LIMITED OFFERING MEMORANDUM

NEW ISSUE – BOOK-ENTRY ONLY **NOT RATED**

In the opinion of Hinckley, Allen & Snyder LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Series 2016A Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Series 2016A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Series 2016A Bonds is exempt from California personal income taxes. Bond counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on the Series 2016A Bonds. See "TAX MATTERS" herein.

$6,850,000
CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY
School Facilities Revenue Bonds
(Discovery Charter Preparatory School Project)
Series 2016A and Series 2016B

$6,100,000
School Facilities Revenue Bonds
Series A

$750,000
School Facilities Revenue Bonds
Series B

Dated: Date of Delivery **Due: July 1, as shown on the inside front cover**

Investment in the Bonds entails substantial risk. This cover page contains certain information for quick and general reference only. It is not a summary of the transactions comprising this issue. Investors must read this entire Limited Offering Memorandum 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."

Issuer. The California Statewide Communities Development Authority (the "*Authority*"), a public instrumentality of the State of California (the "*State*"), is issuing two series of its $6,850,000 School Facilities Revenue Bonds (Discovery Charter Preparatory School Project) designated as the $6,100,000 California Statewide Communities Development Authority School Facility Revenue Bonds (Discovery Charter Preparatory School Project) Series 2016A (the "*2016A Bonds*") and $750,000 California Statewide Communities Development Authority School Facility Revenue Bonds (Discovery Charter Preparatory School Project) Series 2016B (the "2016B Bonds" and together with the 2016A Bonds, collectively, the "*Bonds*"). The Bonds are being issued pursuant to an Indenture dated as of December 1, 2016 (the "*Indenture*") between the Authority and Wilmington Trust, N.A., as trustee (the "*Trustee*").

Denominations. The Bonds will be dated their date of delivery, issued in denominations of $25,000 and integral multiples of $5,000 in excess thereof and will mature on July 1 of the years as shown on the front inside cover hereof.

Book-Entry Only. The Bonds will be issued as registered bonds in book-entry 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 Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein. So long as Cede & Co. is the registered owner of the Bonds as nominee of DTC, references herein to the Bondholders, as owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, all payments with respect to principal and interest on the Bonds will be made to Cede & Co., as nominee for DTC, which will, in turn, remit such payments to the direct participants for subsequent disbursement to the Beneficial Owners. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Interest and Payment Dates. The Bonds will bear interest payable semi-annually on July 1 and January 1 of each year, commencing January 1, 2017, until maturity or earlier redemption. Principal on the Bonds will be payable on July 1 in each year, commencing July 1, 2019. The Bonds are subject to optional, mandatory sinking fund and extraordinary redemption prior to maturity. See "THE BONDS – Prior Redemption." The principal of and interest on the Bonds will be payable in lawful money of the United States of America upon surrender at the Principal Corporate Trust Office of the Trustee.

Loan. The Authority will loan the proceeds of the Bonds to DCPS Eldridge Avenue LLC, a California limited liability company (sometimes the "*Borrower*" or "*Lessor*") pursuant to the terms of a Loan Agreement dated as of December 1, 2016 (the "*Loan Agreement*"), between the Authority and the Borrower. The Borrower's initial sole member is Coalition for Engaged Education, an independent California nonprofit public benefit corporation (the "*Sole Member*") organized and operated exclusively for charitable and educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "*Code*"). See "Risk Factors" herein.

Application of Proceeds. The proceeds of the Bonds, together with certain funds provided by the Borrower, will be used to fund (a) the cost of the acquisition, improvement, equipping and furnishing of certain educational facilities (the "*Facility*") and underlying real property (the "*Land*") located at 13570 Eldridge Ave., Sylmar, California 91342, in the County of Los Angeles, California collectively, the Facility and the Land together with all of the foregoing are referred to as either the "Project", the "2016 Project" or the "Premises"), (b) the first interest payment on the Bonds and (c) certain costs of issuance of the Bonds.

Lease. The Borrower, as the Owner of the Project and lessor pursuant to the terms of a Lease Agreement dated as of the date the date of original issuance and delivery of the Bonds (the "*Lease*") between the Borrower and Discovery Charter Preparatory School (the "*Lessee*" or "*Discovery Prep*"), will lease the Facility financed with Bond proceeds to the Lessee. The Lessee will operate the school as "Discovery Charter Preparatory School" (the "*School*"). Discovery Prep is obligated to pay Base Rent during the initial twenty (20) year term thereunder and any five (5) year renewal terms sufficient to pay the debt service and other payments due under the Loan Agreement and the Bonds when due.

Limited Obligation; Security. The Bonds constitute special, limited obligations of the Authority and are payable solely from certain revenues derived by the Authority and from certain funds and accounts established and maintained under the Indenture. The Bonds are secured only by a pledge and assignment of such revenues and amounts held in the funds and accounts established pursuant to the Indenture (including proceeds of the sale of the Bonds but excluding amounts held in the Cost of Issuance Fund and 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 Bonds are further secured by an assignment of the right, title and interest of the Authority in the Loan Agreement and by a Deed of Trust, Security Agreement, Assignment of Rents and Leases, and Fixture Filing dated as of December 1, 2016 (the "*Deed of Trust*"), executed by the Borrower, as trustor, for the benefit of the Trustee.

THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. THE AUTHORITY SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS, OR THE REDEMPTION PREMIUM 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 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. MOREOVER, NEITHER THE AUTHORITY NOR THE CITY OF LOS ANGELES SHALL BE LIABLE FOR ANY OTHER COSTS, EXPENSES, LOSSES, DAMAGES, CLAIMS OR ACTIONS, IN CONNECTION WITH THE LOAN AGREEMENT, THE BONDS OR THE INDENTURE, EXCEPT ONLY TO THE EXTENT AMOUNTS ARE RECEIVED FOR THE PAYMENT THEREOF FROM THE BORROWER UNDER THE LOAN AGREEMENT.

Purchasers. The Bonds are offered and sold (including in secondary market transactions) only to Accredited Investors or Qualified Institutional Buyers as defined in Rule 501 under Regulation D ("*Reg D*") and Rule 144A under the Securities Act of 1933, as amended. (each, as defined herein) and Broker-Dealers registered under the Securities Exchange Act of 1934, as amended. See "THE BONDS – Transfer Restrictions." Each purchaser of the Bonds offered hereby will be deemed to have represented and warranted upon the purchase of such securities that such purchaser: (i) is an Accredited Investor or a Qualified Institutional Buyer or a Broker-Dealer (within the meaning of the Indenture) and (ii) is acquiring the Bonds for his, her or its own account or for the account of an Accredited Investor or Qualified Institutional Buyer or Broker-Dealer (within the meaning of the Indenture).

Bondholder Representative; Control of Actions regarding the Bonds; Bondholder Acknowledgement. RPM Capital Management, LLC, an investment advisory firm registered under the Investment Company Act of 1940 (the "*Bondholder Representative*"), on behalf of its investor clients, has been granted authority and has broad rights to direct the Trustee, provide consents and approve actions as well as generally control proceedings under the Indenture and other documents and instruments with respect to the administration and enforcement of remedies as the representative of the purchasers of the Bonds. Purchasers of the Bonds expressly acknowledge and agree that such purchasers have appointed the Bondholder Representative to act in such capacity, which actions may affect their rights under the Indenture and other documents and instruments relating to the Bonds.

The Bonds are offered when, as and if issued by the Authority, are subject to prior sale, the receipt and acceptance by the Underwriter and the approval of legality by Hinckley Allen & Snyder LLP, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon by Orrick Herrington & Sutcliffe, LLP, San Francisco, California, as special counsel to the Authority, by Musick, Peeler & Garrett LLP, Los Angeles, California, as counsel to the Borrower, by Fox Rothschild LLP, Los Angeles, California, as disclosure counsel and by Butler Snow LLP, Denver, Colorado, as counsel to B.C. Ziegler and Company, underwriter. It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York on or about December 15, 2016.

Ziegler

Dated: December 14, 2016.

LIMITED OFFERING MEMORANDUM

MATURITY SCHEDULE

California Statewide Communities Development Authority
School Facilities Revenue Bonds

$6,100,000 Term Bond, Series A due July 1, 2047; Interest Rate 7.00%; Yield 7.05%; Price 99.371%;

CUSIP: 13080K AW1†

$750,000 Term Bond Series B due July 1, 2027; Interest Rate 6.25%; Yield 6.25%; Price 100%;

CUSIP: 13080K AX9†

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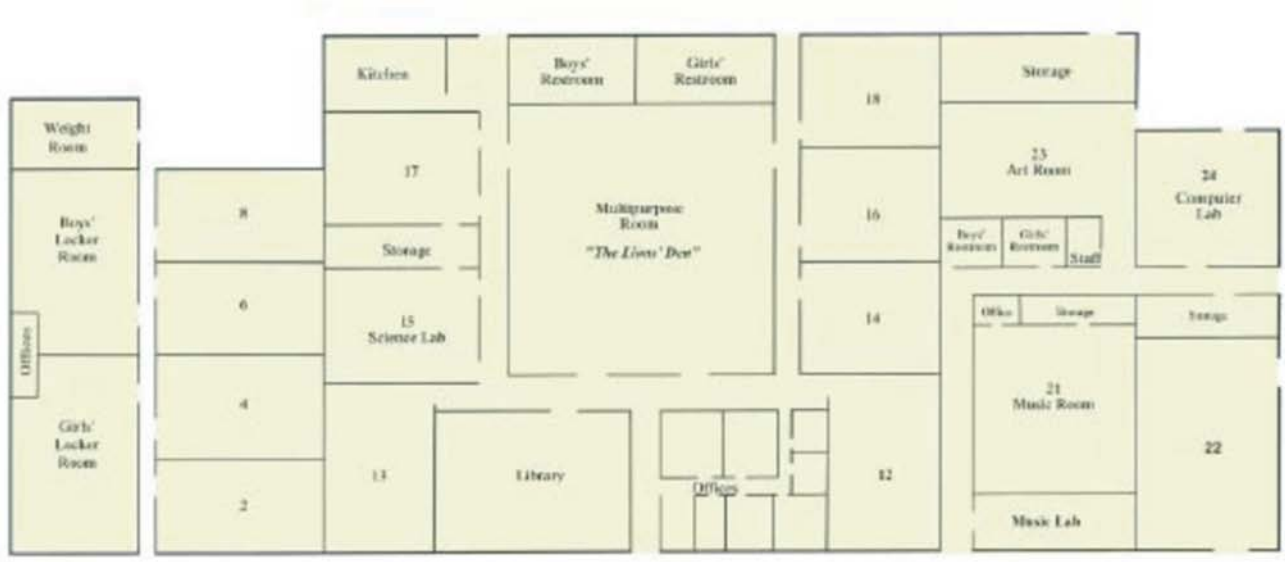
† CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright© 2016 CUSIP Global Services. All rights reserved. The above-referenced CUSIP® numbers have been assigned by an independent company not affiliated with the Authority, the Borrower, the Bondholder Representative, the Sole Member, the Underwriter or Trustee, and are included solely for the convenience of the holders of the Bonds. None of the Authority, the Borrower, the Bondholder Representative, the Sole Member, Discovery Prep, the Underwriter or the Trustee is responsible for the selection or uses of such CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 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.

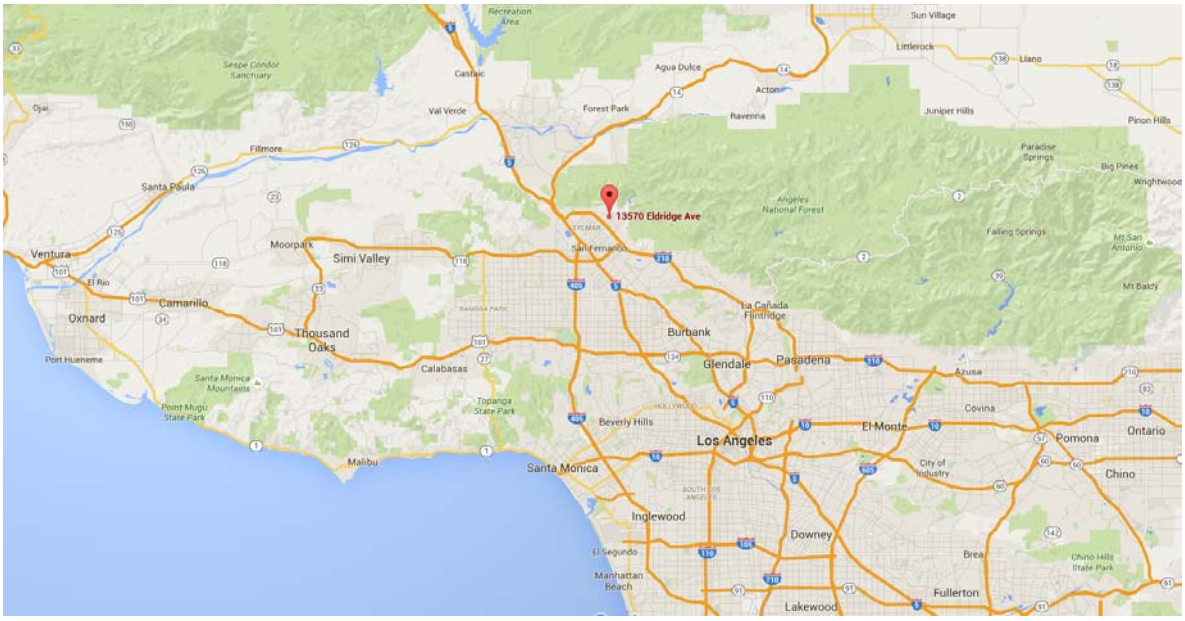
DISCOVERY PREPARATORY CHARTER SCHOOL
13570 ELDRIDGE AVE., SYLMAR, CA 91342

EXTERIOR ELEVATION VIEW

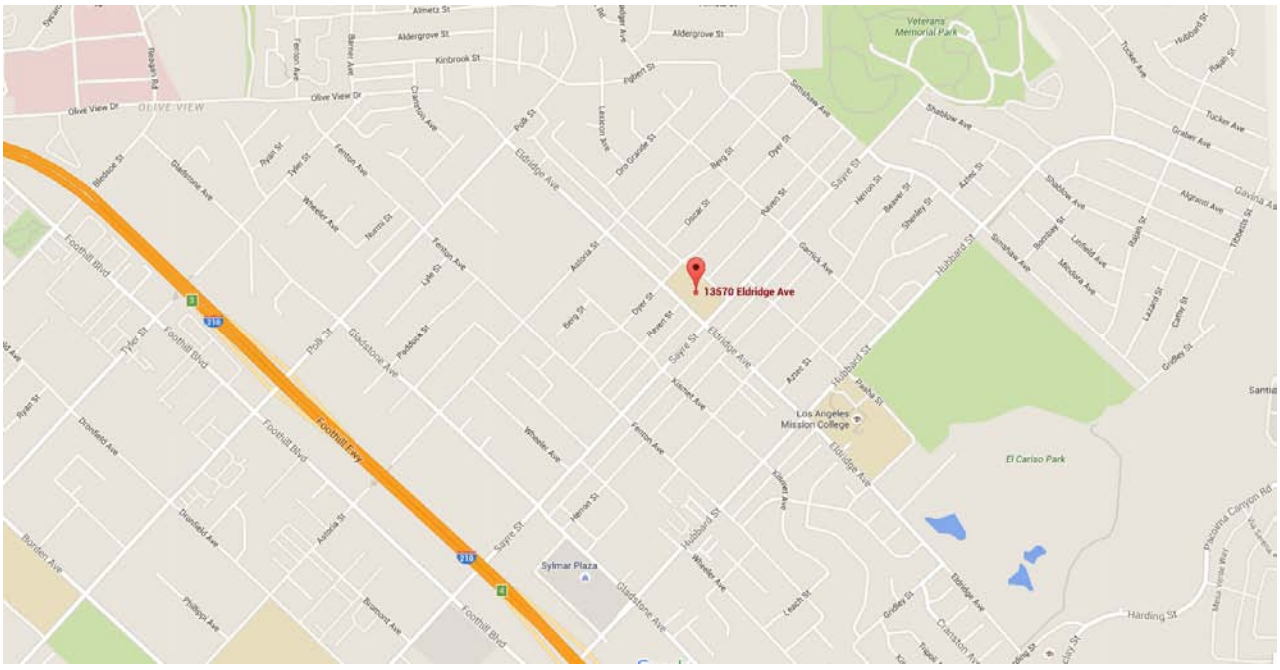


INTERIOR FLOOR PLAN

DISCOVERY PREPARATORY CHARTER SCHOOL
13570 ELDRIDGE AVE., SYLMAR, CA 91342



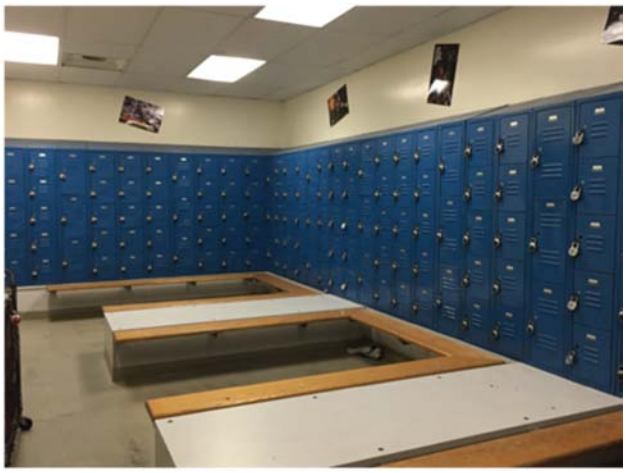
MACRO LOCATION DEPICTION IN LOS ANGELES AREA



NEIGHBORHOOD LOCATION DEPICTION

DISCOVERY PREPARATORY CHARTER SCHOOL

13570 ELDRIDGE AVE., SYLMAR, CA 91342



Locker Room

Library

Ball Fields

Classroom

Multi-Purpose Room

Exterior

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 Limited Offering Memorandum, in connection with the offering of the 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 Bondholder Representative, the Sole Member, Discovery Prep, the Trustee or the Underwriter. The information in this Limited Offering Memorandum is subject to change without notice, and neither the delivery of this Limited Offering Memorandum 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 Bondholder Representative, the Sole Member, Discovery Prep, the Trustee or the Underwriter since the date hereof. This Limited Offering Memorandum 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 Limited Offering Memorandum 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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CAUTIONARY STATEMENTS

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, broker, salesperson or other person has been authorized by the Authority, the Borrower, the Bondholder Representative, the Sole Member, Discovery Prep, the Trustee or the Underwriter to give any information or to make any representation with respect to the Bonds other than those contained in this Limited Offering Memorandum, 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 Limited Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy and, there shall not be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

None of the Trustee, the Sole Member of the Borrower or the Los Angeles Unified School District (the authorizing entity of the School) (the "*LAUSD*") assumes any responsibility for this Limited Offering Memorandum or has reviewed or undertaken to verify any information contained herein.

Except for information in this Limited Offering Memorandum concerning the Authority contained under the captions "THE AUTHORITY" and "LEGAL MATTERS – Pending and Threatened Litigation – The Authority", the Authority neither has nor will assume any responsibility as to the accuracy or completeness of information in this Limited Offering Memorandum.

THE INFORMATION SET FORTH HEREIN HAS BEEN OBTAINED FROM THE AUTHORITY, DCPS ELDRIDGE AVENUE LLC, COALITION FOR ENGAGED EDUCATION OR DISCOVERY CHARTER PREPARATORY SCHOOL AND OTHER SOURCES THAT ARE BELIEVED TO BE RELIABLE, BUT IT IS NOT GUARANTEED AS TO ACCURACY AND COMPLETENESS, AND IS NOT TO BE CONSTRUED AS A REPRESENTATION BY THE UNDERWRITER, UNDERWRITER'S COUNSEL OR DISCLOSURE COUNSEL. THE INFORMATION AND EXPRESSIONS OF OPINION HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER THE DELIVERY OF THIS LIMITED OFFERING MEMORANDUM NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE THE IMPLICATION THAT THERE HAS BEEN NO CHANGE IN ANY OF THE INFORMATION SET FORTH HEREIN SINCE THE DATE HEREOF.

The explanations of provisions of laws and descriptions of the documents in this Limited Offering Memorandum are summaries thereof and reference is made to the actual laws and documents for a complete understanding of the contents of such documents.

The order and placement of information and materials in this Limited Offering Memorandum, including the Appendices, are not deemed to be a determination of relevance, materiality or importance, and this Limited Offering Memorandum, including the Appendices, must be considered in its entirety. The offering of the Bonds is made only by means of this entire Limited Offering Memorandum.

In making an investment decision, investors must rely on their own examinations of this Limited Offering Memorandum, the Authority, DCPS Eldridge Avenue LLC, Coalition for Engaged Education and Discovery Charter Preparatory School and the terms of the offering, including the merits and risks involved. The Bonds have not been approved or disapproved by the Securities and Exchange Commission (the "*SEC*") or any state securities commission, nor has the SEC or any state securities commission passed upon the accuracy or completeness of this Limited Offering Memorandum. Any representation to the contrary may be a criminal offense.

BONDHOLDER REPRESENTATIVE; CONTROL OF ACTIONS REGARDING THE BONDS

RPM Capital Management, LLC, an investment advisory firm registered under the Investment Company Act of 1940 (the "*Bondholder Representative*"), on behalf of its investor clients, has been granted authority and has broad rights to direct the Trustee, provide consents and approve actions and generally control proceedings under the Indenture and other documents and instruments related to the Bonds with respect to the administration and enforcement of remedies as representative of the purchasers of the Bonds. Purchasers of the Bonds expressly acknowledge and agree that they have appointed the Bondholder Representative to act in such capacity, which actions may affect their rights under the Indenture and other documents and instruments relating to the Bonds.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

THIS LIMITED OFFERING MEMORANDUM, INCLUDING THE APPENDICES HERETO, CONTAINS STATEMENTS WHICH SHOULD BE CONSIDERED "FORWARD-LOOKING STATEMENTS," MEANING THEY REFER TO POSSIBLE FUTURE EVENTS OR CONDITIONS. SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY THE WORDS SUCH AS "PLAN," "EXPECT," "ESTIMATE," "BUDGET," OR SIMILAR WORDS. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES, AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE, OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. NEITHER THE BORROWER NOR THE LESSEE EXPECTS NOR INTENDS TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED, OCCUR. THE FINANCIAL PROJECTIONS OF CERTAIN INFORMATION REGARDING DCPS ELDRIDGE AVENUE LLC, COALITION FOR ENGAGED EDUCATION AND DISCOVERY CHARTER PREPARATORY SCHOOL CONTAINED IN THIS LIMITED OFFERING MEMORANDUM ARE NOT HISTORICAL STATEMENTS OF FINANCIAL PERFORMANCE OF THE DCPS ELDRIDGE AVENUE LLC, COALITION FOR ENGAGED EDUCATION AND DISCOVERY CHARTER PREPARATORY SCHOOL, BUT ARE FORWARD LOOKING FORECASTS OF FUTURE, PROJECTED FINANCIAL PERFORMANCE OF DCPS ELDRIDGE AVENUE LLC, COALITION FOR ENGAGED EDUCATION AND DISCOVERY CHARTER PREPARATORY SCHOOL.

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LIMITED OFFERING MEMORANDUM

$6,850,000
California Statewide Communities Development Authority
School Facilities Revenue Bonds
(Discovery Charter Preparatory School Project)
Series 2016A and Series 2016B

$6,100,000	**$750,000**
School Facilities Revenue Bonds	**School Facilities Revenue Bonds**
Series A	**Series B**

INTRODUCTION

Purpose of this Limited Offering Memorandum

The purpose of this Limited Offering Memorandum, including the cover page and the Appendices hereto (which information is incorporated by reference as part of this Limited Offering Memorandum), is to provide certain information concerning the issuance and sale by the California Statewide Communities Development Authority, a public instrumentality of the State of California (the "*Authority*") of its two series of its $6,850,000 School Facilities Revenue Bonds (Discovery Charter Preparatory School Project) designated as the $6,100,000 California Statewide Communities Development Authority School Facility Revenue Bonds (Discovery Charter Preparatory School Project) Series 2016A (the "2016A Bonds") and $750,000 California Statewide Communities Development Authority School Facility Revenue Bonds (Discovery Charter Preparatory School Project) Series 2016B (the "2016B Bonds" and together with the 2016A Bonds, collectively, the "Bonds"), pursuant to an Indenture, dated as of December 1, 2016 (the "*Indenture*") by and between the Authority and Wilmington Trust, N.A., a national banking association organized and existing under the laws of the United States of America, as trustee thereunder (the "*Trustee*").

The offering of the Bonds is made only by way of this Limited Offering Memorandum, which supersedes any other information or materials used in connection with the offer or sale of the Bonds. This Limited Offering Memorandum speaks only as of its date, and the information contained herein is subject to change. Capitalized terms used but not defined in this Limited Offering Memorandum have the meanings set forth in the Indenture. See Form of Indenture in APPENDIX D.

Caution Regarding Forward-Looking Statements

This Limited Offering Memorandum contains statements relating to future results that are forward-looking statements of the type defined in the Private Securities Litigation Reform Act of 1995. When used in this Limited Offering Memorandum, 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. Inevitably, 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

The Authority is a joint powers agency organized pursuant to a Joint Powers Agreement among a number of California counties, cities and special districts entered into pursuant to the provisions relating to the joint exercise of powers contained in Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the California Government Code. The Authority is authorized to participate in financings for the benefit of certain organizations described under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "*Code*").

The Borrower, the Sole Member and Discovery Prep

The Authority, pursuant to the terms of a Loan Agreement dated as of December 1, 2016 (the "*Loan Agreement*"), between the Authority and DCPS Eldridge Avenue LLC, a California limited liability company (the "*Borrower*") will loan the proceeds of the Bonds to the Borrower. The Borrower's initial sole member is Coalition for Engaged Education (the "*Sole Member*"), an independent California nonprofit public benefit corporation recognized under, and described in, Section 501(c)(3) of the Code.

The Borrower will lease the Facility (as defined herein) to Discovery Charter Preparatory School ("*Discovery Prep*" or "Lessee"), a California nonprofit public benefit corporation, as described in Section 501(c)(3) of the Code, pursuant to the terms of a Lease Agreement dated as of December 1, 2016 (the "*Lease*"). Discovery Prep is obligated to pay Rent thereunder sufficient to pay the debt service and other amounts under the Loan Agreement and the Bonds when due. See "APPENDIX B – CERTAIN INFORMATION REGARDING DCPS ELDRIDGE AVENUE LLC, COALITION FOR ENGAGED EDUCATION AND DISCOVERY CHARTER PREPARATORY SCHOOL" for a more detailed description of the history, organization and financial performance of the Borrower, the Sole Member and Discovery Prep, and "APPENDIX C - AUDITED FINANCIAL STATEMENTS OF DISCOVERY CHARTER PREPARATORY SCHOOL FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015."

Bondholder Representative; Control of Actions Regarding the Bonds; Bondholder Acknowledgement

RPM Capital Management, LLC, an investment advisory firm registered under the Investment Company Act of 1940 (the "*Bondholder Representative*"), on behalf of its investor clients, has been granted authority and has broad rights to direct the Trustee, provide consents and approve actions and generally control proceedings under the Indenture and other documents and instruments related to the Bonds with respect to the administration and enforcement of remedies as the representative of the purchasers. Purchasers of the Bonds expressly acknowledge and agree that they have appointed the Bondholder Representative to act in such capacity, which actions may affect their rights under the Indenture and the other documents and instruments relating to the Bonds.

Purpose of the Bonds

The proceeds of the Bonds will be used, along with other funds available to the Borrower, to fund (a) the cost of the acquisition, improvement, equipping and furnishing of certain educational facilities (the "*Facility*") and underlying real property (the "*Land*") located at 13570 Eldridge Ave., Sylmar, California 91342, in the County of Los Angeles, California (collectively, the Facility and the Land together with all of the foregoing are referred to as either the "*Project*", the "*2016 Project*" or the "*Premises*"), (b) the first interest payment on the Bonds and (c) certain costs of issuance of the Bonds. See "PLAN OF FINANCE" for additional information describing the Series 2016 Project.

Assignment of Agreements and Documents

The Borrower will assign to the Trustee as security for the payment of the Bonds all of its right, title, and interest in and to the Loan Agreement, the Lease and the contracts, permits and approvals issued for the Facility. In the case of a default by the Borrower under the Loan Agreement, the Trustee will be entitled to enforce performance of the Lease but will not be required to perform the obligations of the Borrower as set forth therein. In the event of a default by the Borrower under the Loan Agreement and a default by the Authority under the Indenture, the Trustee will be entitled to enforce performance of the Authority's obligations thereunder, but, unless the Trustee chooses to enforce performance of the Loan Agreement or Lease, will not be required to perform the obligations of the Borrower or the Authority as set forth in such agreements. See "SECURITY FOR THE BONDS – The Loan Agreement – Deed of Trust; Assignment of the Lease."

Payment and Security for the Bonds

The Bonds are being issued pursuant to the Indenture. The Authority will loan the proceeds of the Bonds to the Borrower pursuant to the terms of the Loan Agreement which includes the Borrower's repayment obligations to pay debt service on the Bonds and other required payments under the Loan Agreement when due.

The Authority will assign all of its rights, title and interest in and to the Loan Agreement (excluding only the Authority's Unassigned Rights) to the Trustee as security for the Bonds.

The Borrower will lease the Facility to Discovery Prep pursuant to the terms of the Lease. Discovery Prep is obligated to pay base rent (the "*Base Rent*") to the Borrower (which is assigned to the Trustee) which will be sufficient in amount to make payments due under the Loan Agreement and to pay debt service on the Bonds when due.

The Bonds will be further secured by a Deed of Trust, Security Agreement, Assignment of Rents and Leases, and Fixture Filing dated as of December 1, 2016 (the "*Deed of Trust*"), from the Borrower, as trustor, which will provide a mortgage on and security interest in the Premises for the benefit of the Trustee.

THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. THE AUTHORITY SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS, OR THE REDEMPTION PREMIUM 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 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. MOREOVER, NEITHER THE AUTHORITY NOR THE CITY OF LOS ANGELES SHALL BE LIABLE FOR ANY OTHER COSTS, EXPENSES, LOSSES, DAMAGES, CLAIMS OR ACTIONS, IN CONNECTION WITH THE LOAN AGREEMENT, THE BONDS OR THE INDENTURE, EXCEPT ONLY TO THE EXTENT AMOUNTS ARE RECEIVED FOR THE PAYMENT THEREOF FROM THE BORROWER UNDER THE LOAN AGREEMENT.

Source of Information Contained in Limited Offering Memorandum

Neither the Authority nor any of its independent contractors, nor Fox Rothschild LLP, as disclosure counsel ("*Disclosure Counsel*"), nor Butler Snow LLP, as counsel to the Underwriter ("*Underwriter's Counsel"*), has furnished, investigated or verified the information contained in this Limited Offering Memorandum and with respect to the Authority, other than the information contained in this section and in the section entitled "LEGAL MATTERS – Pending and Threatened Litigation – The Authority." None of the Authority, the Underwriter or any of its independent contractors, nor Disclosure Counsel, nor Underwriter's Counsel has or will, in the future, monitor the financial condition of the Borrower or Discovery Prep, or otherwise monitor payment of the Bonds or compliance with the documents relating thereto. Any commitments or obligations for continuing disclosure with respect to the Bonds have been undertaken solely by the Borrower and Discovery Prep.

THE AUTHORITY

The Authority is a joint powers agency organized pursuant to a Joint Powers Agreement among a number of California counties, cities and special districts entered into pursuant to the provisions relating to the joint exercise of powers contained in Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the California Government Code. The Authority is authorized to participate in financings for the benefit of certain organizations described under Section 501(c)(3) of the Code.

THE BORROWER

The Borrower is a California limited liability company. The Borrower's sole member is Coalition for Engaged Education, a California nonprofit public benefit corporation. Pursuant to the Loan Agreement, the Authority will loan the proceeds of the Bonds to the Borrower. Pursuant to the Lease Agreement, the Borrower will lease the Facility to Discovery Prep for use by the School. See "SECURITY FOR THE BONDS" and "APPENDIX B – CERTAIN INFORMATION REGARDING DCPS ELDRIDGE AVENUE LLC, COALITION FOR ENGAGED EDUCATION AND DISCOVERY CHARTER PREPARATORY SCHOOL" and "APPENDIX C - AUDITED FINANCIAL STATEMENTS OF DISCOVERY CHARTER PREPARATORY SCHOOL FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015."

THE SCHOOL

Discovery Charter Preparatory School ("*Discovery Prep*") is a California nonprofit, public benefit corporation and an organization that operates the public charter school known as "Discovery Charter Preparatory School" (the "*School*") under the Charter Schools Act of 1992, as amended (constituting Part 26.8 of Division 4 of Title 2 of the Education Code). At a meeting held on September 19, 2011, the Board of Education of the City of Los Angeles, the governing board of the Los Angeles Unified School District ("*LAUSD*"), approved Discovery Prep's charter petition for the School within LAUSD. The California Department of Education assigned County-District-School Code 19-64733-0115253 to the School. The Charter was renewed in 2007 and 2012 and was renewed on December 13, 2016. Subject to earlier revocation, the charter will be effective for a period of five (5) years after renewal (currently until June 30, 2022), when the School's petition will be considered for renewal for an additional five (5) years under the Charter School Law. See "RISK FACTORS - Nonrenewal or Revocation of Charters", "APPENDIX B – CERTAIN INFORMATION ABOUT DCPS ELDRIDGE AVENUE LLC, COALITION FOR ENGAGED EDUCATION AND DISCOVERY CHARTER PREPARATORY SCHOOL" and "APPENDIX C – AUDITED FINANCIAL STATEMENTS OF DISCOVERY CHARTER PREPARATORY SCHOOL FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015" herein for further financial and operational information regarding the School.

Discovery Prep is leasing the Facility from the Borrower pursuant to the Lease. See "SECURITY AND SOURCES OF PAYMENT" herein.

RISK FACTORS

Investment in the Bonds involves a certain degree of risk. Anyone considering investing in the Bonds should carefully examine this Limited Offering Memorandum, including the Appendices hereto. INVESTMENT IN THE BONDS SHOULD BE UNDERTAKEN ONLY BY PERSONS WHOSE FINANCIAL RESOURCES ARE SUFFICIENT TO ENABLE THEM TO ASSUME SUCH RISK. THIS SECTION SETS FORTH A BRIEF SUMMARY OF SOME OF THE PRINCIPAL RISK FACTORS. PROSPECTIVE INVESTORS SHOULD FULLY UNDERSTAND AND EVALUATE THESE RISKS, IN ADDITION TO THE OTHER FACTORS SET FORTH IN THIS LIMITED OFFERING MEMORANDUM, BEFORE MAKING AN INVESTMENT DECISION.

This Limited Offering Memorandum contains copies or summaries of pertinent provisions of the Bonds, the Indenture, the Loan Agreement, the Deed of Trust, the Lease, the Continuing Disclosure Certificate and other relevant documents. 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 Bonds is not, and is not intended to be, exhaustive, and such risks are not necessarily presented in the order of their magnitude.

Sufficiency of Revenues

The Bonds are secured by and payable from funds of the Borrower under the terms and conditions of the Loan Agreement and as otherwise described therein. The Lease provides that Discovery Prep shall be obligated to pay rent under the Lease payable from any legally available funds of

the School, which shall be comprised primarily of the Revenues from the operation of the School. Based on present circumstances, including the operating history of the School, management of Discovery Prep believes the School will generate sufficient revenues to meet Discovery Prep's payment obligations under the Lease representing debt service on the Bonds and other payments due under the Loan Agreement. However, the charter for the School may be terminated or not extended or renewed, or the basis of the assumptions utilized by Discovery Prep's management to formulate such beliefs may otherwise change, which in turn may adversely affect the Borrower's ability to make payments. No representation or assurance can be made that Discovery Prep will continue to generate sufficient revenues to meet its obligations under the Lease, which support the Borrower's obligations with respect to the Bonds.

Reliance on Projections

The projections of revenues and expenses contained in "APPENDIX B – CERTAIN INFORMATION REGARDING DCPS ELDRIDGE AVENUE LLC, COALITION FOR ENGAGED EDUCATION AND DISCOVERY CHARTER PREPARATORY SCHOOL" and "APPENDIX C – AUDITED FINANCIAL STATEMENTS OF DISCOVERY CHARTER PREPARATORY SCHOOL FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015," were prepared by management of the Borrower and Discovery Prep, but have not been independently verified by any party other than the Borrower and Discovery Prep.

No feasibility studies have been conducted with respect to the operations of Discovery Prep. The projections are "forward-looking statements" and are subject to the general qualifications and limitations described under "INTRODUCTION – Forward-Looking Statements." The Underwriter has not independently verified the Borrower's and the School's 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 Bonds may be outstanding.

Management of the Borrower and Discovery Prep have prepared the projections based on the operating histories with respect to the School and management's assumptions about future State funding levels and future operations of the School, including student enrollment levels, revenue and expenses. There can be no assurance that actual enrollment revenues and expenses will be consistent with the assumptions underlying such projections. Refer to "APPENDIX B – CERTAIN INFORMATION REGARDING DCPS ELDRIDGE AVENUE LLC, COALITION FOR ENGAGED EDUCATION AND DISCOVERY CHARTER PREPARATORY SCHOOL" to review the projections, their underlying assumptions, and the other 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 PROJECTED INFORMATION. ACTUAL OPERATING RESULTS MAY BE AFFECTED BY MANY FACTORS, INCLUDING, BUT NOT LIMITED TO, INCREASED COSTS, LOWER THAN ANTICIPATED REVENUES (AS A RESULT OF LOWERED ENROLLMENT, REDUCED STATE OR FEDERAL AID PAYMENTS, OR OTHERWISE), DIFFICULTIES IN EXECUTING PLANS FOR ADDITIONAL SCHOOL FACILITIES OR OTHER EXPANSIONS, EMPLOYEE RELATIONS, CHANGES IN TAXES, CHANGES IN APPLICABLE GOVERNMENTAL REGULATION, CHANGES IN DEMOGRAPHIC TRENDS, CHANGES IN EDUCATION COMPETITION AND LOCAL OR GENERAL ECONOMIC CONDITIONS.

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

California charter schools such as the School 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, including the school's enrollment data and average daily attendance. The amount of aid provided by the State in any year is subject to appropriation by the State Legislature (the

"*Legislature*") and based on many factors, including the State's economic performance. Further, because some public officials, their constituents, commentators and others have viewed charter schools as controversial, political factors may also affect charter school funding outcomes. As a result, the Legislature may not appropriate funds, or may not appropriate funds in a sufficient amount, for the School to generate sufficient revenue to meet its operating expenses and to meet its obligations under the Lease representing debt service payments on the Bonds and other amounts due under the Loan Agreement. 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 close.

Nonrenewal or Revocation of Charters

Pursuant to the Charter School Act of 1992, California Education Code §§ 47600 *et. seq.*, as amended (the "*Charter School Act*"), Discovery Prep operates pursuant to a charter (the "Discovery Charter" described in "APPENDIX B – CERTAIN INFORMATION REGARDING DCPS ELDRIDGE AVENUE LLC, COALITION FOR ENGAGED EDUCATION AND DISCOVERY CHARTER PREPARATORY SCHOOL" and "APPENDIX C – AUDITED FINANCIAL STATEMENTS OF DISCOVERY CHARTER PREPARATORY SCHOOL FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015." Discovery Prep is required to apply for extensions or renewals of its charter to operate beyond the then-current expiration date. A charter is subject to nonrenewal or revocation for, among other reasons, 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.

California law also imposes certain renewal requirements on charter schools, including academic attainment requirements. Charter schools must meet certain requirements with respect to the Academic Performance Index ("*API*"), or the entity that granted the charter must show that the charter school's academic performance is at least equivalent to that of the public schools that the charter school's students would otherwise have been required to attend, as well as the school district in which the charter school is located, adjusting for the composition of the pupil population served at the charter school. California law provides that such requirements commence after a charter school has been in operation for four (4) years. The Discovery Charter was renewed on December 13, 2016 and will remain effective through June 30, 2022, subject to revocation or termination as described herein. No assurance is given, for the reasons set forth herein, that the Discovery Charter will be renewed in the future or that regulatory authorities would not seek to terminate the Discovery Charter. See "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF CALIFORNIA LAW – CHARTER SCHOOL STATUS AND OPERATIONS – Charter Terms and Renewals."

While the Smarter Balanced Assessment System* (SBAS) will eventually replace California's Academic Performance Index with a new methodology and indicators of pupil and school performance, the School historically has met the above API-related renewal requirements and Discovery Prep's management represents that the School currently meets the above API-related renewal requirements.

With respect to the other performance criteria, Discovery Prep and the Borrower believe that the School's performance is and will remain at least equal to the academic performance of the public schools that the School's students might otherwise attend, as well as the academic performance of the schools in LAUSD, taking into account the School's student population composition. See "APPENDIX B – CERTAIN INFORMATION REGARDING DCPS ELDRIDGE AVENUE LLC, COALITION FOR ENGAGED EDUCATION AND DISCOVERY CHARTER PREPARATORY SCHOOL" and "APPENDIX C – AUDITED FINANCIAL STATEMENTS OF DISCOVERY CHARTER PREPARATORY SCHOOL FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015."

*The Smarter Balanced Assessment System utilizes 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 for English language arts/literacy and mathematics.

No Child Left Behind Act; Every Student Succeeds Act

The No Child Left Behind Act of 2001 (the "*NCLB*") used 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 allowed 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 California Department of Education ("*CDE*") only produced 2014 AYP reports for high schools and high school local education agencies ("*LEAs*") 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 were 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.

On December 10, 2015, the "Every Student Succeeds Act" ("*ESSA*") was signed into law, which replaces the NCLB. ESSA requires each state to submit a plan outlining its statewide accountability system to the U.S. Department of Education. The transition to new state plans began in the 2016-2017 school year. It is unknown how the State's plan for its statewide accountability system as submitted to the U.S. Department of Education or how the implementation of ESSA will impact the School. It is unknown at this time what changes, if any, will be made by the Legislature in order to comply with ESSA.

See "APPENDIX B – CERTAIN INFORMATION REGARDING DCPS ELDRIDGE AVENUE LLC, COALITION FOR ENGAGED EDUCATION AND DISCOVERY CHARTER PREPARATORY SCHOOL," and "APPENDIX C – AUDITED FINANCIAL STATEMENTS OF DISCOVERY CHARTER PREPARATORY SCHOOL FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015," and "FINANCIAL STATEMENTS – Competition; Student Performance." There can be no assurance that the School will meet State-mandated performance requirements in the future. Any failure to meet required standards could have a material adverse effect on the School and its ability to generate revenues necessary to make payments under the Lease representing debt service on the Bonds and other payments due under the Loan Agreement.

Default under the Lease; No Assurance Regarding Subsequent Tenant

If there is a default by the Borrower under the Loan Agreement attributable to a default by Discovery Prep under the Lease, the Borrower would very likely not have funds to satisfy its remaining obligation to make payments under the Loan Agreement. If Discovery Prep were to default under the Lease, there can be no assurance that the Borrower would be able to find a new tenant for the Facility which could generate revenues in a sufficient amount to allow the Borrower to make payments under the Loan Agreement representing debt service on the Bonds and other payments due under the Loan Agreement. This risk is heightened by the fact that any replacement tenant would need to be an educational organization described in Section 501(c)(3) of the Code.

Competition for Students

The School is subject to competition from other area schools as described herein under "APPENDIX B – CERTAIN INFORMATION REGARDING DCPS ELDRIDGE AVENUE LLC, COALITION FOR ENGAGED EDUCATION AND DISCOVERY CHARTER PREPARATORY SCHOOL" – Competition and "APPENDIX C – AUDITED FINANCIAL STATEMENTS OF DISCOVERY CHARTER PREPARATORY SCHOOL FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015." The School faces constant competition for students and there can be no assurance that it will continue to attract and retain and enroll students needed to generate sufficient revenues for Discovery Prep to make

payments under the Lease representing debt service payments on the Bonds and other amounts due under the Loan Agreement. See "APPENDIX B – CERTAIN INFORMATION REGARDING DCPS ELDRIDGE AVENUE LLC, COALITION FOR ENGAGED EDUCATION AND DISCOVERY CHARTER PREPARATORY SCHOOL" – Project – Discovery Prep; Lease of Discovery Prep Facility" and "APPENDIX C - AUDITED FINANCIAL STATEMENTS OF DISCOVERY CHARTER PREPARATORY SCHOOL FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015." In recent years the School's enrollment has declined. Management of the School believes the Series 2016 Project will assist the School in raising its enrollment in the future.

Factors Associated with Education

There are a number of factors affecting charter schools in general, including the School, that could have an adverse effect on Discovery Prep's financial position and its ability to make the payments required under the Lease. These factors include, but are not limited to, the ability to attract a sufficient number of students; the ability to attract and retain a sufficient number of qualified teachers; increasing costs of compliance with federal or State regulatory laws or regulations, including, without limitation, laws or regulations concerning environmental quality, work safety, accommodating persons with disabilities; any unionization of Discovery Prep's work force with consequent impact on wage scales and in operating costs of its school; changes in existing statutes regarding the powers of charter schools or their funding. Discovery Prep cannot assess or predict the ultimate effect of these factors on its operations or financial results.

Risk of Unionization

The Borrower is not expected to have employees. Discovery Prep employs approximately 30 employees. No employees of Discovery Prep are currently unionized. Should teachers or staff of Discovery Prep become unionized, contractual terms with the unions could adversely affect the operating flexibility of the School and/or increase the School's cost structure, either of which could adversely affect Discovery Prep's ability to generate sufficient net revenues to make payments under the Lease representing debt service payments on the Bonds and other amounts due under the Loan Agreement.

State Finances

Charter schools, like all public schools, depend on revenues from the State for the majority 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 fund education) and the annual budget process. Decreases in State revenues may adversely affect education appropriations made by the Legislature. As noted above, the Legislature's appropriation decisions are based on many factors, including the State's economic performance and political factors, which may impact charter school funding. See "RISK FACTORS – Dependence on State Aid Payments that are Subject to Annual Appropriation and Political Factors."

In November 2012, Proposition 30, the California Sales and Income Tax Increase Initiative was approved, The Initiative provided that 89% of the additional tax revenues generated thereunder are to be allocated to K-12 schools. The additional funding from Proposition 30 revenues prevented the implementation of planned reduction in State spending related to education programming. Voters also approved Proposition 2 in November 2014, which directs specified revenues toward increasing reserves in the Budget Stabilization Account ("*BSA*"), the State's rainy day fund, and paying down specified debts. In recent years, the State has paid off billions of dollars of budgetary borrowings, debts and deferrals which were accumulated in order to balance budgets during the previous recession and years prior thereto. On June 27, 2016, the Governor of the State of California signed the 2016 Budget Act for fiscal year 2016-2017 and certain related legislation to implement the budget. The budget continues to pay down debts and liabilities and builds a healthier reserve fund and increase spending on education, healthcare and in-home support services as described below and can currently be found at www.lao.ca.gov. See "APPENDIX C - AUDITED FINANCIAL STATEMENTS OF DISCOVERY CHARTER PREPARATORY SCHOOL FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015" hereto.

In prior years, the State has experienced financial difficulties, and the State's response has had a significant impact on Proposition 98 funding and settle-up treatment. Proposition 98 requires a minimum percentage of the State's budget to be spent on K-14 education. See "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 behind Proposition 98's 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 year-end apportionments of Proposition 98 funds from June 30 to early in the next fiscal year, to reduce the ending fiscal year's base; and by suspending Proposition 98, as the State did in 2004-05. Future decreases in State revenues may adversely affect education appropriations made by the Legislature. Neither the Borrower nor Discovery Prep can predict how State income or education funding will vary over the term of the Bonds. No parties to the Bond transaction take any responsibility for informing owners of the Bonds about any such changes.

The Governor signed the fiscal year 2016-17 State budget on June 27, 2016. As it relates to K-12 education, the 2016-17 State Budget provides total funding of $88.2 billion ($51.6 billion General Fund and $36.7 billion other funds). The 2016-17 State Budget provides Proposition 98 funding for all K-14 education of $71.9 billion, an increase of $3.5 billion over fiscal year 2015-16. When combined with increases of $1.5 billion over 2015-2016, as well as other one-time savings and adjustments in those years, the Budget provides a $5.9 billion increased investment in K-14 education. Since fiscal year 2011-12, Proposition 98 funding for K-12 education has grown by more than $21.7 billion, representing an increase of more than $3,600 per student.

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 Legislative Analyst's Office, the Department of Finance and the California State Controller. In addition, various State of California 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 California 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 the transactions relating to the Bonds 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's general fund) and the annual budget process.

The State Constitution specifies that an annual budget shall be proposed by the Governor by January 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 two-thirds majority vote of each chamber 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 currently 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 July 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 Appeals. In *White v. Davis*, the State Court of Appeals held that the California 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:

(a) authorized by a continuing appropriation found in statute,

(b) mandated by the Constitution (such as appropriations for salaries of elected State officers), or

(c) 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 California 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 California 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 ongoing viability of Discovery Prep and its ongoing ability to make payments under the Lease representing debt service on the Bonds and other payments due under the Loan Agreement.

Competition/Reason for Enrollment Decline

Enrollment in the school has declined by 69 students over the past three years, representing a 22.1% decline. Several nearby schools, which compete directly or indirectly with the School, have opened in recent years. There are nine (9) charter schools and district-run academies in the LAUSD to which the School has previously lost certain of its students and teachers. The School's administration believes that the relocation of the high school to the Facility will result in increased enrollment in the coming years; however, there can be no assurances that such expectations will be realized. See "APPENDIX B - CERTAIN INFORMATION REGARDING DCPS ELDRIDGE AVENUE LLC, COALITION FOR ENGAGED EDUCATION AND DISCOVERY CHARTER PREPARATORY SCHOOL".

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 legislative initiative measures could be adopted that affect the revenues of charter schools or their ability to expend such revenues. Future changes to the laws applicable to charter schools in California, and in particular the Charter School Act, could be adverse to the School's financial interests and could adversely affect the security for the Bonds. Neither the Borrower nor Discovery Prep can 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 Registered Owners of the Bonds. For more information on the laws governing charter schools in California, 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 the School's funding.

Litigation and Insurance

Professional liability and other actions alleging wrongful conduct and seeking punitive damages are often filed against education providers such as Discovery Prep. Litigation regarding employment-related matters may also arise from the corporate and business activities of the School or the Borrower. Many of these risks are covered by insurance, but some are not. For example, some business disputes and workers' compensation claims are not covered by insurance or other sources and, in whole or in part, may be a liability of Discovery Prep or the Borrower if determined or settled adversely. Although Discovery Prep maintains insurance policies covering educator's professional and general liability, management of Discovery Prep cannot predict the cost or adequacy of such insurance in the future.

