with the Indenture.

Discharge of Indenture

The Bonds of any Series may be paid by the Authority or the Trustee on behalf of the Authority in any of the following ways: (a) by paying or causing to be paid the principal or Redemption Price of and interest on all Bonds of such Series Outstanding, as and when the same become due and payable; (b) by depositing with the Trustee, in trust, at or before maturity, moneys or securities in the necessary amount (as provided in the Indenture) to pay when due or redeem all Bonds of such Series then Outstanding; or (c) by delivering to the Trustee, for cancellation by it, all Bonds of such Series then Outstanding.

If the Authority will pay Bonds of all Series then Outstanding and will also pay or cause to be paid all other sums payable under the Indenture by the Authority, then and in that case at the election of the Authority (evidenced by a Certificate of the Authority filed with the Trustee signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds will not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture (except as otherwise provided in the Indenture) will cease, terminate, become void and be completely discharged and satisfied. In such event, upon the 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 to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver to the Borrower all moneys or securities or other property held by it pursuant to the Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption; provided that in all events moneys in the Rebate Fund will be subject to the provisions of 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 (as provided in the Indenture) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond); provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption will have been given as in the Indenture provided or provision satisfactory to the Trustee will have been made for the giving of such notice, then all liability of the Authority in respect of such Bond will cease, terminate become void and be completely discharged and satisfied, 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 payments, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture.

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

THE LOAN AGREEMENT

Borrower Required To Pay Costs in Event Project Fund Insufficient

If moneys in the Project Fund are not sufficient to pay all costs of the Project, the Borrower will not be entitled to any reimbursement for any such additional costs of the Project from the Authority, the Trustee or any registered owner; nor will they be entitled to any abatement, diminution or postponement of their obligation to make the Loan Repayments or Base Rent and Additional Rent, as the case may be.

Investment of Fund Moneys

At the written request of the Authorized Representative of the Borrower, any moneys consisting of Series 2015 Bond proceeds or income and profit from the investment of Series 2015 Bond proceeds and held as part of the Revenue Fund, the Insurance and Condemnation Proceeds Fund, the Cost of Issuance Fund, the Redemption Fund, the Project Fund, the Repair and Replacement Fund, the Expense Account or the Rebate Fund will be invested or reinvested by the Trustee in Investment Securities as provided in the Indenture. The Borrower covenants that it will restrict that investment and reinvestment and the use of the proceeds of the Series 2015 Bonds in such manner and to such extent, if any, as may be necessary, after taking into account reasonable expectations at the time of delivery of and payment for the Series 2015 Bonds, so that the Series 2015A Bonds will not constitute arbitrage bonds under Section 148 of the Code.

The Borrower will provide the Authority with, and the Authority may base its certifications as authorized by the Bond Resolution on, a certificate of the Borrower for inclusion in the transcript of proceedings for the Series 2015 Bonds, setting forth the reasonable expectations of the Borrower on the date of delivery of and payment for the Series 2015 Bonds regarding the amount and use of the proceeds of the Series 2015A Bonds and the facts, estimates and circumstances on which those expectations are based.

Rebate Fund

The Borrower agrees to make such payments to the Trustee as are required of it under the Indenture or as required by the Loan Agreement to be deposited into the Rebate Fund. The obligation of the Borrower to make such payments will remain in effect and be binding upon the Borrower notwithstanding the release and discharge of the Indenture.

Disbursements From the Project Fund and Costs of Issuance Fund

The Authority has, in the Indenture, authorized and directed the Trustee to make payments from the Project Fund to pay Project Costs and from the Costs of Issuance Fund for the payment of Costs of Issuance as provided in the Indenture. The Authority does not make any warranty either express or implied that the moneys in such Funds available for payment of the foregoing costs will be sufficient to pay such costs in full, and the Borrower agrees to pay or cause to be paid that portion of such costs in excess of the amount in such Funds from any moneys legally available for such purpose.

Deeds of Trust; Collateral Assignment of Lease

To secure the payment of Loan Repayments and Additional Payments, the performance by the Borrower of its other obligations under the Loan Agreement and the payment and performance of all obligations of the Borrower under any Parity Debt, the Borrower has entered into the Deeds of Trust which Deeds of Trust the Borrower agrees will be recorded simultaneously with the acquisition of the real property underlying the Mortgaged Property. The Borrower agrees, as long as any of the Loan Repayments or Additional Payments remain unpaid, to supplement the Deeds of Trust or to execute and deliver such other Deeds of Trust in substantially the form of the Deeds of Trust as may be necessary from time to time to grant the Trustee a first priority Lien on the Mortgaged Property, subject to Permitted Liens and the Lease. The Borrower will obtain or cause to be obtained, at its own cost and expense, ALTA policies of title insurance, or an endorsement to such policies at the time of and dated as of the date of acquisition of the Mortgaged Property, or, with respect to any Additional Bonds, the date of issuance of the Bonds

or Parity Debt, in an aggregate amount not less than the aggregate principal amount of the Bonds or Parity Debt to be outstanding after the issuance of such Bonds or Parity Debt, payable to the Trustee, insuring the Trustee's lien on the Mortgaged Property owned by the Borrower in fee, subject only to Permitted Liens and the Lease, issued by a title insurance company qualified to do business in the State. Subsequent to the issuance of the Series 2015 Bonds and the filing of the initial Uniform Commercial Code financing statements filed by other parties, the Trustee will file or cause to be filed continuation statements for the Uniform Commercial Code financing statements, and will execute and deliver such other documents as may be necessary or reasonably requested by the Authority in order to perfect or maintain as perfected such security interest or give public notice thereof.

Property will be released from the Deeds of Trust if such Property is sold or otherwise disposed of in compliance with the Loan Agreement. The Authority will or cause the Trustee to execute and deliver to the Borrower, all releases, Deeds of Trust of reconveyance or other documents as may be reasonably requested by the Borrower in connection with the release of such Property from the Deeds of Trust.

To secure the obligation of the Borrower to make Loan Repayments and Additional Payments, the performance by the Borrower of its other obligations under the Loan Agreement and the payment and performance of all obligations of the Borrower under any Parity Debt, the Borrower collaterally grants, transfers and assigns to the Trustee for the benefit of the Holders of the Bonds without recourse all of the Borrower's right, title and interest under the Lease, including without limitation the following: (a) all its rights to receive the Base Rent, and any other amount payable or to be paid by the Corporation under the Lease (except for payment of Additional Rent, the Authority's right to indemnification under the Lease and the Authority's rights as a third-party beneficiary of the Loan Agreement thereunder); and (b) all rents, profits, products and proceeds from the Mortgaged Property to which the Borrower has any right or claim whatsoever under the Lease.

The Borrower collaterally grants, transfers and assigns to the Trustee for the benefit of the Authority all of the Borrower's right, title and interest under the Lease to receive Additional Rent.

The Trustee accepts the foregoing assignments for its benefit and the benefit of the Holders of the Bonds and the Authority, subject to the terms and provisions of the Indenture, and all such payments will be applied and all such rights so assigned will be exercised by the Trustee as provided in the Indenture.

Prepayment

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 warrants and 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 Optional Redemption 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 or purchase of Outstanding Bonds in the manner and subject to the terms and conditions set forth in the Indenture. 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, and in the case of Bonds will be allocated as set forth in the Indenture. In the event of a partial prepayment pursuant to the Loan Agreement, the principal amount of the Loan Repayments is to be reduced by the principal amount of the Bonds to be redeemed with the proceeds of such prepayment. 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.

To the extent the Series 2015 Bonds are required to be redeemed in whole or in part pursuant to the Indenture, the Borrower will be obligated to prepay the Loan Repayments in the amounts and at such times as to permit the Authority to redeem such Series 2015 Bonds in accordance with the Indenture.

In the event of a partial prepayment or cancellation of the Bonds, the Borrower's obligation to pay Loan Repayments will be reduced or eliminated to correspond to the payment obligations of the Authority with respect to the Bonds after giving effect to the redemption of such Bonds from the proceeds of such prepayment.

Maintenance of Corporate Existence of the Borrower; Consolidation, Merger, Sale or Transfer Under Certain Conditions

The Borrower covenants and agrees that it will maintain its existence as a limited liability company and will not dissolve, sell or otherwise dispose of all or substantially all of its assets (except in compliance with the Loan Agreement) nor consolidate with or merge into another Person or permit one or more other Persons to consolidate with or merge into it; provided, that the Borrower may, without violating the covenants contained in the language under the above heading, consolidate with or merge into another Person, or permit one or more other Persons to consolidate with or merge into it, or sell or otherwise transfer to another Person such assets, if:

In the case of a substitution of a member: (a) the substitute member is a California nonprofit public benefit corporation that has received a determination from the Internal Revenue Service that it is an organization described in Section 501(c)(3) of the Code; (b) the Authority and the Trustee will have received a Favorable Opinion of Bond Counsel to the effect that, as of the effective date of such substitution, and after giving effect thereto: (i) the substitute member is an organization described in Section 501(c)(3) of the Code; and (ii) the Borrower remains a single member California limited liability company and an entity "disregarded as an entity separate from its owner," as that term is used in Section 301.7701-3 if the Treasury Regulations; and (c) the Trustee and the Authority will have received a Favorable Opinion of Bond Counsel to the effect that such substitution will not, in and of itself, affect the excludability of interest on the Series 2015A Bonds from the gross income of the registered owners thereof for federal income tax purposes.

In the case of a consolidation, merger, sale or other transfer: (a) the surviving, resulting or transferee Person, as the case may be: (i) assumes in writing, if such Person is not the Borrower, all of the obligations of the Borrower under the Loan Agreement and the other Borrower Documents and agrees to fulfill and comply with the terms, covenants and conditions thereof; and (ii) is not, after such transaction, otherwise in default under any provisions in the Loan Agreement or the Deeds of Trust; (b) the Trustee and the Authority will have received a Statement of an Authorized Representative of the Borrower to the effect that the total net assets (as defined in accordance with generally accepted accounting principles) of the surviving, resulting or transferee Person after such transaction is at least equal to 100% of the total net assets (as defined in accordance with generally accepted accounting principles) of the Borrower prior to such transaction; (c) the Trustee and the Authority will have received a Favorable Opinion of Bond Counsel to the effect that such merger, consolidation, sale or other transfer will not, in and of itself, affect the excludability of interest on the Series 2015A Bonds from the gross income of the registered owners thereof for federal income tax purposes; (d) the Trustee and the Authority will have received an Opinion of Counsel to the effect that the Loan Agreement and the other Borrower Documents constitute the legal, valid and binding obligations of the surviving, resulting or transferee Person, as the case may be, enforceable against such Person in accordance with their respective terms; and (e) the surviving, resulting or transferee Person, as the case may be, will deliver to the Trustee and the Authority a Statement of an Authorized Representative of the Borrower to the effect that it intends to continue to operate the Facilities in a manner which will allow it to continue to meet all of the Borrower's obligations under the Loan Agreement.

If a merger, consolidation, sale or other transfer is effected, in accordance with the above paragraph, such provisions will continue in full force and effect and no further merger, consolidation, sale or transfer will be affected except in accordance with such provisions.

Licensing; Accreditation

The Borrower covenants and agrees to use its best efforts to maintain all permits, licenses, accreditations and other governmental approvals necessary for the Borrower's ownership of the Facilities; provided, however, that nothing contained in the Loan Agreement will be construed to obligate the Borrower to retain or preserve any permits, licenses, accreditations or other governmental approvals no longer used or, in the judgment of the governing body of the Borrower, no longer useful in the conduct of its business.

Limitation on Creation of Liens

The Borrower covenants and agrees that it will not create, assume or suffer to exist any lien (including the charge upon property purchased under conditional sales or other title retention agreements) (a "security interest") upon the Mortgaged Property or the Property Revenues and the Borrower covenants that if a security interest is created or assumed upon the Mortgaged Property by the Borrower, it will make or cause to be made effective a provision whereby the obligations of the Borrower under the Loan Agreement and under any outstanding Parity Debt will be secured prior to any such indebtedness or other obligation secured by such security interest; provided, however, that notwithstanding the foregoing provisions, the Borrower may create, assume or suffer to exist Permitted Liens and the Lease.

Limitation on Disposition of Property, Plant and Equipment

The Borrower covenants and agrees that it will not sell or otherwise dispose, including any disposition by lease, of the Property, Plant and Equipment consisting of all or any part of the Facilities, except for disposition or transfers: (a) of Property, Plant and Equipment no longer necessary for the operation of the Mortgaged Property; (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; (c) of Property, Plant and Equipment sold or disposed of at a price equal to their fair market value; (d) pursuant to the Lease; or (e) as provided in specific sections of the Loan Agreement.

In addition to the foregoing limitations, the Borrower may not sell, lease or otherwise dispose (other than with respect to the public dedication in connection with the development of the Project) of any Property unless: (a) it will be established to the satisfaction of the Trustee that (i) the security of the Deeds of Trust and the ability of the trustee under the Deeds of Trust 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 Deeds 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; and (b) the Borrower provides the Trustee an opinion of a nationally recognized bond counsel that such sale, lease or disposition will not adversely affect the tax exempt status of the Series 2015A Bonds.