Reputational Risk

The Borrower and Discovery Prep are subject to financial and other risks that differ from those of other for-profit and nonprofit institutions and public schools. These risks include, among others, (a) changes in the reputation of the School, its faculty or student body, either generally or with respect to certain academic or extra-curricular areas which may affect enrollment, including litigation brought against the school by parents, civil authorities, students or former or potential employees; (b) the potential inability to raise funds through gifts, grants and donations and (c) competition from other public, charter and private schools for students, trained faculty and administrative staff due to differences in salaries and other costs and other employment-related issues. There can be no assurance that these or other factors will not adversely affect Discovery Prep's financial condition and its ability to make payments under the Lease representing debt service on the Bonds and other amounts due under the Loan Agreement.

Failure to Provide Ongoing Disclosure

The Borrower and Discovery Prep will enter into a Continuing Disclosure Certificate with the Trustee, as dissemination agent, 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 Bonds. Failure to comply with the Continuing Disclosure Certificate and the Rule in the future may adversely affect the liquidity of the affected Bonds and their market price in the secondary market. See "CONTINUING DISCLOSURE CERTIFICATE" and "APPENDIX G – FORM OF CONTINUING DISCLOSURE CERTIFICATE." Failure to comply with the Continuing Disclosure Certificate will not constitute a default under the Loan Agreement. However, failure to comply with the Continuing Disclosure Certificate must be reported in future bond offerings by the Borrower and Discovery Prep.

Key Personnel

The School's performance reflects the vision and commitment of a few, key personnel who comprise its management and administration. Of particular significance to the School's operations are Dr. Karen Smith, the Principal of Discovery Prep, and Sheryl Schubert, Chief Financial Officer of Discovery Prep. Loss of these or other key personnel could adversely affect the Borrower's and Discovery Prep's operations and financial results. For more information regarding key personnel, see "APPENDIX B – CERTAIN INFORMATION REGARDING DCPS ELDRIDGE AVENUE LLC, COALITION FOR ENGAGED EDUCATION AND DISCOVERY CHARTER PREPARATORY SCHOOL" – Governance and Administration and "APPENDIX C - AUDITED FINANCIAL STATEMENTS OF DISCOVERY CHARTER PREPARATORY SCHOOL FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015."

Value of Property May Fluctuate; Limitations of Appraisals

In connection with the issuance of the Bonds, an appraisal for the Facility (the "*Appraisal*") was obtained from Stein Valuation which, as of June 2, 2016, issued its opinion that the Facility appraised for $6,750,000 which is less than the amount of Bonds. A copy of the Appraisal is available by request to the Underwriter or Ms. Sheryl Schubert, Chief Financial Officer, Discovery Charter Preparatory School, 13570 Eldridge Ave., Sylmar, California 91342, telephone (818) 897-1044.

The Appraisal represents only the opinion of the appraisers and only as of June 2, 2016. There is a difference between the actual value of the site and the appraised value of the Facility and the amount of the Bonds, and no assurance is given that the actual difference in value is not material which could have an adverse impact on 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 Deed of Trust, especially in light of the fact that the Facility is specifically designed for use as a school. Further, the value of the Facility at any given time will be directly affected by market and financial conditions which are not in the control of the parties involved in the Bond transaction. Real property values can fluctuate substantially depending on a variety of factors. There is nothing associated with the Facility to suggest that its value would remain stable or would not decrease if the general values of property in the School's service area were to decline.

Damage or Destruction of the Facility

The Loan Agreement and the Lease require the Facility 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 Facility 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.

Need for Replacement Roof for the Facility

An initial survey of the roofing system on the Facility was completed by Independent Roofing Consultants ("*Roofing Consultants*") on June 6, 2016. Roofing Consultants concluded that the roof systems are currently in poor overall condition and recommended replacement of a substantial portion of the Facility's roof, including the main roof and lower roofs of the Facility as well as and corrective repairs and maintenance measures on the expansion roof section of the Facility and the weight room. Roofing Consultants estimate the time frame to bid and complete the roofing installation and repairs is five to six weeks. Discovery Prep intends to have the roofing project commence in June 2017. It is possible that inclement weather could interrupt class activity at the School and result in the loss of State funds should classrooms be unavailable or students unable to attend the School. In such event, the ability of the School to satisfy its financial and other obligations could be adversely affected.

No Construction Contract

To complete the 2016 Project, the Borrower is required under the Loan Agreement, to enter into a guaranteed maximum price construction contract. The Borrower believes, based upon discussions with certain construction professionals, that funds in the 2016 Project Fund will be sufficient to complete construction. No assurance is given that Borrower will timely enter into a construction contract, that the construction will be completed as required, that funds in the 2016 Project Fund will be sufficient to complete construction or that Borrower will not default in its obligations with respect to the preceding under the Loan Agreement.

Seismic Risks

The Facility is located in a seismically active region of California. The occurrence of severe seismic activity could result in substantial damage to the Facility, which could adversely affect the ability of Discovery Prep to operate the Facility and/or to make the payments under the Lease in respect of the Bonds and/or the ability of the Borrower to make the debt service and other payments due under the Loan Agreement, and could adversely affect the value of the Facility. Neither the Borrower nor Discovery Prep is obligated by the Loan Agreement or Indenture to maintain earthquake insurance on any portion of the Facility. There currently is no such insurance on the Facility, and there can be no assurance that the Borrower or Discovery Prep will obtain, or be able to afford to obtain, such coverage in the future.

Limitations Related to Remedies under the Deed of Trust

The Borrower's obligations under the Loan Agreement are secured by the mortgage lien and security interest granted under the Deed of Trust. See "SECURITY FOR THE BONDS – The Loan

Agreement – Deed of Trust; Assignment of the Lease." The practical realization of value from the real property subject to the Deed of Trust upon any default will depend on the exercise of the remedies specified under the Deed of Trust, principally, foreclosure. Under California law, however, the remedies specified in the Deed of Trust may not be readily available or may be limited.

California law imposes certain procedural hurdles and time requirements on foreclosure. California permits foreclosure under a deed of trust either non-judicially by exercise of a power of sale provision in the deed of trust or by judicial sale. Prior to a non-judicial foreclosure, the trustee under the deed of trust must record a notice of default and election to sell, and send copies of the notice to various persons. The trustee then must wait at least three months before establishing the proposed sale date or noticing the same in the form mandated by California statute. The notice of sale must be posted in a public place and published once a week for three consecutive calendar weeks, with the first such publication preceding the proposed sale date by at least 20 days. In addition, the notice of sale must be recorded with the county recorder at least 14 days prior to the date of sale. Further, throughout the period prior to a foreclosure sale, the debtor under the deed of trust, any successor in interest and any person having a junior lien or encumbrance of record may cure any monetary default by paying the amount then due (exclusive of principal due by virtue of acceleration upon default) plus costs and expenses incurred (including certain statutorily limited attorney's and trustee's fees). Following a non-judicial sale, however, neither the debtor nor any junior lienholder has any right of redemption, but the creditors who benefit from the foreclosure sale are ordinarily prohibited from obtaining a deficiency judgment against the debtor.

Judicial foreclosure proceedings are generally subject to the delays and expenses typical of other lawsuits, and may require several years to complete. The primary advantage of a judicial foreclosure is that the creditor is entitled, subject to other limitations, to obtain a deficiency judgment against the debtor to the extent that the amount of the debt exceeds the fair market value of the property. Following a judicial foreclosure sale, however, the debtor and its successors in interest have a right to "redeem" the property for a period of one year from the date of sale (or a period of only three months if the proceeds of sale are sufficient to satisfy the debt, plus interest and costs).

Further, California's so-called "one form of action" rule generally requires a creditor either to exhaust what rights it has under a deed of trust before pursuing other rights of collection (including set-off), or to forego resorting to the deed of trust altogether. Other statutory provisions (such as the federal bankruptcy laws) also may have the effect of delaying enforcement of the lien and security interest under the Deed of Trust in the event of a default by the Borrower. See "RISK FACTORS – Potential Effects of Bankruptcy."

Potential Effects of Bankruptcy

If the Borrower or Discovery Prep were to file a petition for relief (or if a petition were filed against either as debtor) under the United States Bankruptcy Code, 11 U.S.C. §§ 101 *et seq*., as amended, or other insolvency, liquidation or receivership laws, the filing could operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against such party or its property. If the bankruptcy court or other state or federal court so ordered, the property and revenues of the Borrower or Discovery Prep could be used for the benefit of such party despite the claims of their creditors, including owners of the Bonds.

In a bankruptcy proceeding under Chapter 11 of the Bankruptcy Code, the Borrower or Discovery Prep could file a plan of reorganization that would modify the rights of creditors generally or the rights of any class of creditors, secured or unsecured. The plan, when approved ("confirmed") by the bankruptcy court, would bind all creditors who had notice or knowledge of the plan and discharge all claims against the filing party except as otherwise provided for in the plan. No plan may be confirmed by a bankruptcy court unless, among other conditions, the court finds that the plan is in the best interest of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

Environmental Regulation

The Facility may 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 for remediating adverse environmental conditions on or relating to the Facility or such other properties, whether arising from pre-existing conditions or conditions arising as a result of activities conducted in connection with the ownership of and operations at the Facility or such other properties. Costs incurred with respect to environmental remediation or liability could adversely affect the School's financial condition and its ability to generate revenues sufficient to make payments under the Lease representing debt service on the Bonds and other amounts due under the Loan Agreement. Excessive costs in connection with any such environmental remediation or any such liability to third parties could also make it difficult for the Borrower to successfully re-let the Facility if Discovery Prep defaults under the Lease.

An Asbestos Material Survey Report was prepared on May 2, 2016 with respect to the Facility which will be owned in fee by the Borrower. The Asbestos Material Survey Report dated May 2, 2016 was prepared by Velasco Environmental Services, LLC (the "Environmental Consultant") and revealed the presence of asbestos in six (6) of the fifty (50) representative built samples obtained for laboratory analysis, and presumed asbestos-containing transite (generic term for hard, fireproof composite material) counter-tops and a fume hood were discovered in the Science Lab Room #15. See "APPENDIX B – CERTAIN INFORMATION REGARDING DCPS ELDRIDGE AVENUE LLC, COALITION FOR ENGAGED EDUCATION AND DISCOVERY CHARTER PREPARATORY SCHOOL."

Environmental Report: Potential Environmental Concern

A June 17, 2016, Phase I Environmental Site Assessment report of the Facility, prepared by Tetra Tech Inc. ("Tetra Tech") (the "Phase I Environmental Report"), identified the historical presence of a dry cleaning facility from at least 1970 until at least 1975 to be a potential environmental concern. Tetra Tech recommended a subsurface investigation to evaluate whether this historical facility resulted in impacts to the Facility and groundwater.

The Phase I Environmental Report also found that, based on the years of construction of the building in the Facility (1961-1962), it was possible that asbestos-containing materials ("ACMS") were present in the Facility. Observed or inferred suspect ACMs at the site included vinyl floor tile and associated mastic, ceramic floor and wall tile mastic, acoustic ceiling tile, baseboard and associated mastic, carpet mastic, painted drywall, stucco and roofing materials. According to an asbestos survey performed at the site earlier in 2016, gray roof mastic and black roof mastic were found to contain asbestos, and transite counter tops and a transite fume hood in the science room were presumed to contain asbestos. Tetra Tech concluded that previously identified and presumed ACM, as well as untested suspect ACMs, are considered to be business environmental risks.

In addition, based on the years of construction of the building, Tetra Tech found that it is possible that lead-based paint ("LBP") and other lead-containing materials ("LCMs") are present in the site building. The painted surfaces were observed to be in good condition with no areas of damaged paint noted. Observed inferred suspect LCMs, such as ceramic floor and wall tile, also appeared to be in generally good condition, with no significant damage observed. Tetra Tech also concluded that untested suspect LBP and other LCMs are considered to be business environmental risks.

Summary of Site Investigations Report – No Further Action Request

Based on the recommendations in the Phase I Environmental Report regarding the historical dry cleaning facility, environmental subsurface investigations were conducted at the Facility.

A Phase II Environmental Site Assessment report was issued by Tetra Tech dated August 24, 2016 (the "Tetra Tech Phase II"), and a "Data Gap Assessment Report" was issued by Partner Engineering and Science, Inc. ("Partner") dated October 7, 2016 (the "Partner Data Gap Assessment"). Partner subsequently issued a report entitled "Summary of Site Investigations" dated November 15, 2016 (the "Partner Summary of Investigations Report"). Copies of these reports are available upon request to Discovery Prep.

The Partner Summary of Investigations Report provides a summary of the subsurface investigations performed at the Facility by Tetra Tech between June 28 and July 13, 2016, and by Partner in September, 2016. The Summary of Investigations Report compiled the results and conclusions from the two subsurface investigations that had: (1) evaluated whether significant concentrations of volatile organic compounds ("VOCs") related to a potential 1970s site release of tetrachloroethylene ("PCE") from the former dry cleaner were present in the subsurface (Tetra Tech Phase II); and, (2) assessed the potential for groundwater impact (Partner Data Gap Assessment). The Summary of Investigations Report summarized the Tetra Tech Phase II conclusions that no substantial source of PCE or VOC impacts were identified in soil samples collected from beneath the on-site building or from locations directly outside the front and rear of the building. The Summary of Investigations Report also confirmed the Tetra Tech Phase II conclusion that concentrations of PCE are present in soil vapor at concentrations exceeding screening levels. However, Tetra Tech stated that a Human Health Risk Assessment calculated for the site for both residential and school scenarios indicated that the health risk for occupants of the building were within the acceptable calculated risk/hazard. Partner concluded in the Summary of Investigations, based on the Tetra Tech Phase II, its own subsurface investigations and the Tetra Tech human health risk assessment, that a designation of "no further action" ("NFA") is warranted for these identified impacts at the Facility. Partner plans to prepare the appropriate documentation to obtain this NFA letter from the Los Angeles County Fire Department once Discovery Prep has taken ownership of the property. Discovery Prep has agreed to take the required steps with respect to these identified impacts necessary to obtain the NFA Letter.

The reports prepared in connection with the aforementioned assessments speak only as of their respective dates. Potential purchasers of the Bonds should refer to the complete reports for additional information regarding the assessments performed.

Enforcement of Remedies

The remedies available to the Trustee or the Registered Owners of the Bonds upon an Event of Default under the Indenture, the Loan Agreement or the Lease 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, the Loan Agreement and the Lease may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the 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, State foreclosure laws, 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 with respect to the Bonds, such Bonds would be subject to mandatory redemption, as a whole at the principal amount thereof, plus accrued interest thereon to the date of redemption, plus premium, if any, as set forth in the Indenture. Under the Indenture, the corresponding redemption date shall be the earliest practicable date selected by the Trustee, after consultation with the Bondholder Representative and the Borrower, but in no event later than six months following the finalization of the Determination of Taxability. See "THE BONDS – Prior Redemption – Redemption of Bonds Upon Occurrence of Certain Events – Determination of Taxability." The Internal Revenue Service (the "*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 Bonds. If the 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 Bonds depends on continued compliance by the Authority, the Borrower and Discovery Prep with certain covenants relating generally to restrictions on use of the Facility, arbitrage limitations and rebate of certain excess investment earnings to the federal government. Failure to comply with such covenants could cause interest on the Bonds to become subject to federal income taxation retroactive to the date of issuance.

Loss of Tax-Exempt Status

Each of Discovery Prep and the Sole Member represents that it is a tax-exempt organization described in Section 501(c)(3) of the Code and is exempt from taxation under Section 501(a) of the Code. For federal income tax purposes, the Borrower is disregarded as separate entity from the Sole Member, deriving the Sole Member's tax-exempt status for purposes of the Bonds. As tax-exempt, charitable organizations, the Sole Member and Discovery Prep and its operations are subject to various requirements specified by the Code and the regulations promulgated thereunder. Both the Sole Member and Discovery Prep must comply with those requirements in order to maintain their tax-exempt status. An entity may be audited at any time by the IRS. Although each of the Sole Member and Discovery Prep represent that they believe they are in compliance with applicable tax laws, an IRS audit of either of them ultimately could affect such entity's its tax-exempt status. Loss of tax-exempt status could result in loss of tax exemption for federal income tax purposes of interest on the Bonds, possibly from the date of issuance of the Bonds.

Legislation adopted by Congress in 1996 provides the IRS with an "intermediate" sanctions system of federal excise taxes to address violations by tax-exempt organizations of the private inurement prohibition of the Code. Before this "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 transaction with the tax-exempt organization that does not meet fair market value, (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 the authority to revoke tax-exempt status in appropriate circumstances.

Limited Market; No Rating

The Bonds have no active trading market and neither the Borrower nor Discovery Prep intends to have the Bonds rated. If the Bonds were in the future to be rated, there is no assurance that the rating on the Bonds would continue for any given period of time or that it would not be revised downward or withdrawn. Revision, qualification or withdrawal of the rating could be expected to have an adverse effect on the market price of the Bonds. There can be no assurance that a secondary market for the Bonds will develop, or that investors will be able to resell the Bonds at the offering price or at any price. Accordingly, an investor must be prepared to bear the economic risk of its investment in the Bonds for an indefinite period of time. The Indenture does provide that if the Bonds at some point receive an investment grade rating (BBB- or equivalent or higher) through maturity, the restrictions on transfer to Qualified Institutional Buyers and Accredited Investors and broker-dealers will no longer apply.

Loss of Rights upon Redemption

The rights of the Registered Owners of the Bonds to receive interest will terminate on the date, if any, on which the Bonds are to be redeemed pursuant to a call for redemption, notice of which has been given under the terms of the Indenture.

Summary

The foregoing is intended only as a summary of certain risk factors attendant to an investment in the Bonds. In order for potential investors to identify risk factors and make an informed decision, potential investors should be thoroughly familiar with this entire Limited Offering Memorandum, including the appendices hereto.

THE BONDS

General

The Bonds will be dated as of the date of their issuance and delivery, will be issued in the aggregate principal amount and will bear interest at the rate and mature on the date, subject to redemption as described below, set forth on the inside front cover page hereof. The Bonds will be issued as fully registered bonds without coupons, in Authorized Denominations, initially of $25,000 and any integral multiples of $5,000 in excess thereof.

Interest on the Bonds will be payable semiannually on July 1 and January 1 of each year, commencing July 1, 2017 (each an "*Interest Payment Date*"). Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months, from their date until payment of principal has been made or provided for, payable on each Interest Payment Date.

Payment of interest on any Bond shall be made to the Registered Owner thereof by check or draft mailed on each Interest Payment Date by the Trustee to the Registered Owner at his or her address as it last appears on the registration records kept by the Trustee at the close of business on the Regular Record Date (defined in the Indenture as the 15th day of the calendar month next preceding each Interest Payment Date for such Interest Payment Date) (except that, if the book-entry-system no longer is in effect, the Registered Owners of at least $1,000,000 in aggregate principal amount of Bonds Outstanding may, by written request received at least ten (10) Business Days prior to the Regular Record Date, receive payment of interest by wire transfer at the address specified in such request, which address must be in the United States), but any such interest not so timely paid or duly provided for shall cease to be payable to the Registered Owner thereof at the close of business on the Regular Record Date and shall be payable to the Registered Owner thereof at the close of business on a Special Record Date for the payment of any such defaulted interest. Such Special Record Date shall be fixed by the Trustee whenever moneys become available for payment of the defaulted interest, and notice of such Special Record Date shall be given to the Registered Owners of the Bonds not less than ten (10) days prior thereto by first-class mail to each such owner as shown on the registration records on the date selected by the Trustee stating the date of the Special Record Date and the date fixed for the payment of such defaulted interest.

The principal of, and premium, if any, on the Bonds shall be payable in lawful money of the United States of America at the designated corporate trust office of the Trustee or at the designated office of its successor in trust.

Prior Redemption

Optional Redemption

As provided in the Indenture and summarized below, the Bonds are subject to extraordinary optional and mandatory redemption at the option of the Borrower from (i) insurance and condemnation proceeds, (ii) to the extent not required for Project purposes, (iii) reimbursements from the State of California or any political subdivision of the State of California (collectively, the "State") for Project costs previously incurred by the School or (iv) purchase in lieu of redemption if the Borrower and the Bondholder Representative negotiate and agree upon a purchase price adjustment for the Project as more particularly described in the Indenture.

The Bonds also may be optionally redeemed at the direction of the Borrower in the amounts and after the dates in the table immediately below, which option shall be exercised upon the written direction of the Borrower:

Date Range	Percentage of Principal
July 1, 2020 to June 30, 2021	101%
July 1, 2021 and thereafter	100%

If any redemption shall be less than all of a maturity, then by lot within a maturity, at a redemption price of 100% of the principal amount redeemed, plus accrued interest to the date fixed for redemption.

In case of optional redemption of the Bonds, the Borrower shall, at least forty (40) days prior to the redemption date (unless a shorter notice shall be satisfactory to the Trustee), deliver a written request to the Authority, the Bondholder Representative and the Trustee notifying the Authority and the Trustee of such redemption date and of the principal amount of the Bonds to be redeemed and shall, on or prior to the redemption date, deliver to the Trustee funds sufficient to pay the redemption price of all Bonds so called for redemption.

Mandatory Sinking Fund Redemption

The Series 2016A Bonds aggregating $6,100,000 will bear interest and mature and be redeemed on July 1 in each of the years below at the principal amount set forth below by application of Mandatory Sinking Account Payments:

Date (July 1)	Principal Amount	Date	Principal Amount
2028	140,000	2038	295,000
2029	155,000	2039	315,000
2030	170,000	2040	335,000
2031	180,000	2041	360,000
2032	195,000	2042	385,000
2033	210,000	2043	410,000
2034	225,000	2044	440,000
2035	240,000	2045	470,000
2036	255,000	2046	505,000
2037	275,000	2047†	540,000

† Final Maturity

The Series 2016B Bonds aggregating $750,000 will bear interest and mature and be redeemed on July 1 in each of the years below at the principal amount set forth below by application of Mandatory Sinking Account Payments:

Date (July 1)	Principal Amount	Date	Principal Amount
2019	50,000	2024	90,000
2020	55,000	2025	100,000
2021	65,000	2026	110,000
2022	75,000	2027†	125,000
2023	80,000		

† Final Maturity

Redemption of Bonds Upon Occurrence of Certain Events

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

The Bonds are subject to extraordinary mandatory redemption prior to their stated maturity, as a whole or in part on any date from surplus moneys required to be transferred from the Project Fund to the Special Redemption Account following completion of the Project, at a redemption price equal to the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

The Bonds are subject to extraordinary mandatory redemption prior to their stated maturity, as a whole or in part on any date from reimbursements by the State relating to Project costs previously incurred in an amount that does not exceed the amount of such reimbursement at par plus accrued interest to the date fixed for redemption, without premium.

The Bonds are subject to purchase in lieu of redemption prior to their stated maturity, as a whole or in part on any date from surplus moneys to the extent the Borrower and the Bondholder Representative negotiate and agree upon a purchase price for the Project, at a redemption price equal to the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

Casualty or Condemnation

The Loan Agreement provides that, in the event of a casualty or condemnation with respect to the Facility, all proceeds from any insurance policy (except proceeds of the liability portion, if any, of such insurance) or condemnation awards shall 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 shall establish and maintain and hold in trust pursuant to the Indenture, to be known as the "*Insurance and Condemnation Proceeds Fund*." In the event the Borrower, with the consent of the Bondholder Representative, elects to repair or replace the portion of the Facility damaged, destroyed or taken, moneys in the Insurance and Condemnation Proceeds Fund shall be disbursed by the Trustee, after deducting therefrom the reasonable charges and expenses of the Trustee incurred in connection with the collection and disbursement of such moneys, for the purpose of repairing or replacing the portion of the Facility damaged, destroyed or taken in the manner and subject to the conditions set forth in the Indenture with respect to disbursements from the Insurance and Condemnation Proceeds Fund.

If the Borrower, with the consent of the Bondholder Representative, shall elect not to, or cannot, repair or replace the portion or portions of the Facility damaged, destroyed or taken, as provided above, the Trustee shall 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.

If all amounts in the Insurance and Condemnation Proceeds Fund are not sufficient to retire all Bonds then Outstanding, the Trustee will not transfer said amounts to the Special Redemption Account unless the Borrower shall file with the Trustee a report of an independent consultant showing that net operating income of the School at the Facility is projected to be at least equal to amounts due under the Lease for each of the three full Fiscal Years immediately following such transfer, after giving effect to the retirement of such Bonds. In the event such report of an independent consultant shows that projected net operating income of the School at the Facility will not be sufficient to pay amounts due under the Lease for each of the three full Fiscal Years immediately following such transfer, after giving effect to the retirement of such Bonds, the Borrower shall apply all amounts in the Insurance and Condemnation Proceeds Fund to the repair or replacement of the portion or portions of the Facility damaged, destroyed or taken, as provided, above.

Determination of Taxability

The Bonds are subject to mandatory redemption as a whole at the principal amount thereof, plus accrued interest thereon to the date of redemption, plus a three percent (3%) premium, upon the occurrence of a Determination of Taxability related to such Bonds; provided, however, that the Trustee shall not redeem the Bonds unless the Trustee shall have on deposit funds in an amount sufficient to pay the principal amount of and the redemption premium on, plus accrued interest on, the Bonds to be redeemed to the date of such redemption. The redemption date shall be the earliest practicable date selected by the Trustee, after consultation with the Borrower, the Bondholder Representative and the Authority, but in no event later than six months following the finalization of the Determination of Taxability.

Notice of Redemption

All or a portion of the Bonds will be called for optional redemption pursuant to the Indenture by the Trustee upon receipt by the Trustee, at least 40 days prior to the redemption date (or such period acceptable to the Trustee), of a certificate of the Borrower specifying the principal amount of the Bonds to be called for redemption, the applicable redemption price or prices, and the provision or provisions of the Indenture pursuant to which such Bonds are to be called for redemption. In the case of redemptions other than mandatory sinking fund redemptions, the Trustee is required to cause notice of such redemption by mailing by first-class mail a copy of the redemption notice to the Bondholder Representative and the Registered Owners of the Bonds designated for redemption in whole or in part, at their addresses as the same shall last appear upon the registration records, in each case not more than 60 nor less than 30 days prior to the redemption date, provided, however, that failure to give such notice, or any defect therein, shall not affect the validity of any proceedings for the redemption of such Bonds. In the case of optional redemption, extraordinary redemption pursuant to the Indenture, the Trustee is required to state that the redemption is conditioned upon receiving from the Borrower, prior to the redemption date, sufficient moneys to redeem such Bonds and that if such money is not so received, no Bonds shall be redeemed. The Trustee is required to furnish the Borrower with a copy of each notice of redemption given with respect to any optional redemption under and any extraordinary redemption under the Indenture thereof as soon as practicable after the delivery of notice to the Bondholder Representative and the Registered Owners of the Bonds.

Under the Indenture, each notice of redemption is required to specify the date fixed for redemption, the redemption price, the place or places of payment, that payment will be made upon presentation and surrender of the Bonds to be redeemed, that interest accrued to the date fixed for redemption will be paid as specified in said notice, and that on and after said date interest thereon will cease to accrue. If less than all the Outstanding Bonds are to be redeemed, the notice of redemption is required to specify the numbers of the Bonds or portions thereof to be redeemed.

Acceleration

Under the Indenture, in the event the Borrower is in default under the Loan Agreement, the Trustee (i) may by notice in writing given to the Authority and the Borrower, or (ii) shall, upon the written direction of the Bondholder Representative (or, if there is no Bondholder Representative, upon the written request of the Registered Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding), declare the principal amount of all Bonds then Outstanding and the interest accrued thereon to be immediately due and payable and said principal and interest shall thereupon become immediately due and payable. Upon any declaration of acceleration thereunder, the Authority and the Trustee shall immediately declare all Loan Repayments under the Loan Agreement to be immediately due and payable as provided in the Loan Agreement.

PLAN OF FINANCE

General

The proceeds of the Bonds, together with certain funds provided by the Borrower, will be used to fund (a) the cost of the acquisition, improvement, equipping and furnishing of certain educational facilities (the "*Facility*") and underlying real property (the "*Land*") located at 13570 Eldridge Ave., Sylmar, California 91342, in the County of Los Angeles, California (collectively, the Facility and the Land together with all of the foregoing are referred to as either the "*Project*" or "*Premises*") , (b) the first interest payment on the Bonds and (c) certain costs of issuance of the Bonds.

Sources and Uses of Funds

The following table sets forth the estimated sources and uses of funds with respect to the Bonds and all moneys made available by the Borrower.

ESTIMATED SOURCES AND USES OF FUNDS

Sources:	**Total**
Par Amount of Bonds	$ 6,850,000.00
Less: Original Issue Discount	38,369.00
Plus: Cash Deposit from Discovery Prep[1]	1,200,000.00
Total Sources of Funds	$8,011,631.00
Uses:	
Project Fund Deposit (Acquisition)	$6,500,000.00
Deposit into Capitalized Interest Fund	21,061.11
Delivery Date Expenses (incl. Underwriter Discount)[2]	865,569.89
Construction Costs	625,000.00
Total Uses of Funds	$8,011,631.00

[1] Includes $195,000 previously spent by Discovery Prep in connection with the acquisition of the Facility.
[2] Includes Underwriter's Discount of $127,000 together with Costs of Issuance of the Bonds ($738,569.894).

SECURITY FOR THE BONDS

General

The Bonds and the interest thereon constitute special, limited obligations of the Authority and are payable solely from certain revenues derived by the Authority and from certain funds and accounts established and maintained under the Indenture. The Bonds are secured by a pledge of the Trust Estate under the Indenture. The Trust Estate is defined under in the Indenture.

THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. THE AUTHORITY SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS, OR THE REDEMPTION PREMIUM 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 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. MOREOVER, NEITHER THE AUTHORITY NOR THE CITY OF LOS ANGELES SHALL BE LIABLE FOR ANY OTHER COSTS, EXPENSES, LOSSES, DAMAGES, CLAIMS OR ACTIONS, IN CONNECTION WITH THE LOAN AGREEMENT, THE BONDS OR THE INDENTURE, EXCEPT ONLY TO THE EXTENT AMOUNTS ARE RECEIVED FOR THE PAYMENT THEREOF FROM THE BORROWER UNDER THE LOAN AGREEMENT.

The Indenture

General

The Bonds will be issued pursuant to the Indenture. Under the Indenture, subject only to the rights of the Authority to apply amounts under the provisions of the Indenture, a pledge of the Trust Estate to the extent provided therein is thereby made, and the same is pledged to secure the payment of the principal of, premium, if any, and interest on the Bonds. The pledge thereby made shall be valid and binding from and after the time of the delivery by the Trustee of the first Bond authenticated and delivered under the Indenture. The security so pledged and then or thereafter received by the Authority shall

immediately be subject to the lien of such pledge and the obligation to perform the contractual provisions thereby made shall have priority over any or all other obligations and liabilities of the Authority with respect to the Trust Estate and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether such parties have notice thereof.

Establishment of Funds

The Indenture establishes and creates the following accounts and funds as special trust funds to be maintained by the Trustee for the benefit of the Bonds and any Additional Bonds:

(a) Revenue Fund

(i) Interest Account

(ii) Principal Account;

(b) Principal Account;

(c) Project Fund;

(d) Cost of Issuance Fund;

(e) Redemption Fund

(i) Optional Redemption Account

(f) Rebate Fund;

(g) Insurance and Condemnation Proceeds Fund; and

(h) Repair and Replacement Fund.

The Indenture recites that the Borrower covenants in the Loan Agreement to make, or to cause Discovery Prep to make, monthly deposits to the Revenue Fund and, as needed, to the Repair and Replacement Fund and the Rebate Fund. Under the Indenture, the Trustee is required to deposit into the appropriate Fund as and when received all payments from the Borrower (or Discovery Prep) as provided in the Loan Agreement. See "The Loan Agreement" in this subsection below.

No Additional Bonds

The Indenture does not permit the Authority to issue Additional Bonds.

The Loan Agreement

Loan Repayments

Under the Loan Agreement, the Borrower agrees that it will pay or cause to be paid Loan Repayments as repayment of the loan of proceeds of the Bonds from the Authority (the "*Loans*") in an amount sufficient to pay principal and interest then due on the Bonds in accordance with the payment schedule set forth in the Lease and Indenture until the principal of, premium, if any, and interest on the Bonds is paid or provision for the payment thereof is made in accordance with the Loan Agreement. Loan payments under the Loan Agreement will be held by the Trustee under the Indenture in the Principal Account and Interest Account and paid when due under the Indenture.

The Loan Agreement requires the Borrower to pay Rental Payments that are allocated to principal and interest, among other required payments described in the Loan Agreement, in the following manner:

(i) those portions of the Rental Payments corresponding to monthly installments of interest on the Bonds shall be transferred on the 10th day of each month, beginning January 10, 2017, and deposited in the Interest Account established under the Indenture.

(ii) those portions of the Rental Payments corresponding to monthly installments of principal on the Bonds shall be transferred on the 10th day of each month, commencing July 10, 2018, and deposited in the Principal Account established under the Indenture.

The initial payment of interest will be made from capitalized interest. Payments of the Bonds will be made from the Interest Account or the Principal Account on or before each Monthly Payment Date (defined in the Indenture to mean the 1st day of each month, commencing January 1, 2017, with respect to payments of interest and commencing July 1, 2019 with respect to payments of principal or mandatory sinking fund payments).

Additional Payments

Under the Loan Agreement, in addition to the Loan Repayments, the Borrower also agrees to pay or cause to be paid certain Additional Payments, as follows:

(1) 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 thereby (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, as the case may be, at the Borrower's expense, to protest and contest any such taxes or assessments assessed or 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;

(2) All reasonable fees, charges and expenses of the Trustee for services rendered under the Indenture and all amounts referred to in Section 8.06 of the Indenture, as and when the same become due and payable;

(3) The reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under the Loan Agreement, the other Borrower Documents or the Indenture;

(4) All fees and expenses of the Rating Agency (if any), and the Rebate Analyst, and if a deposit is required to be made to the Rebate Fund as a result of any calculation made pursuant to Section 5.07 of the Indenture, the amount of such deposit, which shall be deposited in the Rebate Fund not later than the tenth day of the calendar month immediately following the date on which such calculation was made pursuant to Section 5.07 of the Indenture;

(5) All amounts necessary for deposit into the Repair and Replacement Fund pursuant to Section 5.02(4) of the Indenture;

(6) The annual fee of the Authority and the reasonable fees and expenses of the Authority or any agent or attorney selected by the Authority to act on its behalf in connection with the Loan Agreement, the other Borrower Documents, the Bonds or the Indenture, including, without limitation, any and all reasonable expenses incurred in connection with the authorization, issuance, sale and delivery of any such Bonds or in connection with any litigation, investigation, inquiry or other proceeding which may at any time be instituted involving the Loan Agreement, the other Borrower Documents, the Bonds or the Indenture or any of the other documents contemplated thereby, or in connection with the

reasonable supervision or inspection of the Borrower, its properties, assets or operations or otherwise in connection with the administration of the Loan Agreement and the other Borrower Documents; and

(7) The reasonable fees and expenses of the Bondholder Representative and of such accountants, consultants, attorneys and other experts as may be engaged by the Bondholder Representative.

The Loan Agreement recites that the payment obligations of the Borrower under the Loan Agreement correspond to payment obligations of Discovery Prep under the Lease. See "The Lease" in this subsection below.

Pledge by Borrower

Under the Loan Agreement, in fulfillment of its obligations under the Loan Agreement, the Borrower pledges to the payment of the Loan, the following:

(a) all receipts, revenues and rights of the Borrower under the Lease, except the Lessor's Unassigned Rights (as defined in the Lease); and

(b) any and all other interests in real or personal property of every name and nature from time to time by delivery or by writing of any kind specifically mortgaged, pledged or hypothecated, as and for additional security by the Borrower or by anyone on its behalf.

Limitations on Indebtedness of Discovery Prep

Under the Lease Agreement, Discovery Prep may not incur any additional indebtedness other than $50,000 of indebtedness in any Fiscal Year (including operating base rent in any such period) without the prior consent of the Bondholder Representative (in its sole discretion). Discovery Prep may obtain and maintain a line of credit from time to time but will not have the right to draw on such line without the consent of the Bondholder Representative (in its sole discretion). See "The Lease – Additional Indebtedness" herein.

Deed of Trust; Assignment of the Lease

Under the Loan Agreement, to secure the payments of Loan Repayments and any additional payments specified in the Loan Agreement, 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 the Bonds, the Borrower will execute and deliver the Deed of Trust which will be recorded with the Recorder's Office for the County of Los Angeles and provide the Trustee with a perfected first priority Lien interest in the Facility, subject to any Permitted Encumbrances. Under the Loan Agreement, the Borrower warrants that the Borrower will not grant any Liens on the Facility (other than the lien effected by the Deed of Trust and Permitted Encumbrances). Potential purchasers should note, however, that under California law, the remedies specified in the Deed of Trust may not be readily available or may be limited. See "RISK FACTORS – Limitations Related to Remedies under the Deed of Trust."

The Lease

General

The Borrower will lease the Premises from the Borrower pursuant to the Lease. The initial term of the Lease expires on July 1, 2036, with the Lessee having the right to three extensions of the Lease for the following periods: two (5) year and one four (4) year extension. The initial term plus the lease extensions, if exercised as provided in the Lease, will allow the Lease to remain in force through the maturity of the Bonds on July 1, 2047. See "APPENDIX B - CERTAIN INFORMATION REGARDING DCPS ELDRIDGE AVENUE LLC, COALITION FOR ENGAGED EDUCATION AND DISCOVERY CHARTER PREPARATORY SCHOOL and APPENDICES C-1 AND C-2 FOR AUDITED AND INTERIM UNAUDITED FINANCIAL STATEMENTS OF DISCOVERY CHARTER PREPARATORY SCHOOL – Facility" for a description of the Premises which will be so leased.

The Lease provides, among other things, that Discovery Prep shall be obligated to pay rent under the Lease from any legally available funds of the School.

In addition to other obligations under the Lease, Discovery Prep is required to:

(a) pay directly to the Trustee all Base Rent (defined in the Lease to mean the payments payable by Discovery Prep during the Lease Term as set forth in Exhibit B to the Lease, and which represent debt service on the Bonds) on the Base Rent Dates (defined in the Lease to mean each Business Day on which Discovery Prep are required to make the Base Rent pursuant to the schedule attached as Exhibit B to the Lease) and in the amounts set forth in the Lease;

(b) operate and maintain the Premises (defined in the Lease to mean the Facility and any other facilities hereafter owned by the Borrower at any time and leased to Discovery Prep under the Lease, and pledged to the Trustee to secure the Bonds), in compliance with all governmental laws, building codes, ordinances and regulations and zoning laws applicable to the Premises, unless the same are being contested in good faith by appropriate proceedings;

(c) not use any proceeds of the Bonds to finance any facility, place or building used or to be used for sectarian instruction or study or as a place of devotional activities or religious worship, in such a manner or to such an extent as would result in any of the Tax-Exempt Bonds being treated as an obligation not described in Section 103(a) of the Code, or by a Person that is not an organization described in Section 501(c)(3) of the Code or a "governmental unit" (as defined in the Code) or by an organization described in Section 501(c)(3) of the Code (including Discovery Prep) in an "unrelated trade or business" (as defined in the Code), in such a manner or to such an extent as would result in any of the Bonds being treated as an obligation not described in Section 103(a) of the Code;

(d) 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 Tax-Exempt Bonds from the gross income of the owners thereof for federal income tax purposes or cause the interest on the Tax-Exempt Bonds, or any portion thereof, to become an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Code; and

(e) obtain and maintain the insurance required of the Borrower under Section 4.03 of the Loan Agreement, as such requirements may change from time-to-time as provided in the Loan Agreement.

A copy of the Lease and other documents and instruments relating to the above is available upon request. See "MISCELLANEOUS – Additional Information".

Pledge by Discovery Prep

In the Lease, Discovery Prep acknowledges and agrees that the Base Rent and Additional Rent are payable from any legally available funds of the School. Under the Lease, Discovery Prep pledges to the payment of the Base Rent, the following: (a) all of Discovery Prep' right, title and interest in and to the Premises, including all related additions, replacements, substitutions and proceeds; (b) to the extent permitted by law, all Gross Revenues of the School; and (c) any and all other interests in real or personal property of the School of every name and nature from time to time thereafter by delivery or by writing of any kind specifically mortgaged, pledged or hypothecated, as and for additional security by the Lessee or by anyone on its behalf.

Under the Lease, "Gross Revenues of the School" means regardless of source and to the extent permitted by law, all unrestricted operating revenues, rentals, fees, third-party payments, receipts, donations, contributions or other income of the School, including the rights to receive such revenues, all as calculated in accordance with Generally Accepted Accounting Principles, including State Payments

(defined in the Lease to mean per-pupil revenues and any and all payments made to or for the benefit of the School pursuant to the Charter School Act and that are permitted to be used for the purposes set forth in the Lease Agreement), proceeds derived from insurance, condemnation proceeds, accounts, contract rights and other rights and assets, whether now or hereafter owned, held or possessed by the School; and all gifts, grants, bequests and contributions (including income and profits therefrom) to the School to the extent permitted by the terms thereof.

Primary Source of Funding of Borrower and Discovery Prep

Amounts paid by Discovery Prep to the Borrower under the Lease are the primary expected sources of revenues for the repayment of the Bonds. The Lease provides for payments from Discovery Prep which, if paid to the Borrower when due, will be sufficient to pay the principal of and interest on the Bonds and all other amounts payable by the Borrower under the Loan Agreement. Discovery Prep's' primary source of funding is education aid (provided by the State for all public schools) which Discovery Prep receives for operating the School. For more information, see "CHARTER SCHOOL FUNDING," below. The amount of State aid received with respect to any individual school is based on a variety of factors, including the school's enrollment and average daily attendance. It is anticipated that such amounts Discovery Prep receives for operating the School will be sufficient to allow it to make the required payments under the Lease and its operation and maintenance costs for the School. But see "RISK FACTORS – Sufficiency of Revenues."

Lease Covenants

The Loan Agreement contains certain financial and operating covenants which are to be incorporated in the Lease. These include:

Liquidity Covenant

(a) The Lessee must maintain Days Cash on Hand equal to at least 65 days as measured as of June 30, 2017, and as measured on each June 30 thereafter until such time, if at all, that the Release Conditions have been met. In such event, Days Cash on Hand must be measured as of every June 30 and December 31 thereafter. Days Cash on Hand must be calculated by the Lessee within 120 days of each Fiscal Year end beginning as of June 30, 2017 and within 45 days of each December 31, beginning on the first December 31` following satisfaction of the Release Conditions. Each such calculation must be forwarded by Lessee's Chief Financial Officer or other authorized officer to the Bondholder Representative and the Trustee and must be accompanied in all instances by a certification from the Lessee's public accountants. The June 30, 2017 calculation of Days Cash on Hand must be for informational and reporting purposes only.

(b) "*Days Cash on Hand*" means, as of any date of determination with respect to the Lessee, the product of 365 times a fraction, (a) the numerator of which is the aggregate amount of the Lessee's (i) unrestricted cash, (ii) unrestricted investments, and (iii) board designated funds that are not otherwise restricted (either permanently or temporarily) as to their use (including, at any time prior to the Release Conditions being met, if at all, all such cash, funds and investments in the Lessee DACA Account; and (b) 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.

(c) "*Operating Expenses*" means, means fees and expenses of the Lessee, including maintenance, repair expenses, utility expenses, administrative and legal expenses, miscellaneous operating expenses, advertising costs, payroll expenses (including taxes), the cost of materials and supplies used for current operations of the School, the cost of vehicles, equipment leases and service contracts, taxes upon the operations of the School, charges for the accumulation of appropriate reserves for current expenses not annually recurrent, but which are such as may reasonably be expected to be incurred in accordance with Generally Accepted Accounting Principles, all in such amounts as reasonably determined by the School; provided, however, "Operating Expenses" does not include rent payable under the Lease, depreciation, amortization or other non-cash expenses nor payment for improvements to the Facility which are capitalized for accounting purposes.

(d) If the certification referred to in the Lease Agreement discloses that Lessee's Days Cash on Hand are less than what is required above as of any calculation date from and after December 31, 2017 (if applicable, otherwise from and after June 30, 2018), the Bondholder Representative (or if there is no Bondholder Representative, Bondholders holding a majority of the Outstanding Bonds) has the right to direct the Trustee in writing to require the Lessee to engage, at the Lessee's expense, an Independent Consultant acceptable to the Bondholder Representative (or if there is no Bondholder Representative, to the Bondholders). Notwithstanding the foregoing, (x) the Bondholder Representative (or if there is no Bondholder Representative, the Holders of a majority of the Outstanding Bonds) will have the right, by written notice to the Lessee, to require the Lessee to comply with any recommendation of the Independent Consultant with respect to items set forth above in such Independent Consultant's report and (y) the failure of Lessee to comply with the Lease Agreement shall not constitute a Default or Breach unless Lessee fails to comply with the written direction of the Bondholder Representative (or if, there is no Bondholder Representative, the Holders of a majority of the Outstanding Bonds as provided in the Lease Agreement). In addition, if the Days Cash on Hand is below the required level, the Lessee's senior management and the Bondholder Representative shall meet within three (3) Business Days following receipt of the calculation to discuss such failure and any additional actions to be taken by the Lessee.

(e) If the certification referred to in the Lease discloses that Lessee's Days Cash on Hand is or was less than what is required above, Bondholders holding a majority of the Outstanding Bonds has the right to direct the Trustee in writing to require the Lessee to engage, at the Lessee's expense, an Independent Consultant acceptable to the Bondholders. Notwithstanding the foregoing, (x) the Holders of a majority of the Outstanding Bonds will have the right, by written notice to the Lessee, to require the Lessee to comply with any recommendation of the Independent Consultant with respect to items set forth above in such Independent Consultant's report and (y) the failure of Lessee to comply with the Lease Agreement does not constitute a Default or Breach unless Lessee fails to comply with the written direction of the Holders of a majority of the Outstanding Bonds as provided in the Lease Agreement.

(f) "*Independent Consultant*" means a Person, acceptable to the Bondholder Representative, that does not have any direct financial interest or any material indirect financial interest in the Borrower, the Lessee, the Sole Member or the School and is not connected with the Borrower, the Lessee, the Sole Member or the School as an officer, employee, promoter, trustee, partner, director or Person performing similar functions, and designated by the Borrower, qualified to pass upon questions relating to the financial affairs of facilities of the type or types operated by the Lessee and having a favorable reputation for skill and experience in the financial affairs of such facilities.

Coverage Ratio Covenants

(a) Lessee must maintain a Debt Service Coverage Ratio equal to at least 1:20:1:00 for each June 30 beginning June 30, 2017, and as measured as of each June 30 thereafter until such time, if at all, that the Release Conditions have been met. In such event, the Debt Service Coverage Ratio is measured as of every June 30 and December 31 thereafter. The Debt Service Coverage Ratio is calculated by the Lessee within 120 days of each Fiscal Year end beginning as of June 30, 2017 and within 45 days of each December 31, beginning on the first December 31 following satisfaction of the Release Conditions. Each such calculation must be forwarded by Lessee's Chief Financial Officer or other authorized officer to the Bondholder Representative and the Trustee and must be accompanied in all instances by a certification from the Lessee's public accountants. The June 30, 2017 calculation of the Debt Service Coverage Ratio shall be for informational and reporting purposes only.

(b) In the event that Lessee maintains at least 90 Days Cash on Hand as of any two consecutive calculation dates, Lessee's required Debt Service Coverage Ratio for the twelve month period ending on the second calculation date shall be 1.00:1.00.

(c) For the purpose of the Debt Service Coverage Ratio, the following terms are prescribed the following meanings:

(i) "*Debt Service Coverage Ratio*" means, for the indicated period, the ratio obtained by dividing (i) Lessee's Net Income Available for Lease and Debt Payments by (ii) Lessee's Debt Service.

(ii) "*Net Income Available for Lease and Debt Payments*" means, for the indicated period, the Gross Revenues less Operating Expenses (as defined above).

(iii) "*Gross Revenues*" means all revenues, income, receipts and moneys received by the Lessee or on behalf of the Lessee solely relating to the operations of the School by the Lessee that may be used to make lease payments under the Lease or otherwise used for the Lessee's Operating Expenses, including from any applicable district or county or from the State pursuant to the School Law from any categorical block grant, general purpose entitlement or revenue limit.

(iv) "*Debt Service*" means, for any period of time, the sum of (a) the interest payable during such period on all Indebtedness of the applicable entity, (b) that portion of the principal amount of all Indebtedness of the applicable entity maturing on each principal payment date during such period, and (c) that portion of the principal amount of all Indebtedness of the applicable entity that are required to be redeemed or paid from sinking fund installments during such period (together with the redemption premiums, if any, thereon).

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

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

(vii) "*Long-Term Indebtedness*" means Indebtedness having an original maturity greater than one year or renewable at the option of the Lessee for a period greater than one year from the date of original incurrence or issuance thereof unless, by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least twenty (20) consecutive days during each calendar year.

(viii) "*Short-Term Indebtedness*" means all Indebtedness of the Lessee not considered Long-Term Indebtedness or a Guaranty.

Additional Indebtedness

The Lessee covenants and agrees that it will not incur any Additional Indebtedness after the date hereof except for Fifty Thousand Dollars ($50,000) in the aggregate in any Fiscal Year or as may be consented to by the Bondholder Representative in its sole discretion. The Lessee may maintain a line of credit, but may not draw on it without the consent of the Bondholder Representative, which shall be in its sole discretion. For purposes of this covenant, operating lease payments shall be taken into account in determining the amount of Indebtedness permitted hereunder.

"*Additional Indebtedness*" means any Indebtedness incurred subsequent to the execution and delivery of this Lease and for purposes of Additional Indebtedness, and "*Indebtedness*" means all obligations for borrowed money, installment sales and capitalized or operating lease obligations, incurred or assumed by the Lessee, including Guaranties, Long-Term Indebtedness, Short-Term Indebtedness or any other obligation for payments of principal and interest with respect to money borrowed.

Covenant Regarding Charter School Act

In the Lease, Discovery Prep covenants to comply fully and in all respects with the provisions of the Charter School Act so long as any Bonds remain Outstanding.

DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service requirements for the Bonds for each year ending June 30. Neither the Borrower nor Discovery Prep has any other long-term indebtedness.