Accounting Records and Financial Statements

The Borrower covenants and agrees at all times to keep, and to cause the Corporation to keep with respect to the operations of the School, proper books of record and account, prepared in accordance with generally accepted accounting principles, in which complete and accurate entries will be made of all transactions of or in relation to the business, properties and operations of the Borrower. Such books of record and account will be available for inspection by the Trustee and Authority at reasonable hours and under reasonable circumstances.

Corporation's Charter, Corporation's Tax-Exempt Status

The Borrower covenants and agrees to take all reasonable actions to cause each tenant of the Facilities, including initially the Corporation, to maintain its Charter with the 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 the Sponsoring Entity. As soon as practicable, the Borrower covenants to provide the Trustee and Holders with a copy of any notice received from any tenants of the Facilities relating to any Sponsoring Entity's intent not 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.

Notwithstanding the foregoing, if the Lease is terminated prior to the repayment in full of the Bonds, the Borrower will use its best efforts to enter into another lease in substantially the same form as the terminated Lease with a 501(c)(3) Organization. Each such lease will require the lessee to pay Rent in an amount sufficient to enable Borrower to pay all of its obligations under the Loan Agreement when due and to include indemnification provisions therein which are acceptable to the Authority.

Best Efforts Upon Termination or Non-Renewal of Lease

In the event that at any time prior to repayment in full of the Series 2015 Bonds a Lease is terminated or not renewed by the Corporation, the Borrower agrees that it will use its best efforts to enter into another lease with a 501(c)(3) Organization with respect to the Facilities subject to the Lease that was terminated or not renewed.

Maintenance and Operation of the Facilities

The Borrower will operate and maintain, or cause the Corporation to operate and maintain, the Facilities 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 and the Corporation, as applicable. The Borrower will maintain and operate, or cause the Corporation to operate and maintain, the Facilities 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 Facilities which are material to the operation of the Facilities 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 Facilities will not be materially adversely impaired.

No later than March 1, 2020 and each fifth anniversary thereafter, the Borrower is to engage, or cause the Corporation to engage pursuant to the Lease, and Independent Management Consultant who shall make (i) an examination of and report on the physical condition of the Facilities and the Mortgaged Property and (ii) recommendations as to the amounts to be accumulated in the Repair and Replacement Fund for the proper maintenance and upkeep of the Mortgaged Property and the Facilities. To the extent that the Independent Management Consultant recommends an amount to be accumulated in the Repair and Replacement Fund greater than the amount then on deposit, the Borrower is to fund the recommended amount in excess of the amount then on deposit in equal monthly installments over the next five years. The Borrower will have the right to engage and accept the recommendations of another Independent Management Consultant report in the event the recommendations outlined in the initial report are deemed by the Corporation to be unreasonable and/or inconsistent with the School's operation and maintenance practices.

Taxes, Assessment, Other Governmental Charges and Utility Charges

The Borrower will pay and discharge, or will cause the Corporation to 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 Mortgaged Property or the interest therein of the Authority, the Trustee or the Holders of the Bonds, and will make, or cause the Corporation to 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 Mortgaged Property 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 neither the Borrower nor the Corporation, as applicable, will be required to pay any tax, assessment, rate or charge as provided in the Loan Agreement as long as it will in good faith contest the validity thereof; provided that the Borrower or the Corporation, as applicable, has set aside reserves with respect thereto that, in the opinion of the governing body of the Borrower, or the Corporation, as applicable, are adequate.

Insurance Required

The Borrower covenants and agrees that it will keep (or cause to be kept) property insurance (including builder's all-risk insurance, if applicable) against loss or damage to any structure constituting any part of the Mortgaged Property 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 (a) 100% of the replacement cost (without depreciation) of all improvements constituting any part of the Mortgaged Property; or (b) the principal amount of the Bonds then Outstanding, and will be subject to a deductible not to exceed \$100,000.

The Borrower covenants and agrees to procure and maintain (or cause to be procured and maintained), throughout the term of the Loan Agreement, rental interruption insurance to cover loss, total or partial, of rental income to the Borrower for any reason whatsoever, in an amount sufficient to pay the Maximum Annual Debt Service on the Bonds. Proceeds of such insurance in the amount of Maximum Annual Debt Service on the Bonds will be deposited into the Revenue Fund and applied to Loan Repayments in installments as the proceeds are paid to the Borrower.

The Borrower covenants and agrees to procure and maintain (or cause to be procured and maintained, at all times 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 Mortgaged Property.

The insurance required to be maintained pursuant to the Loan Agreement 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 or Corporation's retained liability and to pay anticipated claims expense: (a) 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; (b) the program provides for the administration and payment of claims to the extent of the Borrower's retained liability; (c) 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 (d) 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 for the type of coverage as to which the Borrower intends to act or is acting as a self-insurer.

An Independent Consultant will review the insurance requirements set forth in the Loan Agreement with respect to the Mortgaged Property from time-to-time (but not less frequently than once every five years) commencing March 1, 2020. If such review indicates that the Borrower should increase any of the coverages required by the Loan Agreement, the Borrower will review such recommendation with the governing body of the Borrower, and will increase such coverage; provided, however, that such coverage is available from Reputable Insurance Companies at a reasonable cost on the open market. The Borrower will deliver a copy of any review it receives from the Independent Consultant to the Trustee within 5 Business Days of the Borrower's receipt thereof.

The Borrower covenants that it will use its best efforts to apply for, and cooperate with the Corporation in the application of, any grants, loans or other relief available from the State or federal government to obtain amounts necessary to rebuild any portion of the Mortgaged Property 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 or the Corporation's programs.

Disposition of Insurance and Condemnation Proceeds

Subject to the application of insurance and condemnation provisions in agreements constituting Permitted Liens, all proceeds of the insurance carried pursuant to the Loan Agreement (except proceeds of the liability portion, if any, of such insurance), and proceeds of any condemnation awards with respect to the Mortgaged Property, in each case, in excess of 10% of the Book Value of the Mortgaged Property will be paid immediately upon receipt by the Borrower or other named insured parties to the Trustee for deposit in a special fund which the Trustee will establish and maintain and hold in trust pursuant to the Indenture, to be known as the “Insurance and Condemnation Proceeds Fund.” In the event that the proceeds of any loss or damage to or condemnation of the Facilities will be less than 10% of the Book Value of the Mortgaged Property, the Borrower may retain such proceeds without any formality whatsoever. In the event the Borrower elects to repair or replace the Mortgaged Property damaged, destroyed or taken, moneys in the Insurance and Condemnation Proceeds Fund will be disbursed by the Trustee, after deducting therefrom the reasonable charges and expenses of the Trustee in connection with the collection and disbursement of such moneys, for the purpose of repairing or replacing the Mortgaged Property 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; provided, that unless the Trustee receives written notice (with a copy to the Authority) from the Borrower and the Corporation that after repair and replacement the Mortgaged Property will continue to be used for the purposes for which they were constructed, no such disbursement will be made prior to receipt by the Trustee of the written consent of the Authority.

If the Borrower will elect not to, or cannot, repair or replace the Mortgaged Property damaged, destroyed or taken, as provided in the Loan Agreement, 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; provided, that if any Parity Debt is then outstanding, any such transfer from the Insurance and Condemnation Proceeds Fund will be deposited in part in the Special Redemption Account and in part in such other fund or account as may be appropriate (and used for the retirement of Parity Debt) in the same proportion which the aggregate principal amount of Outstanding Bonds then bears to the principal amount of such Parity Debt.

If all amounts in the Insurance and Condemnation Proceeds Fund exceed 10% of the Book Value of the Mortgaged Property, but are not sufficient to retire all Bonds and Parity Debt 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 Revenues are projected to be at least equal to Aggregate Debt Service on all Bonds and Parity Debt for each of the three full Fiscal Years immediately following such transfer after giving effect to the retirement of such Bonds and Parity Debt. In the event such report of an Independent Consultant shows that projected Revenues will not be sufficient to pay Aggregate Debt Service on all Bonds and Parity Debt for each of the three full Fiscal Years immediately following such transfer after giving effect to the retirement of such Bonds and Parity Debt, the Borrower will apply all amounts in the Insurance and Condemnation Proceeds Fund to the repair or replacement of the Mortgaged Property damaged, destroyed or taken, as provided in the Loan Agreement, unless the Borrower will file a further report of an Independent Consultant showing that even after making such repair and replacement, Revenues is not projected to be at least equal to Aggregate Debt Service on all Bonds and Parity Debt for each of the three Fiscal Years immediately following such repair and replacement, in which event the Trustee will transfer all moneys in the Insurance and Condemnation Proceeds Fund as provided in the Loan Agreement.

Events of Default

Each of the following events will constitute and be referred to in the Loan Agreement as a “Loan Default Event”:

- (a) failure by the Borrower to pay in full any payment required under the Loan Agreement when due, whether at maturity, upon a date fixed for prepayment, by declaration or otherwise pursuant to the terms of the Loan Agreement;
- (b) if any material representation or warranty made by the Borrower in the Loan Agreement or made by the Borrower in any document, instrument or certificate furnished to the Trustee or the

Authority in connection with the issuance of the Bonds will at any time prove to have been incorrect in any respect as of the time made;

(c) if the Borrower will fail to observe or perform any covenant, condition, agreement or provision in the Loan Agreement on its part to be observed or performed, other than as referred to in the Loan Agreement, or will breach any warranty by the Borrower contained in the Loan Agreement, for a period of 60 days after written notice, specifying such failure or breach and requesting that it be remedied, has been given to the Borrower by the Authority or the Trustee; except that, if such failure or breach can be remedied but not within such 60-day period and if the Borrower has taken all action reasonably possible to remedy such failure or breach within such 60-day period, such failure or breach will not become a Loan Default Event for so long as the Borrower will diligently proceed to remedy same in accordance with and subject to any directions or limitations of time established by the Trustee;

(d) if the Borrower files a petition in voluntary bankruptcy, for the composition of its affairs or for its reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of the Mortgaged Property;

(e) if a court of competent jurisdiction will enter an order, judgment or decree declaring the Borrower an insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Borrower or of the whole or any substantial part of the Mortgaged Property, or approving a petition filed against the Borrower seeking reorganization of the Borrower under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree will not be vacated or set aside or stayed within 60 days from the date of the entry thereof;

(f) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction will assume custody or control of the Mortgaged Property, and such custody or control will not be terminated within 60 days from the date of assumption of such custody or control;

(g) any Event of Default as defined in and under the Indenture;

(h) any default under the Deeds of Trust; or

(i) any event of default as defined in and under any document with respect to Parity Debt.

Upon having actual notice of the existence of a Loan Default Event, pursuant to the notice requirements of the Loan Agreement, the Trustee will serve written notice thereof upon the Borrower unless the Borrower has expressly acknowledged the existence of such Loan Default Event in a writing delivered by the Borrower to the Trustee or filed by the Borrower in any court. As used in the Loan Agreement, the term “actual knowledge” means the actual fact or statement of knowing without any duty to make any investigation with regard thereto.

Remedies in General

Upon the occurrence and during the continuance of any Loan Default Event, the Trustee on behalf of the Authority, at the Trustee’s option but subject to the limitations in the Indenture as to the enforcement of remedies, may take such action as it deems necessary or appropriate to collect amounts due under the Loan Agreement, to enforce performance and observance of any obligation or agreement of the Borrower under the Loan Agreement or to protect the interests securing the same, and may, without limiting the generality of the foregoing:

(a) exercise any or all rights and remedies given by the Loan Agreement or available under the Loan Agreement or given by or available under any other instrument of any kind securing the Borrower’s performance under the Loan Agreement;

(b) by written notice to the Borrower declare an amount equal to all amounts then due and payable on the Bonds, whether by acceleration of maturity or otherwise, to be immediately due and payable under the Loan Agreement, whereupon the same will become immediately due and payable; and

(c) take any action at law or in equity to collect the payment required under the Loan Agreement then due, whether on the stated due date or by declaration of acceleration or otherwise, for damages or for specific performance or otherwise to enforce performance and observance of any obligation, agreement or covenant of the Borrower under the Loan Agreement and under the Deeds of Trust.

Term

Except as otherwise provided in the Loan Agreement will remain in full force and effect from the date of execution of the Loan Agreement until no Bonds remain Outstanding under the Indenture and all payments required under the Loan Agreement have been made.

THE LEASE

Term

The term of the Lease will commence on the Commencement Date and end on the Termination Date. The Tenant will have the option to renew the Lease after the Termination Date for three additional, consecutive five-year periods at a Base Rent which is determined by mutual agreement of the Landlord and the Tenant on the basis of the fair market rental for the Facilities.

Option to Terminate

Tenant has the right to terminate the Lease without penalty in the event Tenant's application for renewal of any of the School's charter is denied by the District or such local or state entity or government authority responsible for the acceptance or rejection of charter status (the "Termination Option"). Tenant may exercise the Termination Option by providing Landlord and Trustee with written notice of such Tenant's intent to exercise the Termination Option no later than 90 days prior to the expiration of such Tenant's current charter of the School, or within 10 days of actual notification of the denial, whichever is later. Such written notice is to include sufficient evidence of such Tenant's denial of charter status by the District or such other local or state entity or government authority responsible for the acceptance or rejection of charter status. Notwithstanding the foregoing, in the event either Tenant exercises its Termination Option, such Tenant is to continue to pay Base Rent and all other amounts due under its Lease to Landlord until such time that Landlord or Tenant secures a tenant reasonably satisfactory to Landlord, and who meets the requirements of the Financing, to lease the Facilities and such tenant enters into a lease with Landlord and commences the payment of Base Rent, Additional Rent, Expenses and all other amounts due under the Lease.

Base Rent, Additional Rent, and Expenses

Tenant will pay all Base Rent, Additional Rent, Expenses and other charges as set forth in the Lease, without offset or other limit (except as otherwise provided in the Lease). Additional Rent, Expenses and other charges as set forth in the Lease will be paid directly by the Tenant. Amounts equal to Base Rent will be paid to Landlord in lawful currency of the United States. Tenant will be entitled to a five-day grace period to pay rent. The failure of Tenant to make any payment required under the language under the above caption when due will be deemed to be a default in payment of rent, which will give Landlord all remedies under California law relating to a default in payment of rent. All payments received by Landlord will be applied as set forth in the Loan Agreement. Tenant may, at its option, prepay any or all portions of the Base Rent in advance of the due date ("Prepayment"). Any Prepayment will be applied as agreed upon by the Parties. Tenant's obligation to pay Additional Rent will survive the termination of the Lease.

Payment of Additional Rent, Expenses

Tenant will pay (a) the amount of all Expenses directly to the party to which such amounts are due; and (b) all Additional Rent to Landlord within five days after receiving an invoice from Landlord itemizing (with reasonable description) such Additional Rent. Notwithstanding the foregoing, if any Expense paid by Tenant in accordance with the Lease constitutes a repair or replacement expense for which Landlord is entitled to requisition payment from the Repair and Replacement Fund established under the Indenture, Landlord will submit a requisition for such Expense to the Trustee and upon Landlord's receipt of payment from the Trustee for such Expense, the amount received by Landlord will be applied to reduce the amount of Expenses next payable by Tenant to Landlord under the Lease.

Use

Tenant will use the Facilities solely for the purposes set forth in the Lease and for no other purpose inconsistent with that use unless the Parties agree in writing otherwise.

Compliance with Laws

Tenant will, at their sole cost and expense, promptly comply with all laws, statutes, ordinances and governmental rules, regulations or requirements now in force or which may hereafter be in force, and with the requirements of any board of fire insurance underwriters or other similar bodies now or hereafter constituted, relating to, or affecting the condition, use or occupancy of the Facilities, excluding structural changes to the Facilities not related to or affected by Tenant's improvements or acts.

Representations of Tenant Regarding the Financing

Tenant will not take any action or omit to take any action which, if taken or omitted, respectively, would adversely affect the excludability of interest on the Series 2015A Bonds from the gross income, as defined in Section 61 of the Code, of the owner thereof for federal income tax purposes. Tenant will execute such amendments and supplements to the Lease (and will comply with the provisions thereof) as requested by Landlord that are necessary to preserve such exclusion.

Tenant represents, warrants and covenants that: (a) its purposes, character, activities, and methods of operation have not changed materially since its organization and are not materially different from the purposes, character, activities, and methods of operation contemplated at the time of its determination by the Internal Revenue Service to be an organization described in Section 501(c)(3) of the Code; (b) it has not operated, and will not operate, in a manner that would result in it being classified as an "action" organization within the meaning of Section 1.501(c)(3)(1)(c)(3) of the Treasury Regulations, including, but not limited to, promoting or attempting to influence legislation by propaganda or otherwise as a substantial part of its activities; (c) none of its directors, officers, organizers or incorporators, or any Person controlled by it, or any other Person having a private interest in the activities of it has acquired or received nor will such Persons be allowed to acquire or receive, directly or indirectly, without due compensation, goods, or services therefor, or any of the income or assets of Tenant, in any form; (d) has not received any indication or notice to the effect that its exemption from federal income taxation under Section 501(a) of the Code has been revoked or modified, or that the Internal Revenue Service is considering revoking or modifying such exemption, and such exemption is still in full force and effect; (e) Tenant has timely filed and will timely file with the Internal Revenue Service all returns required to be filed by it to maintain its status as organizations described in Section 501(c)(3) of the Code, and such returns were substantially complete in accordance with the instructions therefor; (f) Tenant has not devoted nor will it devote more than an insubstantial part of its activities in furtherance of a purpose other than an exempt purpose within the meaning of Section 501(c)(3) of the Code; (g) Tenant has not taken any action, nor knows of the existence of any condition which would cause Tenant to lose its exemption from federal income taxation under Section 501(a) of the Code or cause interest on the Series 2015A Bonds to be includable in the income of the recipients thereof for federal income tax purposes; (h) Tenant will be organized and will conduct its operations in such a manner so as to qualify it as an organization described in Section 501(c)(3) of the Code; and (i) Tenant will not use the Facilities in any unrelated trade or business. Except where such use would not result in any of the Series 2015A Bonds being treated as an obligation not described in Section 103(a) of the Code or allow the Facilities to be used by any Person that is not a 501(c)(3)

Organization or Governmental Unit or by a 501(C)(3) Organization in an Unrelated Trade or Business, except where such use would not result in any of the Series 2015A Bonds being treated as an obligation not described in Section 103(a) of the Code; for purposes of this clause (i), property is considered to be “used” by a Person if: (i) it is sold or otherwise disposed of, or leased, to such Person; (ii) it is operated, managed, or otherwise physically employed, utilized, or consumed by such Person, excluding operation or management pursuant to an agreement which meets the guidelines set forth in Treasury Regulation Section 1.141-3(c), including any amendments or revisions thereto; (iii) capacity in or output or service from such property is reserved or committed to such Person under a take-or-pay, output, incentive payment, or similar contract or arrangement; (iv) such property is used to provide service to (or such service is committed to or reserved for) such Person on a basis or terms which are different from the basis or terms on which such service is provided (or committed or reserved) to members of the public generally; or (v) substantial benefits and burdens of ownership of such property are otherwise effectively transferred to such Person.

Prohibition on Use in Facilities

Tenant will not introduce any Hazardous Substances in, on or adjacent to the Facilities or the Facilities without complying with all applicable federal, state, and local laws, ordinances, rules, regulations, or policies relating to the release, storage, use, disposal, transportation or clean-up of Hazardous Substances, including, but not limited to, the obtaining of proper permits; provided that (a) the amount of such Hazardous Substances does not exceed the normal and customary quantities necessary for the operation and maintenance of the Facilities in the ordinary course of Tenant’s business; and (b) the use, storage and disposal of such Hazardous Substances otherwise strictly complies with all applicable laws, ordinances, rules, regulations and policies. Tenant will immediately notify Landlord of any release or any inquiry, test, investigation, or enforcement proceeding by or against Tenant or the Facilities concerning a Hazardous Substances.

Structural Maintenance and Repairs

Tenant will maintain in good condition and repair or, when necessary, replace the roof, foundations, and structural portions of the buildings and the Facilities, including the exterior and interior walls, mechanical and building systems, the unexposed electrical, plumbing and sewage systems, including those portions of the systems lying outside the Facilities, gutters and down spouts, and the heating, ventilating and air conditioning systems. Tenant will maintain all necessary reserves for replacement of such items.

No later than March 1, 2020 and each fifth anniversary thereafter, the Tenant shall engage an Independent Consultant who shall make (i) an examination of and report on the physical condition of the Facilities and the Mortgaged Property and (ii) recommendations as to the amounts to be accumulated in the Repair and Replacement Fund for the proper maintenance and upkeep of the Mortgaged Property and the Facilities. To the extent that the Independent Consultant recommends an amount to be accumulated in the Repair and Replacement Fund greater than the amount then on deposit, the Tenant shall fund the recommended amount in excess of the amount then on deposit in equal monthly installments over the next five years. The Tenant shall have the right to engage and accept the recommendations of another Independent Consultant report in the event the recommendations outlined in the initial report are deemed by the Tenant to be unreasonable and/or inconsistent with the School’s operation and maintenance practices.

Tenant will be responsible for all costs associated with compliance with requirements of the Americans with Disabilities Act (42 U.S.C. §§12101 et seq.) (“ADA”) or seismic requirements including, without limitation, installation of improvements, change of use, or remodeling or reconfiguring portions of the Facilities, which give rise to or which cause the compliance to be required.

Except as provided in the Lease, Tenant will maintain all parts of the Facilities in good, clean and secure condition and repair including, without limitation, any necessary repairs and/or alterations with respect to: (a) any carpet or other floor covering; (b) any interior wall surfaces or partitions; (c) any doors, locks, interior windows; (d) all plumbing, plumbing fixtures, pipes, pipe fixtures, electrical wiring, switches and any and all other fixtures; (e) all standard building furnishings and special items and equipment installed by or at the expense of Tenant; (f) any telephone and computer or data cabling that serves Tenant’s equipment exclusively; (g) all private showers and kitchens, including any plumbing in connection therewith; and (h) any alterations, additions or improvements performed or caused to be performed by Tenant, including, without limitation, any costs, repairs or maintenance

associated with the ADA, seismic laws, asbestos abatement laws, or any other law, ordinance, code or other governmental act requiring any repair, maintenance or remediation in the Facilities, regardless whether such requirements exist as of the Commencement Date or arise due to new laws, rules, or regulations enacted after the Commencement Date.

In addition to the foregoing, Tenant will be responsible for all repairs and alterations in and to the Facilities and the Facilities, as well as any facilities and systems thereof, the need for which arises out of: (a) Tenant's use or occupancy of the Facilities, including, but not limited to, any repairs or alterations required as a result of or incident to the application of any law, including, but not limited to, the ADA, to Tenant's use of the Facilities; (b) the installation, removal, use or operation of Tenant's Property in the Facilities; (c) the moving of Tenant's Property into or out of the buildings; or (d) the act, omission, misuse or negligence of Tenant, its agents, contractors, employees or invitees.

If Tenant fails to perform Tenant's obligations under the Lease, Landlord may at its option enter upon the Facilities after 24 hours' prior written notice to Tenant (except in the case of an emergency, in which case no notice will be required), perform such obligations on Tenant's behalf and put the same in good order, condition and repair, and the cost thereof together with interest thereon at the annual rate of 10% (not to exceed the maximum rate permitted under California law) will become due and payable as Additional Charges together with Tenant's next installment. Landlord will have no liability to Tenant for any damage, inconvenience, or interference with the use of the Facilities by Tenant as a result of performing any such work.

Insurance

Tenant is to keep (or cause to be kept) property insurance (including builder's all-risk insurance, if applicable) against loss or damage to any structure constituting any part of the Facilities by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Said extended coverage insurance shall, 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 shall be in an amount equal to the lesser of (i) 100% of the replacement cost (without depreciation) of all improvements constituting any part of the Facilities; or (ii) the principal amount of the Bonds then Outstanding, and shall be subject to a deductible not to exceed \$100,000.

Tenant covenants and agrees to procure and maintain (or cause to be procured and maintained), throughout the term of the Lease, rental interruption insurance to cover loss, total or partial, of rental income to Tenant for any reason whatsoever, in an amount sufficient to pay the maximum annual debt service on the Series 2015 Bonds, which amount is \$1,881,000. Proceeds of such insurance shall be deposited into the Revenue Fund.

Tenant covenants and agrees to procure and maintain (or cause to be procured and maintained), at all times, liability insurance in amounts which are customarily carried and against such risks as are customarily insured against by other charter schools in connection with the operation of facilities of similar character and size to the Facilities.

The insurance required to be maintained pursuant to clause (c) above may include alternative risk management programs, including adequate self-insurance. A self-insurance program shall be considered to be adequate if Tenant 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 Landlord's or the Tenant's retained liability and to pay anticipated claims expense: (a) Tenant has received a report from its consulting actuary concerning the program, including the Tenant'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; (b) the program provides for the administration and payment of claims to the extent of the Tenant's retained liability; (c) 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 Tenant may withdraw from the trust and that a copy of the consulting actuary's annual review shall be filed with the Authority (if requested by the Authority) and the Trustee; and (d) the program requires that Tenant 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 Lease for the type of coverage as to which Tenant intends to act or is acting as a self-insurer.

An Independent Consultant shall review the insurance requirements set forth herein with respect to the Facilities from time-to-time (but not less frequently than once every five years) commencing March 1, 2020. If such review indicates that Tenant should increase any of the coverages required by this section of the Lease, Tenant shall review such recommendation with the governing body of Tenant, and shall increase such coverage; provided, however, that such coverage is available from Reputable Insurance Companies at a reasonable cost on the open market. Tenant shall deliver a copy of any review it receives from the Independent Consultant pursuant to the Lease to the Trustee within 5 Business Days of the Tenant's receipt thereof.