Year (July 1)	Principal ($)	Interest ($)	Total Debt Service ($)
2017	-	257,998.61	257,998.61
2018	-	473,875.00	473,875.00
2019	50,000	473,875.00	523,875.00
2020	55,000	470,750.00	525,750.00
2021	65,000	467,312.50	532,312.50
2022	75,000	463,250.00	538,250.00
2023	80,000	458,562.50	538,562.50
2024	90,000	453,562.50	543,562.50
2025	100,000	447,937.50	547,937.50
2026	110,000	441,687.50	551,687.50
2027	125,000	434,812.50	559,812.50
2028	140,000	427,000.00	567,000.00
2029	155,000	417,200.00	572,200.00
2030	170,000	406,350.00	576,350.00
2031	180,000	394,450.00	574,450.00
2032	195,000	381,850.00	576,850.00
2033	210,000	368,200.00	578,200.00
2034	225,000	353,500.00	578,500.00
2035	240,000	337,750.00	577,750.00
2036	255,000	320,950.00	575,950.00
2037	275,000	303,100.00	578,100.00
2038	295,000	283,850.00	578,850.00
2039	315,000	263,200.00	578,200.00
2040	335,000	241,150.00	576,150.00
2041	360,000	217,700.00	577,700.00
2042	385,000	192,500.00	577,500.00
2043	410,000	165,550.00	575,550.00
2044	440,000	136,850.00	576,850.00
2045	470,000	106,050.00	576,050.00
2046	505,000	73,150.00	578,150.00
2047	540,000	37,800.00	577,800.00
	$6,850,000	$10,271,773.61	$17,121,773.61

CHARTER SCHOOL FUNDING

This section provides a brief overview of California's system for funding charter schools. Prospective purchasers of the Bonds should note that the overview contained below and the summary of relevant law noted by cross-reference in the sections that follow are provided for the convenience of prospective purchasers but are not and do not purport to be comprehensive. Additional information

regarding various aspects of charter school funding in 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 summarizes certain components of charter school funding and describes recently enacted legislation which significantly overhauled the education funding system in the State, including funding for charter schools. Finally, this section provides 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 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.

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 State's 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 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 July 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 July 10, 2006, and provides 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 State's budget, to suspend Proposition 98, recent actions of the Legislature may not have complied with this requirement. On July 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." According to The Fiscal Report, Volume 31, No. 1 by the School Services of California, Inc., "[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 XIIIB, 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."

The 2016-17 Budget earmarks $71.9 billion in Proposition 98 funding for K-14 education.

Local Control Funding Formula

Prior to the enactment of the State's 2013-14 budget, charter schools were funded through a general purpose entitlement block grant and categorical block grants, based on the grades served. As such, districts received a higher per-pupil funding rate and had access to additional funding sources which charter schools did not. In addition, there was no differentiation in funding levels based on demographics or "student needs."

In Fiscal Year 2013-14, the Local Control Funding Formula ("*LCFF*") was introduced to simplify and replace the prior funding system and create a differentiated funding system that would provide higher funding to schools based on the populations they serve. Additionally, the LCFF funding formula is intended to increase funding to 2008 funding levels, prior to the economic downturn. Under the new funding formula, each school receives the same base funding amount, based on the grades served. The School is eligible for additional LCFF funds based on the school's "high-need" population: students eligible for Free and Reduced Lunch, English Language Learners, and Foster Youth. Additional funds are available for "concentration" factors when a school serves more than 55% "high-need" students.

During the 2014-2015 Fiscal Year, 94.55% of the School's population were "high-need" students. At full implementation of the LCFF Formula (estimated to be Fiscal Year 2019-20), the School's high school grades will receive $9,743. At full implementation, LCFF Funding will provide a significant increase when compared with the prior funding formulas which provided the School's high school grades per pupil funding amount of $6,188.

Pursuant to the California Department of Education, in Fiscal Year 2013-2014, the State funded 12.00% of the LCFF funding "Gap"; the funding gap is the difference between the current per pupil funding and estimated per pupil funding at full implementation. In Fiscal Year 2014-15, the state funded 30.16% of the "Gap." In Fiscal Year 2015-16, the state funded 52% of the "Gap" and in 2016-17, the California Department of Finance estimated 49% of the "Gap" was funded.

Pursuant to the California Department of Education, under the 2015-16 State budget, which was approved in July 2015, $53 billion was established for LCFF in 2015-16 for all K-12 schools in the State, resulting in a 51.97% funding of the "Gap". Under the 2016-17, budget, which was approved June 27 2016, provided for an increase of more than $2.9 billion to continue the State's landmark transition to the LCFF for all K-12 schools in the State, which increase brings the formula to 96% of full implementation.

The LCFF creates three funding mechanisms: (i) a base grant for all students; (ii) supplemental grants equal to 20% 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. Pursuant to the California Department of Education, the statutory base grants are: (i) for K-3 $7,741, (ii) for 4-6 $7,116, (iii) for 7-8 $7,328, and (iv) for 9-12 $8,711, but are adjusted annually for Cost of Living Adjustments. The LCFF is projected to be phased in over eight years until target rates under the LCFF are attained (see immediately preceding paragraph). Pursuant to the California Department of Education, for 2016-17, target base grant amounts are: (i) for K-3 $7,820, (ii) for 4-6 $7,189, (iii) for 7-8 $7,403, and (iv) for 9-12 $8,801.

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 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 School 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 general-purpose funding per unit of average daily attendance received by school districts, as determined by the State 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). 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."

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 School Act. To be eligible 55% or more of the charter school's students must be eligible for free or reduced cost meals and the charter school must be located in the attendance area of a public elementary school in which 55% or more of students are eligible for free or reduced cost meals and the charter school site gives preference in admissions to pupils who are currently enrolled in the public elementary school and to pupils who reside in the elementary school attendance area where the charter school site is located. SB 740 facilities funding may be used for costs associated with facilities rents and leases (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."

Enacted 2016-17 State Budget

The Governor signed the fiscal year 2016-17 State budget (the "*2016-17 State Budget*") on June 27, 2016. The 2016-17 State Budget represents a multiyear plan that is balanced and that continues to focus on paying down budgetary debt from prior years and setting aside reserves. Additionally, the 2016-17 State Budget increases spending on education, health care, in-home supportive services, workforce development, drought assistance and the judiciary. The 2016-17 State Budget projects $122.6 billion in revenues and transfers, a 5.5 percent increase over fiscal year 2015-16. By the end of fiscal year 2016-17, the State's Rainy Day Fund will have an estimated balance of $6.7 billion or 54% of its goal. The State will reduce mandate liabilities owed to schools and community colleges by $1.2 billion.

As it relates to K-12 education, the 2016-17 State Budget provides total funding of $88.3 billion ($51.6 billion general fund and $36.7 billion other funds). The 2016-17 State Budget provides Proposition 98 funding for all K-14 education of $71.9 billion, an increase of $3.5 billion over fiscal year 2015-16. Since fiscal year 2011-12, Proposition 98 funding for K-12 education has grown by more than $21.7 billion, representing an increase of more than $3,600 per student.

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

- Local Control Funding Formula. An increase of $2.9 billion in Proposition 98 general funds to continue the State's transition to the Local Control Funding Formula. 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 than 96%.

- Educator Support. An increase of $35 million one-time Proposition 98 general funds for educator support, for activities that promote educator quality and effectiveness, including

beginning teacher and administrator support and mentoring, support for teachers who have been identified as needing improvement, and professional development aligned to the State academic content standards. These funds will be allocated to school districts, county offices of education, charter schools, and the State special schools in an equal amount per certificated staff and are available for expenditure over the next three years.

- Charter School Start Up Grants. The 2016-17 State Budget includes an increase of $20 million one-time Proposition 98 General Fund ($50.1 million ongoing and $10 million one-time) to support operational startup costs for new charter schools in 2016 and 2017, which will help offset the loss of federal funding previously available for this purpose. These funds will be available for distribution after all current federal funding for startup costs has been exhausted. These funds will also be used to implement selected program changes recommended by the task force, making targeted investments that improve service delivery and outcomes for all disabled students, with a particular emphasis on early education.

- California Collaborative for Educational Excellence. An increase of $24 million in one-time Proposition 98 General Fund for the California Collaborative for Educational Excellence to: (1) support statewide professional development training on use of the evaluation rubrics by local educational agencies, and (2) implement a pilot program to inform the Collaborative's long-term efforts related to advising and assisting local educational agencies in improving pupil outcomes. This funding will build local and state capacity to implement a system to continuous improvement in the eight state priority areas upon which the Local Control Funding Formula is based.

- Multi-Tiered Systems of Support. An increase of $20 million in one-time Proposition 98 General Fund to allow local educational agencies to provide services that assist and encourage multi-tiered systems of supports. These services support academic, behavioral, social, and emotional needs and have been successful in improving outcomes for all students. This funding builds upon the $10 million included in the 2015 Budget Act, which was awarded to the Orange County Office of Education to develop guidance and supportive services for schools statewide in implementing these systems.

- Restorative Justice Grants. An increase of $18 million in one-time Proposition 98 General Fund for truancy and dropout prevention grants, consistent with Proposition 47, the Safe Neighborhoods and School Act.

- Safe Drinking Water in Schools. An increase of $9.5 million in one-time Proposition 98 General Fund to create a grant program to improve access to safe drinking water for schools located in isolated and economically disadvantaged areas. The program will be developed and administered by the Water Resources Control Board in consultation with the State Department of Education.

- K-12 High-Speed Internet Access. Additionally, funds to support additional investments in internet connectivity and infrastructure, building on the $26.7 million in one-time Proposition 98 funding that was provided in fiscal year 2014-15. This second installment of funding will further upgrade internet infrastructure to reflect the increasing role that technology plays in classroom operations to support teaching and learning.

- K-12 Mandates. An increase of $1.3 billion in one-time Proposition 98 General Fund to reimburse K-12 local educational agencies for the costs of state-mandated programs. These funds, combined with previous years' investments, will substantially reduce outstanding mandate debt owed to schools, while providing school districts, county offices of education, and charter schools with discretionary resources to support critical investments at the local level. These funds can be used for activities such as deferred maintenance, professional development, induction for beginning teachers, instructional materials, technology, and the implementation of new educational standards. This will make a significant down payment on outstanding mandate debt, while providing school

districts, county offices of education, and charter schools with discretionary resources to support critical investments such as Common Core implementation.

- K-12 Deferrals. The 2015-16 State Budget provides $897 million Proposition 98 General Fund to eliminate deferrals consistent with the revenue trigger included in the fiscal year 2014-15 State budget.

The complete 2015-16 State Budget is available from the California Department of Finance website at www.dof.ca.gov. The Borrower and the School take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

Future Budgets and Budgetary Actions

The Borrower cannot predict what actions will be taken in the future by the State Legislature and the Governor to address changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors over which the Borrower will have no control. Certain actions could result in a significant shortfall of revenue and cash, and could impair the State's ability to fund schools during fiscal year 2016-17 and in future fiscal years. Continued State budget shortfalls in fiscal year 2016-17 and future fiscal years could have a material adverse financial impact on the Borrower.

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 XIIIA of the California Constitution (Proposition 13)

On July 6, 1978, California voters approved Proposition 13, which added Article XIIIA to the California Constitution. In 2000, California voters passed Proposition 39, which amended Section 1 of Article XIIIA. Article XIIIA, 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 XIIIA 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, (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 XIIIA 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 XIIIA 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 XIIIA's provisions, see "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF CALIFORNIA LAW – CERTAIN OTHER CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING EDUCATION REVENUES AND APPROPRIATIONS – Article XIIIA Property Tax Rate Limit."

Appropriations Limit – Article XIIIB of the California Constitution

In November 1979, California voters approved Proposition 4, also commonly known as the "Gann Initiative." Proposition 4 created Article XIIIB of the California Constitution, which limits the amount of revenue that can be spent by all entities of government. Under Article XIIIB, 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 July 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 may 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 XIIIB to measure "change in the cost of living" by the change in California per capita personal income. Proposition 111 also provided that the Article XIIIB 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 XIIIB's provisions, see "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF CALIFORNIA LAW – CERTAIN OTHER CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING EDUCATION REVENUES AND APPROPRIATIONS – Article XIIIB Appropriations Limit."

BOOK-ENTRY-ONLY SYSTEM

The information in this section concerning The Depository Trust Company ("DTC") and DTC's book-entry-hire only system has been obtained from DTC. The Authority, the Borrower, Discovery Prep, 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 Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate in typewritten form will be issued for each stated maturity of the 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 BONDS, REFERENCES HEREIN TO BONDHOLDERS OR OWNERS OF THE BONDS (OTHER THAN UNDER THE CAPTION "TAX MATTERS" HEREIN) SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies.

DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("*Indirect Participants*"). DTC has 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("*Beneficial Owner*") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents to them. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the 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, Trustee, Authority, Borrower or Discovery Prep, 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 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 Discovery Prep assume any responsibility for the accuracy thereof.

THE AUTHORITY, THE BORROWER, DISCOVERY PREP, THE TRUSTEE AND THE UNDERWRITER WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS OR THE BENEFICIAL OWNERS OF THE 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 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 BONDS; OR (V) ANY OTHER ACTION TAKEN BY THE DEPOSITORY AS OWNER OF THE 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, Discovery Prep, 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 Bonds by the Authority are subject to the approving opinion of Hinckley, Allen & Snyder LLP, Boston, Massachusetts, Bond Counsel whose approving opinion will be delivered with the Bonds, such bond counsel opinion delivered may vary from that form if necessary to reflect facts and law on the date of delivery. The proposed form of opinion is set forth in "APPENDIX F – FORM OF BOND COUNSEL OPINION". Certain legal matters will be passed upon by Orrick Herrington & Sutcliffe, LLP, San Francisco, California, as special counsel to the Authority, by Musick, Peeler & Garrett LLP, Los Angeles, California, as counsel to the Borrower, by Fox Rothschild LLP, Los Angeles, California, as Disclosure Counsel and by Butler Snow LLP, Denver, Colorado, as Underwriter's Counsel. Such bond counsel opinion delivered may vary from that form if necessary to reflect facts and law on the date of delivery.

The various legal opinions to be delivered concurrently with the delivery of the 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 and the Underwriter for services rendered are contingent upon the issuance and delivery of the Bonds.

None of the legal counsel referenced in this Limited Offering Memorandum has (a) participated in the placement of the Bonds, (b) provided any advice regarding the creditworthiness of the Bonds, or (c) assisted in determining the value of the collateral for the Bonds upon the occurrence of an Event of Default. Legal counsel have solely and exclusively opined to those matters which are expressly set forth in their opinions which are attached hereto or which have been delivered in connection herewith and no holder of a Bond shall be authorized or entitled to infer that such legal counsel have rendered opinions beyond those stated in their written opinions or to rely on the participation of counsel in this transaction. Except for negligent errors in their express written opinions, legal counsel shall have no obligations to holders of the Bonds and holders of the Bonds must not rely either expressly or implicitly upon such counsel in determining whether the Bonds represent suitable investments or otherwise meet their creditworthiness and risk tolerance standards.

A partner of Disclosure Counsel serves on the Board of Trustees of the Sole Member. Disclosure Counsel has provided and may provide in the future legal services to the Sole Member and to the Underwriter with respect to matters separate from and unrelated to the transactions contemplated in this Limited Offering Memorandum. Fees paid to Disclosure Counsel will be paid from proceeds of the financing solely for legal services rendered as Disclosure Counsel.

Source of Information Contained in Limited Offering Memorandum

Neither the Authority nor any of its independent contractors, nor Disclosure Counsel nor Underwriter's Counsel have furnished, investigated or verified the information contained in this Limited Offering Memorandum and with respect to the Authority, other than the information contained in the section entitled "LEGAL MATTERS – Pending and Threatened Litigation – The Authority." None of the Authority, the Underwriter nor any of its independent contractors, nor Disclosure Counsel or Underwriter's Counsel have or will, in the future, monitor the financial condition of the Borrower or Discovery Prep, or otherwise monitor payment of the Bonds or compliance with the documents relating thereto. Any commitments or obligations for continuing disclosure with respect to the Bonds have been undertaken solely by the Borrower and Discovery Prep.

Pending and Threatened Litigation

The Authority

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

The Borrower and Discovery Prep

There is no action, suit or proceeding which has been served on the Borrower or Discovery Prep or, to the Borrower's knowledge, is otherwise pending or threatened against the Borrower or Discovery Prep (i) seeking to restrain or enjoin the issuance or delivery of any of the Bonds or the collection of Revenues pledged under the Indenture or the payment of Loan Repayments; (ii) in any way contesting or adversely affecting the authority for the issuance of the Bonds or the validity of the Bonds, the Indenture, the Loan Agreement or the Deed of Trust; or (iii) contesting the existence or powers of the Borrower which, if determined adversely to it, would materially adversely affect the consummation of the transactions contemplated by the Loan Agreement or the ability of the Borrower to perform its obligations thereunder, wherein any unfavorable decision would materially adversely affect the Borrower's operations, its acquisition and implementation of the Facility, its financial position or its ability to enter into any financing agreements or to carry out its obligations thereunder.

TAX MATTERS

In the opinion of Hinckley, Allen & Snyder LLP, Bond Counsel ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Series 2016A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Bond Counsel is of the further opinion that interest on the Series 2016A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2016A Bonds.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2016A Bonds. Failure to comply with these requirements may result in interest on the Series 2016A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2016A Bonds. The Issuer and the Borrower have covenanted to comply with such requirements to ensure that interest on the Series 2016A Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these covenants.

Bond Counsel is also of the opinion that, under existing law, interest on the Series 2016A Bonds is exempt from California personal income taxes. Bond Counsel expresses no opinion regarding any other California tax consequences arising with respect to the Series 2016A Bonds. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX F hereto.

Prospective Holders of the Series 2016A Bonds should be aware that certain requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series 2016A Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series 2016A Bonds may adversely affect the value of, or the tax status of interest on, the Series 2016A Bonds.

To the extent the issue price of any maturity of the Series 2016A Bonds is less than the amount to be paid at maturity of such Series 2016A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2016A Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Series 2016A Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Series 2016A Bonds is the first price at which a substantial amount of such maturity of the Series 2016A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2016A Bonds accrues daily over the term to maturity of such Series 2016A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2016A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2016A Bonds. Holders of the Series 2016A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2016A Bonds with original issue discount, including the treatment of purchasers who do not purchase such Series 2016A Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2016A Bonds is sold to the public.

The Series 2016A Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Series 2016A Bonds ("Premium Bonds"), will be treated as having amortizable bond premium for federal income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which

is excluded from gross income for federal income tax purposes. However, a Series 2016A Bond Holder's basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such Holder. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Prospective Holders of the Series 2016A Bonds should be aware that from time to time legislation is or may be proposed which, if enacted into law, could result in interest on the Series 2016A Bonds being subject directly or indirectly to federal income taxation, or otherwise prevent Holders of the Series 2016A Bonds from realizing the full benefit provided under current federal tax law of the exclusion of interest on the Series 2016A Bonds from gross income. To date, no such legislation has been enacted into law. However, it is not possible to predict whether any such legislation will be enacted into law. Further, no assurance can be given that any pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the market value and marketability of, or the tax status of interest on, the Series 2016A Bonds. Prospective Holders of the Series 2016A Bonds are urged to consult their own tax advisors with respect to any such legislation, interpretation or development.

Although Bond Counsel is of the opinion that interest on the Series 2016A Bonds is excluded from gross income for federal income tax purposes and is exempt from California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2016A Bonds may otherwise affect a Holder of the Series 2016A Bonds' federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Holder of the Series 2016A Bonds or the Holder of the Series 2016A Bonds' other items of income, deduction or exclusion. Bond Counsel expresses no opinion regarding any such other tax consequences, and Holders of the Series 2016A Bonds should consult with their own tax advisors with respect to such consequences.

ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended (*"ERISA"*), imposes certain fiduciary obligations and prohibited transaction restrictions on employee pension and welfare benefit plans subject to Title I of ERISA ("*ERISA Plans*"). Section 4975 of the Code imposes essentially the same prohibited transaction restrictions on tax-qualified retirement plans described in Section 401(a) and 403(a) of the Code, which are exempt from tax under Section 501(a) of the Code, other than governmental and church plans as defined herein ("*Qualified Retirement Plans*"), and on Individual Retirement Accounts ("*IRAs*") described in Section 408(b) of the Code (collectively, "*Tax-Favored Plans*"). Certain employee benefit plans such as governmental plans (as defined in Section 3(32) of ERISA), and, if no election has been made under Section 410(d) of the Code, church plans (as defined in Section 3(33) of ERISA), are not subject to ERISA requirements. Additionally, such governmental and non-electing church plans are not subject to the requirements of Section 4975 of the Code. Accordingly, assets of such plans may be invested in the Bonds without regard to the ERISA and Code considerations described below, subject to the provisions of applicable federal and state law.

In addition to the imposition of general fiduciary obligations, including those of investment prudence and diversification and the requirement that a plan's investment be made in accordance with the documents governing the plan, Section 406 of ERISA and Section 4975 of the Code prohibit a broad range of transactions involving assets of ERISA Plans and Tax-Favored Plans and entities whose underlying assets include plan assets by reason of ERISA Plans or Tax-Favored Plans investing in such entities (collectively, "*Benefit Plans*") and persons who have certain specified relationships to the Benefit Plans ("*Parties In Interest"* or *"Disqualified Persons*"), unless a statutory or administrative exemption is available. The definitions of "Party in Interest" and "Disqualified Person" are expansive. While other entities may be encompassed by these definitions, they include, most notably: (1) fiduciary with respect to a plan; (2) a person providing services to a plan; and (3) an employer or employee organization any of whose employees or members are covered by the plan. Certain Parties in Interest (or Disqualified Persons) that participate in a prohibited transaction may be subject to a penalty (or an excise tax) imposed pursuant to Section 502(i) of ERISA (or Section 4975 of the Code) unless a statutory or administrative exemption is available.

Certain transactions involving the purchase, holding or transfer of the Bonds might be deemed to constitute prohibited transactions under ERISA and Section 4975 of the Code if assets of the Institution were deemed to be assets of a Benefit Plan. Under final regulations issued by the United States Department of Labor (the "*Plan Assets Regulation*"), the assets of the Institution would be treated as plan assets of a Benefit Plan for the purposes of ERISA and Section 4975 of the Code only if the Benefit Plan acquires an "equity interest" in the Institution and none of the exceptions contained in the Plan Assets Regulation is applicable. An equity interest is defined under the Plan Assets Regulation as an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. Although there can be no assurances in this regard, it appears that the Bonds should be treated as debt without substantial equity features for purposes of the Plan Assets Regulation.

However, without regard to whether the Bonds are treated as an equity interest for such purposes, though, the acquisition or holding of Bonds by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction if the Institution or the Trustee, or any of their respective affiliates, is or becomes a Party in Interest or a Disqualified Person with respect to such Benefit Plan.

Most notably, ERISA and the Code generally prohibit the lending of money or other extension of credit between an ERISA Plan or Tax-Favored Plan and a Party in Interest or a Disqualified Person, and the acquisition of any of the Bonds by a Benefit Plan would involve the lending of money or extension of credit by the Benefit Plan. In such a case, however, certain exemptions from the prohibited transaction rules could be applicable depending on the type and circumstances of the plan fiduciary making the decision to acquire a Bond. Included among these exemptions are: Prohibited Transaction Class Exemption ("*PTCE*") 96-23, regarding transactions effected by certain "in-house asset managers"; PTCE 90-1, regarding investments by insurance company pooled separate accounts; PTCE 95-60, regarding transactions effected by "insurance company general accounts"; PTCE 91-38, regarding investments by bank collective investment funds; and PTCE 84-14, regarding transactions effected by "qualified professional asset managers." Further, the statutory exemption in Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provides for an exemption for transactions involving "adequate consideration" with persons who are Parties in Interest or Disqualified Persons solely by reason of their (or their affiliate's) status as a service provider to the Benefit Plan involved and none of when is a fiduciary with respect to the Benefit Plan assets involved (or an affiliate of such a fiduciary). There can be no assurance that any class or other exemption will be available with respect to any particular transaction involving the Bonds, or that, if available, the exemption would cover all possible prohibited transactions.

Any ERISA Plan fiduciary considering whether to purchase the Bonds on behalf of an ERISA Plan should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such in investment and the availability of any of the exemptions referred to above. Persons responsible for investing the assets of Tax-Favored Plans that are not ERISA Plans should seek similar counsel with respect to the prohibited transaction provisions of the Code and the applicability of any similar state or federal law.

CONTINUING DISCLOSURE CERTIFICATE

Continuing Disclosure Certificate

The Borrower and Discovery Prep will enter into and deliver a Continuing Disclosure Certificate (the "*Continuing Disclosure Certificate*") with the Trustee, as dissemination agent, with respect to the Bonds. The Continuing Disclosure Certificate is made for the benefit of the Registered Owners and Beneficial Owners of the Bonds and in order to assist the Underwriter in complying with its obligations pursuant to Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "*Continuing Disclosure Rule*"). See "APPENDIX G – FORM OF CONTINUING DISCLOSURE CERTIFICATE."

The Borrower and Discovery Prep

To assist the Underwriter in connection with its obligations with respect to the Bonds under Rule 15c2-12 issued under the Securities Exchange Act of 1934, as amended (the "Rule"), each of the Borrower and Discovery Prep has agreed to provide certain continuing disclosure, as follows:

(a) *Annual Reports*. Each of the Borrower and Discovery Prep shall, within 120 days after the end of each fiscal year (or in the event of a change in the Borrower's or Discovery Prep's fiscal year, within 120 days after the end of such fiscal year), commencing with the fiscal year ending June 30, 2017, file with the Municipal Securities Rulemaking Board (the "MSRB") an Annual Report (as defined below).

For purposes of this section, each "Annual Report" shall contain: (a) audited financial statements, which shall consist of either (1) combined or consolidated financial statements of each of the Borrower and Discovery Prep and their related entities for such fiscal year prepared in accordance with generally accepted accounting principles and examined and reported on by a certified public accountant, which shall include consolidating schedules showing the statement of financial position, statement of activities and statement of cash flows of the Borrower and Discovery Prep; or (2) special purpose financial statements of the Borrower and Discovery Prep, reported on by a certified public accountant, but which need not be in accordance with generally accepted accounting principles by reason of omitting the financial results of entities required to be consolidated with the Borrower and Discovery Prep, which shall include, in either case a statement of financial position, a statement of activities and a statement of cash flows, including consolidating schedules showing the financial results for the Borrower and Discovery Prep, together with a statement of the Borrower and Discovery Prep that no default exists under the Indenture or if that is not the case, specifying such default; and (b) with respect to any guarantor, the type of operating and financial data of the guarantor for such preceding fiscal year, prepared from the records of the guarantor, regarding, without limitation, financial and operating data for the preceding fiscal year.

(b) *Reportable Event Notices*. The Borrower and Discovery Prep shall file with the MSRB a notice of a Reportable Event (as defined below) in a timely manner not in excess of 10 business days after the occurrence of such event. For purposes of this subsection, a "Reportable Event" includes:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults, if material;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701-TEB) or other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds, if material;

(vii) modifications to rights of Owners of the Bonds, if material;

(viii) optional, unscheduled or contingent Bond redemptions, if material, and tender offers;

(ix) defeasances;

(x) release, substitution or sale of property securing repayment of the Bonds, if material;

(xi) rating changes;

(xii) bankruptcy, insolvency, receivership or similar event of the obligated person. Note: For the purposes of the event identified in subparagraph (xii), the event is considered to occur when any of

the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person 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 obligated person, or if such jurisdiction has been assumed by leaving the existing governmental 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 obligated person.

(xiii) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the Borrower or the Guarantor, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(c) Notice of Change in Accounting Principles or Fiscal Year. The Borrower shall promptly file with the MSRB a notice of a change in its accounting principles applied in the preparation of the annual financial statements of the Borrower or any change in the dates on which the fiscal year of the Borrower begins and ends.

See "FORM OF CONTINUING DISCLOSURE CERTIFICATE" included as APPENDIX G hereto.

The Borrower has agreed to have its financial statements audited by an independent certified public accountant and to file such financial statements with EMMA. The Borrower agrees to hire the Trustee to assist the Borrower with compliance regarding its continuing disclosure undertakings.

The Authority

The Authority has not committed to provide any continuing disclosure to Owners of the Bonds or to any other person.

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

No Continuing Disclosure Filing Obligation

This is the first issuance of bonds by the Borrower. The Borrower has had no prior continuing disclosure obligation.

FINANCIAL STATEMENTS

The audited financial statements of Discovery Prep for the periods ending June 30 2015 and 2016, audited by Vicenti, Lloyd & Stutzman LLP, 2210 E. Route 66, Suite 100, Glendora, California 91740, to the extent and for the periods indicated in their reports thereon, are included in this Limited Offering Memorandum in "APPENDIX C." The Borrower and Discovery Prep are not aware of any facts that would make any financial statements included herein misleading.

UNDERWRITING

The Authority is offering the Bonds through B.C. Ziegler and Company, as underwriter (the "Underwriter"), pursuant to a Purchase Contract, dated as of December 14, 2016 (the "*Bond Purchase Agreement*"), by and between the Underwriter and the Authority, and approved by the Borrower. The obligation of the Authority to sell the Bonds will be subject to various conditions contained in the Bond

Purchase Agreement including execution and delivery by the Bondholder Representative of its Certificate of Bondholder Representative substantially similar in the form attached hereto as APPENDIX H. The underwriting is on a best efforts basis and the Bond Purchase Agreement provides that the Underwriter will purchase the Bonds only to the extent that it has firm orders therefor. The Underwriter's obligation to make such purchase is subject to the terms and conditions set forth in the Bond Purchase Agreement, including the approval of certain legal matters by counsel and other conditions. The Underwriter is purchasing the Bonds and intends to offer the Bonds to the original purchasers thereof (the "*Initial Purchasers*") at the offering prices set forth on the inside cover page of this Limited Offering Memorandum, which offering prices may subsequently be changed without any requirement of prior notice. The Underwriter will purchase the Bonds at a purchase price equal to $6,684,631 (equal to the original principal amount thereof, less $127,000 underwriter's discount, less an original issue discount of $38,369). The Borrower and Discovery Prep have agreed under the Bond Purchase Agreement to indemnify the Underwriter and the Authority against certain liabilities, including certain liabilities under federal and state securities laws.

Purchase of the Bonds is restricted to an Accredited Investor, a Qualified Institutional Buyer or broker-dealer in Authorized Denominations. Upon the initial issuance of the Bonds, RPM Capital Management, LLC will execute and deliver the Certificate of Bondholder Representative in the form of APPENDIX H hereto.

MISCELLANEOUS

Registration of Bonds

Registration or qualification of the offer and sale of the Bonds (as distinguished from registration of the ownership of the Bonds) is not required under the Securities Act. The Authority assumes no responsibility for qualification or registration of the Bonds for sale under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred.

Bondholder Representative; Control of actions regarding the Bonds; Bondholder Acknowledgement

RPM Capital Management, LLC, an investment advisory firm registered under the Investment Company Act of 1940 (the "Bondholder Representative"), on behalf of its investor clients, has been granted authority and has broad rights to direct the Trustee, provide consents and approve actions and generally control proceedings under the Indenture and other documents and instruments related to the Bonds with respect to the administration and enforcement of remedies as the representative. Purchasers of the Bonds expressly acknowledge and agree that they have appointed the Bondholder Representative to act in such capacity, which actions may affect their rights under the Indenture and other documents and instruments relating to the Bonds.

Additional Information

The summaries of or references to constitutional provisions, statutes, resolutions, agreements, contracts, financial statements, reports, publications and other documents or compilations of data or information set forth in this Limited Offering Memorandum do not purport to be complete statements of the provisions of the items summarized or referred to and are qualified in their entirety by the actual provisions of such items, copies of which are either publicly available or available upon request and the payment of a reasonable copying, mailing and handling charge from the Underwriter, 200 South Wacker Drive, Suite 2000, Chicago, Illinois 60606, telephone (800) 366-8899.

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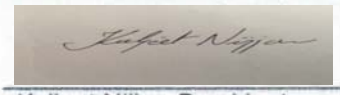
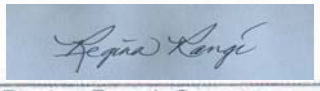
CERTIFICATION

The distribution and use of this Limited Offering Memorandum has been approved by the Authority. The preparation of this Limited Offering Memorandum and its distribution and use has been approved by the Borrower and Discovery Prep. This Limited Offering Memorandum is not to be construed as an agreement or contract between the Authority, the Borrower or Discovery Prep and any purchaser, owner or holder of any Bond.

DCPS ELDRIDGE AVENUE, LLC

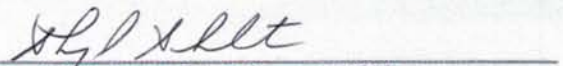
By: 

Kuljeet Nijjar, President

By: 

Ragina Rangi, Secretary

DISCOVERY CHARTER PREPARATORY SCHOOL

By: 

Sheryl Schubert, Chief Financial Officer

By:

Jas Dhillon, Treasurer

$6,850,000
California Statewide Communities Development Authority
School Facilities Revenue Bonds
(Discovery Charter Preparatory School Project), Series 2016A

SCHEDULE OF APPENDICES

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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" in this Limited Offering Memorandum.

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 School (California Education Code Ann. § 47602)

In the 1998-99 school year, the maximum total number of charter schools authorized to operate was 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.

(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 supervisorial 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. For a charter school in its first year of operation, the information submitted pursuant to subdivision (g) of Section 47605 satisfies this requirement.

(2) On or before July 1, an annual update required pursuant to Section 47606.5.

(3) On or before January 15, an interim financial report. This report shall reflect changes through October 31.

(4) On or before April 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 supervisorial 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 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)

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 are met:

(a) The petition has been 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 has been 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.

A petition shall include a prominent statement that a signature on the petition means that the parent or legal guardian is meaningfully interested in having his or her child or ward attend the charter school, or in the case of a teacher's signature, means that the teacher is meaningfully interested in teaching at the charter school. The proposed charter shall be attached to the petition.

After receiving approval of its petition, a charter school that proposes to establish operations at one or more additional sites shall request a material revision to its charter and shall notify the authority that granted its charter of those additional locations. The authority that granted its charter shall consider whether to approve those additional locations at an open, public meeting. If the additional locations are approved, they shall be a material revision to the charter school's charter.

No later than 30 days after receiving a petition, 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. Following review of the petition and the public hearing, the governing board of the school district shall either grant or deny the charter within 60 days of receipt of the petition, provided, however, that the date may be extended by an additional 30 days if both parties agree to the extension. In reviewing petitions for the establishment of charter schools pursuant to this section, the chartering authority shall be guided by the intent of the Legislature that charter schools are and should become an integral part of the California educational system and that establishment of charter schools should be encouraged. The governing board of the school district shall grant a charter for the operation of a school under this part if it is satisfied that granting the charter is consistent with sound educational practice. The governing board of the school district shall not deny a petition for the establishment of a charter school unless it makes written factual findings, specific to the particular petition, setting forth specific facts to support one or more of the following findings: (1) the charter school presents an unsound educational program for the pupils to be enrolled in the charter school; (2) the petitioners are demonstrably unlikely to successfully implement the program set forth in the petition; (3) the petition does not contain the number of signatures required by subdivision (a); (4) the petition does not contain an affirmation of each of the conditions described in subdivision (d); (5) the petition does not contain reasonably comprehensive descriptions of (A) the educational program of the school, the annual goals for all pupils and for each subgroup of pupils identified pursuant to Section 52052, to be achieved in the state priorities, as described in subdivision (d) of Section 52060, that apply for the grade levels served, or the nature of the program operated, by the charter school, and specific annual actions to achieve those goals and if the proposed charter school will serve high school pupils, the manner in which the charter school will inform parents about the transferability of courses to other public high schools and the eligibility of courses to meet college entrance requirements; (B) the measurable pupil outcomes identified for use by the charter school; (C) the method by which pupil progress in meeting those pupil outcomes is to be measured; (D) the governance structure of the charter school, including, but not limited to, the process to be followed by the charter school to ensure parental involvement; (E) the qualifications to be met by individuals to be employed by the charter school; (F) the procedures that the charter school will follow to ensure the health and safety of pupils and staff; (G) the means by which the school will achieve a racial and ethnic balance among its pupils that is reflective of the general population residing within the territorial jurisdiction of the school district to which the charter petition is submitted; (H) admission requirements, if applicable; (I) the manner in which annual, independent financial audits shall be conducted, which shall employ generally accepted accounting principles, and the manner in which audit exceptions and deficiencies shall be resolved to the satisfaction of the chartering authority; (J) the procedures by which pupils can be suspended or expelled; (K) the manner by which staff members of the charter schools will be covered by the State Teachers' Retirement System, the Public Employees' Retirement System, or federal social security; (L) the public school attendance alternatives for pupils residing within the school district who choose not to attend charter schools; (M) the rights of an employee of the school district upon leaving the employment of the school district to work in a charter school, and of any rights of return to the school district after employment at a charter school; (N) the procedures to be followed by the charter school and the entity granting the charter to resolve disputes relating to provisions of the charter; and (O) the procedures to be used if the charter school closes; and (6) the petition does not contain a declaration of whether or not the charter school shall be deemed the exclusive public employer of the employees of the charter school for purposes of Chapter 10.7 (commencing with Section 3540) of Division 4 of Title 1 of the Government Code.

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.

Charter schools shall, on a regular basis, consult with their parents, legal guardians, and teachers regarding the school's educational programs.

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 ethnicity, national origin, gender, or disability.

Admission to a charter school shall not be determined according to the place of residence of the pupil, or of his or her parent or legal guardian, within this state, except that an existing public school converting partially or entirely to a charter school under this part shall adopt and maintain a policy giving admission preference to pupils who reside within the former attendance area of that public school.

A charter school shall admit all pupils who wish to attend the school. However, 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 (for district-sponsored charter schools) or the county (for county-sponsored charter schools). Other preferences may be permitted by the chartering authority on an individual school basis and only if consistent with the law. In the event of a drawing, the chartering authority shall make reasonable efforts to accommodate the growth of the charter school and in no event shall take any action to impede the charter school from expanding enrollment to meet pupil demand.

The governing board of a school district shall require that the petitioner or petitioners provide information regarding the proposed operation and potential effects of the school, including, but not limited to, the facilities to be used by the school, the manner in which administrative services of the school are to be provided, and potential civil liability effects, if any, upon the school and upon the school district. The description of the facilities to be used by the charter school shall specify where the school intends to locate. The petitioner or petitioners shall also be required to provide financial statements that include a proposed first-year operational budget, including startup costs, and cash flow and financial projections for the first three years of operation.

In reviewing petitions for the establishment of charter schools within the school district, the governing board of the school district shall give preference to petitions that demonstrate the capability to provide comprehensive learning experiences to pupils identified by the petitioner or petitioners as academically low achieving pursuant to the standards established by the department, as it read before July 19, 2006.

Upon the approval of the petition by the governing board of the school district, the petitioner or petitioners shall provide written notice of that approval, including a copy of the petition, to the applicable county superintendent of schools, the department, and the state board.

If the governing board of a school district denies a petition, the petitioner may elect to submit the petition for the establishment of a charter school to the county board of education. The county board of education shall review the petition. If the petitioner elects to submit a petition for establishment of a charter school to the county board of education and the county board of education denies the petition, the petitioner may file a petition for establishment of a charter school with the state board, and the state board may approve the petition. A charter school that receives approval of its petition from a county board of education or from the state board on appeal shall be subject to the same requirements concerning geographic location to which it would otherwise be subject if it received approval from the entity to which it originally submitted its petition. A charter petition that is submitted to either a county board of education or to the state board shall meet all otherwise applicable petition requirements, including the identification of the proposed site or sites where the charter school will operate.

A charter school that is granted its charter through an appeal to the state board and elects to seek renewal of its charter shall, before expiration of the charter, submit its petition for renewal to the governing board of the school district that initially denied the charter. If the governing board of the school district denies the charter school's petition for renewal, the school may petition the state board for renewal of its charter.

Teachers in charter schools shall hold a Commission on Teacher Credentialing certificate, permit, or other document equivalent to that which a teacher in other public schools would be required to hold. These documents shall be maintained on file at the charter school and are subject to periodic inspection

by the chartering authority. It is the intent of the Legislature that charter schools be given flexibility with regard to noncore, noncollege preparatory courses.

A charter school shall transmit a copy of its annual, independent financial audit report for the preceding fiscal year, as described in subparagraph (I) of paragraph (5) of subdivision (b), to its chartering entity, 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 department by January 15 of each year. This subdivision does not apply if the audit of the charter school is encompassed in the audit of the chartering entity pursuant to Section 41020.

Charter Terms and Renewals (California Education Code Ann. §§ 47607(a), (b))

(a) 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.

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.

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

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 before 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, both school wide and for all groups of pupils served by the charter school.

(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) 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. The determination 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; and (iii) information submitted by the charter school.

A chartering authority shall submit to the Superintendent copies of supporting documentation and a written summary of the basis for any determination made pursuant to this paragraph. The Superintendent shall review the materials and make recommendations to the chartering authority based on that review.

Charter Revocation and Appeal (California Education Code Ann. §§ 47607(c), 47607.5)

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:

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

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

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

(4) Violated any provision of law.

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.

Prior to 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.

Prior to revoking a charter for failure to remedy a violation, and after expiration of the school's reasonable opportunity to remedy without successfully remedying the violation, the chartering authority 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.

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

of Education determines that the findings made by the chartering authority are supported by substantial evidence.

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 of Education within 30 days following the decision of the chartering authority. The State Board of Education may reverse the revocation decision if the State Board of Education determines that the findings made by the chartering authority are not supported by substantial evidence. 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.

While an appeal filed under this section is pending, a charter school whose revocation proceedings are based on paragraph (1) or (2) of subdivision (c) of Section 47607, 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.

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.

(4) A final decision of 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.

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.

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) 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.

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.

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.

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.

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 XIIIB, 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 XIIIB 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 XIIIB. 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 XIIIB 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 XIIIB 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 XIIIB, 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 XIIIB 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 XIIIB, 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 to receive 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) Commencing with the 2013-14 fiscal year, a school district or charter school shall annually report its enrolled free and reduced-price meal eligibility, foster youth, and English learner pupil-level records to the Superintendent of Public Instruction 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 reported 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 of Public Instruction 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 of Public Instruction 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. The Superintendent of Public Instruction shall authorize school districts and charter schools to review and revise, as necessary, 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 of Public Instruction 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 of Public Instruction 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 of Public Instruction 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 July 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 July 10 of the preceding fiscal year, as reported by the Department of Finance.

(3) (A) The Superintendent of Public Instruction 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 school site in kindergarten and grades 1 to 3, inclusive, unless a collectively bargained alternative annual average class enrollment for each school site 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 school site 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 school site for kindergarten and grades 1 to 3, inclusive, in the 2012-13 fiscal year.

(ii) Determine a school district's percentage 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 school site 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 school site for kindergarten and grades 1 to 3, inclusive, of 24 pupils or less for each school site 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 school site 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 school site for kindergarten and grades 1 to 3, inclusive, of not more than 24 pupils for each school site 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 school site 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 of Public Instruction.

(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 school site for kindergarten and grades 1 to 3, inclusive, exceeds 24, or an alternative average class enrollment for each school site pursuant to a collectively bargained alternative ratio. The procedures for determining average class enrollment for each school site shall include criteria for employing sampling.

(4) The Superintendent of Public Instruction 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 of Public Instruction 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 of Public Instruction 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 grant 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. 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.

(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 of Public Instruction 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 of Public Instruction 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 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.

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

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

(2) (A) 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.

(B) The amount added pursuant to this paragraph shall not change the calculation of a school district's or charter school's supplemental grant or concentration grant.

(j) The Superintendent of Public Instruction 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) The sum of the local control funding formula rates computed pursuant to subdivisions (c) to (f), inclusive, shall be multiplied by:...

(A) 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 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 KM 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 a charter school and its chartering authority.

(2) A school district that receives funding on behalf of a locally funded charter school pursuant to paragraph (2) of subdivision (b) of Section 42605, Section 42606, and subdivision (b) of Section 47634 in the 2012-13 fiscal year 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),

(iv) 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.

(v) 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 pursuant to paragraph (2) of subdivision (b) of Section 42605, Section 42606, and subdivision (b) of Section 47634 for the 2012-13 fiscal year.

(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 pursuant to paragraph (2) of subdivision (b) of Section 42605, Section 42606, and subdivision (b) of

Section 47634 for the 2012-13 fiscal year 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 site with no less than the amount of funding the school site 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, 47660, 47632, 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 of Public Instruction shall compute an economic recovery target rate for each school district and charter school equal to the sum of the following:

(A) 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 school district computed pursuant to Section 42238.05.

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

(C) The amounts determined pursuant to this subdivision shall be adjusted for the cost of living 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 various specified entitlements from items contained in Section 2.00 of the Budget Act of 2012.

(b) Of the amounts computed for school districts pursuant to subdivision (a), the Superintendent of Public Instruction 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 of Public Instruction 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 2013-2014 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 of Public Instruction 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 may be 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 payment amount calculated pursuant to paragraph (2) for the applicable fiscal year 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.

General Purpose Entitlement (Block Grant) Funding (California Education Code §§47633, 47634.2)

The Superintendent of Public Instruction 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: (i) kindergarten and grades 1, 2, and 3; (ii) grades 4, 5, and 6; (iii) grades 7 and 8; and (iv) 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 apportions to each charter school the required amount, less local funds allocated to the charter school pursuant to Section 47635 (funding in lieu of local property taxes) and any amounts received pursuant to subparagraph (B) of paragraph (3) of subdivision (e) of Section 3.5 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.

Notwithstanding any other provision of law, the amount of funding to be allocated to a charter school on the basis of average daily attendance that is generated by pupils engaged in nonclassroom-based instruction, as defined by paragraph (2) of subdivision (d) of Section 47612.5, including funding provided on the basis of average daily attendance pursuant to Sections 47613.1, 47633, 47634, and 47664, shall be adjusted by the State Board of Education. The State Board of Education shall adopt regulations setting forth criteria for the determination of funding for nonclassroom-based instruction, at a minimum the regulation shall specify that the nonclassroom-based instruction is conducted for the instructional benefit of the pupil and substantially dedicated to that function. In developing these criteria and determining the amount of funding to be allocated to a charter school pursuant to this section, the State Board of Education shall consider, among other factors it deems appropriate, the amount of the charter school's total budget expended on certificated employee salaries and benefits and on school sites, as defined in paragraph (3) of subdivision (d) of Section 47612.5, and the teacher-to-pupil ratio in the school.

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

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.

A charter school may receive the State aid portion of the charter school's total directly or through the local educational agency that either grants its charter or was designated by the State Board of Education.

(1) In the case of a charter school that elects to receive its funding directly, the warrant shall be drawn in favor of 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 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 Section 47651, the warrant shall be drawn in favor of the 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 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 of Education, but for which the 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 superintendent of schools in the county where the local educational agency is located that initially denied the charter that was later approved by the Board. The county superintendent of schools is authorized to establish appropriate funds or accounts in the county treasury for each charter school.

On or before July 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 of Education 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 charter general-purpose entitlements and the categorical block grant computed pursuant to Sections 47633 and 47634, other state and federal categorical aid, and lottery funds.

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 the immediately preceding paragraph 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.

Apportionment Dates and Amounts (California Education Code § 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 of Public Instruction 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 5 percent in July, 5 percent in July, and 9 percent in September, October, November, January, and January, of the amounts certified by the Superintendent of Public Instruction as a part of the advance apportionment.
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> (3) Warrants in the months of February to May, inclusive, shall be for amounts equal to one-fifth of the difference between the amounts certified by the Superintendent 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).
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> (4) Warrants for the month of July shall be for amounts equal to the difference between the amounts certified by the Superintendent 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) ….

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

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 moneys to be apportioned to any charter school, including, but not necessarily limited to, appropriations made for purposes of this chapter.

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. The state board shall, on or before January 1, 2000, adopt regulations defining “satisfactory progress.”

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 multi-track 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 authorized by statute, no pupil shall generate more than one unit of average daily attendance in a fiscal year.

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.

Notwithstanding any other provision of law, and as a condition of apportionment, “classroom-based instruction” in a charter school, for the purposes of this part, occurs only when charter school pupils are engaged in educational activities required of those pupils and are under the immediate supervision and control of an employee of the charter school who possesses a valid teaching certification in accordance with subdivision (l) of Section 47605. For purposes of calculating average daily attendance for classroom-based instruction apportionments, at least 80 percent of the instructional time offered by the charter school shall be at the school site, and the charter school shall require the attendance of all pupils for whom a classroom-based apportionment is claimed at the school site for at least 80 percent of the minimum instructional time required to be offered pursuant to paragraph (1) of subdivision (a) of Section 47612.5.

For the purposes of this part, “nonclassroom instruction” or “nonclassroom-based instruction” means instruction that does not meet the requirements specified in paragraph (1). The State Board of Education may adopt regulations pursuant to paragraph (1) of subdivision (d) specifying other conditions or limitations on what constitutes nonclassroom-based instruction, as it deems appropriate and consistent with this part.

Regular Average Daily Attendance for Charter School (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 July to February, inclusive, a charter school's funding in lieu of property taxes shall be 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 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 July;

(b) Twelve percent in September; and

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

(2) For the months of March to July, 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 July 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, 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) County Office Fiscal Crisis and Management Assistance Team; and

(3) 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).

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

The Charter School 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 exceeds 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.

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). 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.

Revenues of the State Lottery are allocated 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) 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. 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.

(4) All of the interest earned upon funds held in the State Lottery Fund shall be allocated to the benefit of public education.

(5) No more than 13% of the total annual revenues shall be allocated for payment of expenses of the lottery.

(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.

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.

The California State Lottery Education Fund is continuously appropriated for carrying out the purposes of this chapter. The Controller draws on the California State Lottery Education Fund quarterly, and payments are 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. For purposes of determining eligibility for, and allocations of, lottery funds, a charter school is 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 schools 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 Senate Bill 740 (California Education Code §47614.5)

General

The Charter School Facility Grant Program was enacted by Senate Bill 740, Chapter 892, Statutes of 2001, Education Code Section 47614.5 ("*SB 740*").

(a) The Charter School Facility Grant Program shall be administered by the California School Finance Authority. This 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 schools shall receive an amount of up to, but no more than, seven hundred fifty dollars ($750) per unit of average daily attendance, as certified at the

second principal apportionment, to reimburse an amount of up to, but no more than, 75% of the annual facilities rent and lease costs for the charter school. In any fiscal year, if the funds appropriated for the purposes of this section by the annual Budget Act are insufficient to fund the approved amounts fully, the California School Finance Authority shall apportion the available funds on a pro rata basis.

(c) The California School Finance Authority shall do all of the following:

(1) Inform charter schools of this program.

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

(A) The charter school site is physically located in the attendance area of a public elementary school in which 55% or more of the pupil enrollment is eligible for free or reduced priced meals and the school site 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 school site is located.

(B) 55% percent or more of the pupil enrollment at the charter school site 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 a schedule specified under this section.

(d) For 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 school site 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 July 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) Funding appropriated of purposes of this section may not be apportioned for the following:

(1) Units of average daily attendance generated through non-classroom-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 of Education pursuant to this section.

(2) Charter schools occupying existing school district or county office of education facilities.

(3) Charter schools receiving reasonably equivalent facilities from their chartering authority pursuant to Section 47614.

(f) Funds made available pursuant to 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 may also 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% 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 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 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 of any other law, a charter school shall be subject, without regard to this section, to audit conduct pursuant to Section 41020.