Tenant covenants that it will use its best efforts to apply for, and cooperate with Tenant in the application of, any grants, loans or other relief available from the State or federal government to obtain amounts necessary to rebuild any portion of the Facilities destroyed or damaged in connection with an uninsured or underinsured calamity causing destruction or damage; provided, however, that Tenant shall not be required to accept such amounts if doing so would jeopardize the integrity of the Tenant's programs.

Tenant is to comply with the Workers' Disability Compensation Act of the State, or any successor statute or statutes, including procuring and maintaining workers' compensation insurance necessary to comply with State law.

The insurance policies required of Tenant under the Lease are to be carried by a Reputable Insurance Company which is financially responsible and capable of fulfilling the requirements of such policies. All such policies shall name Landlord, Tenant and the Trustee as insured parties, beneficiaries or loss payees as their interest may appear. Each policy shall be in such form and contain such provisions as are generally considered standard for the type of insurance involved; and Tenant or Landlord shall give at least 30 days' written notice to the Trustee following Tenant's or Landlord's receipt of notice from the applicable insurer of any cancellation or substantial modification of the policy provisions. In lieu of separate policies, Landlord or Tenant may maintain blanket policies which cover any one or more risks required to be insured against so long as the minimum coverages required herein are met. Tenant shall provide a Certificate which complies with Section 1.02 of the Indenture at least annually, commencing on the Closing Date, to the Trustee certifying that insurance is in place which complies with the Lease.

No policy of insurance required of Tenant under the Lease is to be cancelable or subject to reduction of coverage or other material modification except after 30 days' prior written notice thereof to Landlord. In the event of such cancellation or reduction of coverage, the Party responsible for such coverage, within 15 days prior to the cancellation or modification of such policy, shall furnish the other Party with a renewal or replacement policy so that at all times, the insurance coverage required of Tenant under the Lease shall be maintained. If Tenant shall fail to procure and maintain such insurance, Landlord may, but shall not be required to, procure and maintain same, but at the expense of Tenant.

Indemnification

Tenant will indemnify, protect, defend, and hold the Landlord and the Trustee harmless against and from liability, claims, actions, or proceedings of any kind for loss or damage to property of Tenant or any other person, or for any injury to or death of any person, arising out of: (a) Tenant's use and occupancy of the Facilities, or any work, activity or other things allowed or suffered by Tenant to be done in, on or about the Facilities or the Facilities; (b) any breach or default by Tenant of any of Tenant's obligations under the Lease; (c) any negligent or otherwise tortious act or omission of Tenant, its agents, employees, invitees or contractors; or (d) theft. Tenant will at Tenant's expense, and by counsel selected by Landlord and Trustee (subject to approval of applicable insurer(s) which have accepted coverage unconditionally and without reservation), defend the Landlord and Trustee in any action or proceeding arising from any such claim and will indemnify Landlord and Trustee against all costs, attorney's fees, expert witness fees and any other expenses incurred in such action or proceeding. As a material part of the consideration for Landlord's execution of the Lease, Tenant assumes all risk of damage or injury to any person or property in, on or about the Facilities from any cause except for risk resulting from the Landlord's intentional or negligent conduct, or as is otherwise imposed by operation of law.

As material consideration to Landlord, Tenant agrees that Landlord will not be liable to Tenant for any damage to Tenant or Tenant's property from any cause, and Tenant waives all claims against Landlord for damage to persons or property arising for any reason, except for damage resulting directly and solely from Landlord's intentional or negligent conduct or breach of its express obligations under the Lease which Landlord has not cured within a reasonable time after receipt of written notice of such breach from Tenant.

In addition to the foregoing, Tenant agrees to indemnify the Authority and the Trustee in accordance with the Loan Agreement, which obligation will survive termination of the Lease, and Tenant and Landlord acknowledge that their obligations under the Loan Agreement are joint and several.

Damage or Destruction

In the event of damage to the Facilities that is caused by any casualty which is covered under an insurance policy required to be maintained under the Lease or the Loan Agreement, then Landlord will diligently commence and execute repair of such damage upon receipt from the insurer of the proceeds, but only to the extent of proceeds actually received by Landlord, and the Lease will continue in full force and effect.

In the event of damage to the Facilities which is caused by a casualty not covered under an insurance policy required by the Lease, or for which there is a dispute with an insurer regarding coverage, except those caused by a negligent or willful act or omission of Tenant, Tenant may, at Tenant's option, either: (a) if such damage materially interferes with Tenant's use and quiet enjoyment of the Facilities, terminate the Lease effective on the date of the damage; or (b) give written notice to Landlord within 30 days after the date of occurrence of such damage requiring Landlord to rebuild the Facilities, in which event the Lease will continue in full force and effect, and Landlord will diligently commence and execute such repairs.

If the Facilities are totally destroyed during the Term from any cause whether or not covered by the insurance required under the Lease (including any destruction required by any authorized public authority), the Lease will automatically terminate as of the date of such total destruction.

The Lease will only terminate under the circumstances set forth in the language under the above heading if Landlord has no duty to repair and/or rebuild under the Loan Agreement.

If the Facilities are partially destroyed or damaged during the last six months of the Term, either Party to the Lease may terminate the Lease as of the date of occurrence of such damage by giving written notice to the other of such election to do so within 30 days after the date of occurrence of such damage.

Landlord will not be required to repair or replace any alterations, improvements, or additions installed in the Facilities by Tenant, any personal property owned by Tenant or Tenant's Parties, or any improvements or additions subject to reimbursement by Tenant for which full payment has not been made.

If the Facilities are partially destroyed or damaged, the rent payable under the Lease will be abated in proportion to the extent to which Tenant's use of the Facilities is impaired. Except for abatement of rent, if any, or to the extent that such casualty is caused by Landlord's gross negligence or willful misconduct, Tenant will have no claim against Landlord for any damage suffered by reason of any such damage, destruction, repair or restoration.

Condemnation

If the Facilities or any portion thereof are taken under the power of eminent domain, or sold by Landlord to a public authority under the threat of the exercise of such power (all of which is referred to in the Lease as "Condemnation"), the Lease will terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever occurs first. If all portions of the Facilities necessary for reasonable access thereto or more than 25% of the Facilities is taken by condemnation, either Landlord or Tenant may terminate the Lease, as of the date the condemning authority takes possession, by notice in writing of such election within 20 days after Landlord will have notified Tenant of the Condemnation, or in the absence of such notice then within 20 days after the

condemning authority will have taken possession. Notwithstanding the foregoing, the Lease will only terminate under the circumstances set forth above if Landlord has no duty to replace under the Loan Agreement.

All awards for the taking of any part of the Facilities or any payment made under the threat of the exercise of compensation for diminution of value of a leasehold or for the taking of the fee or as severance damages will be payable to Landlord; provided, however, that Tenant will be entitled to any award for loss of or damage to Tenant's trade fixtures and removable personal property.

If the Lease is not terminated by either Landlord or Tenant then it will remain in full force and effect as to the portion of the Facilities remaining, provided the Base Rent will be reduced in proportion to the portion of the Facilities or Facilities taken by Condemnation. In the event the Lease is not so terminated then Landlord will, at Landlord's sole cost, but only to the extent of compensation or severance damages actually received by Landlord in connection with such condemnation, restore the Facilities or Facilities, as applicable, to the quality and character as existed prior to the condemnation as soon as reasonably possible. Tenant will pay any amount in excess of such severance damages required to complete such repair.

Deposit of Certain Gross Income of the School Into Blocked Account for Payment of Base Rent

Tenant agrees to establish and maintain with a commercial bank selected by the Tenant a bank deposit account that is a blocked account (the "Blocked Account") with standing instructions and direction to the commercial bank for the payment of Base Rent set forth in the Lease from the Blocked Account in accordance with such instructions and directions. The Tenant covenants and agrees to immediately deposit into the Blocked Account that portion of the Gross Income of the School that is otherwise paid to the Tenant from the San Diego County Office of Education and/or the Riverside County Office of Education. The title to the Blocked Account will be in the Tenant, provided however, any changes to the standing instructions and directions to the commercial bank will require the written authorization of both the Landlord and the Tenant. Immediately, following the payment of Base Rent pursuant to such standing instructions and direction, the commercial bank will have standing instructions to transfer the balance of all moneys remaining in the Blocked Account to a separate deposit account established by each Tenant, in its sole discretion, with a commercial banking or other financial institution. The failure of the Tenant to maintain the Blocked Account will be deemed to be a default under the Lease.

Engagement of Independent Management Consultant upon Failure to Meet Fund Balance Requirement

If, within 12 months following its initial non-compliance above under "Fund Balance/New Asset Covenant," Tenant is unable to meet the fund balance required above under "Fund Balance/New Asset Covenant," the Holders of a majority of the Outstanding Bonds will have the right to direct the Trustee to require Tenant to engage, at Tenant's expense, an Independent Management Consultant acceptable to such Holders, which Consultant will deliver a written report to the Beneficial Owners, the Trustee, the Authority, Landlord and Tenant within 75 days following Tenant's engagement of the Consultant containing recommendations concerning Tenant with respect to the School's: (a) operations; (b) financing practices and activities, including Short-Term Indebtedness, lease financing and investment activities; (c) management practices, including use of consultants, budgeting practices, and on-going financial systems and monitoring of Tenant's financial condition with respect to the School; (d) governance and administrative practices; and (e) other factors relevant to maintaining compliance with the requirements above. Upon submission of the Consultant's report, Tenant will arrange for payment of the amount owed to the Consultant and issue a written certificate to the Holders of the Outstanding Bonds, the Trustee, the Authority, the Trustee and Landlord indicating Tenant's acceptance or rejection of all or any material portion of the Consultant's recommendations. Notwithstanding the foregoing, the Holders of a majority of the Outstanding Bonds will have the right to require Tenant to comply with any reasonable recommendation of the Consultant with respect to items set forth in this paragraph.

Rating Maintenance

Tenant is at all times to cooperate with and take all action reasonably necessary to assist Landlord in maintaining, from one or more Rating Agencies, a rating on the Bonds. Tenant and Landlord agree in the Lease to notify the Trustee and the Authority within 5 Business Days of its receipt of an Investment Grade Notice.

Default

The occurrence of any one or more of the following events will constitute a default and breach of the either Lease by either Tenant: (a) the Abandonment of the Facilities by Tenant; (b) the failure of Tenant timely to vacate and surrender possession of the Facilities upon termination or expiration of Tenant's right thereto or expiration or termination of the Lease; (c) the failure by Tenant to make any payment of Rent or any other payment required to be made by Tenant to Landlord under the Lease, as and when due, where such failure will continue for a period of 10 business days after written notice thereof by Landlord to Tenant; (d) the failure of Tenant to make any payment or to perform any obligation owing to Landlord under the Lease or any other agreement or contract between Landlord and Tenant or to which the Lease are expressly made subject, as and when such payment or performance is due; (e) becoming insolvent as defined by applicable California law; or the making by Tenant of any general assignment or general arrangement for the benefit of creditors; or the filing by or against Tenant of a petition to have Tenant adjudged a bankrupt, or a petition for reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against Tenant, the same is dismissed within 60 days); or the appointment of a trustee or a receiver to take possession of substantially all of Tenant's assets located at the Facilities or of Tenant's interest in the Lease, where possession is not restored to Tenant within 30 days; or the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Facilities or of Tenant's interest in the Lease, where such seizure is not discharged in 30 days; (f) the failure of Tenant to timely observe or perform any other covenant, condition or provision of the Lease, except for the fund balance requirements set forth in the Lease, and such failure will continue for a period of 30 days after written notice thereof by Landlord to Tenant; provided, however, that if the nature of Tenant's default is such that more than 30 days are required for its cure, then Tenant will not be deemed to be in default if Tenant commences such cure within said 30-day period and thereafter diligently prosecutes such cure to completion; (g) except as set forth in the Lease, the failure of Tenant to maintain the charter to operate the School on the Facilities or otherwise comply with the requirements of the California Education Code and such failure continues for a period of 30 days after written notice thereof by the Landlord to Tenant; provided, however, that if the nature of Tenant's default is such that more than 30 days are required for its cure, then Tenant will not be deemed to be in default if Tenant commences such cure within 30-day period and thereafter diligently prosecutes such cure to completion; or (h) the failure of Tenant to meet the Days Cash on Hand required in the Lease, within 24 months following its initial non-compliance with Lease.

The failure by Landlord to observe or perform any of the covenants, conditions or provisions of the Lease to be observed or performed by the Landlord will constitute a default and breach of the Lease by Landlord where such failure will continue for a period of 30 days after written notice thereof by Tenant unless such failure will materially prevent Tenant's use and quiet enjoyment of the Facilities, in which case the period will be five days (a "Material Quiet Enjoyment Default"). By way of illustration, conditions which will constitute a Material Quiet Enjoyment Default will include: (a) a complete failure of electrical power caused by a malfunction of equipment which Landlord is obligated to maintain, but not by reason of conditions beyond Landlord's control, such as a so-called "rolling blackout," a general loss of power to the Facilities; and (b) a collapse or failure of all or substantially all of the roof over the Facilities, but not simply a leak which admits water in quantities small enough to be captured and contained in a bucket, drum or other vessel pending repairs. If the nature of Landlord's performance is such that it cannot reasonably be completed within such 30 or five days, as applicable, then Landlord will not be deemed to be in default if Landlord will commence and diligently execute such acts within the period set forth in the Lease.

Remedies in Default

In the event of any such default or breach by either Tenant, Landlord may at any time thereafter, with or without notice or demand, and without limiting any right or remedy which Landlord may have by reason of such default or breach, now or later allowed by law, exercise any such right or remedy including but not limited to: (a) recover from Tenant all damages incurred by Landlord by reason of Tenant's default including, but not limited to: the cost of recovering possession of the Facilities; expenses of re-letting, including broker's commissions and

necessary renovation and alteration of the Facilities, the remaining unamortized value of any improvement made to the Facilities for Tenant for which Landlord paid and any brokerage commission paid in connection with either Lease, amortized over the life of the Term; consequential damages, including damages caused by the loss of a new tenant which is caused by reason of delay in Tenant's surrender of possession or loss of financing which is caused by Tenant's delay in execution of an estoppel certificate or subordination agreement; (b) terminate Tenant's right to possession of the Facilities by any lawful means and by providing no less than 90 days' written notice ("Termination Notice Period"), in which case such Lease will terminate on the last day of the Notice Period and Tenant will immediately surrender possession of the Facilities to Landlord. In such event Landlord will be entitled to recover from Tenant all damages incurred by Landlord by reason of Tenant's default including, but not limited to, the cost of recovering possession of the Facilities; expenses of reletting, including necessary renovation and alteration of the Facilities, reasonable attorney's fees, any real estate commission actually paid; and the worth at the time of award of the amount by which the unpaid Base Rent and Additional Charges for the balance of the Term after the time of such award exceeds the amount of such rental loss for the same period that Tenant proves could be reasonably avoided; (c) maintain Tenant's right to possession, in which case such Lease will continue in effect whether or not Tenant will have abandoned the Facilities. In such event Landlord will be entitled to enforce all of Landlord's rights and remedies under the Lease, including the right to recover Base Rent Additional Rent, Additional Charges, Expenses, and any other payments due Landlord under the Lease as the same become due under the Lease; and (d) pursue any other remedy now or hereafter available to Landlord under the laws or judicial decision of the State of California.

Except as set forth in the Lease, Landlord's liability to Tenant will be limited to a partial or total abatement of Base Rent or Expenses based upon the level to which Tenant's quiet enjoyment of the Facilities is prevented by Landlord's default or the reasonable amount advanced by Tenant to cure the Landlord default; provided, however, that in the event damage to Tenant or Tenant's Property results from Landlord's willful misconduct or grossly negligent acts or omissions or breach of its express obligations under the Lease which Landlord has not cured within a reasonable time after receipt of written notice of such breach from Tenant, Tenant will have the right to pursue payment for the costs resulting from such damage under any of Landlord's applicable insurance policies. Except as otherwise provided expressly in the Lease, Landlord will not be liable to Tenant, or anyone claiming through or on behalf of Tenant, for any special, indirect or consequential damages, including, without limitation, lost profits or revenues. In no event will any individual partner, officer, shareholder, trustee, beneficiary, director, manager, member or similar party, of either Party be liable to the other Party, or anyone claiming by through or under the other Party for the performance of or by a Party under the Lease or any amendment, modification or agreement with respect to the Lease. In all other cases, Tenant is entitled to pursue any remedy now or hereafter available under the laws or judicial decisions of the State of California including terminating the Lease.

THE DEEDS OF TRUST

General

Pursuant to the Deeds of Trust, the Borrower (as "Trustor") grants, conveys and assigns to First American Title Company (the "Trustee" under the Deeds of Trust), in trust, with power of sale, all of the Trustor's estate, right, title and interest, owned or acquired, including any reversion or remainder interest, in the real property located in the County of San Diego, State of California, and the County of Riverside, State of California described in the exhibit attached to the Deeds of Trust and incorporated therein including all vacated alleys and streets abutting the property, and all easements, rights, reversions, remainders, appurtenances, tenements, hereditaments, rents, royalties, mineral, oil and gas rights and profits, water, water rights, and water stock appurtenant to the property (collectively "Facilities"); together with all of Trustor's estate, right, title and interest, owned or acquired, in, under and to the Improvements (as defined in the Deeds of Trust), the Lease (as defined in the Deeds of Trust) and all of the rest property referred to in the Deeds of Trust (collectively, with the Facilities, the Improvements and the Lease, the "Property").

Assignment of Lease and Rents

In the Deeds of Trust, Trustor, in order to secure the Indebtedness, agrees to absolutely and unconditionally grant, bargain, sell, transfer, assign, convey, set over and deliver unto Beneficiary all right, title and interest of Trustor in, to and under the Lease of the Property and all guaranties, amendments, extensions and renewals of said

Lease and any of them, and all rents, income and profits due or owing under the Lease, and any of them, or on account of the use of the Property.

The assignment is absolute and is irrevocable by Trustor so long as the Indebtedness remains outstanding. Notwithstanding the foregoing, until a Notice is sent to Trustor in writing that an Event of Default has occurred (which notice is called a "Notice"), Trustor, pursuant to a revocable license granted to Trustor by Beneficiary under the Deeds of Trust, may receive, collect and enjoy the rents, income and profits accruing from the Property. Trustor's right to collect the rents, income and profits will not constitute Beneficiary's consent to the use of the cash collateral in any bankruptcy proceeding.

Upon the occurrence of an Event of Default under the Deeds of Trust and so long as the same is continuing, Beneficiary may, at its option, after service of a Notice, receive and collect all such rents, income and profits from the Property as they become due. Beneficiary will thereafter continue to receive and collect all such rents, income and profits, as long as such default or defaults will exist, and during the pendency of any foreclosure proceedings.

Events of Default

The following will each constitute an event of default under the Deeds of Trust:

- (a) failure of Trustor within the time required by the Deeds of Trust or the Loan Agreement to make any payment for taxes or insurance and such failure continues for 30 days after written notice thereof;
- (b) failure by Trustor to observe or perform any of its material obligations under any of the Lease and such failure continues for 30 days after written notice thereof;
- (c) the Property is transferred or any agreement to transfer any part or interest in the Property in any manner whatsoever is made or entered into without the consent of the Lender and the Beneficiary, except as specifically allowed under the Deeds of Trust or the Loan Agreement, including, without limitation, creating or allowing any liens on the Property or leasing any portion of the Property;
- (d) an Event of Default occurs under the Loan Agreement.

Remedies

Upon the occurrence and continuance of any one or more Events of Default, Trustee and/or Beneficiary may (but will not be obligated), in addition to any rights or remedies available to them under the Deeds of Trust or under the other Loan Documents, take such action personally or by their agents or attorneys, with or without entry, and without notice, demand, presentment or protest (each and all of which are waived to the extent permitted by law) as they deem necessary or advisable to protect and enforce the Lender's and Beneficiary's rights and remedies against Trustor and in and to the Property, including the following actions, each of which may be pursued concurrently or otherwise, at such time and in such order as Trustee and/or Beneficiary may determine, in their sole discretion, without impairing or otherwise affecting its or their other rights or remedies:

- (a) Beneficiary and Lender, as the case may be, may declare all sums secured by the Deeds of Trust immediately due and payable, including any prepayment premium which Trustor would be required to pay.
- (b) Trustee and Beneficiary will have the right to cause any or all of the Property to be sold under the power of sale granted in the Deeds of Trust or any of the other documents executed or delivered in connection with the Deeds of Trust in any manner permitted by applicable law, or Beneficiary will have the right to foreclose by judicial foreclosure, in either case in accordance with applicable law. In the event of a sale, by foreclosure or otherwise, of less than all of the Property, the Deeds of Trust will continue as a lien and security interest on the remaining portion of the Property.
- (c) Trustee and Beneficiary may institute a proceeding or proceedings for the partial foreclosure of the Deeds of Trust under any applicable provision of law for the portion of the Indebtedness then due and payable,

subject to the lien of the Deeds of Trust continuing unimpaired and without loss of priority so as to secure the balance of the Indebtedness not then due and payable.

(d) If the Deeds of Trust is foreclosed by judicial procedure, Beneficiary will be entitled to a judgment which will provide that if the foreclosure sale proceeds are insufficient to satisfy the judgment, execution may issue for any amount by which the unpaid balance of the obligations secured by the Deeds of Trust exceeds the net sale proceeds payable to Beneficiary.

(e) With respect to all or any part of the Property that constitutes personalty, Beneficiary and Lender will have all rights and remedies of secured party under the California Commercial Code.

(f) Beneficiary may apply (whether by noticed motion or by ex parte application) to a court of competent jurisdiction for the appointment of a receiver designated by Beneficiary of and for the Property (including, without limitation, all rents, issues, profits, revenues, earnings and income arising therefrom) in accordance with the provisions below and to which appointment Beneficiary will be entitled as a matter of right, without bond, and without regard to or the necessity to disprove the adequacy of the security for the Indebtedness or the solvency of Trustor or any other person liable for the payment or performance of the Indebtedness; and Trustor, each other person claiming any interest in the Property, or any portion thereof, by or through Trustor and every other person liable for the payment or performance of the Indebtedness waives and consents to, or will be conclusively deemed to have waived and consented to such appointment, whether such application be made by noticed motion or by an ex parte application.

(g) In the event Trustor remains in possession of the Property after the Property is sold as provided above or Beneficiary otherwise becomes entitled to possession of the Property upon default of Trustor, Trustor will become a tenant at will of Beneficiary or the purchaser of the Property and will pay a reasonable rental for use of the Property while in Trustor's possession.

(h) Trustee, Beneficiary and Lender will have any other right or remedy provided in the Deeds of Trust, the Loan Agreement, or any other Loan Document or instrument delivered by Trustor or Mortgagor in connection therewith, or available at law, in equity or otherwise.

(i) Lender and Beneficiary, as the case may be, may institute an action, suit or proceeding in equity for the specific performance of any of the provisions contained in the Loan Documents.

(j) Beneficiary may release any portion of the Property for such consideration as Beneficiary may require without, as to the remainder of the Property, in any way impairing or affecting the lien or priority of the Deeds of Trust, or improving the position of any subordinate lienholder with respect thereto, except to the extent that the Indebtedness will have been reduced by the actual monetary consideration, if any, received by Trustee and/or Beneficiary for such release, and may accept by assignment, pledge or otherwise any other property in place thereof as Trustee and/or Beneficiary may require without being accountable for so doing to any other lienholder.

(k) Lender and Beneficiary will have all other rights and remedies set forth in the Deeds of Trust.

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APPENDIX E

FORM OF BOND COUNSEL OPINION

APPENDIX E

FORM OF BOND COUNSEL OPINION

March 25, 2015

California Municipal Finance Authority
Carlsbad, California

\$25,905,000
California Municipal Finance Authority
Charter School Revenue Bonds
(Julian Charter School Project)
Series 2015A

\$760,000
California Municipal Finance Authority
Charter School Revenue Bonds
(Julian Charter School Project)
(Taxable) Series 2015B

Ladies and Gentlemen:

We have acted as bond counsel to the California Municipal Finance Authority (the "Authority"), a public body corporate and politic organized pursuant to the laws of the State of California, in connection with the issuance of \$25,905,000 principal amount of California Municipal Finance Authority Charter School Revenue Bonds (Julian Charter School Project), Series 2015A (the "Series 2015A Bonds"), and \$760,000 principal amount of California Municipal Finance Authority Charter School Revenue Bonds (Julian Charter School Project), (Taxable) Series 2015B (the "Series 2015B Bonds" and together with the Series 2015A Bonds, the "Bonds").

The Bonds are being issued by the Authority pursuant to the provisions of (i) Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code (commencing with Section 6500) (the "Act"), (ii) the Indenture of Trust, dated as of March 1, 2015 (the "Indenture"), by and between the Authority and Zions First National Bank, as trustee thereunder (the "Trustee"), and (iii) a resolution duly adopted by the Authority on January 16, 2015. The Bonds are being issued for the purpose of loaning the proceeds therefrom to SDORI Charter School Properties, LLC, a California limited liability company (the "Borrower"), for the purpose of: (a) financing the acquisition, construction and renovation of facilities to be used as educational facilities located at 29141 Vallejo Avenue in Temecula, California (the "Hope" facility) and 539 Encinitas Boulevard in Encinitas, California (the "North Coast" facility, and together with the Hope facility, the "Acquisition Facilities") at which sites Julian operates or will operate the California charter school known as Julian Charter School (the "School") and the School's programs; (b) refinancing the acquisition and the improvements of the facilities located at 39665 Avenida Acacias in Murrieta, California (the "Murrieta" facility) and 27235 Madison Avenue in Temecula, California (the "Temecula" facility, and together with the Murrieta facility, the "Existing Facilities" and collectively with the Acquisition Facilities, the "Facilities") at which sites Julian operates or will operate the School and the School's programs; (c) funding capitalized interest; (d) funding a reserve fund with respect to the Series 2015 Bonds; and (d) paying certain costs of issuance for the Series 2015 Bonds (collectively, the "Project"). The Project is subject to the terms of the Tax Regulatory Agreement, dated the date hereof (the "Tax Regulatory Agreement"), executed by the Authority, the Borrower and Julian Charter School, Inc., a California nonprofit public benefit corporation, that operates the charter school known as Julian Charter School (the "School"). Capitalized terms used herein which are not otherwise defined shall have the meanings ascribed thereto in the Indenture.