CERTAIN OTHER CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING EDUCATION REVENUES AND APPROPRIATIONS

Article XIIIA Property Tax Rate Limit

In 1978, California voters passed Proposition 13, added Article XIIIA of the California Constitution. In 2000, California voters passed Proposition 39, which amended Section 1 of Article XIIIA of the California Constitution. Pertinent provisions of Article XIIIA 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 XIIIA, 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 any structure that consists of the construction or reconstruction of seismic retrofitting components, as defined by the Legislature. 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 XIIIB 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 statues 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 121/2 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)

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 of 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)

APPENDIX B
CERTAIN INFORMATION REGARDING DCPS ELDRIDGE AVENUE LLC, COALITION FOR ENGAGED EDUCATION AND DISCOVERY CHARTER PREPARATORY SCHOOL

General

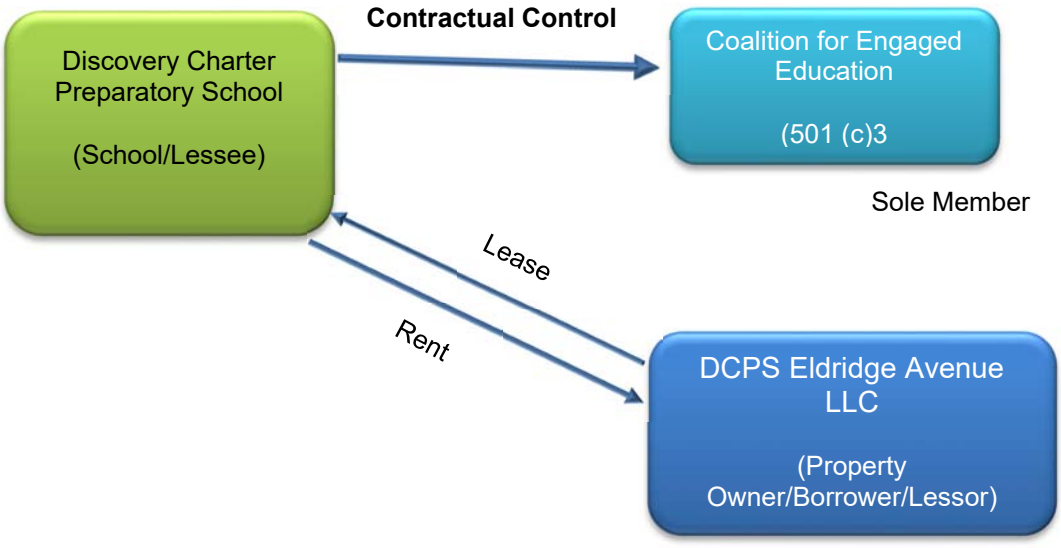
The information set forth below is derived primarily from the Mid-Cycle Visit of the Accrediting Commission for Schools Western Association of Schools and Colleges. References regarding Discovery Prep and the School's 13570 Eldridge Ave., Sylmar, California 91342 location, the Borrower, the Sole Member and Discovery Prep are also derived from such entities. References to municipal demographics refer to the community of Sylmar within the City of Los Angeles, California (the "*City*").

Organization Overview

Discovery Charter Preparatory School ("*Discovery Prep*" or the "*School*") is a California nonprofit public benefit corporation formed on June 25, 2001 and recognized under Section 501(c)(3) of the Internal Revenue Code on June 25, 2001, as a tax-exempt organization.

DCPS Eldridge Avenue LLC (the "*LLC*") will be the purchaser of the building and will enter into a lease with the School. The sole member of the LLC will be the Coalition for Engaged Education (the "*Sole Member*"), a California nonprofit public benefit corporation, recognized under Section 501(c)(3) of the Internal Revenue Code. Substantially all of the assets of the LLC will be pledged in support of the payment of the Bonds.

DCPS Properties, a California nonprofit public benefit corporation, is in the process of being established as a supporting 501(c)(3) organization in support of the School. Once a letter of determination of DCPS Properties' 501(c)(3) status is received from the IRS, DCPS Properties will replace the Sole Member as the sole member of the LLC.



Discovery Prep welcomes and seeks students from all ethnic, socio-economic, and geographic backgrounds. Discovery Prep serves a unique purpose in the northeastern San Fernando Valley community. Discovery Prep is a California nonprofit public benefit corporation, organized and operated exclusively for educational purposes within the meaning of Section 501(c)(3) of the Code, and is governed by its Bylaws and Articles of Incorporation, filed in the State of California on June 25, 2001. Discovery Prep obtained its first charter approval in 2002 from the Los Angeles Unified School

District ("*LAUSD*"). Many students will be the first in their families to attend college, and some students will be the first to graduate from high school. Discovery Prep believes students who attend Discovery Prep benefit from the small, supportive learning community and the college-going culture that guides them on their way to higher education.

The audited financial statements of Discovery Prep for the fiscal year ended June 30, 2016 and 2015 are attached hereto as Appendix C.

Accreditation

Discovery Prep is accredited by the Western Association of Schools and Colleges. Discovery Prep is a member of the California Charter Schools Association, one of the primary charter school associations in the State.

Project

Current School Facility. Discovery Prep started the 2016-17 school year in the present school facility (the "Facility") located on land (the "Land" and together with the Facility, the "Project") leased from the current landowner. Following the closing of the acquisition of the Project and the bond financing, the current lease will automatically expire and the lease of the Project between the School and the LLC will commence (see "*Facility – Lease by DCPS Eldridge Avenue LLC to Discovery*"). In connection with the proposed bond financing, Discovery Prep expects to use a portion of the proceeds to complete certain renovations related to the Facility.

Beginning with the 2016-2017 school year, Discovery Prep moved into the Project at 13570 Eldridge Ave., Sylmar, California 91342. The Project was formerly used as a school campus. The school building comprising the Facility consists of one (1) single story building constructed on a concrete slab and provides central heating, ventilation and air conditioning containing 28,306 square feet of classroom space, 6 offices, a kitchen with parking for approximately 100 vehicles, The exterior of the Project's campus contains outdoor basketball courts and a baseball field with a dugout. The Facility can accommodate up to five hundred (500) students and the Land comprises approximately four (4) acres and is located in a commercial and residential section of the City.

After an inspection of the Project several miscellaneous defects and necessary changes were found, including but not limited to: re-keying all the doors, repairing the drinking fountains, the hot water system and the kitchen, certain parking lot improvements, solar system replacement, complete roof replacement, cabinet/counter top replacement, perimeter fencing repairs, painting, flooring, plumbing, and a final cleaning of the facilities that is to be conducted by Discovery Prep.

Lease by DCPS Eldridge Avenue LLC to Discovery Prep. In connection with the issuance of the Bonds, the Borrower will acquire title to the Project and lease the Project to Discovery Prep pursuant to a Lease Agreement expected to be dated the date of closing of the acquisition of the Project (i.e., November 22, 2016), between the Borrower and Discovery Prep (the "*Lease*"). The Bondholders are expected to have a lien on the buildings and an assignment of the rents payable by the School to the LLC.

Appraisals

In connection with the issuance of the Bonds, an appraisal for the Facility (the "*Appraisal*") was obtained from Stein Valuation and as of June 2, 2016 the appraisal reflected a total appraised value of $6,750,000, which is less than the par amount of the bonds that will be sold to finance the acquisition of the school campus as described in the Limited Offering Memorandum. A copy of the Appraisal is available by request to the Underwriter or Ms. Sheryl Schubert, Chief Financial Officer, Discovery Charter Preparatory School, 13570 Eldridge Ave., Sylmar, California 91342, telephone (818) 897-1044.

Environmental Report: Potential Environmental Concern

A June 17, 2016, Phase I Environmental Site Assessment report of the Facility, prepared by Tetra Tech Inc. ("Tetra Tech") (the "Phase I Environmental Report"), identified the historical presence of a dry cleaning facility from at least 1970 until at least 1975 to be a potential environmental concern. Tetra Tech recommended a subsurface investigation to evaluate whether this historical facility resulted in impacts to the Facility and groundwater.

The Phase I Environmental Report also found that, based on the years of construction of the building in the Facility (1961-1962), it was possible that asbestos-containing materials ("ACMS") were present in the Facility. Observed or inferred suspect ACMs at the site included vinyl floor tile and associated mastic, ceramic floor and wall tile mastic, acoustic ceiling tile, baseboard and associated mastic, carpet mastic, painted drywall, stucco and roofing materials. According to an asbestos survey performed at the site earlier in 2016, gray roof mastic and black roof mastic were found to contain asbestos, and transite counter tops and a transite fume hood in the science room were presumed to contain asbestos. Tetra Tech concluded that previously identified and presumed ACM, as well as untested suspect ACMs, are considered to be business environmental risks.

In addition, based on the years of construction of the building, Tetra Tech found that it is possible that lead-based paint ("LBP") and other lead-containing materials ("LCMs") are present in the site building. The painted surfaces were observed to be in good condition with no areas of damaged paint noted. Observed inferred suspect LCMs, such as ceramic floor and wall tile, also appeared to be in generally good condition, with no significant damage observed. Tetra Tech also concluded that untested suspect LBP and other LCMs are considered to be business environmental risks.

Summary of Site Investigations Report – No Further Action Request

Based on the recommendations in the Phase I Environmental Report regarding the historical dry cleaning facility, environmental subsurface investigations were conducted at the Facility.

A Phase II Environmental Site Assessment report was issued by Tetra Tech dated August 24, 2016 (the "Tetra Tech Phase II"), and a "Data Gap Assessment Report" was issued by Partner Engineering and Science, Inc. ("Partner") dated October 7, 2016 (the "Partner Data Gap Assessment"). Partner subsequently issued a report entitled "Summary of Site Investigations" dated November 15, 2016 (the "Partner Summary of Investigations Report"). Copies of these reports are available upon request to Discovery Prep.

The Partner Summary of Investigations Report provides a summary of the subsurface investigations performed at the Facility by Tetra Tech between June 28 and July 13, 2016, and by Partner in September, 2016. The Summary of Investigations Report compiled the results and conclusions from the two subsurface investigations that had: (1) evaluated whether significant concentrations of volatile organic compounds ("VOCs") related to a potential 1970s site release of tetrachloroethylene ("PCE") from the former dry cleaner were present in the subsurface (Tetra Tech Phase II);, and, (2) assessed the potential for groundwater impact (Partner Data Gap Assessment). The Summary of Investigations Report summarized the Tetra Tech Phase II conclusions that no substantial source of PCE or VOC impacts were identified in soil samples collected from beneath the on-site building or from locations directly outside the front and rear of the building. The Summary of Investigations Report also confirmed the Tetra Tech Phase II conclusion that concentrations of PCE are present in soil vapor at concentrations exceeding screening levels. However, Tetra Tech stated that a Human Health Risk Assessment calculated for the site for both residential and school scenarios indicated that the health risk for occupants of the building were within the acceptable calculated risk/hazard. Partner concluded in the Summary of Investigations, based on the Tetra Tech Phase II, its own subsurface investigations and the Tetra Tech human health risk assessment, that a designation of "no further action" ("NFA") is warranted for these identified impacts at the Facility. Partner plans to prepare the appropriate documentation to obtain this NFA letter from the Los Angeles County Fire Department once Discovery Prep has taken ownership of the property.

Discovery Prep has agreed to take the required steps with respect to these identified impacts necessary to obtain the NFA Letter.

City of Los Angeles, California

The community of Sylmar is located approximately thirty (30) miles northwest of downtown Los Angeles, California and twenty-five (25) miles inland from the Pacific Ocean. The community lies within the limits of Los Angeles County, California (the "County"). The community's estimated population as of 2015 was 89,000 residents, based on estimates from the Los Angeles Association of Governments. United States Census data showed that the community of Sylmar had 91,725 residents in 2010 and 82,988 in 2000.

Overall, Los Angeles County ranks as the most populated county in California. Its population is projected to be approximately 10.4 million by the year 2020. (Source: Los Angeles County, California.)

The following table provides estimates on population and per capita income in Los Angeles County.

Year	Population[(1)]	Per Capita Income[(2)]
2012	9,889,520	47,713
2013	9,963,811	48,140
2014	10,054,852	50,730
2015	10,155,069	53,521
2016	10,241,335	N/A

(1) Source: State of California Department of Finance.

(2) Source: United States Department of Census, U.S. Department of Commerce, Bureau of Economic Analysis (trailing 12 months) release November 17, 2016. The Federal Reserve Economic Data report prepared by The Federal Reserve Bank of St. Louis (FRED Economic Research) reports a slight variation in Per Capita Income for 2013 and 2014 as follows: 2013, 47,580 and 2014, $49,400.

Academic Programs and Mission

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

Discovery Prep operates within the Sylmar community of the City. Discovery Prep serves a unique purpose in the Sylmar community. Many of its students will be the first in their families to attend college, and some will be the first to graduate from high school. As such, students who attend Discovery Prep benefit greatly from the small, supportive learning community and the college-going culture that guides them on their way to higher education. The mission of Discovery Prep is "to provide the necessary skills and support so that every student is prepared to attend college upon graduation from high school." Discovery Prep's graduation requirements fulfill the California State University and University of California A-G requirements ensuring that all students are on a college bound track. Discovery Prep graduates have gone on to attend and graduate from universities such as UCLA, UC Berkeley, Dartmouth, University of Pennsylvania, Lewis and Clark College, and a host of other prestigious schools.

Discovery Prep's vision is to provide a safe and nurturing learning environment where instruction is rigorous and meaningful. Discovery Prep's culture of high expectations is dedicated to closing the achievement gap for students by providing them with supportive, individualized attention for academic success. This goal is supported by small class sizes with a maximum of 25 students per class. At Discovery Prep, students see how academics play a part in becoming productive citizens and lifelong learners.

Teachers and staff focus on providing a positive and nurturing environment, emphasizing professional behavior, courtesy, and hard work. When students graduate, they have a solid and well-rounded academic foundation, which will supply them with the motivation and the tools to successfully complete college.

Discovery Prep has implemented a "tokens system" wherein tokens (with varying values and associated rewards) and certificates of achievement are presented to the students by teachers. After the introduction of the token system Discovery Prep has seen a noticeable gain in academic motivation and behavioral advancement. Discovery Prep is one of thirty (30) schools chosen by California State University, Dominguez Hills to participate in a five year $10 million grant through the Innovative School Leadership Initiative. Each school is provided with extensive Professional Development for staff. Through this grant, Discovery Prep is also a pilot school for the integration of Explicit Direct Instruction ("EDI") which looks to conduct targeted interventions for English Learners and Special Needs students. Additionally, Discovery Prep has partnered with the Hawn Foundation's "Mind Up" program to implement brain training for all students and staff. The Mind Up training aids individuals in minimizing stress by enhancing knowledge and introducing "mindfulness" strategies. Discovery Prep also partners with City Hearts, a non-profit organization that provides three (3) classes a week in drama, photography and guitar.

California Energy Commission Grant

The California Energy Commission ("*CDE*") through the California Clean Energy Jobs Act (Prop. 39) supplies grant funding to local education agencies to install energy measures on facilities and K-12 school sites that contribute to reduced operating costs and improved health and safety conditions in public schools. The CDE allocated Discovery Prep $50,000 per year for up to five (5) years in grant awards to make energy efficiency improvements beginning in 2013-2014 and expiring in 2017-2018. Eligible projects include lighting systems; heating, ventilation and air conditioning equipment and controls; pumps and motors; kitchen appliances; energy-efficient windows, insulation and cool roofs; and on-site clean energy generation, such as solar photvoltaic (PV) systems.

Goals

Discovery Prep looks to meet three broad goals during the academic year:

Goal #1: Students will increase their reading comprehension and acquisition of academic language. In particular, English Learners need to be supported in their acquisition of the English language and brought to proficiency levels in order to be able to access the curriculum.

Goal #2: Students will synthesize prior knowledge with new material in order to critically evaluate complex problems. In particular, integrating skills mastered at lower levels into more advanced mathematical/algebraic applications.

Goal #3: Students will be able to identify and employ correct writing strategies in written responses across the curriculum.

Collaborative Relationships

Discovery is collaborating with Los Angeles Mission College (a two-year community college) to establish a permanent presence on its college campus. This relationship allows Discovery to better

prepare its students for college and allow students who are qualified to take college courses. These students will be able to take advantage of the community resources that are available to Los Angeles Mission College students. Ultimately, this will allow students to explore higher education options and prepare for the rigor of college-level work.

Competition; Student Performance

Discovery Prep competes locally with public high schools operated by the LAUSD. Discovery Prep believes it enjoys important advantages over the LAUSD public schools. Most importantly, Discovery Prep offers a small, intimate learning environment with a maximum of twenty-five (25) students per class. Discovery Prep ranks academically among the top performing high schools in Los Angeles, and its program offers a unique philosophy and learning experience for students.

Discovery has implemented the Northwest Evaluation Association ("NWEA") testing in order to further this goal. The NWEA testing takes place three times a year and tests students in each grade level in the areas of Language, Reading and Writing, and Mathematics. The first exam acts as a baseline and allows teachers to focus on weaknesses in specific skills shown through the testing in their lesson plans. The second and third tests allow staff to see growth in student development.

California English Language Development Test (CELDT)

Discovery Prep has a high number of English Learners, which is reflective of the community of Sylmar of Discovery's students, approximately 21% are designated as English Language Learners. The table below shows annual CELDT assessment of English Proficiency for all students over the last three (3) years and shows the number and percent of students in each overall proficiency level.

CELDT Levels	2013-2014	2014-2015	2015-2016
Advanced	11 (13%)	8 (10%)	3 (5%)
Early Advanced	36 (44%)	30 (36%)	17 (28%)
Intermediate	21 (26%)	29 (35%)	26 (43%)
Early Intermediate	7 (9%)	11 (13%)	7(11%)
Beginning	7 (9%)	5 (6%)	8 (13%)
Total Students Tested	82 (100%)	83 (100%)	61 (100%)

Beginning with the 2014–2015 school year, the California Assessment of Student Performance and Progress ("*CAASPP*"), including the Smarter Balanced Summative Assessment ("*ABSA*"), became part of the new student assessment system in California, replacing the Standardized Testing and Reporting system ("*STAR*"). Because CAASPP exams are based on more challenging academic standards, Discovery Prep believes the results are too fundamentally different to compare to old scores. Instead, these scores are a starting point or a baseline for the progress students will make over time. CAASPP/SBSA English language arts/literacy and mathematics portions are administered in grades 3–8 and grade 11. The following table shows the overall achievement in CAASPP in 2015 for students in grade 11.

Number of Students Enrolled	Number of Students Tested	Standard Not Met	Standard Nearly Met	Standard Met	Standard Exceeded
66	63	24%	43%	21%	13%

To participate in Discovery Prep's high school graduation ceremony, students are required to take either the ACT or SAT. The percentage of Discovery Prep students taking the SAT I remains consistently high. The following table shows the SAT participation rate over the last three (3) years.

	Class of 2013	Class of 2014	Class of 2015
Grade 12 Enrollment	78	83	78
Pct. of Grade 12 Testing	69/78 (88%)	81/83 (97%)	71/78 (91%)

The following chart shows the SAT score ranges in the 2014-2015 school year.

Score Range	Critical Reading	Mathematics	Writing
Mean Scores	365	371	373
700-800	0	0	0
600-690	0	0	0
500-590	5	4	4
400-490	23	20	21
300-390	25	36	32
200-290	19	12	14

Overall, the data demonstrates that the majority of students come from Hispanic socio-economically disadvantaged households where English is not the primary language. As a result, Discovery Prep has a large population of English Learners who often do not have the resources to succeed academically and behaviorally. Discovery Prep makes a consistent and ongoing effort to evaluate student achievement data from a wide variety of sources and use this data to differentiate and target instruction. Discovery Prep also uses data to invest in resources and social services to help support students and provide structured classroom environments that provide a rigorous and well-balanced education. Students that come from socio-economically disadvantaged households often hold the view that work and supporting family is more important than graduating from high school or attending college, and Discovery Prep has also worked diligently to create a culture and atmosphere that promotes the importance of college and motivates students to graduate from high school and attend college as the next step in their lives.

Discovery Prep is proud of the progress that was made with respect to the Academic Performance Index ("API") and the CAASP pass rates in past years. Discovery Prep made significant progress in improving the 2011 Base API from 726 to 762 in 2012. The new Smarter-Balanced assessments are still a work in progress. All schools are currently adapting to the new Common Core Standards and the new Smarter-Balanced computer-based format for student assessments. There are many educators who share the sentiment that the Smarter-Balanced assessments are still a work in progress. Given the fact that the test format and content are still in flux, it will be some time before the format and content are finalized and the test can provide meaningful, reliable data.

Graduation Rate

The following tablet shows the graduation rate at Discovery Prep over the last three (3) years:

Year	Discovery Prep Graduation Rate	State Graduation Rate
2015-16	52/57 (91.2%)	[1]
2014-15	68/78 (87.1%)	422,177/499,275 (84.5%)
2013-14	72/84 (85.7%)	421,636/498,403 (84.6%)

[1] The 2015-2016 high school graduation rate for the State of California is not available as of the date of this Limited Offering Memorandum.

Traditional Classroom Program

Students meet Monday through Friday, seven hours a day, ten months a year, in a traditional classroom environment. The average student/teacher ratio is 13:1. Students rotate classes for six periods throughout the school day. All courses meet CAASP Standards and the curriculum is designed to prepare students for immediate entry into a four-year college or university.

In school year 2015-2016, there were 252 students enrolled in Discovery Prep. At Discovery Prep, college preparatory, honors and Advanced Placement courses are offered. In school year 2014-2015, approximately 9% of the sophomore, junior and senior students passed Advanced Placement exams. Approximately 60% of students in the 2016 graduating class plan to attend a four-year college or university in the Fall of 2016.

Technology

Discovery Prep has invested funds toward the creation of a computer lab with 25 computers, 32 laptops and 100 iPads available for student use. All staff, faculty, and administrators have personal laptops as well. The investment has proven valuable in many different ways. First, students are able to do research and independent study for such things as projects, assignments and remediation. While Discovery Prep does not presently offer a Computer class as an elective, Discovery Prep classes are required to incorporate computer technology within their lessons in order to teach, expose students to, and gain computer literacy. This is an area that Discovery Prep would like to develop in, and ramping up computer literacy in all classes is a current goal in Professional Development. The computer lab is an integral part of Discovery Prep's afterschool tutoring program and many students take advantage of online courses and computer-based curriculum. Second, teachers are able to take entire classes to the computer lab for differentiated activities and also to use the supplemental programs such as Acellus and APEX in conjunction with their regular curriculum. The iPads are used in much the same way, but also allow a greater level of flexibility for students and enable them to utilize diverse iPad applications for their assignments. Both computers and the iPads are essential to testing at Discovery Prep. NWEA and Smarter-Balanced testing are computer-based and the have proven to be invaluable at Discovery Prep and the investment in iPads and computers has also proven invaluable.

Language and Special Education

Discovery Prep has created a specialized English Fundamentals/Skills class. It is a comprehensive Reading Language Arts intervention program with high quality literature coupled with explicit instruction. This class targets the needs of English Learners and Special Education students at each student's instructional level. It includes the state required English Language Development component to assist students from Spanish-speaking backgrounds to complete the required 30 minutes of English learner instruction every day. With the support or Acellus and Rosetta Stone, EL and special needs students are able to access the curriculum and are provided with an extra layer of support at Discovery Prep.

Discovery Prep currently does not have any severely disabled students, as the primary disabilities pertain to learning, ADHD, Autism, and similar learning disabilities. Discovery Prep utilizes outside consultants to assist with special education needs of specific students.

Discovery Prep has opted for LAUSD's "Option 3" membership for special education, which provides that the school operates independently for the purposes of special education. Discovery Prep assumes sole management and fiscal responsibility for all of its students' special education instruction, program and services, related services, placement, due process, and supports. As full autonomy comes with increased responsibility, there is an application process for membership into Option 3. Members receive direct support from a Special Education Director for the Charter-operated Programs and also have access to District-wide special education supports. Discovery Prep pays to the LAUSD twenty percent (20%) of all State and Federal special education funds that it receives.

Extracurricular Activities

Discovery Prep has a strong and flourishing collection of after school programs and activities for students. An integral part of Discovery Prep's school culture is the Youth Policy Institute ("*YPI*") which helps organize afterschool programs for academic enrichment and remediation. YPI also provides other services to students such as field trips, tutoring, and coaches for different CIF sports programs. YPI conducts an afterschool and Expanded Learning Program and, depending on the student's interests, may provide dance, film, photography or other courses as part of the enrichment experience for students. The sports program is one of Discovery Prep's strongest and fastest-growing programs. At Discovery Prep, both boys and girls compete in basketball, baseball/softball, soccer, volleyball, and cross country. Additionally, the school has a boys' football team and a coeducational cheerleading team. As mentioned above, 120 of Discovery Prep's 252 students (46%) are enrolled in a YPI program, demonstrating the tremendous amount of afterschool support offered to students at Discovery Prep.

Enrollment

While Discovery Prep does not cap enrollment, the Conditional Use Permit on its former school facility allowed for a maximum of 350 students.

In the past two (2) years, student enrollment has significantly declined at Discovery Prep, in large part due to the opening of seven (7) new charter high schools and three (3) new public high schools in the community, some of which are closer to the residences of students who previously attended Discovery Prep. These events have led to increased competition and have affected the enrollment at Discovery Prep. For example, many students from Bert Corona Middle School traditionally chose Discovery Prep as their high school. However, Bert Corona recently opened its own high school and, as a result, many middle school students have now chosen this newly opened high school instead of Discovery Prep. The following are historical enrollment numbers, by grade level, for Discovery Prep for the previous four (4) school years.

Year	9th	10th	11th	12th	Total
2016-17	49	62	49	83	243
2015-16	54	59	82	59	254
2014-15	70	93	71	78	312
2013-14	109	77	74	83	343

The table above shows a reduction in student enrollment over the 2013 – 2017 period across all grade levels except in the 11th grade where Discovery Prep experienced an eleven student increase in enrollment over the 2015-16 school year. The stakeholders of Discovery Prep believe that the relocation of the high school to the new school campus which features new arts, drama and recreational programs will result in increased future enrollment projected in the table below.

Year	9th	10th	11th	12th	Total
2021-22	125	110	100	90	425
2020-21	115	105	95	85	400
2019-20	100	100	90	75	365
2018-19	90	85	75	75	325
2017-18	75	65	75	65	280

Competition/Reason for Enrollment Decline

Several nearby schools, which compete directly or indirectly with Discovery Prep, have opened in recent years. The following table lists charter schools and district-run academies to which Discovery Prep

has previously lost its students and teachers. The Caesar Chavez academies listed in the table are district-run academies in which approximately two thousand (2,000) enrolled.

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School	2013 Statewide Rank	2013 Similar Schools Rank	2013 API Growth	2015-2016 Enrollment
Discovery Charter Preparatory	3	8	713	252
Cesar Chavez Learning Academies – Academy of Scientific Exploration	2	3	691	477
Cesar Chavez Learning Academies – Arts Theater Entertainment School	1	1	619	498
Cesar Chavez Learning Academies – Social Justice Humanitas Academy	3	5	708	509
Cesar Chavez Learning Academies – Teacher Prep Academy	1	2	618	482
Community Charter Early College High School	9	10	841	428
Triumph Academy	N/A	N/A	N/A	375
PUC National – Lakeview Charter High	6	10	777	416
Nueva Esperanza Charter Academy	6	10	821	65
Bert Corona High School	N/A	N/A	N/A	N/A

Enrollment Selection Procedures

To encourage enrollment of a diverse population, the Discovery Prep actively recruits students from all backgrounds, particularly from the Sylmar community. Interested parents and students should first complete a space request card, which may be obtained in the school's main office. The Discovery Prep Admissions Team will then invite students and parents to an informational meeting, open to all interested students and parents in the community. The meeting is typically held in March and provides an overview of the school's philosophy and expectations. Applicants will have the opportunity to meet the administration and teacher representative.

Students and parents will be asked to complete a lottery enrollment application after being admitted to Discovery Prep. All returning students should submit a signed commitment card stating that they will be attending Discovery Prep the following year. If students or parents do not turn in their commitment card by the assigned deadline, that student will not be guaranteed a place at Discovery Prep.

Demographics based on ethnicity at Discovery Prep are consistent with that of the Sylmar community, which is predominantly Hispanic. 100% of students at Discovery Prep are from Hispanic descent. Discovery Prep makes every effort to educate students in programs that are multi-cultural and provide students with a global and diverse perspective.

Charter

Discovery Prep's original charter ran from 2002 - 2007, and the LAUSD renewed it a second time before its five-year expiration on June 30, 2012 (the "*Discovery Prep Charter*"). The Charter has no limit on the number of renewals that the may be granted so long as certain specific criteria are met in accordance with the provisions of Chapter 2 of Part 26.8 of the California Education Code.

Each year LAUSD Charter Office conducts an Oversight Visit which involves the following areas:

1. Governance – demonstrating fulfillment of the governing board's fiduciary responsibility to effectively direct and provide oversight for the charter public school, including but not limited to the enactment and monitoring of policies and procedures to ensure the school's full compliance with applicable law, policy, and the terms of the charter approved by the LAUSD Board of Education.

2. Student Achievement and Educational Performance – demonstrating academic achievement and growth for all students.

3. Organizational Management, Programs, and Operations – demonstrating effective leadership and implementation of the governing board's policies and procedures, as well as the school's educational program and systems and procedures for the day-to-day operations of the school.

4. Fiscal Operations – demonstrating sound fiscal management, appropriate use of public funds, and compliance with regulatory requirements.

Discovery Prep must file biannual reports with the LAUSD setting forth certain formative and summative data to demonstrate that the school is meeting or making progress towards all of the performance standards described by the Smarter Balance (CAASPP) and other assessments. Under the Discovery Prep Charter, disagreements with the LAUSD are subject to mediation.

Discovery Prep's Charter requires it to establish a separate Parent Advisory Committee (PAC), which is comprised of parents or guardians of students currently or previously enrolled at the School. One of the primary responsibilities of the PAC is to promote parental involvement in the daily affairs of students and Discovery Prep. The PAC also provides assistance with student activities, fundraising, technical support, and clerical help. The Charter also requires teachers to meet the credential requirements defined in the California Education Code. See "CHARTER SCHOOLS" in the main body of this Limited Offering Memorandum. All teachers are required to take a tuberculosis test. The Charter requires Discovery Prep to comply with the fingerprints and criminal records information requirements as set forth in the California Education Code. The Charter requires Discovery Prep to conduct its financial operations in accordance with the established policies of LAUSD. The Charter and State Law require Discovery Prep to produce an annual audit. The Discovery Prep Charter requires Discovery Prep to pay for any services that the LAUSD provides beyond the ordinary level of support given by the LAUSD to charter schools, in accordance with a separate memorandum of understanding. The Charter requires Discovery Prep to maintain a balanced budget.

The LAUSD is eligible to commence charter revocation proceedings if Discovery Prep (i) commits a material violation of any of the conditions, standards or procedures set forth therein, or (ii) fails to meet or to pursue any of the student outcomes identified in the Charter, or (iii) fails to meet generally accepted accounting principles or (iv) violates any provision of law. A public hearing and a vote by a majority of the authorizing district's elected officials is required for revocation. See "RISK FACTORS - Specific Risks of Charter Schools" in the main body of this Limited Offering Memorandum.

California limits the term of a charter for a period not to exceed five years. Under California law, 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 approved the charter.

Governance and Administration

As permitted under the Charter Schools Act, Discovery Prep is operated by and as a California nonprofit public benefit corporation pursuant to and under its articles of incorporation and bylaws. Under those documents, the Board of Directors (the "*Board of Directors*" or "*Board*") is responsible for the management of the business, property and affairs of Discovery Prep.

Board of Directors and Administration

The School's board currently has 5 members. The Board contains members who are or were involved in business, law enforcement, social work, and academia,

Member	Year of Appointment to Board	Employer/Occupation
Julian Almaraz, President	2004	Retired LAPD, Park Ranger/Rancho Simi Valley Parks & Recreation
Jas Dhillon, Treasurer	2007	Business Owner/7-Eleven & Togo's Sandwiches
Lori Brogin, Secretary	2009	Director of Compliance Communications and Contracts/Motion Picture Industry Pension and Health Plan
Dr. Ken Nielsen, Member	2013	Retired President Ameritus/Woodbury University
Alondra Hernandez, Member	2015	Psychiatric Social Worker/L.A. County Department of Mental Health

The School's leadership has two key leaders who run its operations:

Dr. Karen Smith, Principal

Dr. Karen Smith has 32 years of experience in education. In the past, she has worked as a consultant, taught at an Elementary School, and has been an administrator at Discovery Charter Preparatory School for the past 14 years.

Sheryl Schubert, Chief Financial Officer

Sheryl Schubert has been the Chief Financial Officer for Discovery Charter Preparatory School since January 2009. In the past, she worked for nine years as the Chief Financial Officer/Chief Business Officer for the Girl Scouts of San Fernando Valley. She has a very diverse background that includes experience in accounting (for-profit and non-profit), financial reporting and audit, human resources, and IT management.

Staff Demographics

Discovery Prep has a diverse and dedicated staff, including two Discovery Prep graduates, who serve as office staff and parent liaisons. In total, there are three (3) secretaries, two (2) full-time security guards, and one (1) plant manager. Discovery Prep contracts food services to an outside community-based company. Many Discovery Prep staff members are involved in extra-curricular activities to help students, such as coaching sports, running after-school clubs, a school newspaper club, and other programs. Discovery Prep staff take pride in being active members of the school and helping to create a family atmosphere and culture for which students have a strong sense of belonging and ownership.

The following table summarizes staff demographics, representing both full-time and part-time members of the staff.

Year	Certificated	Classified*
2015-16	19	10
2014-15	19	10
2013-14	23	10

Data reported below reflect the number of Certificated Staff at Discovery Prep by education level. All staff is encouraged and expected to participate in professional development activities and to attend conferences, courses, and workshops. Discovery Prep funds and sends staff members to school-selected and staff-selected conferences as needed.

Year	Doctorate	Master's (+30)	Master's	Bachelor's (+30)	Bachelor	Less than Bachelor's	Total Staff	Avg. Years of Ed. Service	Avg. Years in the District
2015-16	1	1	10	0	9	0	19	8.4	3.8

Teacher Certification

Eighty-four percent (84%) of Discovery Prep's sixteen (16) teachers are credentialed through the California Commission on Teaching Credentialing for their specific position. The remaining 16% are currently in teacher preparation programs and in the process of securing their credentials. Discovery Prep is very proud of its professional development program and regularly offers teachers the chance for professional growth through on-site mentorship, the opportunity to observe other classrooms and attend professional development trainings on and off site. Discovery Prep is confident that the support system and structure allows teachers to continually grow professionally.

Teacher Retention

Over the past few years, recruiting and maintaining a highly qualified staff has been a high priority for the governing board and administration of Discovery Prep. In conjunction with teachers and the leadership team, Discovery Prep has created a team atmosphere that includes regular department and grade level meetings in which senior faculty collaborates with and guides new teachers. Mentor teachers are assigned to new teachers to help facilitate their growth and consultants also help increase the support system for teachers. All of these changes have created a positive and more stable work environment at Discovery Prep. A major factor that must be considered when analyzing the data regarding teacher retentions is the fact that multiple new charter schools have opened in the Sylmar community in the last three (3) years, leading to increased competition for highly qualified teachers. The following chart shows teacher retention over the last three (3) years.

Teachers	2013-14	2014-15	2015-16
Teachers Retained	13	15	7
Teachers Not Retained	7	5	9

For the 2016-2017 academic year, Discovery Prep will bring back twelve (12) teachers from the previous academic year. The school has also hired two (2) new teachers and is currently recruiting two (2) additional teachers. The improvement in retention is believed by the school's administration to be due to the new building and improved teacher compensation.

Professional Development

Discovery Prep offers several opportunities for faculty, staff, and administrators to receive professional development training and attend outside training programs such as conferences, courses, and workshops. Discovery Prep funds and sends staff members to conferences as needed.

To foster professionalism among the staff in its decision-making processes, Discovery Prep provides time and resources for faculty, administration, and out-of-classroom personnel to attend workshops, conferences, and meetings on educational research, student support, best-practices and curriculum development.

Discovery Prep uses a one-day per week model of afternoon trainings for the faculty and staff. These weekly professional development meetings provide compensated meeting times for all staff to update their content-area knowledge, analyze and evaluate student performance, plan instructional units and investigate new strategies for implementing a standards-based curriculum for all students. Weekly professional development meetings also allow for a variety of groups to meet, including departments, grade-level teachers, committees, and whole-group meetings as a faculty. Discovery Prep emphasizes classroom rigor, data analysis, and aligning lessons and assessments with Common Core content standards. All group faculty meetings include school business, Data Director/technology integration, and instructional methods. Additionally, these group faculty meetings include specific compliance trainings for state-mandated reporting, instructional accommodations for special needs students, and work-place compliance standards.

Discovery Prep employs a consultant who regularly visits classrooms and provides feedback regarding instructional and classroom management techniques. The consultant is a professor of Education at National University who works with student teachers at California State University in Northridge. His area of expertise is in educational research and supervision of instruction. Such consultant does not evaluate teachers. Instead, he supports teachers in improving their instruction using differentiation, classroom management, planning, pacing, SDAIE, and other strategies, along with recent brain-based research.

As stated above, Discovery Prep is one of thirty (30) schools chosen by California State University, Dominguez Hills to participate in a five (5) year $10 million grant through the Innovative School Leadership Initiative. Each school is provided with extensive Professional Development for staff.

In addition, Discovery Prep leadership and teachers attended a four-day UCLA Center X Adaptive Schools Foundation Seminar to strengthen Discovery Prep's culture of collaboration which strives for continual school improvement. The seminar focused on skills to build high-functioning teams with a wide variety of facilitation and consensus-building tools.

Attendance

Discovery Prep understands that attendance is vital to the academic and social growth of students. Discovery Prep has an attendance liaison who is a psychologist with a Child Welfare and Attendance Credential who employs, as a guide to increasing student attendance, the procedures outlined in the LAUSD Attendance Policies and Procedures Manual. Regular attendance is emphasized to students as well as parents. The Student and Parent Handbook outlines classroom expectations, which include "attendance" and "punctuality" as standards of an optimal classroom learning environment. The importance of good attendance is explained during the monthly parent meetings, and parents are given a full explanation of the importance of attendance in regard to student achievement. Individual guidance is provided to students who are absent frequently. Letters are sent home for students who have

more than ten (10) unexcused absences. Members of Discovery Prep's counseling staff also call home to inform parents of the school's concern and encourage parents to improve their child's attendance.

If a phone conference does not improve the student's attendance, the next step is to have a parent conference and further explain the academic repercussions of poor attendance and discuss how to improve their child's attendance. Speaking to the student individually is also part of the intervention. Administrators, the counselor, the Special Education Services Consultant, and the attendance liaison meet weekly to discuss issues relating to attendance. When needed, Discovery Prep staff has conducted home visits to alert parents if students are in danger of exceeding allowed unexcused absences. During attendance meetings, parents are alerted to their rights, are given an explanation of consequences for continued poor attendance and a dialogue takes place to reach solutions to help support both the student and the parents.

The following chart shows the average daily rate of attendance at Discovery Prep over the last three (3) years.

Year	Average Daily Rate of Attendance
2015-16	94.65%
2014-15	94.89%
2013-14	96.61%

Financial Information

Sources of Income

Local Control Funding Formula. Starting in the 2013-14 school year, California began to transition from its old Revenue Limit System to the Local Control Funding Formula ("*LCFF*"). While the old system had categorical funding added onto a base revenue limit, the new system has an economic recovery target that benefits schools with a lower-income student profile. The School has benefitted from the new LCFF system as a positive improvement to the funding environment due to its demographic profile.

As a result of the new LCFF, funding for California charter schools has generally increased. Pursuant to the California Department of Education, the statutory base grants are: (i) for K-3 $7,741, (ii) for 4-6 $7,116, (iii) for 7-8 $7,328, and (iv) for 9-12 $8,711, but are adjusted annually for Cost of Living Adjustments. The LCFF is projected to be phased in over eight years until target rates under the LCFF are attained. Pursuant to the California Department of Education, for 2015-16, target base grant amounts are: (i) for K-3 $7,820, (ii) for 4-6 $7,189, (iii) for 7-8 $7,403, and (iv) for 9-12 $8,801. Base per-pupil funding for last audit fiscal year was $7,724. There are currently no known state funding holdbacks or deferrals that are potentially material or out of the ordinary at this time. Overall, state funding has recovered significantly from prior 2008-09 levels.

These revenues are classified as Other State Revenues in the Statement of Activities tables included the audited financial statements of Discovery Prep.

Other Revenue Sources: Discovery Prep also receives funds from the California State lottery. Discovery Prep does not anticipate any significant increase in its other revenue sources in the near future.

Budget Process

Discovery Prep sets its budget for each school year in the spring, after both ADA and enrollment can be estimated with a high degree of certainty. Senior management of Discovery Prep determines the

spending priorities, working within established guidelines regarding teacher salaries, program requirements, deferred expenditures, and reserve requirements. Historically, actual ADA has exceeded projections.

Pro-Forma Historical Coverage Ratio

The following table sets forth the pro forma historical Coverage Ratio for Discovery Prep for the Fiscal Years ended June 30, 2014 and 2015. The Net Income Available for Base Rent for the Fiscal Years ended June 30, 2015 and 2016 is derived from the financial statements of the Borrower, and has been calculated in accordance with the terms of the Loan Agreement.

Pro-Forma Historical Coverage Ratio

	2014	2015	2016
Excess Revenues over Expenditures	471,823	131,945	236,444
Add Depreciation & Amortization	57,654	67,513	74,835
Add Rent	122,003	134,712	172,038
Net Income Available for Lease and Debt Payments*	651,480	334,170	483,317
Debt Service Coverage Ratio	N/A	N/A	N/A

* Net Income Available for Lease and Debt Payments is calculated in accordance with the provisions of the Loan Agreement.

Debt

Management does not currently intend to incur additional Indebtedness in the immediate future.

Financial Projections

Management of Discovery Prep prepared consolidated financial projections for each of the five Fiscal Years ending June 30, 2017 through 2022. Discovery Prep cannot project the amount and timing of such fundraising with any certainty and therefore its revenues and expenses are uncertain.

These financial projections speak only as of the date of this Limited Offering Memorandum and present, to the best of management of Discovery Prep's knowledge and belief, the projected revenues and expenses. Management's assumptions for these projections should not be construed as an all-inclusive listing of assumptions. These financial projections constitute forward-looking statements, and there will usually be differences between the projections and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. Because there is no assurance that actual events will correspond with the assumptions made, no guaranty can be made that the following financial projections will correspond with the results actually achieved in the future. Actual operating results may be affected by many uncontrollable factors, including but not limited to, those described under "RISK FACTORS."

Revenue. Discovery Prep is dependent on revenues from the State for a large portion of its operating budget. The Charter School Law provides that the Legislature intended "each charter school be provided with operational funding that is equal to the total funding that would be available to a similar school district servicing a similar pupil population …" The primary source of funding for school districts is

the Revenue Limit, which is a combination of State funds and local property taxes. State funds typically make up the majority of Discovery Prep's revenue. Discovery Prep also receives funding from the State for various categorical programs.

In calculating the following projections, Management used the Local Control Funding Formula ("*LCFF*") that was introduced in 2013-14 which replaced the prior funding system to create a differentiated funding system that would provide higher funding to schools based on the populations they serve. The LCFF was also intended to increase funding to 2008 levels, prior to the economic downtown. Under this formula, each school receives the same "base funding amount," based on the grades served, and any school is eligible for additional LCFF funds based on the school's "high need" population, which includes students eligible for Free and Reduced Lunch, English-language learners and foster youth. Additional funds are available for "concentration" factors when a school serves more than 55% "high-need" students. Discovery Prep has an average of 36% "high-need" students as of the 2015-16 fiscal year. Discovery Prep currently receives approximately $9,223 per student. At full implementation of the LCFF Formula (estimated to be Fiscal Year 2019-20), Discovery Prep will receive $9,743 per ADA. See "CHARTER SCHOOL FUNDING – Local Control Funding Formula" and "- Other Education Funding" in the main body of this Limited Offering Memorandum for a detailed discussion of charter school funding in the State of California.

Expenses. Management projects operating expenses based upon their knowledge of the charter school industry and their historical experience of operating Discovery Prep. Management assumes a 2.00% increase in most operational expenses. Operating expenses include, but are not limited to, salaries and benefits, books and supplies, costs of utilities, leases, capital outlay projections, maintenance and security and repair costs, but does not include depreciation. Management's experience in operating charter schools provides a substantial basis for understanding and anticipating the operational needs of Discovery Prep. Management projects debt service based on the principal and interest requirements for the Bonds.

The table below sets forth the projected income statement for Discovery Prep and Net Income available for Lease and Debt Payments:

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Fiscal Year	2017	2018	2019	2020	2021	2022
Total Federal	325,582	349,859	375,016	382,084	401,848	426,265
Total State	2,487,856	2,937,873	3,416,986	3,952,712	4,303,944	4,636,954
Total Local	433,533	505,389	586,226	658,082	720,955	765,865
Total Revenue	**3,246,971**	**3,793,121**	**4,378,228**	**4,992,878**	**5,426,747**	**5,829,084**
Certificated Salaries	1,268,251	1,300,772	1,354,614	1,410,000	1,466,400	1,525,056
Classified Salaries	338,368	349,524	374,762	400,000	416,000	482,640
Employee Benefits	363,670	388,808	412,574	452,500	470,600	501,924
Books/Supplies	220,250	220,250	242,627	265,420	276,037	303,640
Services/Other Operating Expenses	1,248,065	1,294,986	1,442,129	1,556,850	1,619,124	1,781,037
Capital Outlay	1,250,000	50,000	100,000	100,000	100,000	100,000
All Other Outgo	100	100	100	100	100	100
Oversight Fee	32,470	37,931	43,782	49,929	54,267	58,291
Depreciation	74,835	74,835	74,835	74,835	74,835	74,835
Total Expense	**4,796,009**	**3,717,206**	**4,045,423**	**4,309,634**	**4,477,363**	**4,827,523**
Excess of Revenues over Expenses / Net Income	**(1,549,038)**	**75,915**	**332,805**	**683,244**	**949,384**	**1,001,561**
Add Depreciation	74,835	74,835	74,835	74,835	74,835	74,835
Add Rent	393,025	452,208	484,289	507,204	507,204	507,204
Add One-Time Capital Outlay	1,200,000	-	-	-	-	-
Net Income Available for Lease and Debt Payments	**118,822**	**602,958**	**891,929**	**1,265,283**	**1,531,423**	**1,583,600**

Projected Coverage Ratio

The following table sets forth the projected Coverage Ratio for Discovery Prep for the Fiscal Years ending June 30, 2016 – 2020. These projections are based upon the financial projections prepared by management of Discovery Prep. See "Financial Projections" above.

Projected Coverage Ratio

	2017	2018	2019	2020	2021	2022
Excess of Revenues over Expenditures	**(1,549,038)**	**75,915**	**332,805**	**683,244**	**949,384**	**1,001,561**
Add Depreciation	74,835	74,835	74,835	74,835	74,835	74,835
Add Rent	393,025	452,208	484,289	507,204	507,204	507,204
Add One-Time Capital Outlay	1,200,000	-	-	-	-	-
Net Income Available for Lease and Debt Payments [1]	118,822	602,958	891,929	1,265,283	1,531,423	1,583,600
Debt Service [2]	235,363	470,725	520,725	522,600	529,163	535,100
Debt Service Coverage Ratio [2]	**0.50x**	**1.28x**	**1.71x**	**2.42x**	**2.89x**	**2.96x**

[1] Net Income Available for Lease and Debt Payments is calculated in accordance with the provisions of the Loan Agreement.
[2] Debt Service and Debt Service Coverage Ratio are calculated in accordance with the provisions of the Loan Agreement.
[3] There are a number of material assumptions that were used in creating these projections. There can be no assurances these projections will be achieved.

Tax-Exempt Status

Discovery Prep has been determined to be an organization that is tax-exempt under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Non-Sectarian

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

Retirement Plan

Currently, all Discovery Prep employees participate in a mandatory private 403(b) Thrift Plan in lieu of paying into social security. Thus, Discovery Prep's employees are not covered by STRS, PERS, or Social Security, All Discovery Prep employees are required to contribute a minimum of 8.0 percent of their annual salary into the plan. Discovery Prep likewise contributes 8 percent of each staff member's salary into the plan. The plan is managed by a benefits administrator and the Board of Directors who will ensure that appropriate arrangements for the plan are in effect.

Effective January 1, 2016, the California Education Code, Section 47605, obligated Discovery Prep to begin contributing to Federal Social Security. As of July 1, 2017, all Employer and Employee contributions will be governed by current Social Security ("Social Security") withholding rates and deposited on a semi-monthly basis. Discovery prep anticipates compliance with 47605 of the California Education Code which compliance will not materially impact Discovery Prep's projected budgets given current contribution rates exceed those of Social Security. Discovery Prep will continue to offer its private 403(b) Thrift Plan for those Employees wishing to participate in an additional retirement plan. Discovery Prep also contributes the legally required amount to Medicare on behalf of all of its employees.

Insurance Coverage

Discovery Prep is a member of the Alliance of Schools for Cooperative Insurance Programs ("*ASCIP*"), a Joint Powers Authority ("*JPA*") organized under Section 6502 of the California Government Code. ASCIP provides liability, property, workers' compensation and health benefits coverage to public school districts, charter schools, community colleges and subsidiary JPAs throughout the state of California.

Through ASCIP, Discovery Prep is provided the following coverage:

- General Liability Insurance in the amount of $55 Million per occurrence on a first dollar basis.
- Replacement Cost Property Insurance with a property deductible of $5,000.
- Workers' Compensation with statutory limits.
- Employers Liability Insurance in the amount of $1 Million per occurrence.
- Commercial Crime Insurance in the amount of $5 Million per occurrence.
- Boiler and machinery insurance in the amount of $100 Million.

Litigation

As of the date of this Limited Offering Memorandum, there is no pending or threatened litigation against the Borrower or Discovery Prep.

The Borrower

The Borrower is DCPS Eldridge Avenue LLC, a California limited liability company whose sole member is, initially, the Sole Member.

DCPS Properties ("*DCPS*") is intended to be substituted as sole member of the Borrower upon obtaining from the Internal Revenue Service (the "IRS") a determination of its status as an organization described under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "*Code*"). DCPS submitted its application for such determination to the IRS and is currently awaiting a response. When the Borrower receives written confirmation from the IRS recognizing DCPS's exempt status, DCPS will immediately be substituted in place of the Sole Member as the sole member of the Borrower.

The Borrower will own the Facility, which will be leased to Discovery Prep. See "THE FACILITY" in this APPENDIX B for a description of the Facility. The Borrower was formed on June 6, 2016 and is an entity that has no significant assets other than the Facility. Therefore, no financial information regarding the Borrower is provided herein.