The Bonds are issued only as fully registered bonds without coupons in denominations as provided in the Indenture. The Bonds are dated and mature as set forth in the Indenture.

The proceeds from the sale of the Bonds will be loaned to the Borrower pursuant to the Loan Agreement, dated as of March 1, 2015 (the "Loan Agreement"), by and between the Authority and the Borrower. The Facilities will be leased to Julian for operation of the School by the Borrower pursuant to the Lease Agreement, dated as of March 1, 2015, by and between the Borrower and Julian. The Bonds and the payment of amounts owed thereon are

secured by the Indenture and, upon recordation, by that certain Deeds of Trust, Financing Statement, Security Agreement, Assignment of Lease and Rents and Fixture Filing, dated as of March 1, 2015, executed by the Borrower.

As Bond Counsel, we have examined and relied on originals or copies, certified or otherwise identified to our satisfaction, of such instruments, certificates and documents (including all documents constituting the record of proceedings with respect to the issuance of the Bonds and the opinion of Hooper, Lundy & Bookman, P.C., San Diego, California, counsel to the Borrower and Julian, dated the date hereof) as we have deemed necessary or appropriate for the purposes of the opinions rendered below. In such examination we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies. As to any facts material to our opinion, we have relied upon the aforesaid instruments, certificates and documents.

Based on the foregoing, we are of the opinion that:

1. The Loan Agreement and the Indenture, assuming due authorization, execution and delivery by the Authority, constitute valid and binding agreements of the Authority and are enforceable against the Authority in accordance with their terms.

2. The Bonds have been duly issued by the Authority in accordance with applicable law, and are valid and binding special limited obligations of the Authority, the principal of, premium, if any, and interest on which are payable solely from the revenues and other moneys of the Authority pledged therefor pursuant to the Indenture. The Bonds are enforceable in accordance with their terms.

3. The Bonds do not constitute or give rise to a general obligation or liability of the Authority or a charge against its general credit. Neither the faith and credit nor the taxing power of the State of California or any public agency or any member of the Authority is pledged to the payment of the principal of or interest or any redemption premium on the Bonds. The Authority has no taxing power. Payment of the principal of or interest or any redemption premium on the Bonds does not constitute a debt, liability or obligation of the State of California or any public agency (other than the Authority) or any member of the Authority.

4. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2015A Bonds is excludable from gross income for federal income tax purposes and is not a specified preference item for purposes of the federal alternative minimum tax. However, for the purpose of computing the alternative minimum tax imposed on certain corporations, interest on the Series 2015A Bonds will be included in the "adjusted current earnings" of such corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporation's adjusted current earnings over its alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses). The opinions set forth in the first sentence of this paragraph are subject to the condition that the Authority, the Borrower and Julian comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and the treasury regulations thereunder that must be satisfied subsequent to the issuance of the Series 2015A Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The Authority, the Borrower and Julian have covenanted to comply with such requirements. Failure to comply with certain of such requirements may cause the interest on the Series 2015A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2015A Bonds.

5. The interest on the Series 2015B Bonds is included in gross income for federal income tax purposes.

6. The interest on the Bonds is exempt from State of California personal income taxes.

In rendering the opinions expressed in paragraph 4 above, we have relied on representations of the Authority, the Borrower and Julian with respect to matters solely within the knowledge of the Authority, the Borrower and Julian which we have not independently verified. We have assumed continuing compliance with covenants in the Indenture, the Loan Agreement, the Lease and the Tax Regulatory Agreement pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Series 2015A Bonds for federal income tax purposes. In the event that such representations are determined to be inaccurate or incomplete or the Authority, the Borrower or Julian fail to comply with the foregoing covenants in the Indenture, the Loan Agreement,

the Lease and the Tax Regulatory Agreement, interest on the Series 2015A Bonds could become included in gross income from the date of their original delivery, regardless of the date on which the event causing such inclusion occurs.

In rendering the foregoing opinions, we are not passing upon the matters of (i) title to or description of the facilities or properties of the Borrower or Julian or the nature or extent of any liens thereon, (ii) the corporate status of the Borrower or Julian, (iii) the power of the Borrower or Julian to execute and deliver the Loan Agreement or the Lease or to perform their obligations thereunder, (iv) the enforceability of the Loan Agreement or the Lease against the Borrower or Julian, or (v) the accuracy, completeness or sufficiency of any official statement, offering memorandum, or any other disclosure material prepared or distributed with respect to the Bonds or any statements made in connection with the offer and sale of the Bonds.

The foregoing opinions are qualified to the extent that the enforceability of the Bonds, the Indenture and the other instruments enumerated above may be subject to bankruptcy, insolvency, reorganization, moratorium, liquidation, readjustment of debt and other laws affecting creditors' rights and laws affecting the remedies for the enforcement of the rights and security provided for therein, including the remedy of specific performance, and that their enforcement may also be subject to the exercise of the sovereign police powers of the State of California, or its governmental bodies, and the exercise of judicial discretion in appropriate cases.

This letter is issued to and for the sole benefit of the above addressee and is issued for the sole purpose of the transaction specifically referred to herein. No person other than the above addressee may rely upon this letter without our express written consent. This letter may not be utilized by you for any other purpose whatsoever and may not be quoted by you without our express prior written consent.

Respectfully submitted,

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APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

**CONTINUING DISCLOSURE AGREEMENT
OF CORPORATION
FOR THE PURPOSE OF PROVIDING
CONTINUING DISCLOSURE INFORMATION
UNDER SECTION (B)(5) OF SEC RULE 15c2-12, AS AMENDED**

This Continuing Disclosure Agreement (this “Agreement”) is executed and delivered by and between Julian Charter School, Inc., a California nonprofit public benefit corporation (the “Corporation”) and Zions First National Bank, in connection with the issuance by the California Municipal Finance Authority (the “Authority”) of its \$25,905,000 Charter School Revenue Bonds (Julian Charter School Project) Series 2015A and \$760,000 Charter School Revenue Bonds (Julian Charter School Project) (Taxable) Series 2015B (collectively, the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of March 1, 2015 (the “Indenture”), by and between the Authority and Zions First National Bank, as trustee thereunder (the “Trustee”). Capitalized terms used but not otherwise defined herein shall have the meanings assigned thereto in the Indenture.

In consideration of the issuance of the Bonds by the Authority and the purchase of such Bonds by the owners thereof, the Corporation hereby covenants and agrees as follows:

Section 1. Purpose of this Agreement. This Agreement is executed and delivered by the Corporation as of the date set forth below, for the benefit of the holders and owners (the “Bondholders”) of the Bonds and in order to assist the Participating Underwriter (as defined below) in complying with the requirements of the Rule (as defined below).

Section 2. Definitions. In addition to the terms defined elsewhere in this Agreement, the terms set forth below shall have the following meanings in this Agreement, unless the context clearly otherwise requires.

“*Agreement*” means this continuing disclosure agreement.

“*Annual Financial Information*” has the meaning set forth in Exhibit I.

“*Annual Financial Information Disclosure*” means the dissemination of the Annual Financial Information and the dissemination of the Audited Financial Statements as set forth in Section 4 hereof.

“*Audited Financial Statements*” means the audited consolidated financial statements of the Corporation, prepared pursuant to the standards and as described in Exhibit I.

“*Commission*” means the Securities and Exchange Commission.

“*Dissemination Agent*” means Zions First National Bank, or any successor in interest thereto.

“*EMMA*” means the Electronic Municipal Market Access facility for municipal securities disclosure of the MSRB.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended.

“*Material Event*” means the occurrence of any of the events with respect to the Bonds set forth in Exhibit II.

“*Material Events Disclosure*” means dissemination of a notice of a Material Event as set forth in Section 5.

“*MSRB*” means the Municipal Securities Rulemaking Board.

“*Participating Underwriter*” means each broker, dealer or municipal securities dealer acting as an underwriter in any primary offering of the Bonds.

“*Prescribed Form*” means, with regard to the filing of Annual Financial Information, Audited Financial Statements and notices of Material Events with the MSRB at www.emma.msrb.org (or such other address or addresses as the MSRB may from time to time specify), such electronic format, accompanied by such identifying information, as shall have been prescribed by the MSRB and which shall be in effect on the date of filing of such information.

“*Rule*” means Rule 15c2-12 adopted by the Commission under the Exchange Act, as the same may be amended from time to time.

“*State*” means the State of California.

Section 3. CUSIP Number/Final Official Statement. The base CUSIP^{1, ©} of the Bonds is 13048D. The final Official Statement relating to the Bonds is dated March 13, 2015 (the “Final Official Statement”).

Section 4. Annual Financial Information Disclosure. Subject to Section 10 of this Agreement, the Corporation hereby covenants that it will disseminate the Annual Financial Information and the Audited Financial Statements (in the form and by the dates set forth below and in Exhibit I) by the Corporation’s delivery of such Annual Financial Information and Audited Financial Statements to the MSRB within 180 days of the completion date of the Corporation’s fiscal year.

The Corporation is required to deliver such information in the Prescribed Form and by such time so that such entities receive the information by the dates specified.

If any part of the Annual Financial Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the Corporation will disseminate a statement to such effect as part of its Annual Financial Information for the year in which such event first occurs.

¹ The Authority and Corporation take no responsibility for the accuracy of the CUSIP numbers, which are included solely for the convenience of owners of the Bonds.

If any amendment is made to this Agreement, the Annual Financial Information for the year in which such amendment is made (or in any notice or supplement provided to the MSRB) shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

Section 5. Material Events Disclosure. Subject to Section 10 of this Agreement, the Corporation hereby covenants that it will disseminate in a timely manner, not in excess of 10 Business Days after the occurrence of the event, Material Events Disclosure to the MSRB in the Prescribed Form. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any Bonds or defeasance of any Bonds need not be given under this Agreement any earlier than the notice (if any) of such redemption or defeasance is given to the owners of the Bonds pursuant to the Indenture. From and after the Effective Date, the Corporation is required to deliver such Material Events Disclosure in the same manner as provided by Section 4 of this Agreement.

Section 6. Duty to Update EMMA/MSRB. The Corporation shall determine, in the manner it deems appropriate, whether there has occurred a change in the MSRB's e-mail address or filing procedures and requirements under EMMA each time it is required to file information with the MSRB.

Section 7. Consequences of Failure of the Corporation to Provide Information. The Corporation shall give notice in a timely manner, not in excess of 10 Business Days after the occurrence of the event, to the MSRB in the Prescribed Form of any failure to provide an Annual Financial Information Disclosure when the same is due hereunder.

In the event of a failure of the Corporation to comply with any provision of this Agreement, the Bondholder of any Bond may seek specific performance by court order to cause the Corporation to comply with its obligations under this Agreement. A default under this Agreement shall not be deemed an Event of Default under the Indenture or the Loan Agreement or any other agreement, and the sole remedy under this Agreement in the event of any failure of the Corporation to comply with this Agreement shall be an action to compel performance.

Section 8. Amendments; Waiver. Notwithstanding any other provision of this Agreement, the Corporation may amend this Agreement, and any provision of this Agreement may be waived, if:

(i) The amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Corporation or type of business conducted;

(ii) This Agreement, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) The amendment or waiver does not materially impair the interests of the Bondholders of the Bonds, as determined either by parties unaffiliated with the Authority or the Corporation (such as the Trustee) or by an approving vote of the Bondholders of

the Bonds holding a majority of the aggregate principal amount of the Bonds (excluding Bonds held by or on behalf of the Corporation or its affiliates) pursuant to the terms of the Indenture at the time of the amendment; or

- (iv) The amendment or waiver is otherwise permitted by the Rule.

Section 9. Termination of this Agreement. This Agreement of the Corporation shall be terminated hereunder when the Corporation shall no longer have any legal liability for any obligation on or relating to the repayment of the Bonds. The Corporation shall give notice to the MSRB in a timely manner and in Prescribed Form if this Section is applicable.

Section 10. Dissemination Agent. So long as the Bonds are outstanding the Corporation shall appoint and continuously engage a dissemination agent to assist it in carrying out its obligations under this Agreement. The Corporation hereby appoints Zions First National Bank as Dissemination Agent, and the Dissemination Agent hereby accepts such appointment. The Dissemination Agent hereby agrees to notify the Corporation 30 days prior to the required dissemination of disclosure filings pursuant to Section 4 hereof. The Dissemination Agent additionally agrees to disseminate the information required by Section 4 hereof, and any information provided to the Dissemination Agent under Section 5 hereof pursuant to the terms of this Agreement.

Section 11. Beneficiaries. This Agreement has been executed in order to assist the Participating Underwriter in complying with the Rule; however, this Agreement shall inure solely to the benefit of the Corporation, the Dissemination Agent, if any, the Authority, the Trustee and the Bondholders of the Bonds, and shall create no rights in any other person or entity.

Section 12. Recordkeeping. The Corporation shall maintain records of all Annual Financial Information Disclosure and Material Events Disclosure, including the content of such disclosure, the names of the entities with whom such disclosure was filed and the date of filing such disclosure.

Section 13. Past Compliance. The Corporation represents that it has complied with the requirements of each continuing disclosure agreement entered into by it pursuant to the Rule in connection with previous financings to which the Rule was applicable.

Section 14. Assignment. The Corporation shall not transfer its obligations under this Agreement unless the transferee agrees to assume all obligations of the Corporation under this Agreement or to execute a new continuing disclosure agreement under the Rule.

Section 15. Electronic Transactions. The parties hereto agree that the transactions described herein may be conducted and related documents may be stored by electronic means. Copies, telecopies, facsimiles, electronic files and other reproductions of original executed documents shall be deemed to be authentic and valid counterparts of such original documents for all purposes, including the filing of any claim, action or suit in the appropriate court of law.

Section 16. Governing Law. This Agreement shall be governed by the laws of the State.

JULIAN CHARTER SCHOOL, INC.

By _____
President

**ZIONS FIRST NATIONAL BANK, as dissemination
agent**

By _____
Authorized Signatory

EXHIBIT I

ANNUAL FINANCIAL INFORMATION AND TIMING AND AUDITED FINANCIAL STATEMENTS

“*Annual Financial Information*” means financial information and operating data exclusive of Audited Financial Statements set forth below.

All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be included by reference to other documents which have been submitted to the MSRB or filed with the Commission. The Corporation shall clearly identify each such item of information included by reference.

Annual Financial Information will be provided to the MSRB within 180 days after the last day of the Corporation’s fiscal year. Audited Financial Statements prepared as described below should be filed at the same time as the Annual Financial Information. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included, and Audited Financial Statements will be provided to the MSRB within 10 Business Days after availability to the Corporation.

Audited Financial Statements will be prepared in accordance with generally accepted accounting principles in the United States as in effect from time to time.

If any change is made to the Annual Financial Information as permitted by Section 4 of this Agreement, including for this purpose a change made to the fiscal year-end of the Corporation, the Corporation will disseminate a notice to the MSRB of such change in Prescribed Form as required by such Section 4.

The Annual Financial Information shall be of the general type included in Appendix B to the Official Statement provided in the following tables, but subject to adjustments as may be noted below:

- (a) Table B-11: HISTORICAL AND PROJECTED ENROLLMENT, provided, however, that only historical data will be provided;
- (b) Table B-12: WAIT LIST;
- (c) Table B-13: STUDENT RETENTION DATA; and
- (d) The results of annual testing for the Corporation, provided, however, such annual testing results shall only be reported to the extent that they have been released by the State.

The Annual Financial Information shall include an executed Annual Compliance Certificate which shall include calculations of the Fund Balance/Net Asset Covenant, the Liquidity Covenant and the Coverage Ratio. The form of the Annual Compliance Certificate is set forth in EXHIBIT III to this Continuing Disclosure Agreement.

EXHIBIT II

EVENTS WITH RESPECT TO THE BONDS FOR WHICH MATERIAL EVENTS DISCLOSURE IS REQUIRED

1. Principal and interest payment delinquencies
2. Nonpayment-related defaults, if material
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Substitution of credit or liquidity providers, or their failure to perform
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security
7. Modifications to rights of security holders, if material
8. Bond calls, if material, and tender offers
9. Defeasances
10. Release, substitution or sale of property securing repayment of the securities, if material
11. Rating changes
12. Bankruptcy, insolvency, receivership or similar event of the Corporation*
13. The consummation of a merger, consolidation or acquisition involving the Corporation or the sale of all or substantially all of the assets of the Corporation, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material

* This event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Corporation 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 Corporation, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Corporation.

EXHIBIT III
FORM OF ANNUAL COMPLIANCE CERTIFICATE

Issuer: California Municipal Finance Authority

Bond Issues: \$25,905,000 Charter School Revenue Bonds (Julian Charter School Project) Series 2015A and \$760,000 Charter School Revenue Bonds (Julian Charter School Project) (Taxable) Series 2015B

Bond Trustee: Zions First National Bank

Borrower/Landlord: SDORI Charter School Properties, LLC, a California limited liability company

Tenant: Julian Charter School, Inc., a California nonprofit public benefit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended

THIS ANNUAL COMPLIANCE CERTIFICATE is delivered by Tenant to the Issuer, Bond Trustee and Borrower/Landlord identified above, in connection with the Lease, under which the Tenant pays the Borrower/Landlord Rent from which Borrower/Landlord makes payments due on the Bonds issued pursuant to Indenture of Trust, dated as of March 1, 2015 (the “Indenture”) between the Issuer and the Bond Trustee, and other amounts as required in connection with the Bonds. Defined terms used in this certificate and not defined herein shall have the meanings established in the Lease (as defined in the Indenture).

The below calculations are for the Fiscal Year End Calculation Date of June 30, 20__

Fund Balance/Net Asset Covenant

Tenant is required to maintain in aggregate a net asset balance in the general operating funds of the School (the “Unrestricted Account”) which equals not less than 5% of Operating Expenses (as defined in the Indenture) for the School’s prior fiscal year. Funds or other assets maintained in the Unrestricted Account shall be liable for the payment of Rent under the Lease.

- (A) \$ _____ general operating fund net asset balance at Fiscal Year-end
- (B) \$ _____ Fiscal Year Operating Expenses
- (C) \$ _____ 5% of the above line (B)

Liquidity Covenant

Tenant is required to maintain Days Cash on Hand equal to at least 30 days. Days Cash on Hand means as of any date of determination, the product of 365 times a fraction, (i) the numerator of which is the amount of the School’s unrestricted cash, unrestricted investments and board-designated funds that are not otherwise restricted (either permanently or temporarily) as to their use, and (ii) the denominator of which is total Operating Expenses, in each case, for the period of four fiscal quarters ended on the date of determination, and determined in accordance with generally accepted accounting principles.

- (A) \$ _____ unrestricted cash, unrestricted investments and board-designated funds that are not otherwise restricted (either permanently or temporarily) as to their use
- (B) \$ _____ Operating Expenses for last 4 quarters
- (C) \$ _____ line (A) divided by line (B)
- (D) \$ _____ line (C) multiplied by 365

Coverage Ratio

A Coverage Ratio at or above 1.10 for any Fiscal Year, based on the results of the annual audit of Tenant for such Fiscal Year, is to be maintained.

“Coverage Ratio” means, for the indicated period, the ratio obtained by dividing (i) the School’s Net Income Available for Debt Service, in aggregate, for the prior Fiscal Year by (ii) aggregate Rent under the Lease.

- (A) \$ _____ The School’s Net Income Available for Debt Service for the prior Fiscal Year
- (B) \$ _____ Fiscal Year Rent under the Lease
- (C) _____ x Coverage Ratio [line (A) divided by line (B)]

Budget

A copy of Tenant’s annual budget then in effect for the current Fiscal Year is attached hereto.

Insurance Compliance

Tenant is in compliance with the insurance requirements set forth in the Lease. Evidence of such compliance has been delivered to the Bond Trustee per the Loan Agreement and we

hereby authorize the Bond Trustee to make such evidence available to the holders of the Bonds upon their request.

Certification

The undersigned, as the _____ of Tenant, hereby certifies that she or he is authorized to make the representations contained in this Certificate and that (a) she or he has reviewed the covenants and definitions of the Lease relating to the representations made herein; (b) she or he has reviewed the annual audited financial statements of the Tenant and, to the extent necessary, unaudited financial information for the purpose of making the representations made herein; and (c) Tenant has complied with the conditions and covenants contained in the Lease with respect to which this Certificate has been given.

Date of Certificate Execution: _____

JULIAN CHARTER SCHOOL, INC.

By _____

_____, President

Name:

**CONTINUING DISCLOSURE AGREEMENT
OF THE COMPANY
FOR THE PURPOSE OF PROVIDING
CONTINUING DISCLOSURE INFORMATION
UNDER SECTION (B)(5) OF SEC RULE 15c2-12, AS AMENDED**

This Continuing Disclosure Agreement (this “Agreement”) is executed and delivered by and between SDORI Charter School Properties, LLC, a California limited liability company (the “Company”) and Zions First National Bank, in connection with the issuance by the California Municipal Finance Authority (the “Authority”) of its \$25,905,000 Charter School Revenue Bonds (Julian Charter School Project) Series 2015A and \$760,000 Charter School Revenue Bonds (Julian Charter School Project) (Taxable) Series 2015B (collectively, the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of March 1, 2015 (the “Indenture”), by and between the Authority and Zions First National Bank, as trustee thereunder (the “Trustee”). In connection with the issuance of the Bonds, the Company will enter into a Loan and Security Agreement, dated as of March 1, 2015 (the “Loan Agreement”), each by and between the Company and the Authority. Capitalized terms used but not otherwise defined shall have the meanings assigned thereto in the Indenture.

In consideration of the issuance of the Bonds by the Authority and the purchase of such Bonds by the owners thereof, the Company hereby covenants and agrees as follows:

Section 1. Purpose of this Agreement. This Agreement is executed and delivered by the Company as of the date set forth below, for the benefit of the holders and owners (the “Bondholders”) of the Bonds and in order to assist the Participating Underwriter (as defined below) in complying with the requirements of the Rule (as defined below).

Section 2. Definitions. In addition to the terms defined elsewhere in this Agreement, the terms set forth below shall have the following meanings in this Agreement, unless the context clearly otherwise requires.

“*Agreement*” means this continuing disclosure agreement..

“*Annual Financial Information*” has the meaning set forth in Exhibit I.

“*Annual Financial Information Disclosure*” means the dissemination of disclosure concerning Annual Financial Information and the dissemination of the Audited Financial Statements as set forth in Section 4.

“*Audited Financial Statements*” means the audited consolidated financial statements of the Company prepared pursuant to the standards and as described in Exhibit I.

“*Commission*” means the Securities and Exchange Commission.

“*Dissemination Agent*” means Zions First National Bank, or any successor in interest thereto.

“EMMA” means the Electronic Municipal Market Access facility for municipal securities disclosure of the MSRB.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Material Event” means the occurrence of any of the events with respect to the Bonds set forth in Exhibit II.

“Material Events Disclosure” means dissemination of a notice of a Material Event as set forth in Section 5.

“MSRB” means the Municipal Securities Rulemaking Board.

“Participating Underwriter” means each broker, dealer or municipal securities dealer acting as an underwriter in any primary offering of the Bonds.

“Prescribed Form” means, with regard to the filing of Annual Financial Information, Audited Financial Statements and notices of Material Events with the MSRB at www.emma.msrb.org (or such other address or addresses as the MSRB may from time to time specify), such electronic format, accompanied by such identifying information, as shall have been prescribed by the MSRB and which shall be in effect on the date of filing of such information.

“Rule” means Rule 15c2-12 adopted by the Commission under the Exchange Act, as the same may be amended from time to time.

“State” means the State of California.

Section 3. CUSIP Number/Final Official Statement. The base CUSIP^{1, ©} Number of the Bonds is 13048D. The final Official Statement relating to the Bonds is dated March 13, 2015 (the “Final Official Statement”).

Section 4. Annual Financial Information Disclosure. Subject to Section 10 of this Agreement, the Company hereby covenants that it will disseminate the Annual Financial Information and the Audited Financial Statements (in the form and by the dates set forth below and in Exhibit I) by the Company’s delivery of such Annual Financial Information and the Audited Financial Statements to the MSRB within 180 days of the completion of the Company’s fiscal year, only if required by Section 5.08 of the Loan Agreement.

The Company is required to deliver such information in the Prescribed Form and by such time so that such entities receive the information by the dates specified.

If any part of the Annual Financial Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the Company will disseminate a statement to such effect as part of its Annual Financial Information for the year in which such event first occurs.

If any amendment is made to this Agreement, the Annual Financial Information for the year in which such amendment is made (or in any notice or supplement provided to the MSRB) shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

Section 5. Material Events Disclosure. Subject to Section 10 of this Agreement, the Company hereby covenants that it will disseminate in a timely manner, not in excess of 10 Business Days after the occurrence of the event, Material Events Disclosure to the MSRB in the Prescribed Form. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any Bonds or defeasance of any Bonds need not be given under this Agreement any earlier than the notice (if any) of such redemption or defeasance is given to the owners of the Bonds pursuant to the Indenture. From and after the Effective Date, the Company is required to deliver such Material Events Disclosure in the same manner as provided by Section 4 of this Agreement.

Section 6. Duty to Update EMMA/MSRB. The Company shall determine, in the manner it deems appropriate, whether there has occurred a change in the MSRB's e-mail address or filing procedures and requirements under EMMA each time it is required to file information with the MSRB.