The Sole Member

The Sole Member was formed on December 21, 1994 to provide philanthropic and operational support for various educational programs and a private school. The Sole Member is not obligated on the Loan Agreement or the Lease and is the sole member of Borrower on a temporary basis until DCPS receives a letter from the IRS recognizing its exempt status as effective. Therefore, no financial

information regarding the Sole Member is provided herein. Also, the Borrower was recently formed and will not be obligated on the Loan Agreement or the Lease. Therefore, no financial information regarding the Borrower is provided herein.

The Board of Directors of Discovery Prep is not appointed by the Sole Member.

APPENDIX C
AUDITED FINANCIAL STATEMENTS FOR DISCOVERY CHARTER PREPARATORY SCHOOL FOR FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015

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DISCOVERY CHARTER PREPARATORY SCHOOL

Independent Auditor's Report
and Financial Statements
For the Year Ended
June 30, 2016

DISCOVERY CHARTER PREPARATORY SCHOOL

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vicenti
Vicenti, Lloyd & Stutzman, CPAs

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Discovery Charter Preparatory School

Report on the Financial Statements

We have audited the accompanying financial statements of Discovery Charter Preparatory School (the School), a California nonprofit public benefit corporation, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Board of Directors
Discovery Charter Preparatory School

Opinion

In our opinion, the financial statements referred to on page one present fairly, in all material respects, the financial position of the School as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the School's financial statements as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 16, 2016 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Vicenti Lloyd + Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
September 16, 2016

DISCOVERY CHARTER PREPARATORY SCHOOL

STATEMENT OF FINANCIAL POSITION
June 30, 2016

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 2,670,374
Accounts receivable	321,844
Prepaid expenses and other assets	70,000
Total current assets	3,062,218
LONG-TERM ASSETS:	
Property, plant and equipment, net	491,076
Total long-term assets	491,076
Total assets	$ 3,553,294
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable and accrued liabilities	$ 134,326
Amount held for others	28,877
Unearned revenue	27,864
Due to governmental agencies	8,161
Total current liabilities	199,228
NET ASSETS:	
Unrestricted	2,862,990
Unrestricted - property plant and equipment	491,076
Total net assets	3,354,066
Total liabilities and net assets	$ 3,553,294

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

DISCOVERY CHARTER PREPARATORY SCHOOL

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

REVENUES:	
State revenue:	
State aid	$ 2,032,011
Other state revenue	556,032
Federal revenue:	
Grants and entitlements	328,269
Local revenue:	
In-lieu property tax revenue	471,982
Other revenue	777
Total revenues	3,389,071
EXPENSES:	
Program services	2,585,154
Management and general	567,473
Total expenses	3,152,627
Change in unrestricted net assets	236,444
Beginning unrestricted net assets	3,117,622
Ending unrestricted net assets	$ 3,354,066

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

DISCOVERY CHARTER PREPARATORY SCHOOL

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2016

CASH FLOWS from OPERATING ACTIVITIES:	
Change in net assets	$ 236,444
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Depreciation	74,835
Change in operating assets:	
Prepaid expenses and other assets	(70,000)
Accounts receivable	137,560
Change in operating liabilities:	
Accounts payable and accrued liabilities	31,116
Amount held for others	(47,836)
Unearned revenue	27,864
Due to governmental agencies	(10,334)
Net cash flows from operating activities	379,649
Net change in cash and cash equivalents	379,649
Cash and cash equivalents at the beginning of the year	2,290,725
Cash and cash equivalents at the end of the year	$ 2,670,374

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

DISCOVERY CHARTER PREPARATORY SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016

	Program Services	Management and General	Total Expenses
Salaries and wages	$ 1,249,375	$ 274,253	$ 1,523,628
Pension expense	88,890	19,513	108,403
Other employee benefits	165,986	36,436	202,422
Payroll taxes	17,504	3,842	21,346
Management fees	25,037		25,037
Legal expenses		27,763	27,763
Accounting expenses		20,854	20,854
Other fees for services	354,934	42,383	397,317
Advertising and promotion expenses	22,156		22,156
Office expenses	141,304	40,038	181,342
Information technology expenses	65,593	7,990	73,583
Occupancy expenses	171,731	37,697	209,428
Travel expenses	2,955		2,955
Conference and meeting expenses	3,066		3,066
Depreciation expense	74,835		74,835
Insurance expense		49,126	49,126
Instructional materials	167,992		167,992
Other expenses	33,796	7,578	41,374
	$ 2,585,154	$ 567,473	$ 3,152,627

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

DISCOVERY CHARTER PREPARATORY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities – The mission of Discovery Charter Preparatory School (the School) is to provide students with the necessary skills and support so that every student is prepared to attend college upon graduation from high school. The faculty, staff, and other stakeholders envision a safe and nurturing learning environment where instruction is rigorous and meaningful. Also, they are dedicated to closing the achievement gap for students by providing supportive, individualized attention and high expectations for academic success. Discovery Charter Preparatory School is a California nonprofit public benefit corporation funded principally through State of California public education monies received through the California Department of Education.

The Los Angeles Unified School District (the District) has granted the charter through 2017. The charter may be revoked by the District for material violations of the charter, failure to meet student outcomes identified in the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

Cash and Cash Equivalents – The School defines its cash and cash equivalents to include only cash on hand, demand deposits, and liquid investments with original maturities of three months or less.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures. Accordingly, actual results could differ from those estimates.

Basis of Accounting – The financial statements have been prepared on the accrual method of accounting and accordingly reflect all significant receivables and other liabilities.

Functional Allocation of Expenses – Costs of providing the School's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit.

Basis of Presentation – The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Financial Accounting Standards Board.

Net Asset Classes – The School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Net assets of the School consist of the following:

- Unrestricted: All resources over which the governing board has discretionary control to use in carrying on the general operations of the School.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- Temporarily restricted: These net assets are restricted by donors to be used for specific purposes. The School does not currently have any temporarily restricted net assets.
- Permanently restricted: These net assets are permanently restricted by donors and cannot be used by the School. The School does not currently have any permanently restricted net assets.

Receivables – Accounts receivable primarily consist of funds due from federal and state governments as of June 30, 2016. Management believes that all receivables are fully collectible, therefore no provisions for uncollectible accounts were recorded.

Property, Plant and Equipment – Property, plant and equipment are stated at cost if purchased or at estimated fair market value if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. The School capitalizes all expenditures for land, buildings and equipment in excess of $5,000. Depreciation expense was $74,835 for the year ended June 30, 2016.

Property Taxes – Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on September 1 and are payable in two installments on or before November 1 and February 1. Unsecured property taxes are not a lien against real property and are payable in one installment on or before August 31. The County bills and collects property taxes for all taxing agencies within the County and distributes these collections to the various agencies. The sponsor agency of the School is required by law to provide in-lieu property tax payments on a monthly basis, from August through July. The amount paid per month is based upon an allocation per student, with a specific percentage to be paid each month.

Compensated Absences – The School does not allow employees to carryover paid time off. Accordingly, there were no accumulated compensated absence benefits at June 30, 2016.

Revenue Recognition – Amounts received from the California Department of Education are recognized as revenue by the School based on the average daily attendance (ADA) of students. 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.

Contributions – All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted to specific use or future periods are reported as temporarily restricted. Restricted contributions that are received and released in the same period are reported as unconditional promises to give. Unconditional promises to give expected to be received in one year or less are recorded at net realizable value. Unconditional promises to give expected to be received in more than one year are recorded at fair market value at the date of the promise. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

DISCOVERY CHARTER PREPARATORY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Taxes – The School is a non-profit entity exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for income taxes. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. The School files informational returns in the U.S. federal jurisdiction, and the state of California. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

Evaluation of Subsequent Events – The School has evaluated subsequent events through September 16, 2016, the date these financial statements were available to be issued.

NOTE 2: CONCENTRATION OF CREDIT RISK

The School maintains cash balances held in banks and revolving funds which are insured up to $250,000 by the Federal Depository Insurance Corporation (FDIC). At times, cash in these accounts exceeds the insured amounts. The School has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

NOTE 3: EMPLOYEE RETIREMENT

The School offers an Internal Revenue Code Section 403(b) Thrift Plan to each of its qualifying employees. Employer and employee contributions are used to purchase annuity contracts for each participant. Employer contributions match the 8% deducted from employee gross payroll. The amount of employer contributions used to purchase annuity contracts for the year ended June 30, 2016 was $108,403.

NOTE 4: FEES

The District receives 1% of the School's annual ADA-related revenues for supervisory oversight and administrative services.

NOTE 5: LINE OF CREDIT

The School has a revolving line of credit with CitiBank for $500,000 with an annual interest rate of 5.75%. There was no balance as of June 30, 2016.

NOTE 6: CONTINGENCIES

The School has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any required reimbursement would not be material.

NOTE 7: SUBSEQUENT EVENT

In August 2016, the School entered into an operating lease agreement for educational facilities located in Sylmar, California. The lease requires monthly payments of $30,000 and the agreement expires on June 30, 2017.

SUPPLEMENTARY INFORMATION

DISCOVERY CHARTER PREPARATORY SCHOOL

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
For the Year Ended June 30, 2016

Discovery Charter Preparatory School is a California nonprofit public benefit corporation and operates a charter school approved by the Los Angeles Unified School District in 2002.

Discovery Charter Preparatory No. 2: 949

DISCOVERY CHARTER PREPARATORY SCHOOL

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
(continued)
For the Year Ended June 30, 2016

The Board of Directors and the Administrators as of the year ended June 30, 2016 were as follows:

Board of Directors

Member	Office	1 - Year Term Expires
Julian Almaraz	President	June 30, 2016
Dr. Gina La Monica	Vice President	April 25, 2016
Jas Dhillon	Treasurer	June 30, 2016
Lori Brogin	Secretary	June 30, 2016
Dr. Ken Nielsen	Member	June 30, 2016
Alondra Hernandez	Member	June 30, 2016

Administrators

Dr. Karen Smith	Principal
Sheryl Schubert	Chief Financial Officer

DISCOVERY CHARTER PREPARATORY SCHOOL

SCHEDULE OF INSTRUCTIONAL TIME
For the Year Ended June 30, 2016

	Instructional Minutes			
	Requirement	Actual	Days	Status
Grade 9	64,800	67,523	176	In compliance
Grade 10	64,800	67,523	176	In compliance
Grade 11	64,800	67,523	176	In compliance
Grade 12	64,800	67,523	176	In compliance

See auditor's report and the notes to the supplementary information.

DISCOVERY CHARTER PREPARATORY SCHOOL

SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Year Ended June 30, 2016

	Second Period Report		Annual Report	
	Classroom Based	Total	Classroom Based	Total
Grades 9-12	238.96	238.96	237.90	237.90
ADA Totals	238.96	238.96	237.90	237.90

See auditor's report and the notes to the supplementary information.

DISCOVERY CHARTER PREPARATORY SCHOOL

RECONCILIATION OF ANNUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

There were no adjustments or reclassifications for the year ended June 30, 2016.

See auditor's report and the notes to the supplementary information.

DISCOVERY CHARTER PREPARATORY SCHOOL

NOTES TO THE SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the School and whether the School complied with the corresponding provisions of the Education Code.

Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes of the School. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to charter schools. This schedule provides information regarding the attendance of students at various grade levels.

Reconciliation of Annual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets of the charter school as reported on the Annual Financial Report form to the audited financial statements.

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INDEPENDENT AUDITOR'S 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
Discovery Charter Preparatory School

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 Discovery Charter Preparatory School (the School), a nonprofit California public benefit corporation, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, cash flows and functional expenses for the year then ended, the related notes to the financial statements, and have issued our report thereon dated September 16, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School'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 the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 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 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. 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.

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INDEPENDENT AUDITOR'S 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*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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 non-compliance 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vicenti Lloyd + Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
September 16, 2016

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Vicenti, Lloyd & Stutzman, CPAs

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Directors
Discovery Charter Preparatory School

We have audited Discovery Charter Preparatory School's (the School) compliance with the types of compliance requirements described in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting,* published by the Education Audit Appeals Panel for the year ended June 30, 2016. The School's State compliance requirements are identified in the table below.

Management's Responsibility

Management is responsible for the compliance with the State laws and regulations as identified below.

Auditor's Responsibility

Our responsibility is to express an opinion on the School's compliance based on our audit of the types of compliance requirements referred to below. 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 *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, 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 specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the School'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 state compliance. Our audit does not provide a legal determination of the School's compliance.

Compliance Requirements Tested

In connection with the audit referred to above, we selected and tested transactions and records to determine the School's compliance with the laws and regulations applicable to the following items:

Description	Procedures Performed
School Districts, County Offices of Education, and Charter Schools:	
Educator Effectiveness	No[1]
California Clean Energy Jobs Act	Not applicable
After School Education and Safety Program	Not applicable
Proper Expenditure of Education Protection Account Funds	Yes

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INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Description	Procedures Performed
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not applicable
Immunizations	Not applicable
Charter Schools:	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-based instructional/independent study	Not applicable
Determination of funding for nonclassroom-based instruction	Not applicable
Annual instructional minutes – classroom based	Yes
Charter School Facility Grant Program	Yes

[1]There were no expenditures of Educator Effectiveness funding for the year ended June 30, 2016.

Opinion on State Compliance

In our opinion, the School complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2016.

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.

Vicenti Lloyd + Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
September 16, 2016

DISCOVERY CHARTER PREPARATORY SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

All audit findings must be identified as one or more of the following twelve categories:

Five Digit Code	Finding Types
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Program
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no findings and questioned costs related to the basic financial statements or state awards for the year ended June 30, 2016.

DISCOVERY CHARTER PREPARATORY SCHOOL

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

There were no findings and questioned costs related to the basic financial statements or state awards for the prior year.

DISCOVERY CHARTER PREPARATORY SCHOOL

Audited Financial Statements
For the Year Ended
June 30, 2015

DISCOVERY CHARTER PREPARATORY SCHOOL

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BUSINESS CONSULTANTS AND CPAs

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Discovery Charter Preparatory School

Report on the Financial Statements

We have audited the accompanying financial statements of Discovery Charter Preparatory School (the School), a California nonprofit public benefit corporation, which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Board of Directors
Discovery Charter Preparatory School

Opinion

In our opinion, the financial statements referred to on page one present fairly, in all material respects, the financial position of the School as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the School's financial statements as a whole. The accompanying supplementary schedules on pages 13-15 are presented for purposes of additional analysis and are not a required part of the basic 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated August 4, 2015 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Vicenti Lloyd + Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
August 4, 2015

DISCOVERY CHARTER PREPARATORY SCHOOL

STATEMENT OF FINANCIAL POSITION
June 30, 2015

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 2,290,725
Accounts receivable	459,404
Total current assets	2,750,129
LONG-TERM ASSETS:	
Property, plant and equipment, net	565,912
Total long-term assets	565,912
Total assets	$ 3,316,041
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable and accrued liabilities	$ 103,210
Amount held for others	76,714
Due to governmental agencies	18,495
Total current liabilities	198,419
NET ASSETS:	
Unrestricted	2,551,710
Unrestricted - property plant and equipment	565,912
Total net assets	3,117,622
Total liabilities and net assets	$ 3,316,041

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

DISCOVERY CHARTER PREPARATORY SCHOOL

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

REVENUES:	
State revenue:	
State aid	$ 2,176,008
Other state revenue	451,112
Federal revenue:	
Grants and entitlements	393,262
Local revenue:	
In-lieu property tax revenue	498,435
Other revenue	877
Total revenues	3,519,694
EXPENSES:	
Program services	2,455,802
Management and general	539,078
Total expenses	2,994,880
Change in unrestricted net assets	524,814
Beginning unrestricted net assets	2,592,808
Ending unrestricted net assets	$ 3,117,622

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

DISCOVERY CHARTER PREPARATORY SCHOOL

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2015

CASH FLOWS from OPERATING ACTIVITIES:	
Change in net assets	$ 524,814
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	67,513
Change in operating assets:	
Accounts receivable	167,742
Change in operating liabilities:	
Accounts payable and accrued liabilities	21,032
Amount held for others	69,675
Due to governmental agencies	(60,713)
Net cash from operating activities	790,063
CASH FLOWS from INVESTING ACTIVITIES:	
Purchases of property, plant and equipment	(76,748)
Net cash from investing activities	(76,748)
Net change in cash and cash equivalents	713,315
Cash and cash equivalents at the beginning of the year	1,577,410
Cash and cash equivalents at the end of the year	$ 2,290,725

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

DISCOVERY CHARTER PREPARATORY SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2015

	Program Services	Mangagement and General	Total Expenses
Salaries and wages	$ 1,190,773	$ 261,389	$ 1,452,162
Pension expense	86,294	18,942	105,236
Other employee benefits	177,638	38,994	216,632
Payroll taxes	16,553	3,633	20,186
Management fees	26,721		26,721
Legal expenses		5,748	5,748
Accounting expenses		15,541	15,541
Other fees for services	280,257	42,383	322,640
Advertising and promotion expenses	1,529		1,529
Office expenses	267,943	40,038	307,981
Information technology expenses	59,826	7,990	67,816
Occupancy expenses	168,543	36,997	205,540
Travel expenses	23,580		23,580
Conference and meeting expenses	2,637		2,637
Depreciation expense	67,513		67,513
Insurance expense		56,726	56,726
Other expenses	85,995	10,697	96,692
	$ 2,455,802	$ 539,078	$ 2,994,880

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities – The mission of Discovery Charter Preparatory School (the School) is to provide students with the necessary skills and support so that every student is prepared to attend college upon graduation from high school. The faculty, staff, and other stakeholders envision a safe and nurturing learning environment where instruction is rigorous and meaningful. Also, they are dedicated to closing the achievement gap for students by providing supportive, individualized attention and high expectations for academic success. Discovery Charter Preparatory School is a California nonprofit public benefit corporation funded principally through State of California public education monies received through the California Department of Education.

The Los Angeles Unified School District (the District) has granted the charter through 2017. The charter may be revoked by the District for material violations of the charter, failure to meet student outcomes identified in the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

Cash and Cash Equivalents – The School defines its cash and cash equivalents to include only cash on hand, demand deposits, and liquid investments with original maturities of three months or less.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures. Accordingly, actual results could differ from those estimates.

Basis of Accounting – The financial statements have been prepared on the accrual method of accounting and accordingly reflect all significant receivables and other liabilities.

Functional Allocation of Expenses – Costs of providing the School's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit.

Basis of Presentation – The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Financial Accounting Standards Board.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Asset Classes – The School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Net assets of the School consist of the following:

- Unrestricted: All resources over which the governing board has discretionary control to use in carrying on the general operations of the School.
- Temporarily restricted: These net assets are restricted by donors to be used for specific purposes. The School does not currently have any temporarily restricted net assets.
- Permanently restricted: These net assets are permanently restricted by donors and cannot be used by the School. The School does not currently have any permanently restricted net assets.

Receivables – Accounts receivable primarily consist of funds due from federal and state governments as of June 30, 2015. Management believes that all receivables are fully collectible, therefore no provisions for uncollectible accounts were recorded.

Property, Plant and Equipment – Property, plant and equipment are stated at cost if purchased or at estimated fair market value if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. The School capitalizes all expenditures for land, buildings and equipment in excess of $5,000. Depreciation expense was $67,513 as of June 30, 2015.

Property Taxes – Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on September 1 and are payable in two installments on or before November 1 and February 1. Unsecured property taxes are not a lien against real property and are payable in one installment on or before August 31. The County bills and collects property taxes for all taxing agencies within the County and distributes these collections to the various agencies. The sponsor agency of the School is required by law to provide in-lieu property tax payments on a monthly basis, from August through July. The amount paid per month is based upon an allocation per student, with a specific percentage to be paid each month.

Compensated Absences – The School does not allow employees to carryover paid time off. Accordingly, there were no accumulated compensated absence benefits at June 30, 2015.

Revenue Recognition – Amounts received from the California Department of Education are recognized as revenue by the School based on the average daily attendance (ADA) of students. 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.

DISCOVERY CHARTER PREPARATORY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Contributions – All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted to specific use or future periods are reported as temporarily restricted. Restricted contributions that are received and released in the same period are reported as unconditional promises to give. Unconditional promises to give expected to be received in one year or less are recorded at net realizable value. Unconditional promises to give expected to be received in more than one year are recorded at fair market value at the date of the promise. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Income Taxes – The School is a non-profit entity exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for income taxes. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. The School files informational returns in the U.S. federal jurisdiction, and the state of California. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

Evaluation of Subsequent Events – The School has evaluated subsequent events through August 4, 2015, the date these financial statements were available to be issued.

NOTE 2: CONCENTRATION OF CREDIT RISK

The School maintains cash balances held in banks and revolving funds which are insured up to $250,000 by the Federal Depository Insurance Corporation (FDIC). At times, cash in these accounts exceeds the insured amounts. The School has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

NOTE 3: EMPLOYEE RETIREMENT

The School offers an Internal Revenue Code Section 403(b) Thrift Plan to each of its qualifying employees. Employer and employee contributions are used to purchase annuity contracts for each participant. Employer contributions match the 8% deducted from employee gross payroll. The amount of employer contributions used to purchase annuity contracts for the year ended June 30, 2015 was $105,236.

NOTE 4: OPERATING LEASES:

In April 2015, the School entered into a lease agreement for property in Pacoima, California. The current agreement has an initial lease term of two years with two one-year extension options available. Lease expense under this agreement for the year ended June 30, 2015 was $134,712.

Future minimum lease payments are as follows:

Year Ended June 30,	
2016	$ 148,692
2017	25,163
Total	$ 173,855

NOTE 5: FEES

The District receives 1% of the School's annual ADA-related revenues for supervisory oversight and administrative services.

NOTE 6: LINE OF CREDIT

The School has a revolving line of credit with CitiBank for $500,000 with an annual interest rate of 5.75%. There was no balance as of June 30, 2015.

NOTE 7: CONTINGENCIES

The School has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any required reimbursement would not be material.

SUPPLEMENTARY INFORMATION

DISCOVERY CHARTER PREPARATORY SCHOOL

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
For the Year Ended June 30, 2015

Discovery Charter Preparatory School is a California nonprofit public benefit corporation and operates a charter school approved by the Los Angeles Unified School District in 2002.

Discovery Charter Preparatory No. 2: 949

DISCOVERY CHARTER PREPARATORY SCHOOL

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
(continued)
For the Year Ended June 30, 2015

The Board of Directors and the Administrators as of the year ended June 30, 2015 were as follows:

Board of Directors

Member	Office	Term Expires
Claudia Flores	President	September 23, 2014
Lori Brogin	Vice President	June 30, 2015
Jas Dhillon	Treasurer	June 30, 2015
Julian Almaraz	Secretary	June 30, 2015
Dr. Ken Nielsen	Member	June 30, 2015
Alondra Hernandez	Member	June 30, 2015
Gina La Monica	Member	June 30, 2015

Administrators

Dr. Karen Smith	Principal
Sheryl Schubert	Chief Financial Officer

DISCOVERY CHARTER PREPARATORY SCHOOL

SCHEDULE OF INSTRUCTIONAL TIME
For the Year Ended June 30, 2015

	Instructional Minutes				
	Requirement	Reduced	Actual	Days	Status
Grade 9	64,800	62,949	66,633	176	In compliance
Grade 10	64,800	62,949	66,633	176	In compliance
Grade 11	64,800	62,949	66,633	176	In compliance
Grade 12	64,800	62,949	66,633	176	In compliance

See auditor's report and the notes to the supplementary information.

DISCOVERY CHARTER PREPARATORY SCHOOL

SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Year Ended June 30, 2015

	Second Period Report		Annual Report	
	Classroom Based	Total	Classroom Based	Total
Grades 9-12	295.65	295.65	291.09	291.09
ADA Totals	295.65	295.65	291.09	291.09

See auditor's report and the notes to the supplementary information.

DISCOVERY CHARTER PREPARATORY SCHOOL

RECONCILIATION OF ANNUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

There were no adjustments or reclassifications for the year ended June 30, 2015.

See auditor's report and the notes to the supplementary information.

DISCOVERY CHARTER PREPARATORY SCHOOL

NOTES TO THE SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2015

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the School and whether the School complied with the provisions of Education Code Sections 46200 through 46206.

Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes of the School. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to charter schools. This schedule provides information regarding the attendance of students at various grade levels.

Reconciliation of Annual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets of the charter school as reported on the Annual Financial Report form to the audited financial statements.

INDEPENDENT AUDITOR'S 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
Discovery Charter Preparatory School

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 Discovery Charter Preparatory School (the School), a nonprofit California public benefit corporation, which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, cash flows and functional expenses for the year then ended, the related notes to the financial statements, and have issued our report thereon dated August 4, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School'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 the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 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 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. 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.

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INDEPENDENT AUDITOR'S 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*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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 non-compliance 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
August 4, 2015

VICENTI • LLOYD • STUTZMAN LLP
BUSINESS CONSULTANTS AND CPAs

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Directors
Discovery Charter Preparatory School

We have audited Discovery Charter Preparatory School's (the School) compliance with the types of compliance requirements described in the *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting,* published by the Education Audit Appeals Panel for the year ended June 30, 2015. The School's State compliance requirements are identified in the table below.

Management's Responsibility

Management is responsible for the compliance with the State laws and regulations as identified below.

Auditor's Responsibility

Our responsibility is to express an opinion on the School's compliance based on our audit of the types of compliance referred to below. 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 *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting,* 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 specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the School'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 state compliance. Our audit does not provide a legal determination of the School's compliance with those requirements.

Compliance Requirements Tested

In connection with the audit referred to above, we selected and tested transactions and records to determine the School's compliance with the laws and regulations applicable to the following items:

Description	Procedures Performed
School Districts, County Offices of Education, and Charter Schools:	
California Clean Energy Jobs Act	No[1]
After School Education and Safety Program	No
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes

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INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Description	Procedures Performed
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Charter Schools:	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-based instructional/independent study	Not applicable
Determination of funding for nonclassroom-based instruction	Not applicable
Annual instructional minutes – classroom based	Yes
Charter School Facility Grant Program	Yes

[1] The School had no expenditures of California Clean Energy Jobs Act funding during the year ended June 30, 2015.

Opinion on State Compliance

In our opinion, the School complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2015.

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.

Vicenti Lloyd + Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
August 4, 2015

DISCOVERY CHARTER PREPARATORY SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2015

All audit findings must be identified as one or more of the following twelve categories:

Five Digit Code	Finding Types
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Program
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no findings and questioned costs related to the basic financial statements or state awards for June 30, 2015.

DISCOVERY CHARTER PREPARATORY SCHOOL

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2015

There were no findings and questioned costs related to the basic financial statements or state awards for the prior year.

Discovery Charter Preparatory School
Balance Sheet
As of May 31, 2016

	May 31, 16
ASSETS	
Current Assets	
Checking/Savings	
9120 · CASH	
9122 · Citibank (Payroll)	2,825,859.78
9121 · Citibank (General Purpose) 907	59,418.04
Total 9120 · CASH	2,885,277.82
Total Checking/Savings	2,885,277.82
Total Current Assets	2,885,277.82
Fixed Assets	
9430 · Buildings	44,485.28
9435 · Accumulated Dep. - Buildings	-12,767.14
9440 · Equipment	83,391.40
9445 · Accum. Depreciation-Equipment	-15,879.23
9420 · Leasehold Improvements	858,833.18
9425 · Acc Depr.- Leasehold Improv.	-392,150.68
9460 · Furniture	33,242.33
9465 · Acc. Dep. - Furniture	-33,242.33
Total Fixed Assets	565,912.81
Other Assets	
9336 · Petty Cash	1,000.00
9200 · Accounts Receivable	
9200.02 · A/R Current Year	12,402.70
Total 9200 · Accounts Receivable	12,402.70
Total Other Assets	13,402.70
TOTAL ASSETS	**3,464,593.33**
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
9500 · Accounts Payable A/P	
0171 · A/P Current Year	19,999.45
Total 9500 · Accounts Payable A/P	19,999.45
Total Accounts Payable	19,999.45
Other Current Liabilities	
9605 · Notes Payable	20,689.36
9610 · Custodial Funds	
9628 · PAC Custodial Account	287.40
9626 · Class of 2017 Custodial Account	1,365.00
9625 · Class of 2018 Custodial Account	427.50
9624 · Class of 2019 Custodial Account	777.55
9622 · Class of 2016 Custodial Account	1,625.25
9621 · Sports Custodial Account	1,054.29
9620 · Spanish Club Custodial Account	846.51
9619 · ADL Custodial Account	89.80
9617 · Student Council Custodial Acct	895.49
9613 · Grad Night Custodial Account	912.00
9612 · Yearbook Custodial Acct	193.54
9611 · Graduation Custodial Acct	1,078.00
Total 9610 · Custodial Funds	9,552.33

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APPENDIX D
FORM OF INDENTURE

INDENTURE

between

CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY,
as Issuer

and

WILMINGTON TRUST, N.A.
as Trustee

Dated as of December 1, 2016

Relating to:

CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY
SCHOOL FACILITIES REVENUE BONDS
(DISCOVERY CHARTER PREPARATORY SCHOOL PROJECT)
SERIES 2016A AND SERIES 2016B

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THIS INDENTURE, made and entered into as of December 1, 2016, by and between the **CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY**, a public entity of the State of California (as hereinafter in Section 1.01 further defined, the "Authority"), and **WILMINGTON TRUST, N.A.** a national banking association, being qualified to accept and administer the trusts hereby created (as hereinafter in Section 1.01 further defined, the "Trustee").

W I T N E S S E T H:

WHEREAS, DCPS Eldridge Avenue LLC, a California limited liability company (the "Borrower"), whose sole member shall initially be Coalition for Engaged Education, a California nonprofit public benefit corporation, has applied for the financial assistance of the Authority in the financing of the acquisition, improvement, equipping and furnishing (the "Project") of school facilities located at 13570 Eldridge Avenue, Sylmar, California 91324, Los Angeles County, California (as more particularly defined herein, the "Facility") to be owned and operated by the Borrower; and

WHEREAS, the Facility will be operated as the Discovery Charter Preparatory School (the "School") by Discovery Charter Preparatory School (the "Lessee") pursuant to a Lease Agreement between the Borrower and the Lessee (the "Lease");

WHEREAS, the Facility is to be located within the territorial limits of the City of Los Angeles, being a program participant of the Authority (the "Program Participant"), and a substantial portion of the persons to be utilizing the services to be provided at the Facility are expected to be residents of the Program Participant and a substantial portion of the persons to be employed by the Borrower at the Facility are expected to be residents of the Program Participant; and

WHEREAS, the financing of the Project will promote significant and growing opportunities for the creation and retention of employment to the California economy and the enhancement of the quality of life to residents of the Program Participant, and will promote opportunities for the creation or retention of employment within the jurisdiction of the Program Participant and is within the powers conferred upon the Authority by its Joint Powers Agreement (the "Joint Powers Agreement");

WHEREAS, the financing of the Project will promote residential, commercial and industrial development within the jurisdiction of the Program Participant and thereby stimulate economic activity and increase the tax base and is within the powers conferred upon the Authority by the Joint Powers Agreement; and

WHEREAS, the financing of the Project is a significant factor in maintaining the operations of the Borrower and the School within the jurisdiction of the Program Participant; and

WHEREAS, the Authority has authorized the issuance of its California Statewide Communities Development Authority School Facilities Revenue Bonds (Discovery Charter Preparatory School Project) in an aggregate principal amount of six million eight hundred fifty thousand dollars ($6,850,000), comprised of its Series 2016A Bonds in the original principal amount of six million one hundred thousand dollars ($6,100,000) (the "Series A Bonds") and its Series 2016B Bonds in the original principal amount of seven hundred fifty thousand dollars ($750,000) (the "Series B Bonds" and, with the Series A Bonds, the "Bonds") to (i) fund the loan to the Borrower under the Loan Agreement, (ii) pay certain expenses incurred in connection with the issuance of the Bonds, and (iii) fund a debt service reserve fund with respect to the Bonds; and

WHEREAS, the Authority has duly entered into a loan agreement, dated as of December 1, 2016, with the Borrower specifying the terms and conditions of a loan by the Authority to the Borrower of the proceeds of the Bonds to provide for financing of the Project and payment by the Borrower to the Authority of amounts sufficient for the payment of the principal (or Redemption Price) of and interest on the Bonds and certain related expenses; and

WHEREAS, in order to provide for the authentication and delivery of the Bonds, to establish and declare the terms and conditions upon which the Bonds are to be issued and secured and to secure the payment of the principal (or Redemption Price) thereof and the interest thereon, the Authority has authorized the execution and delivery of this Indenture; and

WHEREAS, the Bonds, and the Trustee's certificate of authentication and registration to appear thereon shall be in substantially the form attached hereto as Exhibit A, and incorporated into this Indenture by this reference, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Indenture; and

WHEREAS, all acts and proceedings required by law necessary to make the Bonds, when executed by the Authority, authenticated and delivered by the Trustee and duly issued, the valid, binding, and legal limited obligations of the Authority, and to constitute this Indenture a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Indenture have been in all respects duly authorized;

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that in order further to secure the payment of the principal of, redemption price, if any, and interest on, all Bonds at any time issued and Outstanding under this Indenture, according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the Holders thereof, and for other valuable consideration, the receipt whereof is hereby acknowledged, the Authority does hereby covenant and agree with the Trustee, for the equal and proportionate benefit of the Holders from time to time of the Bonds, as follows:

ARTICLE I

DEFINITIONS

Section 1.01 Definitions. Unless the context otherwise requires, the terms defined in this Section 1.01 shall, for all purposes of this Indenture and of any indenture supplemental hereto, have the meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined.

*"**Accountant**"* means any firm of independent certified public accountants selected by the Borrower and acceptable to the Bondholder Representative.

*"**Accredited Investor**"* shall have the meaning ascribed to such term in Regulation D of the Securities Act of 1933.

*"**Act**"* means the Joint Exercise of Powers Act, constituting Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California, as now in effect and as it may from time to time hereafter be amended or supplemented.

*"**Additional Payments**"* shall have the meaning assigned to it pursuant to Section 3.02 of the Loan Agreement.

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

*"**Authority**"* means the California Statewide Communities Development Authority, or its successors and assigns.

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

*"**Authorized Denominations**"* means $25,000 and any integral multiple of $5,000 in excess thereof.

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

*"**Beneficial Owner**"* means, (i) when used with reference to the Book Entry Only System, the person who is considered the beneficial owner of the Bonds and, with respect to the Bonds pursuant to the arrangements for book entry determination of ownership applicable to the Depository and, (ii) for purposes of Section 6.08 hereof, any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding such through nominees, depositories or other intermediaries) or (b) is treated as the owner of any Bonds for federal income tax purposes.

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

"Bondholder Representative" means RPM Capital Management, LLC, an investment advisory firm registered under the Investment Company Act of 1940, and its successors and assigns.

*"**Bond Purchase Agreement**"* means and refers to that certain Bond Purchase Agreement, dated December 14, 2016, among the Authority, the Underwriter, and the Borrower.

*"**Bonds**"* shall have the meaning ascribed to such term in the Recitals to this Indenture.

*"**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 DCPS Eldridge Avenue LLC, a California limited liability company, whose sole member is the Sole Member, its successors and assigns.

*"**Borrower Documents**"* means Loan Agreement, the Bond Purchase Agreement, the Lease, the Tax Certificate and Agreement, the Continuing Disclosure Agreement, and the Deed of Trust.

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

"Broker-Dealer" means a broker-dealer registered under the Securities Exchange Act of 1934, as amended.

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

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

*"**Certificate of the Borrower,**" "**Consent of the Borrower,**" "**Request of the Borrower,**" "**Requisition of the Borrower**"* or *"**Statement of the Borrower**"* mean, respectively, a written certificate, request, requisition or statement of the Borrower executed on its behalf by the Sole Member's Chief Financial Officer, President or such other person as may be designated by any of such officials to sign for the Borrower.

"Certificate of Bondholder Representative" means a certificate to be delivered by the Bondholder Representative on the Closing Date in the form attached hereto as Exhibit D.

*"**Charter School**"* means Discovery Charter Preparatory School operated by the Lessee.

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

"***Closing Date***" shall mean December 15, 2016, the date of original issuance and delivery of the Bonds.

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

*"**Continuing Disclosure Agreement**"* means the Continuing Disclosure Certificate, dated as of December 15, 2016, among the Lessee, the Borrower and the Trustee, as dissemination agent, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

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

*"**Costs of Issuance Fund**"* means the fund by that name established pursuant to Section 5.09 hereof.

*"**Debt Service**"* means, for any period of time, the sum of (a) the interest payable during such period on all Indebtedness of the applicable entity, (b) that portion of the principal amount of all Indebtedness of the applicable entity maturing on each principal payment date during such period, and (c) that portion of the principal amount of all Indebtedness of the applicable entity that are required to be redeemed or paid from sinking fund installments during such period (together with the redemption premiums, if any, thereon).

*"**Deed of Trust**"* means that certain Deed of Trust with Assignment of Rents, Security Agreement and Fixture Filing, dated as of December 1, 2016, executed as a counterpart to the Deed of Trust by the Borrower, as trustor, in favor of the Title Company, as deed of trust trustee thereunder, creating a lien on the Facility located in the County of Los Angeles that Borrower shall own in fee for the benefit of the Trustee (as assignee of the Authority), as trustee for the benefit of the Holders of the Bonds.

*"**Depository**"* means The Depository Trust Company and its successors and assigns, or any other depository selected as set forth in Section 2.10 hereof which agrees to follow the procedures required to be followed by such depository in connection with the Bonds.

*"**Depository Bank**"* shall have the meaning ascribed to in in Section 3.02(f) of the Loan Agreement.

*"**Education Code**"* means the Education Code of the State of California.

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

*"**Eligible Organization**"* means an organization described in Section 501(c)(3) of the Code which is determined by the Authority to satisfy the criteria set forth in the resolution of the Authority adopted on March 21, 1991, authorizing the issuance of bonds, notes, or other evidences of indebtedness, or certificates of participation in leases or other agreements to finance or refinance facilities owned and/or operated by such organizations.

*"**Eligible Securities**"* means any of the following obligations as and to the extent that such obligations are at the time legal investments under the Act for moneys held hereunder and then proposed to be invested therein (provided that the Trustee shall be entitled to rely upon a Request of the Borrower as conclusive evidence that the investments described therein are so authorized under the laws of the State) and shall be the sole investments in which amounts on deposit in any fund or account created hereunder or under the Loan Agreement shall be invested:

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

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

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

Bonds or notes issued by any state or municipality which are rated by S&P, Fitch and Moody's in one of the three highest rating categories assigned by such agencies;

repurchase agreements with either a primary dealer on the reporting dealer list of the Federal Reserve or any bank, which, in either case, is rated "A" or better by S&P and Moody's, provided that (a) the term of such repurchase agreement is not greater than thirty days, (b) the Trustee or third party acting solely as agent for the Trustee has possession of the collateral, (c) the collateral is valued weekly and the market value of the collateral is maintained at an amount

equal to at least 104% (or, if the collateral consists of obligations of FHLMC or FNMA, 105%) of the amount of cash transferred by the Trustee to the dealer bank or securities firm under the repurchase agreement plus interest, (d) failure to maintain the requisite collateral levels will require the Trustee to liquidate the collateral immediately, (e) the repurchase securities are either obligations of, or fully guaranteed as to principal and interest by, the United States or any federal agency backed by the full faith and credit of the United States; (f) the repurchase securities are free and clear of any third-party lien or claim; and (g) there shall have been delivered to the Trustee, the Authority and the Borrower an Opinion of Counsel to the effect that such repurchase agreement meets all guidelines under State law for legal investment of public funds;

investment agreements, including guaranteed investment contracts ("GICs") with providers in one of the two highest rating categories of Moody's and S&P;

money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating, at the time of purchase, by S&P of "AAAm-G", "AAA-m", or "AA-m" and if rated by Moody's rated "Aaa", "Aa1" or "Aa2", including such funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services or for which the Trustee or an affiliate of the Trustee serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to this Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to this Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee;

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

certificates of deposit, savings accounts, deposit accounts or money market deposits that are fully insured by FDIC, including BIF and SAIF;

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

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

the State of California's Pooled Money Investment Account;

the State of California's Local Agency Investment Fund;

obligations of a bank or other financial institution rated, at the time of purchase, at least "Aa3" by Moody's or "AA-" by S&P; and

any other investment consented to by the Bondholder Representative.

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

*"**Event of Default**"* means any of the events specified in Section 7.01 of this Indenture.

*"**Facility"*** means all of the real property located at 13570 Eldridge Avenue, Sylmar, California 91324, Los Angeles County, California, described further in Exhibit A in the Lease, together with the improvements thereon.

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

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

*"**501(c)(3) Organization**"* means an organization described in Section 501(c)(3) of the Code.

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

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

*"**Gross Revenues**"* means, for any Fiscal Year, all of the revenues, income, cash receipts and other money received by the Borrower, or received by the Trustee on behalf of the Borrower, pursuant to this Indenture, that are legally available for payment of the obligations of the Borrower under the Loan Agreement.

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

"***Indenture***" means this indenture, as originally executed or as it may from time to time be supplemented, modified or amended by any supplemental indenture entered into pursuant to the provisions hereof.

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

*"**Insurance and Condemnation Proceeds Fund**"* means the fund by that name established pursuant to Section 5.09(b).

*"**Interest Account**"* means the account by that name in the Revenue Fund established pursuant to Section 5.02.

*"**Interest Payment Date**"* means each July 1 and January 1, commencing January 1, 2017.

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

*"**Joint Powers Agreement**"* means the Amended and Restated Joint Exercise of Powers Agreement, dated June 1, 1988, relating to the formation of the Authority, among certain cities, counties and special districts in the State of California, including the Program Participant.

*"**Lease**"* means that certain Lease Agreement, dated as of December 1, 2016, by and between the Borrower as lessor and the Lessee as lessee, for use and occupation of the premises described therein by the School, as the same may be amended and supplemented in accordance with its terms and with the terms of the Loan Agreement.

*"**Lessee**"* means Discovery Charter Preparatory School, a California nonprofit public benefit corporation.

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

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

*"**Loan Agreement**"* means that certain loan agreement, dated as of December 1, 2016, between the Authority and the Borrower, as originally executed or as it may from time to time be supplemented, modified or amended subject to and in accordance with the terms thereof and of Section 6.06(b) of this Indenture.

*"**Loan Repayments**"* has the meaning given such term in Section 3.02(b) of the Loan Agreement.

*"**Mandatory Sinking Account Payment**"* means the amount so designated which is established pursuant to Section 5.04 of this Indenture with respect to the Bonds.

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

*"**Monthly Payment Date**"* means, as applicable, an Interest Payment Date or a Principal Payment Date.

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

*"**Opinion of Counsel**"* means a written opinion of counsel (which may be counsel for the Authority) selected by the Authority. If and to the extent required by the provisions of Section 1.02 of this Indenture, each Opinion of Counsel shall include the statements provided for in Section 1.02 of this Indenture.

*"**Optional Redemption Account**"* means the account by that name in the Redemption Fund established pursuant to Section 5.06.

*"**Outstanding**,"* when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 11.10 hereof) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this Indenture except (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with Section 10.02 of this Indenture; and (c) Bonds for the transfer or exchange of which, or in lieu of or in substitution for which, other Bonds shall have been authenticated and delivered by the Trustee pursuant to this Indenture.

*"**Payments**"* means (i) all moneys, if any, received by the Trustee directly from, or on behalf of, the Borrower, pursuant to the Loan Agreement (excluding Additional Payments), and (ii) all income derived from the investment of any money in any fund or account established pursuant to this Indenture.

*"**Permitted Liens**"* means:

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

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

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

(d) Liens shown on the title policy for any Facility, including (i) rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property; (ii) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of

mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen, laborers, suppliers or vendors, have been due for less than ninety (90) days; (iii) easements, rights-of-way, servitudes, restrictions, oil, gas or other mineral reservation and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof; (iv) the rights of the Authority and the Trustee under the Indenture, the Loan Agreement and the Deed of Trust; and (v) landlord's liens;

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

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

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

*"**Principal Account**"* means the account by that name in the Revenue Fund established pursuant to Section 5.02.

*"**Principal Corporate Trust Office**"* means for the Trustee originally appointed hereunder, the corporate trust office of the Trustee which at the date of execution of this Indenture is that specified in Section 11.07 of this Indenture, provided however, that for purposes of presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

*"**Principal Payment Date**"* means each principal and Mandatory Sinking Account Payment date for the Bonds, which shall occur on July1 of each year, commencing July 1, 2019.

*"**Project**"* has the meaning given to such term in Exhibit A of the Loan Agreement.

*"**Project Fund**"* means the fund by that name established pursuant to Section 5.08 of this Indenture.

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

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

"Qualified Institutional Buyer" shall have the meaning ascribed to such term in Rule 144 of the Securities Act of 1933.

*"**Rating Agency**"* means at any time any nationally recognized rating agency including Fitch, Moody's or S&P, then rating the Bonds at the request of the Authority or the Borrower.

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

*"**Rebate Analyst**"* means the Person, reasonably acceptable to the Bondholder Representative, engaged by the Borrower to calculate any rebate liability under the Code.

*"**Rebate Fund**"* means the fund by that name established pursuant to Section 5.07 of this Indenture.

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

*"**Redemption Date**"* means the date on which any of the Series 2016A Bonds are called for redemption pursuant to the provisions of Article IV of this Indenture, with the exception of Series 2016A Bonds and Series 2016B Bonds subject to mandatory sinking fund redemption.

*"**Redemption Fund**"* means the fund by that name established pursuant to Section 5.06 of this Indenture.

*"**Remittance Address**"* means, (i) for payment of the Authority's annual fee by check, California Statewide Communities Development Authority, Dept. #33997, P.O. Box 39000, San Francisco, California 94139, or such other address designated by the Authority as such from time to time, or (ii) for payment of the Authority's annual fee by wire transfer or ACH Transaction, Wells Fargo Bank, National Association, ABA# 121000248, DDA A/C# 4121458848, Reference: [Invoice # / Discovery Charter Preparatory School Project] or such other instructions designated by the Authority from time to time.

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

*"**Repair and Replacement Fund**"* means the fund by such name established pursuant to Section 5.10 hereof.

*"**Repair and Replacement Fund Requirement**"* means an amount equal to $300,000, to be funded in equal monthly installments of $4,166.67, beginning on January 1, 2020.

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

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

*"**Revenue Fund**"* means the fund by that name established pursuant to Section 5.01(c) of this Indenture.

*"**S&P**"* means Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, a corporation organized and existing under the laws of the State of New York, its successors and assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Borrower.

*"**School**"* means Discovery Charter Preparatory School.

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

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

*"**Sole Member**"* means initially Coalition for Engaged Education, a California nonprofit public benefit corporation, its successors and assigns, or any successor sole member of the Borrower in accordance with the terms hereof and of the Tax Certificate and Agreement.

*"**Special Record Date**"* means the date established by the Trustee pursuant to Section 2.02(e) of this Indenture as a record date for the payment of defaulted interest on Bonds.

*"**Special Redemption Account**"* means the account by that name in the Redemption Fund established pursuant to Section 5.06.

*"**State**"* means the State of California.

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

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

*"**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.

*"**Title Company**"* means First American Title Company.

*"**Trust Estate**"* means the subject to the pledge of Payments and the assignment of right, title and interest of the Authority in the Loan Agreement in favor of the Trustee set forth in Section 5.01(a) and (b) of this Indenture.

*"**Trustee**"* means Wilmington Trust, N.A. or the successor as Trustee hereunder as provided in Section 8.01 or 8.02 of this Indenture.

*"**Underwriter**"* means B.C. Ziegler & Company, its successors and assigns.

Section 1.02 Content of Certificates and Opinions. Every certificate (other than the certificate provided for in Section 11.05 hereof) or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include (a) a statement that the person or persons making or giving such certificate or opinion have read such condition or covenant and the definitions herein relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such condition or covenant has been complied with; and (d) a statement as to whether, in the opinion of the signers, such condition or covenant has been complied with.

Any such certificate or opinion made or given by a member or officer of the Authority may be based, insofar as it relates to legal matters, upon a certificate or opinion of or representations by counsel, unless such officer knows that the certificate or opinion or representations with respect to the matters upon which his or her certificate or opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should have known that the same were erroneous. Any such certificate or opinion made or given by counsel may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the Authority) upon the certificate or opinion of or representations by a member or officer of the Authority, unless such counsel knows that the certificate or opinion or representations with respect to the matters upon which his or her opinion may be based as aforesaid are erroneous or in the exercise of reasonable care should have known that the same were erroneous.

Any written representation of the Authority or determination of the Trustee given in accordance with Section 6.06 (regarding the amendment of the Loan Agreement) or Article IX (regarding amendment of the Indenture) may, at the option of such party, be based solely on the written representation of a financial consultant or advisor selected by such party and not objected to by the other such party.

Section 1.03 Article and Section Headings and References. The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Indenture.

All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof; and words of the masculine gender shall mean and include words of the feminine and neuter genders.

Section 1.04 Construction. The parties hereto acknowledge that each such party and its respective counsel have participated in the drafting and revision of this Indenture. Accordingly, the parties agree that any rule of construction which disfavors the drafting party shall not apply in the interpretation of this Indenture or any amendment or supplement or exhibit hereto.

ARTICLE II

THE BONDS

Section 2.01 Authorization of Bonds. There shall be issued under and secured by this Indenture two series of bonds hereby authorized to be issued hereunder, designated as the "$6,100,000 California Statewide Communities Development Authority School Facility Revenue Bonds (Discovery Charter Preparatory School Project) Series 2016A" and "$750,000 California Statewide Communities Development Authority School Facility Revenue Bonds (Discovery Charter Preparatory School Project) Series 2016B". The aggregate principal amount of the Bonds that may be issued and Outstanding under this Indenture is expressly limited to and shall not exceed six million eight hundred fifty thousand dollars ($6,850,000), exclusive of the Bonds executed and authenticated as provided in Section 2.08 hereof.

This Indenture constitutes a continuing agreement with the Trustee and the Holders of all of the Bonds Outstanding, subject to the covenants, agreements, provisions and conditions herein contained.

Section 2.02 Terms of Bonds. The Bonds shall be issued as registered bonds in Authorized Denominations. The Bonds shall be dated their date of issuance. The Bonds shall be

registered in the name of the initial Holders thereof who shall be an Accredited Investor, a Qualified Institutional Buyer or a Broker-Dealer (as defined in Section 1.01). Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except to a Qualified Institutional Buyer, an Accredited Investor or a Broker-Dealer, as set forth in this Article II.

Each Beneficial Owner of the Bonds shall be an Qualified Institutional Buyer, an Accredited Investor or a Broker-Dealer. The Trustee shall not be responsible for any subsequent Beneficial Owners complying with the requirements of being an Qualified Institutional Buyer, an Accredited Investor or a Broker-Dealer. The Bondholder Representative, on behalf of the initial Beneficial Owners of the Bonds, shall deliver Certificate of Bondholder Representative substantially in the form attached as Exhibit D hereof. Interest on the Bonds shall be calculated on the basis of a 360-day year of twelve 30-day months and shall be payable in arrears on each Interest Payment Date.

The Series A Bonds shall mature on July 1 in each of the years and in the principal amounts and shall bear interest at the rates as follows:

Date	Principal Amount	Interest Rate
July 1, 2047	$6,100,000	7.00%

The Series B Bonds shall mature on July 1 in each of the years and in the principal amounts and shall bear interest at the rates as follows:

Date	Principal Amount	Interest Rate
July 1, 2027	$750,000	6.25%

The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of the Depository, and shall be evidenced by one Bond for each maturity in the total aggregate principal amount of the Bonds of such maturity. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except as set forth in Section 2.10 hereof. So long as Cede & Co. is the registered owner of the Bonds, as nominee of the Depository, references herein to the Bondholders, holders or registered owners shall mean Cede & Co. as aforesaid and shall not mean the “beneficial owners” of the Bonds.

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

Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the Bondholder on such 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 for the payment of such defaulted interest. The Special Record Date shall be fixed by the Trustee, notice thereof being given to the Bondholders not less than 10 days prior to such Special Record Date.

Section 2.03 Restrictions on Registration and Transfer of the Bonds. Notwithstanding any other provision hereof, the Bonds may not be registered in the name of, or transferred to, any person except an Qualified Institutional Buyer, an Accredited Investor or a Broker-Dealer; provided however, pursuant to Section 2.10 hereof, Bonds registered in the name of the Depository or its nominee shall be deemed to comply with this Section so long as each Beneficial Owner of the Bonds is an Qualified Institutional Buyer or an Accredited Investor. The Trustee shall be entitled to rely upon the representation set forth in the legend appearing on the first page of the Bonds and shall not have any duty or obligation to determine whether the requirements relating to the transfer of the Bonds described in this paragraph are complied with. The Authority may remove such limitation by written notice to the Trustee and the Bondholder Representative without notice to or consent of any Bondholder. In addition, at such time as the Borrower shall provide to the Authority and the Trustee written evidence to the effect that any Rating Agency has rated the Bonds "BBB-" or equivalent, or higher (without regard for credit enhancement unless such credit enhancement extends through the final maturity date of the Bonds), this Section 2.03 shall be of no further force or effect. Upon receipt of such written notice from the Authority or written evidence from the Borrower, as the case may be, the Trustee shall immediately notify each Bondholder that the restrictions set forth in this Indenture requiring that the Beneficial Owners of the Bonds be Qualified Institutional Buyers or Accredited Investors shall be of no further force or effect.

Section 2.04 Execution of Bonds. The Bonds shall be executed on behalf of the Authority by the manual or facsimile signature of the Chair of the Authority or the manual signature of any Authorized Signatory, and attested by the manual or facsimile signature of the Secretary of the Authority or the Assistant to the Secretary of the Authority or the manual signature of any Authorized Signatory. The Bonds shall then be delivered to the Trustee for authentication by it. In case any officer of the Authority or Authorized Signatory who shall have signed or attested any of the Bonds shall cease to be such officer or Authorized Signatory before the Bonds so signed or attested shall have been authenticated or delivered by the Trustee or issued by the Authority, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the Authority as though those who signed and attested the same had continued to be such officers of the Authority or Authorized Signatory, and also any Bond may be signed and attested on behalf of the Authority by such persons as at the actual date of execution of such Bond shall be the proper officers of the Authority or Authorized Signatory although at the nominal date of such Bond any such person shall not have been such officers of the Authority or Authorized Signatory.

Section 2.05 Transfer of Bonds. The registration of any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of Section 2.07 of this Indenture, by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. The Trustee shall require the payment by the Holder requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer, and there shall be no other charge to any Holder for any such transfer. The Trustee shall not be required to register the transfer of any Bond which has been selected for redemption in whole or in part, from and after the day of mailing of a notice of redemption of such Bond selected for redemption in whole or in part as provided in Section 4.01 hereof or Section 4.02 hereof or during the period established by the Trustee for selection of Bonds for redemption.

Section 2.06 Exchange of Bonds. Bonds may be exchanged at the Principal Corporate Trust Office of the Trustee for a like aggregate principal amount of the Bonds of the same maturity of other authorized denominations. The Trustee shall require the payment by the Holder requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange, and there shall be no other charge to any Holder for any such exchange. No exchange

of Bonds shall be required to be made during the period established by the Trustee for selection of Bonds for redemption and after a Bond has been selected for redemption.

Section 2.07 Bond Register. The Trustee will keep or cause to be kept, at its Principal Corporate Trust Office, sufficient books for the registration of transfer of the Bonds, which shall at all reasonable times during normal business hours upon reasonable notice be open to inspection by the Authority; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register the transfer or cause to be registered the transfer, on said books, of Bonds as hereinbefore provided.

Section 2.08 Temporary Bonds. The Bonds may be initially issued in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such denomination as may be determined by the Authority, shall be in registered form and may contain such reference to any of the provisions of this Indenture as may be appropriate. Every temporary Bond shall be executed by the Authority and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the Authority issues temporary Bonds, it will execute and furnish definitive Bonds without delay, and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the Principal Corporate Trust Office of the Trustee, and the Trustee shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations, of the same maturity or maturities. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Indenture as definitive Bonds authenticated and delivered hereunder.

Section 2.09 Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Authority, at the expense of the Holder of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be canceled by it and delivered to, or upon the order of, the Authority. If any Bond issued hereunder shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to it and indemnity satisfactory to it shall be given, the Authority, at the expense of the Holder, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen. If any Bond mutilated, lost, destroyed or stolen shall have matured, instead of issuing a substitute Bond the Trustee may pay the same without surrender upon receipt of indemnity satisfactory to the Trustee. The Authority may require payment from the Holder of a sum not exceeding the actual cost of preparing each new Bond issued under this Section and of the expenses which may be incurred by the Authority and the Trustee. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Authority whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of this Indenture with all other Bonds secured by this Indenture.

Section 2.10 Use of Depository. Notwithstanding any provision of this Indenture to the contrary:

The Bonds initially shall be registered as provided in Section 2.02 hereof. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except:

To any successor of the Depository or its nominee, or to any Substitute Depository designated pursuant to clause (ii) of this subsection (a) ("Substitute Depository"); provided that any successor of the Depository or Substitute Depository shall be qualified under any applicable laws to provide the service proposed to be provided by it;

To any Substitute Depository designated by the Authority (at the direction of the Borrower) and not objected to by the Trustee, upon (1) the resignation of the Depository or its successor (or any Substitute Depository or its successor) from its functions as depository or (2) a determination by the Authority (at the direction of the Borrower) that the Depository or its successor (or any Substitute Depository or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

To any person as provided below, upon (1) the resignation of the Depository or its successor (or Substitute Depository or its successor) from its functions as depository; provided that no Substitute Depository which is not objected to by the Trustee can be obtained or (2) a determination by the Authority (with the concurrence of the Borrower) that it is in the best interests of the Authority to remove the Depository or its successor (or any Substitute Depository or its successor) from its functions as depository.

In the case of any transfer pursuant to clause (i) or clause (ii) of subsection (a) hereof, upon receipt of the Outstanding Bonds by the Trustee, together with a Request of the Authority to the Trustee, a single new Bond for each maturity shall be executed and delivered in the aggregate principal amount of the Bonds of such maturity then Outstanding, registered in the name of such successor or such Substitute Depository, or their nominees, as the case may be, all as specified in such Request of the Authority. In the case of any transfer pursuant to clause (iii) of subsection (a) hereof, upon receipt of the Outstanding Bonds by the Trustee, new Bonds shall be executed and delivered in such denominations numbered in consecutive order from R-1 up and registered in the names of such persons as are requested in such a Request of the Authority, subject to the limitations of Section 2.02 hereof, provided the Trustee shall not be required to deliver such new Bonds within a period less than sixty (60) days from the date of receipt of such a Request of the Authority.

In the case of an advance refunding of the Bonds, if any, evidencing all or a portion of the principal amount then Outstanding, the Depository shall make an appropriate notation on the Bonds indicating the date and amounts of such reduction in principal.

The Authority and the Trustee shall be entitled to treat the person in whose name any Bond is registered as the Bondholder thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the Authority; and the Authority and the Trustee shall have no responsibility for transmitting payments to, communication with, notifying, or otherwise dealing with any beneficial owners of the Bonds. Neither the Authority nor the Trustee will have any responsibility or obligations, legal or otherwise, to the beneficial owners or to any other party including the Depository or its successor (or Substitute Depository or its successor), except for the Holder of any Bond.

So long as the Outstanding Bonds are registered in the name of Cede & Co. or its registered assigns, the Authority and the Trustee shall cooperate with Cede & Co., as sole registered Bondholder, and its registered assigns in effecting payment of the principal of and interest on the Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

Section 2.11 Validity of Bonds. The validity of the authorization and issuance of the Bonds is not dependent on and shall not be affected in any way by any proceedings taken by the Authority or the Trustee with respect to or in connection with the Loan Agreement. The recital contained in the Bonds that the same are issued pursuant to the Act and the Constitution and laws of the State shall be conclusive evidence of their validity and of compliance with the provisions of law in their issuance.

ARTICLE III

ISSUANCE OF BONDS; ESTABLISHMENT OF CERTAIN FUNDS AND APPLICATION OF PROCEEDS

Section 3.01 Authentication and Delivery of Bonds. At any time after the execution of this Indenture, the Authority may execute the Bonds, and the Trustee, upon the Order of the Authority, shall authenticate and deliver the Bonds in accordance with Article II of this Indenture, in each case exclusive of the Bonds executed and authenticated as provided in Section 2.08 hereof.

Section 3.02 Application of Proceeds of Bonds and Certain Other Moneys. The Trustee hereby agrees to establish and maintain hereunder, in trust, the funds described in Article V herein.

The Trustee shall accept a portion of the proceeds received from the sale of the Bonds in the amount of $6,684,631.00 (consisting of the aggregate par amount of the Bonds of $6,850,000.00, less original issue discount of $38,369.00 and less an Underwriter's discount of $127,000.00).

The Borrower shall provide the Trustee with an amount of funds (which may be funds of the Lessee) equal to $1,005,000.

From the aggregate proceeds available to the Trustee, the Trustee shall wire the amount of $6.314,001.68 to the Title Company.

The Trustee shall deposit the remaining amounts received pursuant to Section 3.02(a) and (b) hereof, in the following funds and accounts in the following amounts:

Project Fund	$625,000.00
Costs of Issuance Fund	$729,768.21
Interest Account of the Revenue Fund	$21,061.11

ARTICLE IV

REDEMPTION OF THE BONDS

Section 4.01 Special Redemption.

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

Extraordinary Mandatory Redemption from Project Fund. The Bonds are subject to extraordinary mandatory redemption prior to their stated maturity, as a whole or in part on any date from surplus moneys required to be transferred from the Project Fund to the Special Redemption Account following completion of the Project, at a redemption price equal to the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

Extraordinary Redemption from Project Reimbursement. To the extent that the School is reimbursed by the State of California or any political subdivision of the State for Project costs previously incurred by the School, the Borrower may redeem Series A Bonds and/or Series B Bonds in an amount that does not exceed the amount of such reimbursement at par plus accrued interest to the redemption date.

Purchase in Lieu of Redemption. The Bonds are subject to purchase in lieu of redemption at the option of the Borrower prior to their respective maturity dates at any time in whole or in part, if the following conditions are satisfied:

The Borrower and the Bondholder Representative negotiate and agree upon a purchase price that is communicated in writing to the Trustee;

Upon written agreement as described in (i) above, the Borrower shall direct the Trustee to purchase certain of the Series A Bonds and/or Series B Bonds and will provide funds that are certified to be excess income of the Borrower derived from the operations of the School by the Lessee to the Trustee for deposit in the Revenue Fund in the amount necessary, together with other available monies in the Revenue Fund, to pay the purchase price of the Series A Bonds and/or Series B Bonds selected by the Bondholder Representative in excess of that required to fully satisfy the next scheduled interest and principal payments on such selected Bonds, and provided there is deposited with the Trustee such amount as the Trustee may require to cover the accrued and anticipated fees and expenses;

The Trustee confirms that the amount provided for by the Borrower pursuant to (b) above is sufficient to warrant such purchase at the purchase price agreed to by the Borrower and the Bondholder Representative pursuant to (a) above;

The Borrower shall indemnify and hold harmless the Trustee from and against any and all liability, claims, or losses arising out of, by virtue of, or in connection with the purchase of the selected Bonds, up to the amount of the value of the Bonds purchased, except in the case of negligence, willful misconduct or bad faith on the part of the Trustee.

As Series A Bonds and or Series B Bonds are purchased pursuant to this Section 4.01(d), such purchase of such Bonds will be allocated to all or a portion of, the next scheduled mandatory sinking fund payment(s) for such Bonds as set forth in this Indenture. Once purchased such Bonds shall be delivered to the Trustee and cancelled by the Trustee.

Section 4.02 Optional Redemption. The Series A Bonds and the Series B Bonds are subject to optional redemption prior to their respective stated maturities, from any amounts in the Redemption Fund, in whole or in part on any date on or after July 1, 2020, at a redemption price (expressed as a percentage of the principal amount of Bonds called for redemption) plus accrued interest thereon to the date fixed for redemption, as follows:

Date Range	Percentage of Principal
July 1, 2020 to June 30, 2021	101%
July 1, 2021 and thereafter	100%

Section 4.03 Mandatory Sinking Account Redemption. The Bonds are also subject to redemption prior to their respective stated maturities in part, by lot, from Mandatory Sinking Account Payments pursuant to Section 5.04(c) hereof. In the event of a redemption pursuant to this Section 4.01 and 4.02, the Borrower shall provide the Trustee with a revised sinking fund schedule giving effect to the special, optional or mandatory redemption so completed.

Section 4.04 Notice of Redemption. In connection with the redemption of the Bonds pursuant to Sections 4.01 and 4.02 herein, the Borrower shall give notice of redemption to the Trustee (with a copy to the Authority and the Bondholder Representative) not less than forty (40) days prior to the redemption date. Notice of redemption of any Bonds shall be given by the Trustee upon such written Request of the Borrower. Notice of any redemption of Bonds shall be mailed postage prepaid, or by any other acceptable electronic means selected by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the redemption date by first class mail to the Bondholder Representative and the respective Holders thereof at the addresses appearing on the bond registration books described in Section 2.07. Each notice of redemption shall contain all of the following information:

the date of such notice;

the name of the Bonds and the date of issue of the Bonds;

the redemption date;

the redemption price;

the dates of maturity of the Bonds to be redeemed;

if less than all of the Bonds of any maturity are to be redeemed, the distinctive numbers of the Bonds of each maturity to be redeemed;

in the case of Bonds redeemed in part only, the respective portions of the principal amount of the Bonds of each maturity to be redeemed;

the CUSIP number, if any, of each maturity of Bonds to be redeemed;

a statement that such Bonds must be surrendered by the Holders at the Principal Corporate Trust Office of the Trustee, or at such other place or places designated by the Trustee;

a statement that such redemption is conditioned upon the receipt by the Trustee, on or prior to the redemption date, of moneys sufficient to pay the redemption price or upon the happening of such other event as shall be specified therein, and if such moneys shall not have been so received, said notice shall be rescinded and the redemption shall be cancelled;

a statement that any such redemption notice can be rescinded as provided in the Indenture; and

notice that further interest on such Bonds, if any, will not accrue from and after the designated redemption date.

Such redemption notices may state that no representation is made as to the accuracy or correctness of the CUSIP numbers provided therein or on the Bonds. If money is not received as described in Section 4.04(j), the Trustee, within a reasonable time after the date on which such redemption was to occur, give notice to the persons and in the manner in which the notice of redemption was given, that such moneys were not so received and that there will be no redemption of the Bonds pursuant to the notice of redemption. Failure of the Trustee to give such notice or any defect therein shall not in any way impair or affect the validity of the proceedings for redemption.

Section 4.05 Effect of Notice. The actual receipt by the Holder of any Bond or any other party of notice of redemption shall not be a condition precedent to redemption, and failure to receive such notice, or any defect in the notice given, shall not affect the validity of the proceedings for the redemption of such Bonds or the cessation of interest, if any, on the date fixed for redemption.

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

Section 4.06 Right to Rescind Notice. Upon written notice from the Borrower to the Trustee and the Bondholder Representative that the Borrower has cured the conditions that caused the Bonds to be subject to extraordinary redemption, the Borrower may rescind any extraordinary redemption and notice thereof on any date prior to the date fixed for redemption by directed the Trustee to cause written notice of the rescission to be given to the Bondholder Representative and the Holders of the Bonds so called for redemption. Notice of rescission of redemption shall be given in the same manner in which notice of redemption was originally given. The actual receipt by the Holder of any Bond of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission.

Section 4.07 Funds for Redemption. Prior to or on the redemption date of any Bonds there shall be available in the Redemption Fund, monies for the purpose and sufficient to redeem, at the premiums payable as in this Indenture provided, the Bonds designated in said notice of redemption. Such monies so set aside in the Redemption Fund or in the fund established for such purpose shall be applied on or after the redemption date solely for payment of principal of and premium, if any, on the Bonds to be redeemed upon presentation and surrender of such Bonds, provided that all monies in the Redemption Fund shall be used for the purposes established and permitted by law. Any interest due on or prior to the redemption date shall be paid from the Redemption Fund, unless otherwise provided for to be paid from a fund established for such purpose. If, after all of the Bonds have been redeemed and cancelled or paid and cancelled, there are monies remaining in the Redemption Fund, said monies shall be transferred to the general fund of the Borrower as provided and permitted by law; provided, however, that if said monies are part of the proceeds of refunding Bonds of the Borrower, said monies shall be transferred to the fund created for the payment of principal of and interest on such Bonds. If no such refunding Bonds of the Borrower are at such time outstanding, said monies shall be transferred to the general fund of the Borrower as provided and permitted by law.

Section 4.08 Selection of Bonds for Redemption. When any redemption is made pursuant to any of the provisions of this Indenture and less than all of the Outstanding Bonds are to be redeemed, the Trustee, with the approval of the Bondholder Representative, shall select the Bonds to be redeemed from the Outstanding Bonds not previously called for redemption, by lot within a maturity and, if from more than one maturity, in such other order of maturity as shall be specified in a Request of the Borrower. In no event shall Bonds be redeemed in amounts other than whole multiples of Authorized Denominations. The Trustee shall promptly notify the Authority, the Bondholder Representative and the Borrower in writing of the numbers of the Bonds selected for redemption.

Section 4.09 Notification to Authority and Bondholder Representative of Amount of Outstanding Bonds. On or before July 15 of each year the Trustee shall notify the Authority and the Bondholder Representative via mutually acceptable electronic means or by mail, of the aggregate principal amount of Outstanding Bonds as of June 30 of such year or that no Bonds remain Outstanding.

ARTICLE V

PLEDGE AND ASSIGNMENT; ESTABLISHMENT AND APPLICATION OF FUNDS AND ACCOUNTS

Section 5.01 Pledge and Assignment. Subject only to the provisions of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein, there are hereby pledged to secure the payment of the principal of and interest on the Bonds in accordance with their terms and the provisions of this Indenture, all of the Payments and any other amounts (excluding proceeds of the sale of Bonds) held in any fund or account (other than the Rebate Fund) established pursuant to this Indenture. Said pledge shall constitute a lien on and security interest in such assets and shall attach and be valid and binding from and after delivery of the Bonds, without any physical delivery thereof or further act.

The Authority hereby assigns to the Trustee, for the benefit of the Holders from time to time of the Bonds, all of the Payments and other amounts pledged in paragraph (a) of this Section and all of the right, title and interest of the Authority in, to and under the Loan Agreement (except for the Retained Rights). The Trustee shall be entitled to and shall receive all of such assigned Payments, and any such Payments collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and shall (subject to the provisions of this Indenture) take all steps, actions and proceedings following any event of default under the Loan Agreement reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority assigned to the Trustee and all of the obligations of the Borrower under the Loan Agreement.

All Payments shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Revenue Fund" which the Trustee is hereby directed to establish, maintain and hold in trust. All Payments shall be held in trust for the benefit of the Holders from time to time of the Bonds but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes hereinafter in this Article V set forth.

The Bonds do not constitute a debt or liability of the State of California or of any political subdivision thereof, other than the Authority, but shall be payable solely from the funds provided therefor. The Authority shall not be obligated to pay the principal of the Bonds, or the redemption premium 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 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. Moreover, neither the Authority nor the Program Participant shall be liable for any other costs, expenses, losses, damages, claims or actions, in connection with the Loan Agreement, the Bonds or the Indenture, except only to the extent amounts are received for the payment thereof from the Borrower under the Loan Agreement.

Section 5.02 Allocation of Revenues. Promptly upon receipt, the Trustee shall deposit the Payments to the Revenue Fund. On or before the 10th day of each month, commencing January 10, 2017, the Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Revenue Fund) and then to the Repair and Replacement Fund, to the Rebate Fund, the following amounts, in the following order of priority, the requirements of each such account or fund (including the making up of any deficiencies in any such account resulting from lack of Payments sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account or fund subsequent in priority:

(1) To the Interest Account, one-sixth of the aggregate amount of interest becoming due and payable on the next succeeding Interest Payment Date on all Bonds then Outstanding or such greater amount as is necessary to cause the amount on deposit therein to equal the amount which would be on deposit had all previous deposits been made in full, until the balance in said account is equal to said aggregate amount of interest; provided that from the date of delivery of the Bonds until the first Interest Payment Date with respect to the Bonds (if less than six months), transfers to the Interest Account shall be sufficient on a monthly pro rata basis to pay the interest becoming due and payable on said Interest Payment Date;

(2) To the Principal Account, one-sixth of the aggregate amount of principal becoming due to redeem or pay or such greater amount as is necessary to cause the amount on deposit therein to equal the amount which would be on deposit had all previous deposits been made in full, until the balance in said Principal Account is equal to said aggregate amount of such principal and Mandatory Sinking Account Payments; provided that from the date of delivery of the Bonds until the first Principal Payment Date with respect to the Bonds (if less than six months), transfers to the Principal Account shall be sufficient on a monthly pro rata basis to pay the principal becoming due and payable on said Principal Payment Date;

(3) [Reserved];

(4) To the Repair and Replacement Fund, commencing on January 1, 2020 (a) $4,166,67 monthly until the balance therein is at least equal to the Repair and Replacement Fund Requirement, and (b) in the event the balance in said account shall be less than the Repair and Replacement Fund Requirement due to valuation of the Eligible Securities deposited therein in accordance with Section 5.10, the amount necessary to increase the balance in said account to an amount at least equal to the Repair and Replacement Fund Requirement (until deposits on account of such valuation deficiency are sufficient to increase the balance in said account to said amount); and

(5) To the Rebate Fund, such amounts as are required to be deposited therein by this Indenture (including the Tax Certificate) based solely on a written direction of the Borrower.

Moneys remaining in the Revenue Fund after the foregoing transfers shall be transferred on July 1 and January 1 of each year, commencing July 1, 2017, to the DACA Account comprising the School Gross Revenue Fund (as defined in Section 3.02(f) of the Loan Agreement).

Section 5.03 Application of Interest Account. All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to this Indenture).

Section 5.04 Application of Principal Account. All amounts in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal or Mandatory Sinking Account Payments of the Bonds, as provided herein with respect to Bonds.

The Trustee shall establish and maintain within the Principal Account a separate subaccount for the Bonds, designated as the "2016A Sinking Account," inserting therein the Series and maturity (if more than one such account established) for each Term Bond. On or before July 1 in each year in which a Mandatory Sinking Fund Payment is due, the Trustee shall transfer the amount deposited in the Principal Account on that date pursuant to Section 5.02 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 shall transfer the amount deposited in the Principal Account pursuant to Section 5.02 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 Article IV; provided that, at any time prior to giving such notice of such redemption, the Trustee shall 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) shall not exceed the par amount of such Bonds. If, during the twelve-month period immediately preceding said Mandatory Sinking Account Payment date, the Trustee has purchased Bonds with moneys in the Sinking Account, or, during said period and prior to giving said notice of redemption, the Borrower has deposited Bonds with the Trustee, or Bonds were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Bonds so purchased or deposited or redeemed shall 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 subsection shall be delivered to the Trustee and cancelled. Any amounts remaining in the Sinking Account when all of the Bonds are no longer Outstanding shall be withdrawn by the Trustee and transferred to the Revenue Fund. All Bonds purchased from the Sinking Account or deposited by the Borrower with the Trustee shall be allocated first to the next succeeding Mandatory Sinking Account Payment, then to the remaining Mandatory Sinking Account Payments as the Borrower directs in writing along with a revised sinking fund schedule giving effect to the purchase so completed.

The Trustee shall establish and maintain within the Principal Account a separate subaccount for the Bonds, designated as the "2016B Sinking Account," inserting therein the Series and maturity (if more than one such account established) for each Term Bond. On or before July 1 in each year in which a Mandatory Sinking Fund Payment is due, the Trustee shall transfer the amount deposited in the Principal Account on that date pursuant to Section 5.02 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 shall transfer the amount deposited in the Principal Account pursuant to Section 5.02 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 Article IV; provided that, at any time prior to giving such notice of such redemption, the Trustee shall 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) shall not exceed the par amount of such Bonds. If, during the twelve-month period immediately preceding said Mandatory Sinking Account Payment date, the Trustee has purchased Bonds with moneys in the Sinking Account, or, during said period and prior to giving said notice of redemption, the Borrower has deposited Bonds with the Trustee, or Bonds were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Bonds so purchased or deposited or redeemed shall 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 subsection shall be delivered to the Trustee and cancelled. Any amounts remaining in the Sinking Account when all of the Bonds are no longer Outstanding shall be withdrawn by the Trustee and transferred to the Revenue Fund. All Bonds purchased from the Sinking Account or deposited by the Borrower with the Trustee shall be allocated first to the next succeeding Mandatory Sinking Account Payment, then to the remaining Mandatory Sinking Account Payments as the Borrower directs in writing along with a revised sinking fund schedule giving effect to the purchase so completed.

Subject to the terms and conditions set forth in this Section and in Section 4.03, the Term Bonds 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:

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Series 2016A Term Bonds maturing on July 1, 2046 that are issued in an initial principal amount of $6,065,000:

Mandatory Redemption Date July1	Principal Amount
2028	$140,000
2029	155,000
2030	170,000
2031	180,000
2032	195,000
2033	210,000
2034	225,000
2035	240,000
2036	255,000
2037	275,000
2038	295,000
2039	315,000
2040	335,000
2041	360,000
2042	385,000
2043	410,000
2044	440,000
2045	470,000
2046	505,000
2047*	540,000

* Final Maturity

Series 2016B Term Bonds maturing on July 1, 2027 that are issued in an initial principal amount of $750,000:

Mandatory Redemption Date July1	Principal Amount
2019	$ 50,000
2020	55,000
2021	65,000
2022	75,000
2023	80,000
2024	90,000
2025	100,000
2026	110,000
2027*	125,000

* Final Maturity

[Reserved]

Section 5.06 Establishment and Application of Redemption Fund. The Trustee shall establish and maintain a special fund designated as the Redemption Fund. Within the Redemption Fund, the Trustee shall establish separate accounts designated as the Optional Redemption Account and the Special Redemption Account. The Trustee shall accept all moneys deposited for redemption and shall 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 shall 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 Article IV, at the next succeeding date of redemption for which notice has 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 shall, 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.

Section 5.07 Rebate Fund. The Trustee shall establish and maintain, when required, a fund separate from any other fund established and maintained hereunder designated as the Rebate Fund. Within the Rebate Fund, the Trustee shall maintain such accounts as shall be necessary to comply with written instructions of the Borrower given pursuant to the terms and conditions of the Tax Certificate. Subject to the transfer provisions provided in paragraph (e) below, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the federal government of the United States of America. Neither the Authority, the Borrower nor the Holder of any Bonds shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by this Section, by Section 6.06 and by the Tax Certificate (which is incorporated herein by reference). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the directions of the Borrower including supplying all necessary information in the manner provided in the Tax Certificate, and shall have no liability or responsibility to enforce compliance by the Borrower or the Authority with the terms of the Tax Certificate or any other tax covenants contained herein. The Trustee shall not be responsible for calculating rebate amounts or for the adequacy or correctness of any rebate report or rebate calculations. The Trustee shall have no independent duty to review such calculations or enforce the compliance by the Borrower with such rebate requirements. The Trustee shall have no duty or obligation to determine the applicability of the Code and shall only be obligated to act in accordance with written instructions provided by the Borrower.

Upon the Borrower's written direction, an amount shall 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 shall equal the Rebate Requirement. Computations of the Rebate Requirement shall be furnished by or on behalf of the Borrower in accordance with the Tax Certificate. The Trustee shall supply to the Borrower and/or the Authority all necessary information in the manner provided in the Tax Certificate to the extent such information is reasonably available to the Trustee.

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

At the written direction of the Borrower, which shall include a statement to the effect that such direction complies with the restrictions set forth in the Tax Certificate, the Trustee shall invest all amounts held in the Rebate Fund in Eligible Securities. Moneys shall not be transferred from the Rebate Fund except as provided in paragraph (e) below. The Trustee shall not be liable for any consequences arising from such investment.

Upon receipt of the Borrower's written directions, the Trustee shall remit part or all of the balances in the Rebate Fund to the United States, as so directed. In addition, if the Borrower

so directs, the Trustee will deposit money into or transfer money out of the Rebate Fund from or into such accounts or funds as directed by the Borrower's written directions; provided, however, only moneys in excess of the Rebate Requirement may, at the written direction of the Borrower or the Authority, be transferred out of the Rebate Fund to such other accounts or funds or to anyone other than the United States in satisfaction of the arbitrage rebate obligation. Any funds remaining in the Rebate Fund after each five year remission to the United States of America, redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Requirement, or provision made therefor satisfactory to the Trustee, shall be withdrawn and remitted to the Borrower.

Notwithstanding any other provision of this Indenture, including in particular Article X, the obligation to remit the Rebate Requirement to the United States and to comply with all other requirements of this Section, Section 6.09 and the Tax Certificate shall survive the defeasance or payment in full of the Bonds.

Section 5.08 Establishment and Application of Project Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Project Fund." The moneys in the Project Fund shall be disbursed pursuant to Requisitions of the Borrower, which shall be in the form of Exhibit B, and approved by the Bondholder Representative. Each such Requisition of the Borrower shall be sufficient evidence to the Trustee and the Bondholder Representative of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. No moneys in the Project Fund shall be used to pay Costs of Issuance. The Trustee shall accept moneys from the Borrower for deposit in the Project Fund from time to time and prior to completion of the Project.

Upon completion of the Project, the Borrower shall deliver a completion certificate approved by the Bondholder Representative to the Trustee and make the final requisition of funds from the Project Fund. Any amounts thereafter remaining in such Project Fund shall be transferred by the Trustee to the Special Redemption Account for the redemption of Bonds pursuant to Section 4.01(b) hereof. Upon such transfer, the Project Fund shall be closed.

Section 5.09 Establishment and Application of Costs of Issuance Fund; Insurance and Condemnation Proceeds Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund." Moneys deposited in said fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance of the Bonds upon Requisition of the Borrower approved by the Bondholder Representative stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund, and including a copy of the invoice or statement evidencing the costs incurred. Each such Written Requisition of the Borrower shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. On the one hundred eightieth (180th) day following the initial issuance of the Bonds, or upon the earlier Request of the Borrower, amounts, if any, remaining in the Costs of Issuance Fund shall be transferred to the Project Fund and the Costs of Issuance Fund shall be closed.

As and when needed, the Trustee shall establish, maintain and hold in trust a separate fund designated as the "Insurance and Condemnation Proceeds Fund," and administer said fund as set forth in Section 4.06 of the Loan Agreement.

Before any payment from the Insurance and Condemnation Proceeds Fund shall be made, the Borrower shall file or cause to be filed with the Trustee a Requisition of the Borrower approved by the Bondholder Representative stating: (1) the item number of such payment; (2) the name of the Person to whom each such payment is due, which may be the Borrower in the case of reimbursement for costs of such repair or replacement theretofore paid by the Borrower; (3) the respective amounts to be paid; (4) the purpose by general classification for which each obligation to be paid was incurred; (5) that obligations in the stated amounts have been incurred by the Borrower and are presently due and payable and that each item thereof is a proper charge against the

Insurance and Condemnation Proceeds Fund and has not been previously paid from the Insurance and Condemnation Proceeds Fund; and (6) that there has not been filed with or served upon the Borrower any notice of claim of lien, or attachment upon, or claim affecting the right to receive payment of, any of the amounts payable to any of the persons named in such Requisition, for which adequate security for the payment of such obligation has been posted, or which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen's or mechanics' liens accruing by mere operation of law.

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

When the repair or replacement of damaged, destroyed or taken property shall have been completed, the Borrower shall deliver to the Trustee a Certificate of the Borrower approved by the Bondholder Representative stating the fact and date of such completion and stating that all of the costs thereof have been determined and paid (or that all of such costs have been paid less specified claims that are subject to dispute and for which a retention in the Insurance and Condemnation Proceeds Fund is to be maintained in the full amount of such claims until such dispute is resolved). Subject to Section 4.06 of the Loan Agreement, the Borrower shall direct the Trustee by said Certificate of the Borrower to transfer any remaining balance in the Insurance and Condemnation Proceeds Fund, less the amount of any such retention, to the Special Redemption Account of the Redemption Fund or, at the election of the Borrower, to the Revenue Fund.

Section 5.10 Establishment and Application of the Repair and Replacement Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Repair and Replacement Fund," which shall be used solely for the purposes set forth in this Section 5.10.

The Trustee shall withdraw funds from the Repair and Replacement Fund to pay for capital items not budgeted as ordinary maintenance and repair costs related to the Facility.

Moneys in the Repair and Replacement Fund to be used for the purpose described in the preceding paragraph subsection (b) shall be disbursed upon receipt of a Requisition of the Borrower approved by the Bondholder Representative for payment in the form attached hereto as Exhibit C, which, by this reference thereto, is incorporated herein, executed by the Authorized Borrower Representative, and the Trustee shall issue its checks or wires for each such disbursement upon receipt of such a requisition. The Trustee may conclusively rely upon such Requisition and shall have no responsibility or duty to investigate any of the matters set forth therein.

When (i) the amount of principal of, and premium, if any, and interest on the Outstanding Bonds is equal to or less than the sum of the balance of the Revenue Fund, the balance of the Redemption Fund and the balance of the Repair and Replacement Fund, and (ii) all other amounts owed under the Loan Agreement and this Indenture shall have been paid, moneys held in the Repair and Replacement Fund may be deposited into the Revenue Fund and credited against payments of Loan Repayments required under Section 3.02 of the Loan Agreement.

Section 5.11 [Reserved]

Section 5.12 Investment of Moneys in Funds and Accounts. All moneys in any of the funds and accounts or subaccounts thereof established pursuant to this Indenture, shall be invested by the Trustee solely in such Eligible Securities as are specified in a Request of the Borrower, provided, however, that, if the Borrower does not file such a Request with the Trustee, the Trustee shall invest to the extent practicable in investments described in clause (7) of the definition of the term "Eligible Securities" in Section 1.01 of this Indenture; provided, however, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee shall have received a Request of the Borrower specifying a specific money market fund approved by the Bondholder Representative and, if no such Request of the Borrower is so received, the Trustee shall hold such moneys uninvested.

All interest, profits and other income received from the investment of moneys shall be deposited in the Revenue Fund.

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

The Trustee is hereby authorized, in making or disposing of any investment permitted by this Section, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or dealing as principal for its own account.

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

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

Section 5.13 Additional Payments. The Trustee shall transfer the Additional Payments constituting the Authority's annual fee, promptly upon receipt thereof from the Borrower, to the Authority at the Remittance Address; provided however, the Borrower may elect to pay such annual fee directly to the Authority.

ARTICLE VI

COVENANTS

Section 6.01 Punctual Payment. The Authority shall punctually pay, but only out of Payments and pledged funds as herein provided, the principal and interest to become due in respect of every Bond issued hereunder at the times and places and in the manner provided herein and in the Bonds, according to the true intent and meaning thereof.

Section 6.02 Extension of Payment of Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any of the claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement except with the written consent of the Bondholder Representative (or, if there is no Bondholder Representative, the Bondholders) and, if the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended without the written consent of the Bondholder Representative (or, if there is no Bondholder Representative, the Bondholders), such Bonds or claims for interest shall not be entitled, in case of any default hereunder, to the benefits of this Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this Section shall be deemed to limit the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Section 6.03 Encumbrance Upon Payments. The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Payments and other assets pledged or assigned under this Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by this Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the Act, and reserves the right to issue other obligations for such purposes.

Section 6.04 Power to Issue Bonds and Make Pledge and Assignment. The Authority is duly authorized pursuant to law to issue the Bonds and to enter into this Indenture and to pledge and assign the Payments and other assets purported to be pledged and assigned, respectively, under this Indenture in the manner and to the extent provided in this Indenture. The Bonds and the provisions of this Indenture are and will be the valid and binding limited obligations of the Authority, and the Authority and Trustee shall at all times, to the extent permitted by law and subject to the provisions of this Indenture, defend, preserve and protect said pledge and assignment of Payments and other assets and all the rights of the Bondholders under this Indenture against all claims and demands of all persons whomsoever.

Section 6.05 Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with the Trustee's accounting practices for books of record and account relating to similar trust accounts and in accordance with the customary standards of the corporate trust industry for such books of record and account, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of Bonds, the Payments, the Loan Agreement and all funds and accounts established pursuant to this Indenture. Such books of record and account shall be available for inspection by the Authority, the Bondholder Representative (and, if there is no Bondholder Representative, any Bondholder) and the Borrower, or its agent or representative duly authorized in writing, at reasonable hours, upon reasonable notice and under reasonable circumstances.

Section 6.06 Other Covenants; Amendment of the Loan Agreement and the Lease. Subject to the provisions of this Indenture, the Trustee shall promptly collect all amounts due pursuant to the Loan Agreement and diligently enforce and take all steps, actions and proceedings reasonably necessary for the enforcement of all of the rights of the Authority under the Loan Agreement assigned to it pursuant to Section 5.01(b) hereof.

The Authority shall not amend, modify or terminate any of the terms of the Loan Agreement or the Lease, or consent to any such amendment, modification or termination, without the prior written consent of the Bondholder Representative and the Trustee. The Trustee shall give such written consent if but only if (1) the Trustee has received written certification acceptable to it and the Bondholder Representative to the effect that such amendment or modification will not materially and adversely affect the interests of the Holders of the Bonds; provided that, if an Event of Default described in paragraph (a), (b) or (c) of Section 7.01 has occurred and is continuing, the

Trustee, at the direction of the Bondholder Representative, rather than the Borrower shall make a determination that such amendment or modification will not materially and adversely affect the interests of the Holders of the Bonds (provided that, in making such determination, the Trustee may conclusively rely on written representations of financial consultants or advisors or the opinion or advice of counsel), or (2) the Bondholder Representative (or if there is no Bondholder Representative, the Holders of a majority in aggregate principal amount of the Bonds then Outstanding) consents in writing to such amendment, modification or termination, provided that no such amendment, modification or termination shall reduce the amount of Loan Repayments payable to the Authority, or extend the time for making such payments, without the written consent of Bondholder Representative (or if there is no Bondholder Representative, all of the of Holders of the Bonds then Outstanding).

Section 6.08 Further Assurances. The Authority will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture and for the better assuring and confirming unto the Holders of the Bonds of the rights and benefits provided in this Indenture.

Section 6.09 Continuing Disclosure. Pursuant to Section 5.07 of the Loan Agreement, the Borrower has undertaken all responsibility for compliance with continuing disclosure requirements pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5), and the Authority shall have no liability to the Holders of the Bonds or any other person with respect to Securities and Exchange Commission Rule 15c2-12. The Trustee hereby covenants and agrees that, subject to the provisions of this Indenture, it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement and Section 5.07 of the Loan Agreement applicable to it in its capacity as the Trustee. Notwithstanding any other provision of this Indenture, failure of the Borrower or the Trustee to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee at the written request of the Underwriter (as defined in the Continuing Disclosure Agreement), the Bondholder Representative (or, if there is no Bondholder Representative, the Holders of at least 25% aggregate principal amount of Outstanding Bonds), shall (but only to the extent the Trustee has been tendered funds in an amount satisfactory to it or it has been otherwise indemnified from and against any loss, liability, cost or expense, including without limitation, fees and expenses of its counsel and agents and additional fees and charges of the Trustee) or the Bondholder Representative (or, if there is no Bondholder Representative, any Bondholder or Beneficial Owner) may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Borrower to comply with its obligations under Section 5.07 of the Loan Agreement or, as to the Bondholder Representative (or, if there is no Bondholder Representative) any Bondholder or Beneficial Owner, to cause the Trustee to comply with its obligations under this Section. For purposes of this Section, "Beneficial Owner" means any person which (1) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (2) is treated as the owner of any Bonds for federal income tax purposes.

Section 6.10 Tax Covenants. The Authority covenants that it shall not take any action, or fail to take any action, if such action or failure to take such action would result in the interest on the Tax-Exempt Bonds not being excluded from gross income for federal income tax purposes under Section 103 of the Code. Without limiting the generality of the foregoing, the Authority covenants that it will comply with the requirements of the Tax Certificate, which is incorporated herein as if fully set forth herein. This covenant shall survive the payment in full or the defeasance of the Tax-Exempt Bonds.

In the event that at any time the Authority is of the opinion that for purposes of this Section 6.10 it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee under this Indenture, and provided that such action shall not conflict with the requirements of the Tax Certificate, the Authority shall so instruct the Trustee in a Request of the

Authority (which may be accompanied by a supporting Opinion of Bond Counsel), and the Trustee shall take such action as may be directed in accordance with such instructions.

Notwithstanding any provisions of this Section, if the Authority shall provide to the Trustee and the Bondholder Representative an Opinion of Bond Counsel to the effect that any specified action required under this Section is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Tax-Exempt Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of this Section and the Tax Certificate, and the covenants hereunder shall be deemed to be modified to that extent.

ARTICLE VII

EVENTS OF DEFAULT; REMEDIES ON DEFAULT

Section 7.01 Events of Default; Waiver of Default. If one or more of the following events ("Events of Default") shall happen, that is to say-

if default shall be made by the Authority in the due and punctual payment of the principal of any Bond as the same shall become due and payable (whether at maturity, by declaration or otherwise);

if default shall be made by the Authority in the due and punctual payment of interest on any Bond when and as such interest shall become due and payable; or

if default shall be made by the Authority in the performance or observance of any other of the covenants, agreements or conditions on its part in this Indenture or in the Bonds contained, and such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee, or to the Authority, the Borrower and the Trustee by the Bondholder Representative (or, if there is no Bondholder Representative, by the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding);

then and in each and every such case during the continuance of such Event of Default, the provisions of Section 7.02 shall apply.

Section 7.02 Institution of Legal Proceedings by Trustee. If one or more of the Events of Default shall occur, the Trustee in its discretion may, and upon the written request of the Bondholder Representative (or, if there is no Bondholder Representative, by the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding), and upon being indemnified to its satisfaction therefor, the Trustee shall proceed to protect or enforce its rights or the rights of the holders of Bonds under this Indenture, the Loan Agreement, the Lease and the Deed of Trust, by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained herein or therein, or in aid of the execution of any power herein or therein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties hereunder, provided that any such request from the Bondholder Representative (or, if there is no Bondholder Representative, by the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding) shall not be in conflict with any rule of law or with this Indenture, expose the Trustee to personal liability or, if the request is from the Holders of not less than a majority in aggregate principal amount of the Bonds Outstanding, be unduly prejudicial to Bondholders not joining therein.

Notwithstanding anything to the contrary in this Indenture, the Authority shall have no obligation to, and instead the Trustee may, without further direction from the Authority, and at

the request of the Bondholder Representative (or, if there is no Bondholder Representative, by the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding) take any and all steps, actions and proceedings, to enforce any or all rights of the Authority (other than those specifically retained by the Authority pursuant to Section 5.01 of this Indenture) under this 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.

Section 7.03 Application of Moneys Collected by Trustee. Any moneys collected by the Trustee pursuant to Section 7.02 hereof and any other amounts then held by the Trustee under this Indenture, shall be applied in the following order, at the date or dates fixed by the Trustee and, in the case of distribution of such moneys on account of principal upon presentation of the Bonds, and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

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

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

Whenever moneys are to be applied pursuant to the provision of this Section, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be the Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal and past-due interest to be paid on such date shall cease to accrue.

Whenever all principal of and interest on all Bonds have been paid under the provisions of this Section and all fees, expenses and charges of the Trustee and the Bondholder Representative (including without limitation those of their attorneys) have been paid, any balance remaining in the funds and accounts hereunder shall be paid to the Borrower.

Section 7.04 Effect of Delay or Omission to Pursue Remedy. No delay or omission of the Trustee, the Bondholder Representative or of any Holder of Bonds to exercise any right or power arising from any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein, and every power and remedy given by this Article VII to the Trustee or to the Holders of Bonds may be exercised from time to time, and as often as shall be deemed expedient. In case the Trustee shall have proceeded to enforce any right under this Indenture, and such proceedings shall have been discontinued or abandoned because of waiver or for any other reason, or shall have been determined adversely to the Trustee, then and in every such case the Authority and the Trustee, and the Holders of the Bonds, severally and respectively, shall be restored to their former positions and rights hereunder in respect to the trust estate; and all remedies, rights and powers of the Authority, the Trustee and the Holders of the Bonds shall continue as though no such proceedings had been taken.

Section 7.05 Remedies Cumulative. No remedy herein conferred upon or reserved to the Trustee or to any Holder of the Bonds is intended to be exclusive of any other remedy, but each and

every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity.

Section 7.06 Covenant to Pay Bonds in Event of Default. The Authority covenants that, upon the happening of any Event of Default, the Authority will pay, but only out of Payments, to the Trustee, upon demand, for the benefit of the Holders of the Bonds, the whole amount then due and payable thereon (by declaration or otherwise) for interest and principal as the case may be, and all other sums which may be due hereunder or secured hereby, including reasonable compensation to the Trustee and its agents and counsel and any expenses or liabilities incurred by the Trustee hereunder and, its agents and counsel. In case the Authority shall fail to pay the same forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, shall be entitled to institute proceedings at law or in equity in any court of competent jurisdiction to recover judgment for the whole amount due and unpaid, together with costs and reasonable attorneys' fees, subject, however, to the condition that such judgment, if any, shall be limited to, and payable solely out of, Payments as herein provided and not otherwise. The Trustee shall be entitled to recover such judgment as aforesaid, either before or after or during the pendency of any proceedings for the enforcement of this Indenture, and the right of the Trustee to recover such judgment shall not be affected by the exercise of any other right, power or remedy for the enforcement of the provisions of this Indenture.

Section 7.07 Trustee Appointed Agent for Bondholders. The Trustee is hereby appointed the agent and attorney-in-fact of the Holders of all Bonds Outstanding hereunder for the purpose of filing any claims relating to the Bonds.

Section 7.08 Power of Trustee to Control Proceedings. Subject to Section 7.09 hereof, in the event that the Trustee, upon the happening of an Event of Default, shall have taken some action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own discretion or upon the request of the Bondholder Representative (or, if there is no Bondholder Representative, by the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding), it shall have full power, in the exercise of its discretion for the best interests of the Holders of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default hereunder, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Bondholder Representative (or, if there is no Bondholder Representative, by the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding) hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

Section 7.09 Limitation on Bondholders' Right to Sue. Notwithstanding any other provision hereof, no Holder of any Bond issued hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this Indenture, unless (a) there is no Bondholder Representative; (b) such Holder shall have previously given to the Trustee written notice of the occurrence of an Event of Default hereunder; (c) the Holders of at least a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (d) said Holders shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (e) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

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

herein provided, and that all proceedings at law or in equity to enforce any provision of this Indenture shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all Holders of the Outstanding Bonds.

The right of any Holder of any Bond to receive payment of the principal of and interest on such Bond out of Payments and the funds pledged herein, as herein provided, on and after the respective due dates expressed in such Bond, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder, notwithstanding the foregoing provisions of this Section or Section 7.08 of this Indenture or any other provision of this Indenture.

Nothing in this Section 7.09 shall impair the right of the Bondholder Representative to direct the Trustee to take action on behalf of the Holders of the Bonds in the event of an Event of Default.

Section 7.10 Authority Retained Rights. Nothing in this Article shall limit in any respect the right of the Authority to enforce or waive any of its Retained Rights under the Loan Agreement.

ARTICLE VIII

THE TRUSTEE

Section 8.01 Duties, Immunities and Liabilities of Trustee. The Trustee shall, 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 this Indenture. The Trustee shall, during the existence of any Event of Default which has not been cured, exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

The Authority may, with the consent of the Bondholder Representative, remove the Trustee at any time, after giving Trustee thirty (30) days' notice of such removal, unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by the Bondholder Representative or by the Borrower with the consent of the Bondholder Representative (unless an Event of Default shall have occurred and then be continuing) or, if there is no Bondholder Representative, at any time by an instrument or concurrent instruments in writing signed by the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with subsection (e) of this Section, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall 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 the Bondholder Representative, and thereupon shall appoint, with the consent of the Bondholder Representative, or, if there is no Bondholder Representative, the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing), a successor Trustee by an instrument in writing.

The Trustee may at any time resign by giving written notice of such resignation to the Authority and the Bondholder Representative , and by giving the Bondholders notice of such resignation by mail at the addresses shown on the Bond registration books maintained by the Trustee. Upon receiving such notice of resignation, the Authority shall appoint, with the written consent of the Bondholder Representative or, if there is no Bondholder Representative, the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing), a successor Trustee by an instrument in writing.

Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within forty-five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee, the Bondholder Representative, or if there is no Bondholder Representative 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 this Indenture shall signify its acceptance of such appointment by executing and delivering to the Authority, the Bondholder Representative and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall 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 herein; but, nevertheless at the Request of the Authority or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and conveying to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under this Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, the Authority shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the Authority shall mail a notice of the succession of such Trustee to the trusts hereunder to the Bondholder Representative and the Bondholders at the addresses shown on the Bond registration books maintained by the Trustee. If the Authority fails to mail such notice within thirty (30) days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notices to be mailed at the expense of the Authority.