Section 7. Consequences of Failure of the Company to Provide Information. The Company shall give notice in a timely manner, not in excess of 10 Business Days after the occurrence of the event, to the MSRB in the Prescribed Form of any failure to provide Annual Financial Information Disclosure when the same is due hereunder.

In the event of a failure of the Company to comply with any provision of this Agreement, the Bondholder of any Bond may seek specific performance by court order to cause the Company to comply with its obligations under this Agreement. A default under this Agreement shall not be deemed an Event of Default under the Indenture or the Loan Agreement or any other agreement, and the sole remedy under this Agreement in the event of any failure of the Company to comply with this Agreement shall be an action to compel performance.

Section 8. Amendments; Waiver. Notwithstanding any other provision of this Agreement, the Company may amend this Agreement, and any provision of this Agreement may be waived, if:

- (i) The amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Company or type of business conducted;

¹ The Authority and Company take no responsibility for the accuracy of the CUSIP numbers, which are included solely for the convenience of owners of the Bonds.

(ii) This Agreement, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) The amendment or waiver does not materially impair the interests of the Bondholders of the Bonds, as determined either by parties unaffiliated with the Authority or the Company (such as the Trustee) or by an approving vote of the Bondholders of the Bonds holding a majority of the aggregate principal amount of the Bonds (excluding Bonds held by or on behalf of the Company or its affiliates) pursuant to the terms of the Indenture at the time of the amendment; or

(iv) The amendment or waiver is otherwise permitted by the Rule.

Section 9. Termination of Agreement. This Agreement shall be terminated hereunder when the Company shall no longer have any legal liability for any obligation on or relating to the repayment of the Bonds. The Company shall give notice to the MSRB in a timely manner and in the Prescribed Form if this Section is applicable.

Section 10. Dissemination Agent. So long as the Bonds are outstanding, the Company shall appoint and continuously engage a Dissemination Agent to assist it in carrying out its obligations under this Agreement. The Company hereby appoints Zions First National Bank as Dissemination Agent, and the Dissemination Agent hereby accepts such appointment. The Dissemination Agent hereby agrees to notify the Company 30 days prior to the required dissemination of disclosure filings pursuant to Section 4 hereof. The Dissemination Agent additionally agrees to disseminate the information required by Section 4 and any information provided to the Dissemination Agent under Section 5 hereof pursuant to the terms of this Agreement.

Section 11. Beneficiaries. This Agreement has been executed in order to assist the Participating Underwriter in complying with the Rule; however, this Agreement shall inure solely to the benefit of the Company, the Dissemination Agent, if any, the Authority, the Trustee and the Bondholders of the Bonds, and shall create no rights in any other person or entity.

Section 12. Recordkeeping. The Company shall maintain records of all Annual Financial Information Disclosure and Material Events Disclosure, including the content of such disclosure, the names of the entities with whom such disclosure was filed and the date of filing such disclosure.

Section 13. Past Compliance. The Company represents that it has complied with the requirements of each continuing disclosure agreement entered into by it pursuant to the Rule in connection with any previous financings to which the Rule was applicable.

Section 14. Assignment. The Company shall not transfer its obligations under this Agreement unless the transferee agrees to assume all obligations of the Company under this Agreement or to execute a new continuing disclosure agreement under the Rule.

Section 15. Electronic Transactions. The parties hereto agree that the transactions described herein may be conducted and related documents may be stored by electronic means. Copies, telecopies, facsimiles, electronic files and other reproductions of original executed documents shall be deemed to be authentic and valid counterparts of such original documents for all purposes, including the filing of any claim, action or suit in the appropriate court of law.

Section 16. Governing Law. This Agreement shall be governed by the laws of the State.

SDORI CHARTER SCHOOL PROPERTIES, LLC

By _____
Sole Director

ZIONS FIRST NATIONAL BANK, as dissemination agent

By _____
Authorized Signatory

EXHIBIT I

ANNUAL FINANCIAL INFORMATION AND TIMING AND AUDITED FINANCIAL STATEMENTS

“*Annual Financial Information*” means financial information and operating data exclusive of Audited Financial Statements as set forth below.

All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be included by reference to other documents which have been submitted to the MSRB or filed with the Commission. The Company shall clearly identify each such item of information included by reference.

Annual Financial Information will be provided to the MSRB within 180 days after the last day of the Company’s fiscal year. Audited Financial Statements prepared as described below should be filed at the same time as the Annual Financial Information. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included, and Audited Financial Statements will be provided to the MSRB within 10 Business Days after availability to the Company.

Audited Financial Statements will be prepared in accordance with generally accepted accounting principles in the United States as in effect from time to time.

If any change is made to the Annual Financial Information as permitted by Section 4 of this Agreement, including for this purpose a change made to the fiscal year-end of the Company, the Company will disseminate a notice to the MSRB of such change in the Prescribed Form as required by such Section 4.

EXHIBIT II

EVENTS WITH RESPECT TO THE BONDS FOR WHICH MATERIAL EVENTS DISCLOSURE IS REQUIRED

1. Principal and interest payment delinquencies
2. Nonpayment-related defaults, if material
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Substitution of credit or liquidity providers, or their failure to perform
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security
7. Modifications to rights of security holders, if material
8. Bond calls, if material, and tender offers
9. Defeasances
10. Release, substitution or sale of property securing repayment of the securities, if material
11. Rating changes
12. Bankruptcy, insolvency, receivership or similar event of the Company*
13. The consummation of a merger, consolidation or acquisition involving the Company or the sale of all or substantially all of the assets of the Company, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material

* This event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Company 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 Company, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Company.

Appendix G

FORM OF INVESTOR LETTER

Appendix G

FORM OF INVESTOR LETTER

INVESTOR LETTER

March 25, 2015

California Municipal Finance
Authority
2111 Palomar Airport Road, Suite 320
Carlsbad, California 92011

Re: \$25,905,000 California Municipal Finance Authority Charter School Revenue Bonds (Julian Charter School Project) Series 2015A and \$760,000 California Municipal Finance Authority Charter School Revenue Bonds (Julian Charter School Project) (Taxable) Series 2015B (collectively, the "Series 2015 Bonds")

Ladies and Gentlemen:

The undersigned (the "Purchaser"), being a purchaser of the above-referenced bonds (the "Series 2015 Bonds"), issued pursuant to the Indenture, dated as of March 1, 2015 (the "Indenture"), between the California Municipal Finance Authority (the "Issuer") and Zions First National Bank, Boise, Idaho, as Trustee (the "Trustee"), does hereby certify, represent and warrant for the benefit of the Issuer that (capitalized terms used herein and not otherwise defined have the meanings given such terms in the Indenture):

- (a) The Purchaser is an "Approved Institutional Buyer" because it is (check all that apply):
- 1) a "qualified institutional buyer" as defined in Rule 144A promulgated under the Securities Act of 1933, as in effect on the date hereof (the "Securities Act");
 - 2) an "accredited investor" as defined in paragraphs (1) through (3) of subsection (a) of Sections 501("Section 501") of Regulation D promulgated under the Securities Act;
 - 3) an entity that is directly or indirectly wholly owned or controlled by the purchaser/bondholder representative (being a financial institution described in (1) above);
 - 4) an "accredited investor" as defined in paragraph (5) of subsection (a) of said Section 501, provided that the minimum net worth shall be \$5,000,000;
 - 5) an "accredited investor" as defined in paragraph (6) of subsection (a) of said Section 501, provided that the minimum income (individual or joint) shall be \$1,000,000;
 - 6) an entity all of the investors in which are described in (1), (2) or (3) above; or
 - 7) a custodian or trustee for a party described in (1), (2), (3), (4) or (5) above.
- (b) The Purchaser has sufficient knowledge and experience in financial and business matters, including the purchase and ownership of obligations like the Series 2015 Bonds and is capable of evaluating the merits and risks of its investment in Series 2015 Bonds. The Purchaser is able to bear the economic risk of, and an entire loss of, an investment in Series 2015 Bonds.
- (c) The Purchaser is acquiring Series 2015 Bonds solely for its own account for investment purposes and does not presently intend to make a public distribution of, or to resell or

transfer, all or any part of Series 2015 Bonds. The Purchaser further understands that the Series 2015 Bonds may not be offered, sold or transferred and the Purchaser agrees not to offer, sell or transfer the Series 2015 Bonds without prior compliance with applicable registration and disclosure requirements under federal and State law; and further understands that the Series 2015 Bonds may not be sold or transferred and agrees not to sell or transfer the Series 2015 Bonds except in accordance with the transfer restrictions set forth in the Indenture.

- (d) The Purchaser understands that Series 2015 Bonds have not been registered under the Securities Act or under any state securities laws. The Purchaser agrees that it will comply with any applicable state and federal securities laws then in effect with respect to any disposition of Series 2015 Bonds by it, and further acknowledges that any current exemption from registration of Series 2015 Bonds does not affect or diminish such requirements.
- (e) The Purchaser has been provided and relied upon the Preliminary Official Statement. The Purchaser has reviewed the summaries of documents contained in the Preliminary Official Statement executed in conjunction with the issuance of Series 2015 Bonds, or summaries thereof, including, without limitation, the Indenture, the Lease and the Loan Agreement. The Purchaser has received and read the Preliminary Official Statement, including the information relating to the sources of repayment for the Series 2015 Bonds and other information relating to the Issuer. The Purchaser acknowledges and agrees that the Preliminary Official Statement is not guaranteed as to its accuracy or completeness, provided the Purchaser is not waiving any obligations the Underwriter has under federal and State securities laws.
- (f) The Purchaser is not now and has never been controlled by, or under common control with, the Borrower or the Tenant. Neither the Borrower nor the Tenant has ever been and neither are now controlled by the Purchaser. The Purchaser has entered into no arrangements with the Borrower, the Tenant or with any of their affiliates in connection with Series 2015 Bonds, other than as disclosed to the Issuer.
- (g) The Purchaser has authority to purchase Series 2015 Bonds and to execute this letter and any other instruments and documents required to be executed by the Purchaser in connection with the purchase of Series 2015 Bonds. The undersigned is authorized to make the certifications, representations and warranties contained herein by execution of this letter on behalf of the Purchaser.
- (h) In entering into this transaction, the Purchaser has not relied upon any representations or opinions of the Issuer or the Trustee relating to the legal consequences or other aspects of its investment in Series 2015 Bonds, nor has it looked to, nor expected, the Issuer to undertake or require any credit investigation or due diligence reviews relating to the Borrower, the Tenant, their respective financial conditions or business operations, the Series 2015 Project (including the financing or management thereof), or any other matter pertaining to the merits or risks of the transactions contemplated by the Indenture, the Lease and the Loan Agreement, or the adequacy of the funds pledged under the Indenture to secure repayment of Series 2015 Bonds.
- (i) The Purchaser understands that Series 2015 Bonds are not secured by any pledge of any moneys received or to be received from taxation by the Issuer (which has no taxing power), the State of California or any political subdivision or taxing district thereof; that Series 2015 Bonds do not represent or constitute a general obligation or a pledge of the faith and credit of the Issuer, the State of California or any political subdivision thereof; that no right will exist to have taxes levied by the State of California or any political subdivision thereof for the payment of principal and interest on Series 2015 Bonds; and that the liability of the Issuer with respect to Series 2015 Bonds is subject to further limitations as set forth in the Series 2015 Bonds and the Indenture. Notwithstanding the foregoing, the Purchaser acknowledges that the Series 2015 Bonds are limited obligations of the Issuer, secured solely by funds provided for pursuant to the Indenture and Loan Agreement.

- (j) The Purchaser has been informed that Series 2015 Bonds (i) have not been and will not be registered or otherwise qualified for sale under the “Blue Sky” laws and regulations of any jurisdiction, (ii) will not be listed on any stock or other securities exchange, and (iii) will carry a rating of “BB-”.
- (k) The Purchaser acknowledges that it has the right to sell and transfer Series 2015 Bonds, subject to compliance with the transfer restrictions set forth in the Indenture.
- (l) Neither the Trustee, the Issuer, or their respective members, governing bodies, employees, or agents will have any responsibility to the Purchaser for the accuracy or completeness of information obtained by the Purchaser from any source regarding the Borrower, the Tenant or their respective financial condition or regarding Series 2015 Bonds, the provision for payment thereof, or the sufficiency of any security therefor. No written information has been provided by the Issuer to the Purchaser with respect to Series 2015 Bonds, other than information under the captions “THE AUTHORITY” and “LEGAL MATTERS – Pending and Threatened Litigation – No Proceedings Against the Authority” in the Preliminary Official Statement dated February 24, 2015 and the Official Statement dated March 13, 2015, each relating to the Series 2015 Bonds.
- (m) The Purchaser acknowledges that the sale of Series 2015 Bonds to the Purchaser is made in reliance upon the certifications, representations and warranties herein by the addressees hereto. The Purchaser acknowledges that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

This letter is addressed solely to the Issuer and may not be relied upon by any other person.

IN WITNESS WHEREOF, the undersigned has hereunto set its hands this ____ day of March, 2015.

Amount Purchased:

\$ _____ of Series 2015A Bonds

\$ _____ of Series 2015B Bonds

By: _____

Print name/title:

(This page intentionally left blank.)