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

Notwithstanding anything contained herein or in the Deed of Trust to the contrary, upon the occurrence and continuance of an Event of Default, before taking any foreclosure action or any action which may subject the Trustee to liability under any Environmental Law, the Trustee may require that a satisfactory indemnity bond, indemnity or environmental impairment insurance be furnished for the payment or reimbursement of all expenses to which it may be put and to protect it against all liability resulting from any claims, judgments, damages, losses, penalties, fines, liabilities (including strict liability) and expenses which may result from such foreclosure or other action. The term “Environmental Laws” shall mean all federal, state and local environmental, land use, zoning, health, chemical use, safety and sanitation laws, statutes, ordinances and codes relating to the protection of the environment or governing the use, storage, treatment, generation, transportation, processing, handling, production or disposal of Hazardous Substances and the rules, regulations, policies, guidelines, interpretations, decisions, orders and directives of federal, state and local governmental agencies and authorities with respect thereto. The term “Hazardous Substances” shall mean any chemical, substance or material classified or designated as

hazardous, toxic or radioactive, or other similar term, and now or hereafter regulated under any Environmental Law, including without limitation, asbestos, petroleum and hydrocarbon products. The Trustee shall not be required to take any foreclosure action if the approval of a government regulator shall be a condition precedent to taking such action.

Section 8.02 Merger or Consolidation. Any company into which the Trustee or any successor Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee or the successor Trustee, if any, with the consent of the Bondholder Representative, may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible under subsection (e) of Section 8.01 hereof, shall be the successor to such successor Trustee without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

Section 8.03 Rights of Trustee. The recitals of facts herein and in the Bonds contained shall be taken as statements of the Authority, and the Trustee does not assume any responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of this Indenture, the Loan Agreement or the Bonds, or incur any responsibility in respect thereof, other than in connection with the duties or obligations herein or in the Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct.

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

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Bondholder Representative (or, if there is no Bondholder Representative, the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding) relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture. The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty.

The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of the Bondholder Representative or, if there is no Bondholder Representative, of any of the Bondholders pursuant to the provisions of this Indenture unless the Bondholder Representative or such Bondholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby.

The Trustee shall not be deemed to have knowledge of any Event of Default other than an Event of Default under Section 7.01(a) or 7.01(b) hereof unless and until it shall have actual knowledge thereof, or shall have received written notice thereof, at its Principal Corporate Trust Office. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Bonds or as to the existence of an Event of Default hereunder.

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

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

The Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys which shall be released or withdrawn in accordance with the provisions hereof.

The Trustee shall have the right to accept and act upon instructions, including funds transfer instructions ("Instructions") given pursuant to this Indenture and delivered using Electronic Means ("Electronic Means" shall mean the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Trustee, or another method or system specified by the Trustee as available for use in connection with its services hereunder); provided, however, that the Bondholder Representative and the Borrower shall provide to the Trustee an incumbency certificate listing officers with the authority to provide such Instructions ("Authorized Officers") and containing specimen signatures of such Authorized Officers, which incumbency certificate shall be amended by the Bondholder Representative or the Borrower whenever a person is to be added or deleted from the listing. If the Bondholder Representative or the Borrower elects to give the Trustee Instructions using Electronic Means and the Trustee in its discretion elects to act upon such Instructions, the Trustee's good faith understanding of such Instructions shall be deemed controlling. Each of the Bondholder Representative and the Borrower understands and agrees that the Trustee cannot determine the identity of the actual sender of such Instructions and that the Trustee shall conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Trustee have been sent by such Authorized Officer. Each of the Bondholder Representative and the Borrower shall be responsible for ensuring that only Authorized Officers transmit such Instructions to the Trustee and that each of the Bondholder Representative and the Borrower and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the Bondholder Representative or the Borrower. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such Instructions notwithstanding such directions conflict or are inconsistent with a subsequent written instruction. Each of the Bondholder Representative and the Borrower agrees: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Trustee and that there may be more secure methods of transmitting Instructions than the method(s) selected by the Bondholder Representative or the Borrower; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Trustee immediately upon learning of any compromise or unauthorized use of the security procedures.

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

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

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

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

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

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

Section 8.04 Right of Trustee to Rely on Documents. The Trustee shall be protected in acting upon any notice, requisition, resolution, request, consent, order, certificate, report, opinion, Bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the Authority or the Bondholder Representative, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

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

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

Section 8.05 Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of this Indenture shall be retained in its possession and shall be subject

at all reasonable times to the inspection of the Authority and the Bondholder Representative, or if there is no Bondholder Representative, by any Holder, and their agents and representatives duly authorized in writing, at reasonable hours, upon reasonable notice and under reasonable conditions.

Section 8.06 Compensation and Indemnification of Trustee. The Authority shall (solely from payments received from the Borrower) from time to time, subject to any agreement between the Authority and the Trustee then in force, pay to the Trustee compensation for its services rendered by it in the execution of the trusts hereby created and in the exercise and performance of any of the powers and duties hereunder of the Trustee, which compensation shall not be limited by any provision of law with respect to the compensation of a trustee of an express trust, and the Authority (solely from payments received from the Borrower) will reimburse the Trustee for all its advances (with interest on such advances at the maximum rate allowed by law) and expenditures, including but not limited to advances to and fees and expenses of independent accountants, counsel (including in-house counsel to the extent not duplicative of other counsel's work) and engineers or other experts employed by it, and reasonably required, in the exercise and performance of its powers and duties hereunder. The Authority covenants and agrees to indemnify the Trustee (solely from Payments received from the Borrower) against any loss, expense and liability (other than those which are due to the Trustee's negligence or default) which it may incur arising out of or in the exercise and performance of its powers and duties hereunder, including the costs and expenses of defending against any claim of liability. The obligations of the Authority under this Section shall survive resignation or removal of the Trustee hereunder and payment of the Bonds and discharge of this Indenture.

Section 8.07 Compliance with Lease. The Trustee acknowledges it has been authorized and directed by the Borrower (which authorization and direction shall be memorialized in a Certificate of the Borrower delivered not later than the Closing Date) to take such action as is required of the Trustee under the Lease, including but not limited to the following:

To receive, from the Lessee, the certification to the effect that the Cash on Hand Requirement (as defined in the Lease) has been satisfied, which certification shall be delivered to the Trustee no later than one hundred twenty (120) days following the completion of each annual audit of the Lessee, or as otherwise required by the Lease pursuant to Section 3 thereof;

To give notice to the Bondholder Representative (or, if there is no Bondholder Representative, the Bondholders) at such times and to receive such written reports and take such actions, in each case as authorized or required by Section 4 of the Lease; and

To receive from the School, on or before July 1, 2019, and each July 1 anniversary thereafter, or at such other time as may be specified in the Lease, the Capital Needs Assessment (as defined in the Lease) pursuant to Section 7 thereof].

The provisions of this Article VIII in respect of the Trustee (including but not limited to the protections of Sections 8.04 and 8.06 hereof) shall be deemed to apply to the Trustee in carrying out the actions permitted or required to be taken by the Trustee under the Lease.

ARTICLE IX

MODIFICATION OF INDENTURE

Section 9.01 Modification without Consent of Bondholders. Subject to the conditions and restrictions contained in this Indenture, the Authority and the Trustee, from time to time and at any time may enter into an indenture or indentures supplemental hereto, which indenture or indentures thereafter shall form a part hereof, including, without limitation, for one or more of the following purposes, provided that the Bondholder Representative shall have consented to such indenture or indentures and the Authority, the Bondholder Representative and the Trustee shall have received an

Opinion of Bond Counsel to the effect that such amendment or modification will not cause the interest on the Tax-Exempt Bonds to be included as gross income for federal income tax purposes and that such amendment or modification is permitted by this Indenture:

to add to the covenants and agreements of the Authority contained in this Indenture, other covenants and agreements thereafter to be observed, or to assign or pledge additional security for the Bonds, or to surrender any right or power herein reserved to or conferred upon the Authority; provided such amendment or modification will not materially and adversely affect the interests of the Holders of the Bonds;

to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing, correcting or supplementing any defective provision, contained in this Indenture, or in regard to such matters or questions arising under this Indenture as the Authority may deem necessary or desirable and not inconsistent with this Indenture; provided such amendment or modification will not materially and adversely affect the interests of the Holders of the Bonds;

to modify, amend or supplement this Indenture or any indenture supplemental hereto in such manner as to permit the qualification hereof or thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and, if they so determine, to add to this Indenture or any indenture supplemental hereto such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939, as amended, or similar federal statute; provided such amendment or modification will not materially and adversely affect the interests of the Holders of the Bonds;

in connection with an amendment of any agreement permitted by Section 6.06 hereof for the purpose of conforming the terms, conditions and covenants of this Indenture to the corresponding or related provisions of such amended agreement;

to modify or eliminate the book-entry registration system for the Bonds; or

to comply with requirements of a Rating Agency in order to obtain or maintain a rating on any Bonds.

Any supplemental indenture authorized by the provisions of this Section 9.01 may be executed by the Authority and the Trustee with the consent of the Bondholder Representative, but without the consent of the Holders of any of the Bonds at the time Outstanding, notwithstanding any of the provisions of Section 9.02 hereof, but the Trustee shall not be obligated to enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

The Trustee shall mail an executed copy of a supplemental indenture authorized by this Section 9.01 and any document related thereto or executed in connection therewith to the Borrower, the Bondholder Representative and each Rating Agency then rating the Bonds promptly after execution by the Authority and the Trustee. The Authority shall mail drafts of any such documents to such parties prior to execution thereof.

Section 9.02 Modification with Consent of Bondholder Representative or Bondholders. With the consent of the Bondholder Representative(or if there is no Bondholder Representative, the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding), the Authority and the Trustee may from time to time and at any time, with an Opinion of Bond Counsel to the effect that such amendment or modification will not, in and of itself, cause the interest on the Bonds to be included as gross income for federal income tax purposes, enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in

any manner or eliminating any of the provisions of this Indenture or of any supplemental indenture; provided, however, that no such supplemental indenture shall (1) extend the fixed maturity of any Bonds or reduce the rate of interest thereon or extend the time of payment of interest, or reduce the amount of the principal thereof or (2) reduce the aforesaid percentage of Holders of Bonds whose consent is required for the execution of such supplemental indentures or extend the time of payment or permit the creation of any lien on the Payments or the assets pledged herein prior to or on a parity with the lien of this Indenture or deprive the Holders of the Bonds of the lien created by this Indenture upon the Payments or the assets pledged herein, without the consent of the Bondholder Representative (or, if there is no Bondholder Representative, the Holders of sixty-six and two-thirds percent (66-2/3%) of Bonds then Outstanding and adversely affected thereby). Upon the filing with the Trustee of evidence of the consent of Bondholder Representative (or, if there is no Bondholder Representative, the Bondholders), as aforesaid, the Trustee shall join with the Authority in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such supplemental indenture.

The Bondholder Representative shall consent to the form of the proposed supplemental indenture. If there is no Bondholder Representative, it shall not be necessary for the consent of the Bondholders under this Section 9.02 to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Promptly after the execution by the Authority and the Trustee of any supplemental indenture pursuant to the provisions of this Section, the Authority shall mail a notice to the Trustee and the Bondholder Representative setting forth in general terms the substance of such supplemental indenture, and the Trustee, upon receipt of such notice, shall mail such notice to the Borrower and the Bondholders at the addresses shown on the Bond registration books maintained by the Trustee, at the expense of the Borrower. Any failure of the Authority or the Trustee to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

The Trustee shall mail an executed copy of such supplemental indenture and any amendment of the Loan Agreement permitted under Section 6.06 hereof to the Borrower, the Bondholder Representative, each Rating Agency then rating the Bonds promptly after execution by the Authority, the Trustee, and in the case of the Loan Agreement, the Borrower. The Authority shall mail drafts of any such documents to such parties prior to execution thereof.

Section 9.03 Effect of Supplemental Indenture. Upon the execution of any supplemental indenture pursuant to the provisions of this Article IX this Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the Authority, the Trustee and all Holders of Outstanding Bonds shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such supplemental indenture shall be part of the terms and conditions of this Indenture for any and all purposes.

Section 9.04 Opinion of Counsel as to Supplemental Indenture. Subject to the provisions of Section 8.04 of this Indenture and the requirement in Sections 9.01 and 9.02 hereof for an Opinion of Bond Counsel, the Trustee and the Authority may receive an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant to the provisions of this Article IX complies with the requirements of this Article IX and shall have no liability to Holders in excluding any Supplemental Indenture in reliance on an Opinion of Bond Counsel.

Section 9.05 Notation of Modification on Bonds; Preparation of New Bonds. Bonds authenticated and delivered after the execution of any supplemental indenture pursuant to the provisions of this Article IX may bear a notation, in form approved by the Authority, as to any matter provided for in such supplemental indenture, and if such supplemental indenture shall so provide, new Bonds, so

modified as to conform, in the opinion of the Authority, to any modification of this Indenture contained in any such supplemental indenture, may be prepared by the Authority, authenticated by the Trustee and delivered without cost to the Holders of the Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amounts.

ARTICLE X

DEFEASANCE

Section 10.01 Discharge of Indenture. (a) Bonds may be paid or caused to be paid in any of the following ways, provided any other sums payable hereunder have also been paid or caused to be paid:

by paying or causing to be paid the principal of and interest on the Bonds Outstanding as and when the same become due and payable;

by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in Section 10.03 hereof) to pay or redeem Bonds Outstanding; or

by delivering to the Trustee, for cancellation by it, all Bonds Outstanding.

If all Bonds then Outstanding are paid or caused to be paid as provided above and all other sums payable hereunder shall also be paid or caused to be paid, then and in that case, at the election of the Borrower (evidenced by a Certificate of the Borrower, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and this Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, this Indenture and the pledge of Payments made under this Indenture and all covenants, agreements and other obligations of the Authority under this Indenture shall cease, terminate, become void and be completely discharged and satisfied, except only as provided in Section 10.02 hereof. In such event, upon request of the Borrower, the Trustee shall cause an accounting for such period or periods as may be requested by the Borrower to be prepared and filed with the Borrower and the Bondholder Representative and shall execute and deliver to the Borrower all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the Borrower all moneys or securities or other property held by it pursuant to this Indenture which are not required for the payment of Bonds not theretofore surrendered for such payment and which are not required for the payment of fees and expenses of the Trustee.

Section 10.02 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 Section 10.03 hereof) to pay any Outstanding Bond, whether upon or prior to its maturity, then all liability of the Authority in respect of such Bond shall cease, terminate and be completely discharged, except only that thereafter the Holder thereof shall be entitled to payment of the principal of and interest on such Bond, and the Authority shall remain liable for such payment but only out of the money or securities deposited with the Trustee as aforesaid for its payment; provided further, however, that the provisions of Section 10.04 hereof shall apply in all events.

The Bonds may at any time be surrendered to the Trustee for cancellation by the Authority or the Borrower, which may have been acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Section 10.03 Deposit of Money or Securities with Trustee. Whenever in this Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the amount necessary to pay any Bonds, such amount (which may include money or

securities held by the Trustee in the funds established pursuant to this Indenture) shall be equal (taking into account income which will accrue from the investment thereof on the date of deposit of such funds but without taking into account any income from the subsequent reinvestment thereof) to the principal amount of such Bonds and all unpaid interest thereon to maturity, and shall be:

lawful money of the United States of America; or

noncallable bonds, bills and bonds issued by the Department of the Treasury (including without limitation (1) obligations issued or held in book-entry form on the books of the Department of the Treasury and (2) the interest component of Resolution Funding Corporation strips for which separation of principal and interest is made by request to the Federal Reserve Bank of New York in book-entry form), United States Treasury Obligations State and Local Government Series and Zero Coupon United States Treasury Bonds;

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of this Indenture or by Request of the Borrower or the Authority) to apply such money to the payment of such principal of and interest on such Bonds and provided, further, that the Trustee shall have received (i) an Opinion of Bond Counsel to the effect that such deposit shall not cause interest on the Tax-Exempt Bonds to be included in the gross income of the Holder thereof for federal income tax purposes and that the Bonds to be discharged are no longer Outstanding; and (ii) a verification report of a firm of certified public accountants or other financial services firm acceptable to the Trustee and the Bondholder Representative verifying that the money or securities so deposited or held together with earnings thereon will be sufficient to make all payments of principal of and interest on the Bonds to be discharged to and including their maturity date.

Section 10.04 Payment of Bonds after Discharge of Indenture. Notwithstanding any provision of this Indenture, and subject to applicable escheat laws, any moneys held by the Trustee in trust for the payment of the principal of or interest on any Bonds and remaining unclaimed for one year after the principal of all the Outstanding Bonds has become due and payable (whether at maturity or by declaration as provided in this Indenture), if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the Borrower free from the trusts created by this Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Borrower as aforesaid, the Trustee may (at the cost of the Borrower) first mail to the Holders of Bonds which have not yet been paid, at the addresses shown on the registration books maintained by the Trustee, a notice, in such form as may be deemed appropriate by the Trustee, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Borrower of the moneys held for the payment thereof.

ARTICLE XI

MISCELLANEOUS

Section 11.01 Non-Liability of Authority. The Authority shall not be obligated to pay the principal (or Redemption Price) of or interest on the Bonds, except from Payments and other moneys and assets received by the Trustee pursuant to the Loan Agreement. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof (including the Program Participant), nor the faith and credit of the Authority is pledged to the payment of the principal (or Redemption Price) of or interest on the Bonds. Neither the Authority nor the Program Participant shall be liable for any 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 Loan Agreement, the Bonds or this Indenture, except only to the extent amounts are received for the payment thereof from the Borrower under the Loan Agreement.

The Trustee hereby acknowledges that the Authority's sole source of moneys to repay the Bonds will be provided by the payments made by the Borrower to the Trustee pursuant to the Loan Agreement, together with investment income on certain funds and accounts held by the Trustee under this Indenture, and hereby agrees that if the payments to be made under the Loan Agreement shall ever prove insufficient to pay all principal (or Redemption Price) and interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then the Trustee shall give notice to the Borrower in accordance with Section 7.01 of this Indenture to pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal (or redemption price) or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Trustee, the Borrower, the Authority or any third party, subject to any right of reimbursement from the Trustee, the Authority or any such third party, as the case may be, therefor.

THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. THE AUTHORITY SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS, OR THE REDEMPTION PREMIUM 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 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. MOREOVER, NEITHER THE AUTHORITY NOR THE PROGRAM PARTICIPANT SHALL BE LIABLE FOR ANY OTHER COSTS, EXPENSES, LOSSES, DAMAGES, CLAIMS OR ACTIONS, IN CONNECTION WITH THE LOAN AGREEMENT, THE BONDS OR THE INDENTURE, EXCEPT ONLY TO THE EXTENT AMOUNTS ARE RECEIVED FOR THE PAYMENT THEREOF FROM THE BORROWER UNDER THE LOAN AGREEMENT

Section 11.02 Successor Is Deemed Included in All References to Predecessor. Whenever in this Indenture either the Authority or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Indenture contained by or on behalf of the Authority or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Section 11.03 Limitation of Rights to Parties, Borrower and Bondholders. Nothing in this Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any person other than the Authority, the Trustee, the Borrower, the Bondholder Representative and the Holders of the Bonds any legal or equitable right, remedy or claim under or in respect of this Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Authority, the Trustee, the Borrower, the Bondholder Representative and the Holders of the Bonds.

Section 11.04 Waiver of Notice. Whenever in this Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Section 11.05 Destruction of Bonds. Whenever in this Indenture provision is made for the cancellation by the Trustee and the delivery to the Authority of any Bonds, the Trustee shall, in lieu of such cancellation and delivery, destroy such Bonds (in the presence of an officer of the Authority, if the

Authority shall so require) and at the request of the Authority deliver a certificate of such destruction to the Authority.

Section 11.06 Severability of Invalid Provisions. If any one or more of the provisions contained in this Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of this Indenture, and this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The Authority hereby declares that it would have entered into this Indenture and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Indenture may be held illegal, invalid or unenforceable.

Section 11.07 Notices. Unless otherwise provided herein, all notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given (a) if hand delivered or delivered by courier, when delivered to the appropriate notice address, (b) if mailed by first class mail, postage prepaid, six Business Days after deposit in the United States mail addressed to the appropriate notice address, or (c) if delivered pursuant to Electronic Notice, when transmitted. Any telecopy or other electronic transmission received by any party after 4:00 p.m., local time, as evidenced by the time shown on such transmission, shall be deemed to have been received the following Business Day. The parties listed below may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent. Any notice required or permitted hereunder shall be directed to the following notice address:

As to the Authority:	California Statewide Communities Development Authority 1100 K Street, Suite 101 Sacramento, California 95814 Attention: Chair
As to the Borrower:	DCPS Eldridge Avenue LLC 13570 Eldridge Avenue Sylmar, California 91342 Attention: Manager
As to the Lessee:	Discovery Charter Preparatory School 13570 Eldridge Avenue Sylmar, California 91342 Attention: Chief Financial Officer
As to the Bondholder Representative:	RPM Capital Management, LLC 800 Westchester Avenue Suite 641 North Rye Brook, New York 10573 Attention: Michele Newland, Co-CEO and Chief Investment Officer
As to Trustee:	Wilmington Trust, N.A. 25 South Charles Street, 11th Floor Mail Code: MD2-CS58 Baltimore, Maryland 21201 Attention: Corporate Trust Department

Section 11.08 Evidence of Rights of Bondholders. Any request, consent or other instrument required or permitted by this Indenture to be signed and executed by Bondholders may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bondholders in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of Bonds transferable by delivery, shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee and of the Authority if made in the manner provided in this Section.

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

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

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

Notwithstanding the foregoing, for so long as there is a Bondholder Representative, the actions set forth above with respect to the Bondholders shall be carried out by the Bondholder Representative.

Section 11.09 Disqualified Bonds. In determining whether the Holders of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under this Indenture, Bonds which are owned or held by or for the account of the Authority or the Borrower or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the Borrower shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the Borrower. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee. Upon request of the Trustee, the Authority and the Borrower shall specify in a certificate to the Trustee and the Bondholder Representative those Bonds disqualified pursuant to this Section and the Trustee may conclusively rely on such certificate.

Section 11.10 Money Held for Particular Bonds. The money held by the Trustee for the payment of the interest, principal due on any date with respect to particular Bonds shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Holders of the Bonds entitled thereto.

Section 11.11 Funds and Accounts. Any fund required by this Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds shall at all times be maintained in accordance with

customary standards of the corporate trust industry, to the extent practicable, and with due regard for the requirements of Sections 5.11 and 6.10 hereof (and the Tax Certificate) and for the protection of the security of the Bonds and the rights of every Holder thereof.

Section 11.12 Waiver of Personal Liability. No member, officer, agent or employee of the Authority shall be individually or personally liable for the payment of the principal (or redemption price) of or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by this Indenture.

Section 11.13 Execution in Several Counterparts. This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Authority and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

Section 11.14 Governing Law; Venue. This Indenture shall be construed in accordance with and governed by the laws of the State of California applicable to contracts made and performed in the State of California. This Indenture shall be enforceable in the State of California, and any action arising hereunder shall (unless waived by the Authority in writing) be filed and maintained in the Superior Court of California, County of Sacramento.

Section 11.15 Complete Agreement. This Indenture represents the complete agreement between the parties with respect to the Bonds and related matters.

Section 11.16 Action to be Taken on Days Other Than Business Days. Except as otherwise provided herein, whenever this Indenture requires any action to be taken on a day which is not a Business Day, such action shall be taken on the next succeeding Business Day with the same force and effect as if taken on such day. If any payment is made on the next Business Day as aforesaid, No interest shall accrue for the interevening period.

SECTION 11.17 Acceptance and Acknowledgement by Each Beneficial Owner that the Bondholder Representative Will Act on Its Behalf. By acceptance of the Bonds, each Beneficial Owner of the Bonds acknowledges and agrees that the Bondholder Representative, if any, will act on its behalf with respect to all matters arising in connection with the Bonds.

[Remainder of Page Intentionally Left Blank; Signature Page Follows]

IN WITNESS WHEREOF, the CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY has caused this Indenture to be signed in its name by its authorized signatory and WILMINGTON TRUST, N.A. in token of its acceptance of the trusts created hereunder, has caused this Indenture to be signed in its name by a deputy hereunto duly authorized, all as of the day and year first above written.

CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY

By:_____
Authorized Signatory

WILMINGTON TRUST, N.A.
as Trustee

By:_____
Authorized Officer

- **EXHIBIT A**

FORM OF BONDS

THIS BOND MAY ONLY BE REGISTERED IN THE NAME OF, OR TRANSFERRED TO, A "QUALIFIED INSTITUTIONAL BUYER", AN "ACCREDITED INVESTOR" OR A "BROKER-DEALER" AS DEFINED IN THE INDENTURE.

No. [A][B]R-__ **$[6,100,000.00[750,000.00]**

CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY
SCHOOL FACILITIES REVENUE BONDS
(DISCOVERY CHARTER PREPARATORY SCHOOL PROJECT)
SERIES 2016[A][B]

Rate of Interest:	**Maturity Date:**	**Dated Date:**	**CUSIP:**
[7.05][6.25]%	July 1, [2047][2027]	December 15, 2016	_____

Registered Owner: Cede & Co.

Principal Amount: **[**SIX MILLION ONE HUNDRED THOUSAND DOLLARS]
[SEVEN HUNDRED FIFTY THOUSAND DOLLARS]

CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY, a public instrumentality of the State of California (the "Authority"), for value received, hereby promises to pay (but only out of the Payments and other assets pledged therefor as hereinafter mentioned) to CEDE & CO. or registered assigns, on the maturity date specified above (subject to any right of prior redemption hereinafter mentioned), the principal sum set forth above in lawful money of the United States of America; and to pay interest thereon (but only from said Payments and other assets pledged therefor) in like lawful money from the date hereof until payment of such principal sum shall be discharged as provided in the Indenture hereinafter mentioned, at the rate stated above, payable on July 1 and January 1 of each year, commencing July 1, [2019][2028]. The principal (or redemption price) hereof is payable at the Principal Corporate Trust Office (as defined in the Indenture) of Wilmington Trust, N.A. in Baltimore, Maryland (together with any successor trustee as provided in the Indenture, as defined below, the "Trustee"). Interest hereon is payable by check mailed on each interest payment date to the registered owner hereof as of the fifteenth day of the month immediately preceding the month in which such interest payment date occurs (except with respect to defaulted interest) (the "Record Date") at the address appearing on the bond registration books maintained by the Trustee; provided, however, that the holder of $1,000,000 or more in aggregate principal amount of Bonds may be paid by wire transfer to an account within the United States of America upon written request filed with the Trustee at least one Business Day before the Record Date for the applicable interest payment date.

Principal of and interest on the Bonds is payable solely from Payments. Neither the State nor the Authority shall be obligated to pay the Bonds or the interest thereon except from the Payments as set forth in the Indenture, and neither the faith and credit nor the taxing power of the State or of any political subdivision thereof shall be pledged to the payment of the principal of or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Authority shall not be treated or deemed as having incurred any liability under the Indenture or by reason of or in connection with the Indenture, the Loan Agreement or any of the transactions contemplated by any thereof except to the extent payable from certain Payments

set forth in the Indenture or other amounts available therefor under and pursuant to the Indenture. Nevertheless, the Authority may, but shall not be required to, advance for any of the purposes of the Indenture any funds of the Authority which may be made available to it for such purposes. The Bonds are not a debt of the State of California and said State is not liable for payment thereof.

This Bond is entitled "California Statewide Communities Development Authority School Facilities Revenue Bonds (Discovery Charter Preparatory School Project) Series 2016[A][B]" (herein called the "Series 2016[A][B] Bonds"), limited in aggregate principal amount of [six million one hundred thousand dollars ($6,100,000.00)] [seven hundred fifty thousand dollars ($750,000)] and issued pursuant to the provisions of the Joint Exercise of Powers Act (constituting Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California, as now in effect and as it may from time to time hereafter be amended or supplemented) (herein called the "Act") and an indenture, dated as of December 1, 2016, between the Authority and the Trustee (herein called the "Indenture"). The Series 2016[A][B] Bonds are issued for the purpose of (i) funding the loan to DCPS Eldridge Avenue LLC, a California limited liability company (the "Borrower", the initial sole member of which is Coalition for Engaged Education, a California nonprofit public benefit corporation) pursuant to the Loan Agreement, dated as of December 1, 2016 (herein called the "Loan Agreement"), between the Authority and the Borrower, for the purposes and on the terms and conditions set forth therein, (ii) paying certain expenses incurred in connection with the issuance of the Bonds, and (iii) paying capitalized interest with respect to the Series 2016[A][B] Bonds. Proceeds of the loan will be used by the Borrower for the acquisition, improvement, equipping and furnishing of certain charter school facilities located in Sylmar, Los Angeles County, California (the "Project"), as more particularly described in the Indenture.

The Series 2016[A][B] Bonds are issuable only as fully registered Bonds in denominations of $25,000 or any integral multiple of $5,000 in excess thereof. Subject to the limitations and upon payment of the charges, if any, provided in the Indenture, Bonds may be exchanged, at the Principal Corporate Trust Office, for a like aggregate principal amount of Bonds of other authorized denominations.

"Authorized Denomination" means $25,000 or any amount in excess thereof in even $5,000 increments.

"Bondholder Representative" means, initially, RPM Capital Management, LLC, a registered investment advisor under the Investment Advisors Act of 1940, as amended, and any successors or assigns thereto if designated as the Bondholder Representative by written appointment by a majority of the Beneficial Owners, delivered to the Trustee.

By acceptance of the Series 2016[A][B] Bonds, each Beneficial Owner of the Series 2016[A][B] Bonds acknowledges and agrees that the Bondholder Representative, if any, will act on its behalf with respect to all matters arising in connection with the Bonds.

BY POSSESSION OF THIS SERIES 2016[A][B] BOND, THE HOLDER CERTIFIES THAT IT IS AN QUALIFIED INSTITUTIONAL BUYER (AS GENERALLY DEFINED IN RULE 144 OF THE SECURITIES ACT OF 1933), AN ACCREDITED INVESTOR (AS GENERALLY DEFINED UNDER REGULATION D OF THE SECURITIES ACT OF 1933) OR A BROKER-DEALER REGISTERED UNDER THE SECURITIES EXCHANGE ACT OF 1934. THE HOLDER HEREOF, BY THE ACCEPTANCE OF THIS SERIES 2016[A][B] BOND, ACKNOWLEDGES THAT THIS SERIES 2016[A][B] BOND MAY ONLY BE REGISTERED IN THE NAME OF, OR TRANSFERRED TO, OR BENEFICIAL OWNERSHIP CAN ONLY BE HELD BY, AN "QUALIFIED INSTITUTIONAL BUYER", AN "ACCREDITED INVESTOR" OR A "BROKER-DEALER" THE TRANSFER RESTRICTIONS HEREOF MAY BE REMOVED ONLY PURSUANT TO CERTAIN PROVISIONS OF THE INDENTURE.

THE SERIES 2016[A][B] 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 2016[A][B] 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 2016[A][B] BONDS. THE ISSUANCE OF THE SERIES 2016[A][B] 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. MOREOVER, NEITHER THE AUTHORITY NOR THE PROGRAM PARTICIPANT SHALL BE LIABLE FOR ANY OTHER COSTS, EXPENSES, LOSSES, DAMAGES, CLAIMS OR ACTIONS, IN CONNECTION WITH THE LOAN AGREEMENT, THE SERIES 2016[A][B] BONDS OR THE INDENTURE, EXCEPT ONLY TO THE EXTENT AMOUNTS ARE RECEIVED FOR THE PAYMENT THEREOF FROM THE BORROWER UNDER THE LOAN AGREEMENT.

Reference is hereby made to the Indenture (a copy of which is on file at said Principal Corporate Trust Office) and all indentures supplemental thereto, to the Loan Agreement (a copy of which is on file at said Principal Corporate Trust Office) and to the Act for a description of the rights thereunder of the registered owners of the Series 2016[A][B] Bonds, of the nature and extent of the security, of the rights, duties and immunities of the Trustee and of the rights and obligations of the Authority thereunder, to all the provisions of which Indenture and Loan Agreement the registered owner of this Bond, by acceptance hereof, assents and agrees.

The Series 2016[A][B] Bonds are secured by a pledge and assignment of Payments and of amounts held in the funds and accounts (other than the Rebate Fund and the Repair and Replacement Fund) established pursuant to the Indenture, 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 2016[A][B] Bonds are subject to redemption prior to their stated maturity, at the times and redemption prices, upon the notice and subject to the terms and conditions set forth in the Indenture. If this Series 2016[A][B] Bond is called for redemption and payment is duly provided therefor as specified in the Indenture, interest shall cease to accrue hereon from and after the date fixed for redemption.

This Series 2016[A][B] Bond is transferable by the registered owner hereof, in person or by such person's attorney duly authorized in writing, at the Principal Corporate Trust Office, but only in the manner, subject to the limitations and upon payment of the charges, if any, provided in the Indenture, and upon surrender and cancellation of this Series 2016[A][B] Bond. Upon such transfer a Bond or Bonds, of authorized denomination or denominations and for the same aggregate principal amount, will be issued to the transferee in exchange herefor.

The Authority and the Trustee may treat the registered owner hereof as the absolute owner hereof for all purposes, and the Authority and the Trustee shall not be affected by any notice to the contrary.

It is hereby certified and recited that any and all conditions, things and acts required to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by the provisions of the Act and by the Constitution and laws of the State of California, and that the amount of this Series 2016[A][B] Bond, together with all other indebtedness of the Authority, does not exceed any limit prescribed by the Act, or by the Constitution and laws of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

This Series 2016[A][B] Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication and registration hereon endorsed shall have been signed by the Trustee.

This Series 2016[A][B] Bond shall be construed in accordance with and governed by the Constitution and the laws of the State of California applicable to contracts made and performed in the State of California.

IN WITNESS WHEREOF, the California Statewide Communities Development Authority has caused this Series 2016[A][B] Bond to be executed in its name and on its behalf by the facsimile signature of its Authorized Signatory, and attested by its Secretary, all as of the Dated Date recited above.

CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY

By:_____
Authorized Signatory

ATTEST:

By: _____
Secretary

[FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the within-mentioned Indenture which has been authenticated and registered this _____.

_____
as Trustee

By_____
Authorized Officer

ASSIGNMENT

For value received the undersigned do(es) hereby sell, assign and transfer unto

_____

(print or type name, address, taxpayer identification no.
and zip code of assignee)

the within-mentioned registered Bond and hereby irrevocably constitute(s) and appoint(s) _____ attorney, to transfer the same on the books of the Trustee with full power of substitution in the premises.

Dated: _____ _____

Signature

BOND: The signature to the assignment must correspond to the name as written on the face of this Bond in every particular, without any alteration or change whatsoever.

Signature Guaranteed By: _____

BOND: The signature(s) to the assignment must be guaranteed by an eligible guarantor institution.

EXHIBIT B

FORM OF REQUISITION FROM THE PROJECT FUND

The undersigned authorized representative of DCPS Eldridge Avenue LLC, a California limited liability company (the "Borrower") hereby requests Wilmington Trust, N.A., as trustee (the "Trustee") under that certain Indenture, dated as of December 1, 2016, between the California Statewide Communities Development Authority and the Trustee, to pay to the Persons listed on Schedule I attached hereto, the amounts shown for the purposes indicated from the Project Fund established and maintained under the Indenture.

The Borrower hereby certifies that (a) obligations in amounts stated in this Requisition have been incurred by the Borrower and are presently due and payable and each item is a proper charge against the Project Fund and has not been previously paid from the Project Fund; (b) there has not been filed with or served upon the Borrower any notice of claim of lien, or attachment upon, or claim affecting the right to receive payment of, any of the amounts payable to any of the persons named in this Requisition, that has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen's or mechanics' liens accruing by mere operation of law; (c) no Event of Default has occurred under the Loan Agreement; and (d) this draw request meets the requirements of the Loan Agreement.

All payments shall be made by check or wire transfer in accordance with payment instructions contained in Schedule I and the Trustee shall have no duty or obligation to authenticate such payment instructions or the authorization thereof.

Dated: _____

DCPS ELDRIDGE AVENUE LLC

_____

Authorized Officer

Schedule I

(PROJECT FUND REQUISITION)

Item #	Name/Address	Amount	Purpose

- **EXHIBIT C**

FORM OF REQUISITION FROM THE REPAIR AND REPLACEMENT FUND

The undersigned authorized representative of DCPS Eldridge Avenue LLC, a California limited liability company (the "Borrower") hereby requests Wilmington Trust, N.A., as trustee (the "Trustee") under that certain Indenture, dated as of December 1, 2016, between the California Statewide Communities Development Authority and the Trustee, to pay to the Persons listed on Schedule I attached hereto, the amounts shown for the purposes indicated from the Repair and Replacement Fund established and maintained under the Indenture.

The Borrower hereby certifies that (a) obligations in amounts stated in this Requisition have been incurred by the Borrower and are presently due and payable and each item is a proper charge against the Repair and Replacement Fund and has not been previously paid from the Repair and Replacement Fund; and (b) there has not been filed with or served upon the Borrower any notice of claim of lien, or attachment upon, or claim affecting the right to receive payment of, any of the amounts payable to any of the persons named in this Requisition, that has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen's or mechanics' liens accruing by mere operation of law.

All payments shall be made by check or wire transfer in accordance with payment instructions contained in Schedule I and the Trustee shall have no duty or obligation to authenticate such payment instructions or the authorization thereof.

Dated: _____

DCPS ELDRIDGE AVENUE LLC

By: _____
Authorized Officer

Schedule I

(REPAIR AND REPLACEMENT FUND REQUISITION)

ITEM NO.	NAME/ADDRESS	AMOUNT	PURPOSE

- **EXHIBIT D**

FORM OF CERTIFICATE OF BONDHOLDER REPRESENTATIVE

The undersigned, an Officer of RPM Capital Management, LLC (the "*Bondholder Representative*"), does hereby represent and agree, as follows:

1. The Bondholder Representative is the duly elected representative of Beneficial Owners of 100% in outstanding aggregate principal amount of the $6,100,000 School Facilities Revenue Bonds (Discovery Charter Preparatory School Project) Series 2016A (the "*2016A Bonds*") and 100% in outstanding aggregate principal amount of the $750,000 School Facilities Revenue Bonds (Discovery Charter Preparatory School Project) Series 2016B (the "*2016B Bonds*" and, with the Series 2016A Bonds, the "*2016 Bonds*"), of the California Statewide Communities Development Authority (the "*Issuer*"), which Bonds have been issued and delivered on the date of this Certificate.

2. The 2016 Bonds are currently Outstanding in the aggregate principal amount of $6,850,000. The Bondholder Representative represents the Owners of all of the 2016 Bonds Outstanding. The Bondholder Representative is delivering this Certificate on behalf of such Owners and all other Owners of the 2016 Bonds from time to lime represented by the Bondholder Representative (the "*Owner*" or "*Owners*").

3. Each Owner is informed that the 2016 Bonds are not general obligations of the Issuer, but are special, limited obligations payable and secured solely as provided for in the Indenture, dated as of December 1, 2016, between the Issuer and Wilmington Trust, N.A. (the "*Trustee*"), as trustee (the "*Indenture*") and a Loan Agreement, dated as of December 1, 2016, between DCPS Eldridge Avenue LLC (the "*Borrower*") and the Issuer (the "Loan Agreement" and together with the Indenture, the "*Bond Documents*").

4. Each Owner has full power and authority to carry on its business as now conducted.

5. Each Owner is an "accredited investor", as defined in Rule 105 of Regulation D of the Securities Act of 1933, as amended ("*Securities Act*"), a "qualified institutional buyer", as defined in Rule 144A of the Securities Act or a "broker-dealer" registered under the Securities Exchange Act of 1934.

6. Each Owner has retained RPM Capital Management, LLC to advise and represent the Owner regarding the purchase and sale of securities of entities such as the Borrower and of securities such as the 2016 Bonds. Each Owner has the ability to bear the economic risks of an investment in the 2016 Bonds, and is an "accredited investor", a "qualified institutional buyer" or a "broker-dealer".

7. Each Owner is not now, and has never been controlled by, or under common control, with the Borrower. The Borrower has never been, and is not now, controlled by any Owner. No Owner has entered into any arrangements with the Borrower or with any affiliate of the Borrower in connection with the 2016 Bonds, other than as disclose to the Issuer or Trustee.

8. The Issuer, the State of California, and the Trustee have not undertaken and will not undertake steps to ascertain the accuracy or completeness of the information furnished to any Owner with respect to the Borrower, the 2016 Bonds, or the Project financed by the 2016 Bonds. No Owner has relied or will rely upon the Issuer, the State of California, or the Trustee in any way

with regard to the accuracy or completeness of the information furnished to any Owner in connection with the purchase of the 2016 Bonds, nor have any such parties made any representation to any Owner with respect to that information.

9. The Bondholder Representative is sufficiently knowledgeable and experienced in financial and business matters, including the purchase and ownership of municipal and other tax-exempt and taxable debt obligations, to be able to evaluate the risks and merits of the investment represented by the purchase of the 2016 Bonds, and it is capable of and has made its own investigation of the Borrower and the Project in connection with its decision to recommend the purchase of the 2016 Bonds on behalf of the Owners.

10. The 2016 Bonds are purchased by every Owner for the purpose of investment and each Owner intends to hold the 2016 Bonds for its own account as a long-term investment, without a current view to any distribution or sale of the 2016 Bonds. Each Owner is informed that it may need to bear the risks of this investment for an indefinite time, since any sale prior to maturity may not be possible.

11. Each Owner is informed that the 2016 Bonds will not be listed on any stock or other securities exchange and were issued without registration under the provisions of the Securities Act, or any state securities laws, and the 2016 Bonds may not be resold, transferred, pledged or hypothecated, in whole or in part, unless they are registered under the Securities Act and applicable state securities laws or unless an exemption from registration is available. Each Owner is informed that the 2016 Bonds will not carry any rating from any rating service. Each Owner is informed that, unless the Issuer is informed that the 2016 Bonds have an investment grade rating, the 2016A Bonds may be transferred only to an "accredited investor", a "qualified institutional buyer" or a "broker-dealer" of securities.

Dated this 15th day of December, 2016.

RPM CAPITAL MANAGEMENT, LLC

By: _____
Michele M. Newland, Esq.
Co-Chief Executive Officer and
Chief Investment Officer

APPENDIX E
PROPOSED FORM OF LOAN AGREEMENT

LOAN AGREEMENT

between

CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY

and

DCPS ELDRIDGE AVENUE LLC,
a California limited liability company, as Borrower

Dated as of December 1, 2016

Relating to:

CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY
SCHOOL FACILITIES REVENUE BONDS
(DISCOVERY CHARTER PREPARATORY SCHOOL PROJECT)
SERIES 2016A AND SERIES 2016B

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THIS LOAN AGREEMENT (this "Loan Agreement"), dated as of December 1, 2016, is by and between the **CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY** (the "Authority"), a public entity of the State of California, and **DCPS ELDRIDGE AVENUE LLC**, a California limited liability company whose sole member is a California nonprofit public benefit corporation (the "Borrower" or the "Lessor").

W I T N E S S E T H:

WHEREAS, the Borrower has applied for the financial assistance of the Authority in the financing of the acquisition, construction, improvement and equipping of certain educational facilities (as more particularly defined in the Indenture, the "Facility") as described in Exhibit A hereto (as set forth in Exhibit A, the "Project") to be owned by the Borrower and operated as the Discovery Charter Preparatory School (the "School") by Discovery Charter Preparatory School, a California nonprofit public benefit corporation (the "Lessee" or the "School") pursuant to a Lease Agreement between the Borrower and the Lessee (the "Lease");

WHEREAS, the Facility is to be located within the territorial limits of the City of Los Angeles, being a program participant of the Authority (the "Program Participant"), and a substantial portion of the persons to be utilizing the services to be provided at the Facility are expected to be residents of the Program Participant and a substantial portion of the persons to be employed by the Borrower at the Facility are expected to be residents of the Program Participant; and

WHEREAS, the financing of the Project will promote significant and growing opportunities for the creation and retention of employment to the California economy and the enhancement of the quality of life to residents of the Program Participant, and will promote opportunities for the creation or retention of employment within the jurisdiction of the Program Participant and is within the powers conferred upon the Authority by its Joint Powers Agreement (the "Joint Powers Agreement"); and

WHEREAS, the financing of the Project will promote residential, commercial and industrial development within the jurisdiction of the Program Participant and thereby stimulate economic activity and increase the tax base, and is within the powers conferred upon the Authority by the Joint Powers Agreement; and

WHEREAS, the financing of the Project is a significant factor in maintaining the operations of the Borrower within the jurisdiction of the Program Participant; and

WHEREAS, the Authority has authorized the issuance of its California Statewide Communities Development Authority School Facilities Revenue Bonds (Discovery Charter Preparatory School Project) Series 2016A (the "Series A Bonds") and Series 2016B (the "Series B Bonds" and, with the Series A Bonds, the "Bonds") in an aggregate principal amount of six million eight hundred fifty thousand dollars ($6,850,000) to finance the Project pursuant to an Indenture, dated as of December 1, 2016, as originally executed and as amended and supplemented from time to time (the "Indenture"), by and between the Authority and Wilmington Trust, N.A., as trustee (the "Trustee"); and

WHEREAS, proceeds of the Bonds will be applied (i) to fund a loan to the Borrower to finance the Project to be used by or operated in conjunction with the School and (ii) to pay certain expenses incurred in connection with the issuance of the Bonds; and

WHEREAS, the Authority and the Borrower have each duly authorized the execution, delivery and performance of this Loan Agreement; and

NOW, **THEREFORE**, for and in consideration of the premises and the mutual covenants hereinafter contained, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01 Definitions. Unless the context otherwise requires, all capitalized terms used herein but not defined shall have the meanings assigned to such terms in Section 1.01 of the Indenture.

SECTION 1.02 Interpretation. In this Loan Agreement, unless the context otherwise requires:

(a) The terms "hereby," "hereof," "herein," "hereunder," "hereinafter" and any similar terms as used in this Loan Agreement, refer to this Loan Agreement as a whole and not to a particular section or provision of this Loan Agreement, and the term "heretofore" shall mean before, and the term "hereafter" shall mean after, the effective date of this Loan Agreement.

(b) Words of the masculine gender shall mean and include correlative words of the feminine and neuter genders, and words importing the singular number shall mean and include the plural number, and vice versa.

(c) Words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations, limited liability companies and other legal entities, including public bodies, as well as natural persons.

(d) Any headings or titles preceding the texts of the several Articles and Sections of this Loan Agreement, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall neither constitute a part of this Loan Agreement nor affect its meaning, construction or effect.

(e) Any certificates, letters or opinions required to be given pursuant to this Loan Agreement shall mean a signed document attesting to or acknowledging the circumstances, representations, opinions of law or other matters therein stated or set forth or setting forth matters to be determined pursuant to this Loan Agreement.

(f) Every "request," "order," "demand," "application," "notice," "statement," "certificate," "consent," "instruction," or similar action hereunder shall, unless the form thereof is specifically provided herein, be in writing, and in the case of the Authority or the Borrower, signed by an Authorized Representative of the Authority or the Borrower, as the case may be.

(g) The parties hereto acknowledge that each such party and their respective counsel have participated in the drafting and revision of this Loan Agreement and the Indenture. Accordingly, the parties agree that any rule of construction that disfavors the drafting party shall not apply in the interpretation of this Loan Agreement or the Indenture or any amendment or supplement or exhibit hereto or thereto.

ARTICLE II

FINDINGS, REPRESENTATIONS, COVENANTS AND WARRANTIES

SECTION 2.01 Findings by the Authority. The Authority hereby finds and determines that: (i) pursuant to the provisions of the Joint Exercise of Powers Act, comprising 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 (the "Act"), a number of California cities, counties and special districts entered into the Joint Powers Agreement pursuant to which the Authority was organized; (ii) the Authority is authorized by the Joint Powers Agreement to issue bonds, notes or other evidences of indebtedness, or certificates of participation in leases or other agreements in order to promote economic development; (iii) the Authority is authorized by a resolution adopted March 21, 1991, to issue bonds, notes or other evidences of indebtedness, or certificates of participation in leases or other agreements to finance or refinance facilities owned and/or leased and operated by Eligible Organizations; (iv) pursuant to the provisions of the Act, the cities, counties and special districts that are the contracting parties comprising the membership of the Authority are authorized to jointly exercise any power common to such contracting parties, including, without limitation, the power to acquire and dispose of property, both real and personal; (v) pursuant to the provisions of the Act and the Joint Powers Agreement, the Authority is authorized to deliver certificates of participation in installment purchase and/or sale agreements with Eligible Organizations; (vi) pursuant to the provisions of the Act, the Authority may, at its option, issue bonds, rather than certificates of participation, and enter into loan agreements with the Eligible Organizations; (vii) the Borrower qualifies as an Eligible Organization; (viii) the financing of the Project will promote opportunities for the creation and retention of employment to the California economy and the enhancement of the quality of life of residents of the Program Participant, and the financing of the Project will promote opportunities for the creation or retention of employment within the jurisdiction of the Program Participant and is within the powers conferred upon the Authority by the Act and the Joint Powers Agreement; (ix) the financing of the Project will be a significant factor in the economic development of the Program Participant, promoting residential, commercial and industrial development within the jurisdiction of the Program Participant and thereby stimulating economic activity and increasing the tax base, and is within the powers conferred upon the Authority by the Joint Powers Agreement; and (x) the financing of the Project is a significant factor in maintaining the operations of the Borrower that are within the jurisdiction of the Program Participant.

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SECTION 2.02 Representations and Warranties of the Borrower. The Borrower represents and warrants to the Authority that, as of the date of execution of this Loan Agreement and as of the date of delivery of the Bonds to the initial purchasers thereof (such representations and warranties to remain operative and in full force and effect regardless of the issuance of the Bonds or any investigations by or on behalf of the Authority or the results thereof):

(a) The Borrower is a California limited liability company whose sole member (the "Sole Member") is a nonprofit public benefit corporation duly incorporated and in good standing under the laws of the State of California, and has full legal right, power and authority to enter into this Loan Agreement and the other Borrower Documents, and to carry out all of its obligations under and consummate all transactions contemplated hereby and by the other Borrower Documents, and by proper corporate action has duly authorized the execution, delivery and performance of this Loan Agreement and the other Borrower Documents.

(b) The officers of the Borrower executing this Loan Agreement and the other Borrower Documents are duly and properly in office and fully authorized to execute the same.

(c) This Loan Agreement and the other Borrower Documents have been duly authorized, executed and delivered by the Borrower.

(d) This Loan Agreement and the other Borrower Documents, when assigned to the Trustee pursuant to the Indenture, will constitute the legal, valid and binding agreements of the Borrower enforceable against the Borrower by the Trustee in accordance with their terms for the benefit of the Holders of the Bonds, and any rights of the Authority and obligations of the Borrower not so assigned to the Trustee constitute the legal, valid, and binding agreements of the Borrower enforceable against the Borrower by the Authority in accordance with their terms; except in each case as enforcement may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally, by the application of equitable principles regardless of whether enforcement is sought in a proceeding at law or in equity and by public policy.

(e) The execution and delivery of this Loan Agreement and the other Borrower Documents, the consummation of the transactions herein and therein contemplated and the fulfillment of or compliance with the terms and conditions hereof and thereof, will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under the articles or organization of the Borrower, its operating agreement, any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, loan agreement, lease, contract or other agreement or instrument to which the Borrower is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Borrower, which conflict, violation, breach, default, lien, charge or encumbrance might have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Loan Agreement and the other Borrower Documents, or the financial condition, assets, properties or operations of the Borrower.

(f) No consent or approval of any trustee or holder of any indebtedness of the Borrower or any guarantor of indebtedness of or other provider of credit or liquidity of the Borrower, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority (except with respect to any state securities or "blue sky" laws) is necessary in connection with the execution and delivery of this Loan Agreement and the other Borrower Documents, or the consummation of any transaction herein or therein contemplated, or the fulfillment of or compliance with the terms and conditions hereof or thereof, except as have been obtained or made and as are in full force and effect.

(g) There is no action, suit, proceeding, inquiry or investigation, before or by any court or federal, state, municipal or other governmental authority, pending, or to the knowledge of the Borrower, after reasonable investigation, threatened, against or affecting the Borrower or the assets, properties or operations of the Borrower which, if determined adversely to the Borrower or its interests, would have a material adverse effect upon the consummation of the transactions contemplated by, or the validity of this Loan Agreement and the other Borrower Documents, or upon the financial condition, assets, properties or operations of the Borrower, and the Borrower is not in default (and no event has occurred and is continuing which with the giving of notice or the passage of time or both could constitute a default) with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Loan Agreement or the other Borrower Documents, or the financial condition, assets, properties or operations of the Borrower. All tax returns (federal, state and local) required to be filed by or on behalf of the Borrower have been filed, and all taxes shown thereon to be due, including interest and penalties, except such, if any, as are being actively contested by the Borrower in good faith, have been paid or adequate reserves have been made for the payment thereof which reserves, if any, are reflected in the audited

financial statements described therein. Subject to the Lease, the Borrower enjoys the peaceful and undisturbed possession of all of the premises upon which it is operating its facilities.

(h) No written information, exhibit or report furnished to the Authority or to the Bondholder Representative by the Borrower in connection with the negotiation of this Loan Agreement or the other Borrower Documents contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(i) The Sole Member is an organization described in Section 501(c)(3) of the Code and is exempt from federal income tax under Section 501(a) of the Code, except for unrelated business taxable income under Section 511 of the Code, and is not a private foundation as described in Section 509(a) of the Code.

(j) The Borrower is a disregarded entity for federal income tax purposes.

(k) The Sole Member is the sole member of the Borrower.

(l) The Loan will be used by the Borrower solely to satisfy one or more of the Sole Member's charitable purposes, which have been previously recognized by the Internal Revenue Service as bona fide charitable purposes. The Borrower has full power and authority to carry on its business as now being conducted and to enter into this Loan Agreement and the other Borrower Documents and the transactions contemplated herein and therein.

(m) The Borrower has good and marketable title to the Facility free and clear from all encumbrances other than Permitted Liens.

(n) As an entity newly created, the Borrower does not have any audited or internally prepared financial statements.

(o) The Borrower's purposes, character, activities, and methods of operation have not changed since its organization and are not different from the purposes, character, activities and methods of operation contemplated at the time of its Sole Member's determination by the Internal Revenue Service to be an organization described in Section 501(c)(3) of the Code; the Borrower has not and will not divert any part of its corpus or income for a purpose or purposes other than the purpose or purposes for which it is organized or operated; the Borrower 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 Regulations, including, but not limited to, promoting or attempting to influence legislation by propaganda or otherwise as a substantial part of its activities; none of its directors, officers, or any related Persons, or any other Person having a private or professional interest in the Borrower's activities has acquired or received, nor will such Persons be allowed to acquire or receive, directly or indirectly, any of the Borrower's goods, services, income or assets, without fair compensation or consideration received in exchange therefor; it has not received any indication or notice to the effect that the Sole Member's exemption from federal income taxation under Section 501(c)(3) 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; the Borrower has not devoted and will not 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; and the Borrower has not taken any action, nor knows of any action that any other Person has taken, nor knows of the existence of any condition that would cause the Sole Member to lose its exemption from federal income taxation under Section 501(c)(3) of the Code or cause interest on the Bonds to be includable in the income of the recipients thereof for federal income tax purposes. As long as the Bonds are Outstanding, the Borrower will not take, permit to

be taken, fail to take, or permit to fail to be taken, any action that would cause the interest on the Bonds to become includable in the gross income of the owners of the Bonds for federal income tax purposes.

(p) The Borrower shall not use (or permit the use of) any proceeds of the Bonds, or any income from the investment thereof or any property financed or refinanced with such proceeds or income, in any trade or business carried on by any Person that is not an Exempt Person or in any unrelated trade or business, as defined in Section 513(a) of the Code, of an Exempt Person or permit the direct or indirect loan of any such proceeds, income, or property to any Person other than an Exempt Person or to any Person that is an Exempt Person for use in an unrelated trade or business, as defined in Section 513(a) of the Code, if the amount of such proceeds, income, or property so used or loaned or portions thereof so used in the aggregate, when added to the cost of issuance financed directly or indirectly with the Tax-Exempt Bond proceeds, exceeds 5% of the proceeds of the Bonds.

(q) Except as provided in the Indenture and this Loan Agreement, the Borrower shall not pledge or otherwise encumber, or permit the pledge or encumbrance of, any money, investment, or investment property as security for payment of any amounts due under this Loan Agreement and shall not establish any segregated reserve or similar fund for such purpose and shall not prepay any such amounts in advance of the redemption date of an equal principal amount of the Bonds.

(r) The Borrower has made and shall continue to make all required contributions to all employee benefit plans, if any, and Borrower has no knowledge of any material liability which has been incurred by the Borrower and remains unsatisfied for any taxes or penalties with respect to any employee benefit plan or any multi-employer plan, and each such plan has been administered in compliance with its terms and the applicable provisions of ERISA and any other federal or state law.

(s) The Borrower has not entered into this transaction or any Borrower Document with the actual intent to hinder, delay, or defraud any creditor and the Borrower has received reasonably equivalent value in exchange for its obligations under the Borrower Documents. Giving effect to the transactions contemplated by the Borrower Documents, the fair saleable value of the Borrower's assets exceeds and will, immediately following the execution and delivery of the Borrower Documents, exceed the Borrower's total liabilities, including, without limitation, subordinated, unliquidated, disputed or contingent liabilities. The fair saleable value of the Borrower's assets is and will, immediately following the execution and delivery of the Borrower Documents, be greater than the Borrower's probable liabilities, including the maximum amount of its contingent liabilities or its debts as such debts become absolute and matured. The Borrower does not intend to, and does not believe that it will, incur debts and liabilities (including, without limitation, contingent liabilities and other commitments) beyond its ability to pay such debts as they mature (taking into account the timing and amounts to be payable on or in respect of obligations of the Borrower).

(t) The Borrower is not (1) an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended; (2) a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" of either a "holding company" or a "subsidiary company" within the meaning of the Public Utility Holding Company Act of 1935, as amended; or (3) subject to any other federal or state law or regulation which purports to restrict or regulate its ability to borrow money.

(u) The Borrower reasonably believes that the Gross Revenues will be sufficient (without any other borrowing) during the term of the Loan to pay the principal of, prepayment premium, if any, and interest on the Loan.

(v) All representations, warranties and certifications made by the School, the Borrower or the Sole Member in connection with the delivery of the Bonds on the Closing Date, including, but not limited to, those representations, warranties and certifications contained in any certificate or

agreement concerning the exclusion of interest on the Bonds from gross income for purposes of federal income taxation executed by the Borrower, are true, correct, and complete in all material respects as of the Closing Date.

(w) The Borrower has no material financial obligation under any indenture, mortgage, deed of trust, loan agreement, or other agreement or instrument to which the Borrower is a party or by which the Borrower is otherwise bound, other than the obligations under this Loan Agreement, obligations subordinate to the Borrower's obligations under this Loan Agreement, and obligations incurred in the ordinary course of its operations.

(x) The Borrower has not borrowed or received other debt financing that has not been heretofore repaid in full other than with respect to the debt financing under this Loan Agreement.

(y) The Borrower complies in all material respects with all applicable Environmental Regulations.

(z) Neither the Borrower nor the Facility is the subject of a federal, state or local investigation evaluating whether any remedial action is needed to respond to any alleged violation of or condition regulated by Environmental Regulations or to respond to a release of any Hazardous Substances into the environment.

(aa) The Borrower does not have any material contingent liability in connection with the release of any Hazardous Substances into the environment.

ARTICLE III

LOAN FINANCING; LOAN REPAYMENTS; INDEMNIFICATION; CONSTRUCTION DRAWS

SECTION 3.01 Agreement to Issue Bonds and Application of Bond Proceeds. In order to fund the Loan and for the other purposes set forth in the Indenture, the Authority, concurrently with the execution of this Loan Agreement, will issue, sell and deliver the Bonds and direct the proceeds thereof to be deposited with the Trustee and applied as provided in Article III of the Indenture. The Authority and the Borrower hereby agree that the proceeds of the Bonds shall be applied solely in accordance with the Indenture.

The Borrower hereby approves the terms and provisions of the Indenture and, to the extent applicable, agrees to be bound by such terms.

SECTION 3.02 The Loan; Loan Repayments; Additional Payments.

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

(b) Loan Repayments. The Borrower shall pay, or cause to be paid, from Gross Revenues of the Borrower, including the Rental Payments under the Lease to or upon the order of the Authority as repayment of the Loan the following amounts (which collectively constitute the "Loan Repayments"):

(i) an amount equal to the aggregate amount of interest payable by the Authority on the then-Outstanding Bonds;

(ii) on or before the maturity of the Bonds, an amount equal to the principal amount of the Bonds; and

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

The Loan Repayments and all other amounts provided in this Section 3.02, shall be payable in such lawful money of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts. All deposits hereunder shall be made at the corporate trust office of the Trustee, or at such other location as shall be designated in writing by the Trustee to the Lessee and the Borrower.

The Borrower shall pay, or cause to be paid, the Loan Repayments from the Gross Revenues of the Borrower, including the Rental Payments, or from any other legally available funds of the Borrower, without any further notice thereof except as may be specifically required by this Section 3.02. The Loan Repayments payable by the Borrower under this Loan Agreement are expected to be equal in the aggregate to an amount which, together with other funds in the Revenue Fund then available for the payment of principal and interest on the Bonds, shall be sufficient to provide for the payment in full of the interest on, premium, if any, and principal of the Bonds as the same become due and payable.

(c) Additional Payments. In addition to the Loan Repayments, the Borrower shall also pay to the Authority, the Bondholder Representative or to the Trustee, as the case may be, "Additional Payments," as follows:

(i) All taxes and assessments of any type or character charged to the Authority or to the Trustee affecting the amount available to the Authority or the Trustee from payments to be received hereunder or in any way arising due to the transactions contemplated hereby (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, as the case may be, at the Borrower's expense, to protest and contest any such taxes or assessments assessed or 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 all amounts referred to in Section 8.06 of the Indenture, as and when the same become due and payable;

(iii) The reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under this Loan Agreement, the other Borrower Documents or the Indenture;

(iv) All fees and expenses of the Rating Agency (if any), and the Rebate Analyst, and if a deposit is required to be made to the Rebate Fund as a result of any calculation made pursuant to Section 5.07 of the Indenture, the amount of such deposit, which shall be deposited in the Rebate Fund not later than the tenth day of the calendar month immediately following the date on which such calculation was made pursuant to Section 5.07 of the Indenture;

(v) All amounts necessary for deposit into the Repair and Replacement Fund pursuant to Section 5.02(4) of the Indenture;

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

(vii) The reasonable fees and expenses of the Bondholder Representative and of such accountants, consultants, attorneys and other experts as may be engaged by the Bondholder Representative.

All such payments shall be made by the Borrower from the Gross Revenues for payment to the Person or Persons entitled to such payments or for deposit to the appropriate fund or account held by the Trustee under the Indenture.

Such Additional Payments shall be billed to the Borrower by the Authority, the Trustee or the Bondholder Representative from time to time, together with a statement certifying that the amount billed has been incurred or paid by the Authority, the Trustee or the Bondholder Representative for one or more of the above items. After such a demand, amounts so billed shall be paid by the Borrower within thirty (30) days after receipt of the bill by the Borrower. Notwithstanding the foregoing, the Authority shall not be required to submit a bill to the Borrower for payment of the Authority's annual fee of 0.015% of the aggregate principal amount of Bonds Outstanding under the Indenture. Such annual fee shall be paid by the Borrower to the Trustee on a prorata basis (i.e., the annual fee shall be divided by the number of payments to be made during each annual period based on the number of interest payments), due and payable in arrears, on each respective Interest Payment Date (deeming, for purposes of calculating the prorata fee to be paid, any principal to be paid on or as of such Interest Payment Date as no longer Outstanding) and shall be made as an Additional Payment in accordance with this Section and Section 5.13 of the Indenture. Such amount due to the Authority may be paid to the Authority directly by the Borrower in lieu of depositing such amount as an Additional Payment hereunder.

(d) Failure to Make Payments. In the event the Borrower shall fail to deposit, or fail to cause to be deposited, with the Trustee or paid to the Bondholder Representative any Loan Repayments or Additional Payments as required by this Section 3.02, the Loan Repayments, Additional Payments or other payments required hereunder not paid from such Gross Revenues shall continue to be an obligation hereunder of the Borrower until the amount in default shall have been fully paid.

(e) Obligations of Borrower Unconditional. The Borrower shall pay to or upon the order of the Authority, at or before the time when payable by the Authority, all costs and liabilities incurred by the Authority, including without limitation fees and expenses of counsel to the Authority, in connection

with the issuance of the Bonds and the making of the Loan to the Borrower herein, or otherwise as a result of the transactions contemplated by the Borrower Documents or the Indenture.

The obligation of the Borrower to make the payments as required in this Section 3.02, and to perform and observe any and all of the other covenants and agreements on its part contained herein, shall be absolute and unconditional irrespective of any defense or any rights of setoff, recoupment, or counterclaim which the Borrower may otherwise have against the Authority. The Borrower shall not: (1) suspend, discontinue, or abate any payment required by this Section 3.02 (except as expressly provided herein); (2) fail to observe any of its other covenants or agreements in this Loan Agreement; or (3) terminate this Loan Agreement for any cause whatsoever (except as provided in Section 7.01 hereof), including without limiting the generality of the foregoing, any declaration or finding that the Bonds, the Indenture, or any portion of this Loan Agreement are invalid or unenforceable, and, any failure of the Authority to perform and observe any agreement, whether expressed or implied, or any duty, liability, or obligation, arising out of or in connection with this Loan Agreement or otherwise.

(f) Gross Revenue Fund.

(i) The Borrower covenants and agrees that, so long as any of the Bonds remain Outstanding, all of the Gross Revenues shall be deposited as soon as practicable upon receipt in a fund designated as the "Gross Revenue Fund" which, at the election of the Bondholder Representative, the Borrower shall establish and maintain, subject to the provisions of subsection (b) of this Section, in an account at such banking institution as the Borrower, with the consent of the Bondholder Representative, shall from time to time designate in writing to the Trustee for such purpose (the "Borrower Depository Bank"). The Borrower, hereby pledges and, to the extent permitted by law, grants, a security interest to the Trustee in, the Gross Revenue Fund and all of the Gross Revenues of the Borrower to secure the Loan Repayments and the Additional Payments and the performance by the Borrower of its other obligations under this Loan Agreement and by the Lessee under the Lease.

(ii) Upon request and direction of the Bondholder Representative or the Trustee, the Borrower shall execute and cause to be filed Uniform Commercial Code financing statements, shall execute and cause to be sent to the Borrower Depository Bank and to the Trustee a notice of the security interest granted hereunder and shall execute and deliver control agreements and continuation statements and such other documents with respect to the Gross Revenues of the Borrower as may be necessary or reasonably required by the Bondholder Representative or requested by the Trustee in order to perfect or maintain as perfected such security interest or give public notice thereof. Without limiting the foregoing, the Borrower shall, at the request and direction of the Bondholder Representative, enter into one or more deposit account control agreements with the Borrower Depository Bank and the Trustee, which shall be acceptable in form and substance to the Bondholder Representative.

(iii) The Borrower further shall require in the Lease that: (A) the Lessee enter into a deposit account control agreement (the "Lessee DACA") with the Depository Bank and the Trustee, which shall be acceptable in form and substance to the Bondholder Representative and the Trustee; and (B) the Lessee shall grant a security interest in all of the Lessee's legally available revenues to the Borrower to secure the Lessee's obligations under the Lease and that all such revenues shall be placed upon receipt into an account (the "Lessee DACA Account") at such banking institution (the "Lessee Depositary Bank") as the Borrower, with the consent of the Bondholder Representative, shall from time to time designate in writing to the Trustee for such purpose.

(iv) The Borrower hereby grants a security interest in, and assigns to the Trustee, all of the Borrower's right, title and interest in all payments made by the Lessee to the

Borrower under the Lease and in all funds held in the Lessee DACA Account and covenants that in the Lease the Borrower will direct that any moneys held by the Lessee in the lessee DACA Account at the Depositary Bank shall be for the benefit of the Trustee, as assignee of the Borrower, and any of the payments of Base Rent or Additional Rent due under the Lease shall be paid directly to the Trustee by the Lessee.

(g) The Borrower covenants and agrees that payments shall be made as follows:

(I) Those portions of the Rental Payments corresponding to monthly installments of interest on the Bonds shall be transferred on the 10th day of each month, beginning January 10, 2017, and deposited in the Interest Account established under the Indenture;

(II) Those portions of the Rental Payments corresponding to monthly installments of principal on the Bonds shall be transferred on the 10th day of each month, commencing July 10, 2018, and deposited in the Principal Account established under the Indenture;

(III) Any amounts required to be deposited in the Rebate Fund established under the Indenture shall be deposited therein;

(IV) Any Additional Payments or other amounts due and payable to the Authority, the Trustee or the Bondholder Representative shall be paid to such party(ies);

(V) Upon approval by the Bondholder Representative, amounts in addition to those described in (V) above requisitioned by the Borrower on behalf of the Lessee and necessary for the operations of the School shall be transferred or paid into the Lessee's operating account;

(VI) Any amounts required to be deposited to the Repair and Replacement Fund established under the Indenture shall be automatically withdrawn on a monthly basis and transferred to the Repair and Replacement Fund under the Indenture as required thereunder.

SECTION 3.03 Expenses. In addition to the payments required to be paid by the Borrower under Section 3.02 hereof, the Borrower agrees that it shall pay from the proceeds of the Bonds or Gross Revenues or other legally available funds of the Borrower, all Costs of Issuance of the Bonds. The Borrower agrees that it also shall pay all expenses incurred by it, including the expenses of its counsel. The Borrower shall also pay the costs of the preparation of the control agreement(s) and the filing of any financing statement(s) pursuant to Section 3.02 hereof or the Indenture.

The Borrower acknowledges that certain provisions of the Indenture set forth Administrative Fees and Expenses of the Trustee as the amount of annual compensation and reimbursement payable from funds held under the Indenture to the Trustee. In the event that the Trustee incurs fees and expenses in the course of performing its duties in excess of Administrative Fees and Expenses or in excess of the funds available for the payment thereof under the Indenture, the Borrower agrees to compensate and reimburse the Trustee from Gross Revenues or other funds of the Borrower, for Administrative Fees and Expenses and for any extraordinary fees and expenses, which compensation to the Trustee shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust.

The Borrower covenants and agrees to pay and indemnify the Authority, the Program Participant, the Bondholder Representative and the Trustee against all reasonable fees, costs and charges, including

reasonable fees and expenses of attorneys, accountants, consultants and other experts, incurred in good faith (and with respect to the Trustee, without negligence) and arising out of or in connection with this Loan Agreement, the other Borrower Documents, the Bonds or the Indenture. These obligations and those in Section 3.05 hereof shall remain valid and in effect notwithstanding repayment of the Loan hereunder or the Bonds or termination of this Loan Agreement or the Indenture or resignation or removal of the Trustee.

SECTION 3.04 Deed of Trust; Assignment of Lease; Assignment of Authority's Rights.

(a) To secure the payment of Loan Repayments and Additional Payments and the performance by the Borrower of its other obligations under this Loan Agreement, the Borrower has entered into a Deed of Trust which Deed of Trust the Borrower agrees will be recorded on or prior to the Closing Date. Pursuant to the Deed of Trust, among other things, the Borrower has assigned all of its rights, title, and interest in and to the Lease to the Trustee, for the benefit of the Holders and the Bondholder Representative. The Borrower agrees, as long as any of the Loan Repayments or Additional Payments remain unpaid, to supplement the Deed of Trust or to execute and deliver such other deeds of trust in substantially the form of the Deed of Trust as may be necessary from time to time to grant the Trustee a first priority Lien on the Facility owned by the Borrower in fee, subject to Permitted Liens. The Borrower shall obtain, at its own cost and expense, an ALTA policy of title insurance, or an endorsement to such policy at the time of and dated as of the date of issuance of the Bonds, in an aggregate amount not less than the aggregate principal amount of the Bonds, payable to the Trustee, insuring the title of the Borrower to the Facility owned by the Borrower in fee, subject only to Permitted Liens, issued by a title insurance company qualified to do business in the State. The Borrower shall execute, and cause the Lessee to execute, one or more control agreements and execute and cause to be filed Uniform Commercial Code financing statements, and shall execute and deliver such other documents (including, but not limited to, continuation statements) as may be necessary or reasonably requested by the Authority, the Bondholder Representative or the Trustee in order to perfect or maintain as perfected such security interest or give public notice thereof. The Trustee has no duty or obligation to determine the sufficiency of any such financing statements to perfect or maintain any such security interest.

(b) Property shall be released from the Deed of Trust if all Outstanding Bonds are redeemed pursuant to Section 4.01 or Section 4.02 of the Indenture and all fees and expenses payable thereunder and under this Agreement and the other Borrower Documents have been paid in full.

(c) As security for the payment of the Bonds, the Authority in the Indenture assigns to the Trustee certain of the Authority's rights under this Loan Agreement, including the right to receive payments hereunder, but excluding any deposits to the Rebate Fund; and the Borrower hereby assents to such assignment and agrees to make payments from Gross Revenues, including from Rental Payments the Borrower receives, or other funds of, or available to, the Borrower directly to the Trustee, without defense or set-off by reason of any dispute between the Borrower and the Authority or the Trustee. By virtue of such assignment and certain obligations of the Borrower to the Trustee, the Trustee shall be a third-party beneficiary of this Loan Agreement and shall have the right to enforce the obligations of the Borrower hereunder, subject to the limitations hereof, including the limitations in Section 3.02 hereof.

SECTION 3.05 Indemnification. To the fullest extent permitted by law, the Borrower agrees to indemnify, hold harmless and defend the Authority, the Program Participant, the Bondholder Representative, the Trustee, and each of their respective officers, governing members, directors, officials, employees, attorneys and agents (collectively, the "Indemnified Parties"), against any and all losses, damages, claims, actions, liabilities, costs and expenses of any conceivable nature, kind or character (including, without limitation, reasonable attorneys' fees, litigation and court costs, amounts paid in settlement and amounts paid to discharge judgments) to which the Indemnified Parties, or any of them, may become subject under any statutory law (including federal or state securities laws) or at common law or otherwise, arising out of or based upon or in any way relating to:

(i) the Bonds, the Indenture, this Loan Agreement, the other Borrower Documents or the Tax Certificate or the execution or amendment hereof or thereof or in connection with transactions contemplated hereby or thereby, including the issuance, sale or resale of the Bonds;

(ii) any act or omission of the Borrower or the Lessee or any of their agents, contractors, servants, employees, tenants or licensees in connection with the Loan, the Facility, the Project or the Lease, the operation of the Project or the Facility or the condition, environmental or otherwise, occupancy, use, possession, conduct or management of work done in or about, or from the planning, design, acquisition, installation or construction of, the Project or the Facility or any part thereof;

(iii) any lien or charge upon payments by the Borrower or the Lessee to the Authority and the Trustee hereunder, or any taxes (including, without limitation, all ad valorem taxes and sales taxes), assessments, impositions and other charges imposed on the Authority or the Trustee in respect of any portion of the Project or the Facility;

(iv) any violation of any Environmental Regulations with respect to, or the release of any Hazardous Substances from the Project or the Facility or any part thereof;

(v) the defeasance and/or redemption, in whole or in part, of the Bonds;

(vi) any untrue statement or misleading statement or alleged untrue statement or alleged misleading statement of a material fact contained in any offering or disclosure document or disclosure or continuing disclosure document for the Bonds or any of the documents relating to the Bonds, or any omission or alleged omission from any offering or disclosure document or disclosure or continuing disclosure document for the Bonds of any material fact necessary to be stated therein in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading, or any failure to timely file any continuing disclosure document in connection with the Bonds required by any undertaking or by any applicable law, rule or regulation;

(vii) any declaration of taxability of interest on the Bonds, or allegations that interest on the Bonds is taxable or any regulatory audit or inquiry regarding whether interest on the Bonds is taxable; and

(viii) the Trustee's acceptance or administration of the trust of the Indenture, or the exercise or performance of any of its powers or duties thereunder or under any of the documents relating to the Bonds to which it is a party;

except (A) in the case of the foregoing indemnification of the Trustee or any of its respective officers, members, directors, officials, employees, attorneys and agents, to the extent such damages are caused by the negligence or willful misconduct of such Indemnified Party; or (B) in the case of the foregoing indemnification of the Authority, the Bondholder Representative or the Program Participant or any of their officers, members, directors, officials, employees, attorneys and agents, to the extent such damages are caused by the willful misconduct of such Indemnified Party. In the event that any action or proceeding is brought against any Indemnified Party with respect to which indemnity may be sought hereunder, the Borrower, upon written notice from the Indemnified Party, shall assume the investigation and defense thereof, including the employment of counsel selected by the Indemnified Party, and shall assume the payment of all expenses related thereto, with full power to litigate, compromise or settle the same in its sole discretion; provided that the Indemnified Party shall have the right to review and approve or disapprove any such compromise or settlement. Each Indemnified Party shall have the right to employ separate counsel in any such action or proceeding and participate in the investigation and defense

thereof, and the Borrower shall pay the reasonable fees and expenses of such separate counsel; provided, however, that such Indemnified Party may only employ separate counsel at the expense of the Borrower if in the judgment of such Indemnified Party a conflict of interest exists by reason of common representation or if all parties commonly represented do not agree as to the action (or inaction) of counsel.

The rights of any persons to indemnity hereunder and rights to payment of fees and reimbursement of expenses pursuant to Sections 3.02 and 3.03 hereof and this Section 3.05 shall survive the final payment or defeasance of the Bonds and in the case of the Trustee any resignation or removal. The provisions of this Section 3.05 shall survive the termination of this Loan Agreement.

ARTICLE IV

MAINTENANCE, TAXES, INSURANCE AND CONDEMNATION

SECTION 4.01 Maintenance and Operation of the Facility. The Borrower shall operate and maintain the Facility in accordance in all material respects with all governmental laws, ordinances, approvals, rules, regulations and requirements including, without limitation, such zoning, sanitary, pollution and safety ordinances and laws and such rules and regulations thereunder as may be binding upon the Borrower. The Borrower shall maintain and operate the Facility and all engines, boilers, pumps, machinery, apparatus, fixtures, fittings and equipment of any kind in or that shall be placed in any building or structure now or hereafter at any time constituting part of the Facility which are material to the operation of the Facility in good repair, working order and condition, and shall from time to time make or cause to be made all needful and proper replacements, repairs, renewals and improvements so that the efficiency and value of the Facility shall not be materially adversely impaired.

SECTION 4.02 Taxes, Assessments, Other Governmental Charges and Utility Charges. The Borrower shall pay and discharge all taxes, assessments, governmental charges of any kind whatsoever, water rates, meter charges and other utility charges which may be or have been assessed or which may have become liens upon the Facility or the interest therein of the Authority, the Trustee or the Holders of the Bonds, and will make such payments or cause such payments to be made, respectively, in due time to prevent any delinquency thereon or any forfeiture or sale of the Facility or any part thereof, and, upon request, will furnish to the Authority, the Bondholder Representative or Trustee receipts for all such payments, or other evidences satisfactory to the Authority, the Bondholder Representative and the Trustee; provided, however, that the Borrower shall not be required to pay any tax, assessment, rate or charge as herein provided as long as it shall in good faith contest the validity thereof, provided that the Borrower shall have set aside reserves with respect thereto that, in the commercially reasonable opinion of the governing body of the Borrower, are adequate.

SECTION 4.03 Insurance Required.

(a) The Borrower covenants and agrees that it will keep (or cause to be kept) insurance (including builder's all-risk insurance) against loss or damage to any structure constituting any part of the Facility by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Said extended coverage insurance 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 subsection shall be in an amount equal to the lesser of (i) one hundred percent (100%) of the replacement cost (without deduction for depreciation) of all buildings, structures and fixtures constituting any part of the Facility, or (ii) the principal amount of the Bonds then Outstanding, and shall be subject to a deductible not to exceed $100,000.

(b) The Borrower covenants and agrees to procure and maintain, throughout the term of this Loan Agreement, business interruption insurance to cover loss, total or partial, of the use of

any structures constituting any part of the Facility as the result of any of the hazards covered by the insurance required by subsection (a) of this Section 4.03, in an amount sufficient to pay the maximum Loan Repayments hereunder for a period of at least twelve (12) months. Proceeds of such insurance in the amount of at least twelve (12) months of maximum Loan Repayments hereunder shall be applied to Loan Repayments, in installments as the proceeds are paid to the Borrower.

(c) Subject to Section 4.04, the Borrower covenants and agrees to procure and maintain at all times such other insurance on the Facility and all operations thereon (including, without limitation, liability insurance) in amounts which are customarily carried and against such risks as are customarily insured against by other corporations in connection with the ownership and operation of facilities of similar character and size to the Facility.

(d) The insurance required to be maintained pursuant to Section 4.03(c) may include alternative risk management programs, including adequate self-insurance. A self-insurance program shall be considered to be adequate if the Borrower is required under the program to deposit and maintain in a separate trust account, established for such purpose with a financial institution having trust powers, money in an amount sufficient, in the opinion of an independent consulting actuary, to pay claims up to the amount of the Borrower's retained liability and to pay anticipated claims expense; and

(i) the Borrower has received a report from its consulting actuary concerning its risk management 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), the Bondholder Representative and the Trustee; the actuary must be a fellow in the Society of Actuaries; and

(ii) such program provides for the administration and payment of claims to the extent of the Borrower's retained liability; and

(iii) such 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 shall be filed with the Authority (if requested by the Authority) and the Trustee; and

(iv) such 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 hereof for the type of coverage as to which the Borrower intends to act or is acting as a self-insurer; and

(v) the Bondholder Representative shall have consented to such program.

(e) An independent consultant shall review the insurance requirements of the Borrower with respect to the Facility from time to time (but not less frequently than once every three years) commencing July 1, 2017. If such review indicates that the Borrower should increase any of the coverages required by Section 4.03 of this Loan Agreement, the Borrower shall review such recommendation with the governing body of the Borrower and shall increase such coverage; provided, however, that such coverage is available from reputable insurance companies at a reasonable cost on the open market.

(f) The Borrower hereby covenants that it shall use its best efforts to apply for any grants, loans or other relief available from the State or federal government to obtain amounts necessary to rebuild any portion of the Facility destroyed or damaged in connection with an uninsured or

underinsured calamity causing destruction or damage; provided, however, that the Borrower shall not be required to accept such amounts if doing so would jeopardize the integrity of the Borrower's programs.

(g) The Borrower shall file with the Bondholder Representative and the Trustee, no later than July 1 of each year, commencing July 1, 2017, a Certificate stating that the Borrower has complied with this Section 4.03. The Trustee is entitled to rely on such Certificate as to the Borrower's compliance with said Section 4.03, and the Trustee shall have no further duty to confirm the accuracy thereof.

SECTION 4.04 Workers' Disability Compensation Act. The Borrower shall at all times comply with the Workers' Disability Compensation Act of the State, or any successor statute or statutes.

SECTION 4.05 Insurers; Policy Forms and Loss Payees. The insurance policies required by Section 4.03 hereof shall be carried by insurance companies which are financially responsible and capable of fulfilling the requirements of such policies. All such policies (except liability policies) shall name the Borrower 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 shall contain a provision to the effect that the insurer shall not cancel or substantially modify the policy provisions without first giving at least thirty (30) days' written notice thereof to the Borrower and the Trustee. In lieu of separate policies, the Borrower may maintain blanket policies which cover any one or more risks required to be insured against so long as the minimum coverages required herein are met. The Trustee is under no duty or obligation to review any such policies or the coverage thereunder and has no duty or obligation to determine the sufficiency of any such insurance required under Section 4.03.

SECTION 4.06 Disposition of Insurance and Condemnation Proceeds.

(a) All proceeds of the insurance carried pursuant to Section 4.03(a) (except proceeds of the liability portion, if any, of such insurance), and proceeds of any condemnation awards with respect to the Facility shall 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 shall establish and maintain and hold in trust pursuant to the Indenture, to be known as the "Insurance and Condemnation Proceeds Fund." In the event the Borrower, with the consent of the Bondholder Representative, elects to repair or replace the portion of the Facility damaged, destroyed or taken, moneys in the Insurance and Condemnation Proceeds Fund shall be disbursed by the Trustee, after deducting therefrom the reasonable charges and expenses of the Trustee incurred in connection with the collection and disbursement of such moneys, for the purpose of repairing or replacing the portion of the Facility damaged, destroyed or taken in the manner and subject to the conditions set forth in Section 5.09 of the Indenture with respect to disbursements from the Insurance and Condemnation Proceeds Fund.

(b) If the Borrower, with the consent of the Bondholder Representative, shall elect not to, or cannot, repair or replace the portion or portions of the Facility damaged, destroyed or taken, as provided in subsection (a) of this Section, subject to subsection (c) of this Section, the Trustee shall transfer all amounts in the Insurance and Condemnation Proceeds Fund on account of such damage, destruction or condemnation to the Special Redemption Account established in the Indenture.

(c) If all amounts in the Insurance and Condemnation Proceeds Fund are not sufficient to retire all Bonds then Outstanding, the Trustee shall not transfer said amounts to the Special Redemption Account unless the Borrower shall file with the Trustee a report of an independent consultant showing that net operating income of the School at the Facility is projected to be at least equal to amounts due under the Lease for each of the three full Fiscal Years immediately following such transfer, after giving effect to the retirement of such Bonds. In the event such report of an independent consultant shows that projected net operating income of the School at the Facility will not be sufficient to pay

amounts due under the Lease for each of the three full Fiscal Years immediately following such transfer, after giving effect to the retirement of such Bonds, the Borrower shall apply all amounts in the Insurance and Condemnation Proceeds Fund to the repair or replacement of the portion or portions of the Facility damaged, destroyed or taken, as provided in subsection (a) of this Section.

SECTION 4.07 Construction Authorization and Permits. The Borrower shall obtain all authorizations and permits relating to construction of the Project that are necessary to complete the Project from all applicable governmental authorities.

SECTION 4.08 Lease. If any Bonds are Outstanding, the Borrower may not voluntarily terminate the Lease prior to completion of its stated terms nor amend the Lease to result in an earlier end of its stated term; provided nothing in this Section limits the exercise of any remedy provided in the Lease in the event of default by the Lessee.

SECTION 4.09 Ownership or Lease of the Project and the Facility. The Borrower agrees that it will own the Project during the term of this Loan Agreement, except that the Borrower may dispose of any component of the Project if the age and condition of such component exceeds the useful life of such component. The Borrower shall not lease the Facility as lessor except pursuant to the Lease.

ARTICLE V

ADDITIONAL COVENANTS AND AGREEMENTS OF BORROWER

SECTION 5.01 Inspection of Books.

(a) The Authority, the Bondholder Representative and the Trustee shall have the right, but not obligation, upon reasonable notice, during business hours, to examine and audit any and all of the Borrower's records or accounts pertaining to the Loan, the Lease, the Indenture, and this Loan Agreement.

(b) Upon written notice to the Borrower delivered at least five Business Days in advance of an inquiry, the Borrower shall make its management personnel available for periodic inquiries from the Authority or the Bondholder Representative; provided that the Borrower shall not be obligated to incur any material out-of-pocket costs in connection with such meetings or inquiries.

SECTION 5.02 Reports and Information. At the request of the Authority, the Bondholder Representative or the Trustee, their agents, employees or attorneys, the Borrower shall furnish to the Authority, the Bondholder Representative and the Trustee, such information as may be reasonably requested in writing from time to time relative to compliance by the Borrower with the provisions of this Loan Agreement, including, without limitation, the most recently prepared consolidated financial statements.

SECTION 5.03 Notice. Upon obtaining knowledge of an Event of Default under any Borrower Document, the Borrower hereby agrees to provide to the Trustee, to the Bondholder Representative and to the Authority prompt notice (which shall in all events be within two Business Days of the Borrower obtaining such knowledge) of such Event of Default (such notice to include a description of the nature of such event and what steps are being taken to remedy such Event of Default).

SECTION 5.04 Reports and Budgets. (a) The Borrower shall, within 30 days after the end of each month and within 45 days after the end of each quarter, provide to the Bondholder Representative and the Trustee a copy, as the case may be, of the unaudited monthly or quarterly financial statements of the Lessee and, if applicable, of the Sole Member on a consolidated basis, together with a certificate signed by an Authorized Representative of the Borrower or the Lessee stating

whether any Event of Default (or any event that with the giving of notice or passage of time would constitute an Event of Default) has occurred and is continuing under the Loan Agreement as of the date of such certificate. The Trustee has no duty or obligation to review any such financial statements and shall hold such financial statement solely as a repository on behalf of the Holders of the Bonds. The Trustee may rely on the certificate of the Borrower as to whether or not any Event of Default (or any event that with the giving of notice or passage of time would constitute an Event of Default) has occurred and is continuing under the Loan Agreement as of the date of such certificate.

(b) The Borrower also shall provide or cause the Lessee to provide the following reports to the Bondholder Representative: (i) (A) as of the date reported to the State in each October, beginning October, 2017, the School's enrollment and related statistics and information for the then-current academic year and the enrollment recognized by the State for reimbursement and aid purposes the prior academic year; and (B) the current school year enrollment as of each January 1 and May 1; (ii) promptly following Lessee approving its operating and capital budgets for a Fiscal Year (and in no event than 30 days following the commencement of a Fiscal Year), copies of the budgets; and (iii) with one hundred and twenty (120) days following the end of each Fiscal Year of the Lessee and the Borrower, the Lessee's and Sole Member's audited financial statements for such Fiscal Year, audited by an accounting firm acceptable to the Bondholder Representative, together with a certificate signed by an Authorized Representative of the Borrower or the Lessee stating whether any Event of Default (or any event that with the giving of notice or passage of time would constitute an Event of Default) has occurred and is continuing under the Loan Agreement or the Lease as of the date of such certificate.

SECTION 5.05 Reliance. The Borrower hereby recognizes and agrees that the representations and covenants set forth in this Loan Agreement may be relied upon by all Persons interested in the legality and validity of the Bonds and in the exemption from federal income taxation of the interest on the Bonds including, without limitation, the Bondholder Representative and the Trustee for the benefit of the Owners of the Bonds. In performing their duties and obligations hereunder, the Trustee may rely upon statements and certificates of the Borrower believed in good faith to be genuine and upon audits of the books and records of the Borrower pertaining to the Loan. The Trustee, in its name or as assignee of the Authority, may, and at the direction of the Bondholder Representative, shall, for and on behalf of the Bondholders, enforce all rights of the Authority which have been assigned to and are held by the Trustee and all obligations of the Borrower under and pursuant to this Loan Agreement, whether or not the Authority has pursued or attempted to enforce any of such rights and obligations. In addition, the Authority, the Bondholder Representative and the Trustee may consult with counsel, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by the Authority, the Bondholder Representative or the Trustee hereunder in good faith and in conformity with the opinion of such counsel. In determining whether any default or lack of compliance by the Borrower exists under this Loan Agreement, none of the Trustee, the Bondholder Representative or the Authority shall be required to conduct any investigation into or review of the operations or records of the Borrower and may rely solely upon any notice or certificate delivered to the Trustee and the Bondholder Representative by the Borrower with respect to the occurrence or absence of a default.

SECTION 5.06 Tax Covenants.

(a) It is the intention of the Borrower that interest on the Bonds shall be and remain excluded from the gross income of the Owners thereof for federal income tax purposes, and to that end the covenants and agreements of the Borrower in this Section and in the Tax Certificate are for the benefit of the Trustee and the Bondholder Representative on behalf of and for each and every Owner of the Bonds.

(b) The Borrower covenants and agrees that it will not use or permit the use of any of the funds provided by the Authority hereunder or any other funds of the Borrower, directly or indirectly, or direct the Trustee to invest any funds held by it hereunder or under the Indenture, in such manner as

would, or enter into, or allow any "related person" (as defined in Section 147(a)(2) of the Code) to enter into, any arrangement, formal or informal, for the purchase of the Bonds that would, or take or omit to take any other action that would cause any Tax-Exempt Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code or "federally guaranteed" within the meaning of Section 149(b) of the Code and applicable regulations promulgated from time to time thereunder.

(c) In the event that at any time the Borrower is of the opinion or becomes otherwise aware, including from the School, that for purposes of this Section or Section 6.09 of the Indenture it is necessary to restrict or to limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Borrower shall determine the limitations and so instruct the Trustee in writing and cause the Trustee to comply with those limitations under the Indenture. The Borrower will take such action or actions as may be reasonably necessary in the opinion of Bond Counsel, or of which it otherwise becomes aware, to comply fully with Section 148 of the Code.

(d) The Borrower shall not, pursuant to an arrangement, formal or informal, purchase Bonds in an amount related to the amount of the Loan, except as otherwise permitted under the Indenture.

(e) In order to maintain the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income purposes and to assure compliance with the laws of the State, the Borrower hereby agrees that it shall, concurrently with or before the execution and delivery of the Bonds, execute and deliver the Tax Certificate, and shall comply with every term of the Tax Certificate. The Borrower covenants with the Authority, for the benefit of the Owners of the Bonds from time to time outstanding, that so long as any Bonds remain Outstanding, moneys on deposit in any fund, or account in connection with the Bonds, whether or not such moneys were derived from the proceeds of the sale of the Bonds or from any other sources, and moneys pledged directly or indirectly to the payment or for the securing of the Bonds, will not be used by or for the Borrower in a manner that will cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code. The Borrower expressly recognizes that, to the extent required by Section 148 of the Code, "proceeds" of the Bonds (including investment proceeds and "replacement" proceeds) may be required to be invested at a yield not exceeding the yield on the Bonds in order to comply with this Section. In furtherance of the covenant in this Section, the Borrower agrees that it will not direct any investments or reinvestments that would contravene either the investment representations made by the Authority in the Tax Certificate or any investment directions provided by the Authority and deemed reasonably necessary in the opinion of Bond Counsel to preserve the exclusion from gross income of interest on the Bonds for federal income tax purposes.

(f) The Borrower shall not permit a change in its sole member without an approving opinion of Bond Counsel and such other conditions, as any, as may be set forth in the Tax Certificate.

(g) In the event of any conflict between the terms of this Loan Agreement and the requirements of the Tax Certificate, the Tax Certificate shall control.

SECTION 5.07 Continuing Disclosure. The Borrower hereby covenants and agrees that it shall comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of this Loan Agreement or the Indenture, failure of the Borrower or the Dissemination Agent (as defined in the Continuing Disclosure Agreement) to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default hereunder or under the Indenture.

SECTION 5.08 Warranty of Truth. The Borrower covenants that no information, certificate, statement in writing or report required by this Loan Agreement, any other Borrower Documents or otherwise furnished by the Borrower to the Authority, the Bondholder Representative or the Trustee shall

contain any untrue statement of a material fact or omit a material fact necessary to make such information, certificate, statement or report not misleading as it relates to the Borrower.

SECTION 5.09 Financial and Certain Operational Covenants. The Borrower covenants:

(a) To maintain books and records separate from any other person or entity;

(b) To maintain its accounts separate from any other person or entity;

(c) Not to commingle assets with those of any other entity;

(d) To conduct its own business in its own name;

(e) To maintain financial statements separate from those of the Lessee;

(f) To pay its own liabilities out of its own funds;

(g) To observe all corporate formalities;

(h) To maintain an arm's-length relationship with its affiliates;

(i) To pay the salaries of its own employees and maintain a sufficient number of employees in light of its contemplated business operations;

(j) Not to guarantee or become obligated for the debts of any other entity or hold out its credit as being available to satisfy the obligations of others;

(k) Not to acquire obligations or securities of its partners, members, or shareholders (as applicable);

(l) To allocate fairly and reasonably any overhead for shared office space;

(m) To use stationery, invoices, and checks separate from those of the Lessee;

(n) Not to pledge its assets for the benefit of any other entity or make any loans or advances to any entity;

(o) To hold itself out as an entity separate from the Lessee;

(p) To correct any known misunderstanding regarding its separate identity; and

(q) To maintain adequate capital in light of its contemplated business operations, including but not limited to its contemplated business operations in connection with the Project.

SECTION 5.10 Employee Benefit Plan Covenant. The Borrower shall continue to make all required contributions to all employee benefit plans, if any, and the Borrower has no knowledge of any material liability which has been incurred by itself and remains unsatisfied for any taxes or penalties with respect to any employee benefit plan or any multi employer plan, and each such plan has been administered in compliance with its terms and the applicable provisions of ERISA and any other federal or state law.

SECTION 5.11 Prohibited Uses. No portion of the proceeds of the Bonds shall be used to finance or refinance any facility, place or building to be used (1) primarily for sectarian instruction or study or as a place for devotional activities or religious worship or (2) by a person that is not a 501(c)(3) Organization or a Governmental Unit or by a 501(c)(3) Organization (including the Borrower, the Sole Member and the Lessee) in an "unrelated trade or business" (as set forth in Section 513(a) of the Code), in such a manner or to such extent as would result in any of the Bonds being treated as an obligation not described in Section 103(a) of the Code.

SECTION 5.12 Limitation on Disposition of Property, Plant and Equipment and the Project. The Borrower covenants and agrees that it will not sell or otherwise dispose, including any disposition by lease, of the Property, Plant and Equipment consisting of all or any part of the Facility, except for disposition or transfers:

(a) Of Property, Plant and Equipment no longer necessary for the operation of the Facility;

(b) Of Property, Plant and Equipment replaced by Property, Plant and Equipment of similar type and/or of substantially equivalent function with a substantially equivalent value; or

(c) Of Property, Plant and Equipment sold or disposed of at a price equal to their fair market value.

In addition to the foregoing limitations, the Borrower may not sell, lease or otherwise dispose (other than with respect to the public dedication in connection with the development of the Project) of any Property unless it shall be established to the satisfaction of the Bondholder Representative and the Trustee that (i) the security of the Deed of Trust and the ability of the trustee thereunder to foreclose upon the remaining Property will not be impaired as a result of the disposition of such property, and (ii) the Borrower shall have conveyed to the trustee under the Deed of Trust such rights-of-way, easements and other rights in land as are required for ingress to and egress from the remaining Property, for the utilization of the facilities located thereon and for utilities required to serve such facilities.

SECTION 5.13 Sufficiency of Gross Revenues. The Borrower hereby confirms that its Gross Revenues are expected to be made in an amount sufficient (without any other borrowing) to pay all Loan Repayments.

SECTION 5.14 Limited Purpose of the Borrower; Borrower Additional Debt.

(a) The Borrower agrees that it is organized and operated for the sole purpose of owning the Facility and that it shall not engage in any other business activity or incur any obligations or liabilities other than those associated with the Lease or executed by it.

(b) The Borrower shall not incur any indebtedness, other than the debt evidenced by this Loan Agreement, unless such indebtedness is consented to by the Bondholder Representative.

(c) The Borrower shall provide in the Lease that: (i) the Lessee shall not incur any indebtedness in excess of Fifty Thousand Dollars ($50,000.00) in the aggregate in any Fiscal Year of the Lessee unless the Lessee shall have received the consent of the Bondholder Representative to such additional indebtedness; and (ii) the Lessee shall not make a draw on any line of credit it maintains unless the Lessee shall have received the consent of the Bondholder Representative to such draw. In calculating the amount of aggregate indebtedness in any Fiscal Year of the Lessee, the Lease shall provide that operating lease payments during such Fiscal Year shall be included in such amount.

SECTION 5.15 Indenture Provisions. The execution and delivery of this Loan Agreement shall constitute conclusive evidence of approval of the Indenture by the Borrower. Whenever the Indenture by its terms imposes a duty or obligation upon the Borrower, such duty or obligation shall be binding upon the Borrower to the same extent as if the Borrower were an express party to the Indenture, and the Borrower shall carry out and perform all of its obligations under the Indenture as fully as if the Borrower were a party to the Indenture.

SECTION 5.16 Special Services Covenant. The Borrower shall cause the Lessee to maintain an educational facility providing educational services to students within the territorial limits of the Program Participant, as long as any Bonds remain Outstanding; provided, however, the Authority, upon review of such facts as it deems relevant, may, from time to time, allow the Borrower to provide alternative services which provide public benefit to the Program Participant and its residents, or deem this special services covenant to be satisfied in whole or in part. Failure to comply with the provisions of this Section shall not constitute an Event of Default under this Loan Agreement but shall be enforceable solely by the Authority by such action, at law or in equity, as the Authority in its sole discretion shall deem appropriate. This Section shall not be enforceable by the Trustee, the Bondholder Representative, any Bondholder, the Program Participant, any resident of the Program Participant or by any other Person other than the Authority.

SECTION 5.17 Lease Covenants. The Borrower covenants to include in the Lease the provisions in the form provided in Exhibit B.

SECTION 5.18 **No Further Action Letter.** The Borrower shall expeditiously take all actions necessary to obtain from the appropriate governmental agency a so-called "no further action" letter regarding the environmental conditions at the real property located at 13570 Eldridge Avenue, Sylmar, California (the "Site"), which NFA Letter shall allow for continued use of the property as a K-12 school (the "NFA Letter"), as set forth below.

Within 15 days of the issuance of the Bonds, the Borrower shall submit an application with all of the required information to obtain an NFA Letter from the Los Angeles County Fire Department ("LACFD") for the Site. The Borrower shall timely respond to and comply with any and all requests, requirements and orders from the LACFD as needed to obtain the NFA Letter.

In the event that LACFD notifies the Borrower that it will not accept jurisdiction over the Site, within 5 days of such notification, the Borrower shall submit an application with all of the required information to obtain an NFA Letter from the Department of Toxics Substances Control ("DTSC") for the Site. The Borrower shall timely respond to and comply with any and all requests, requirements and orders from DTSC as needed to obtain the NFA Letter.

The Borrower shall obtain the NFA Letter for the Site no later than December 31, 2018, which deadline may be extended with the consent of the Bondholder Representative if (1) the Borrower has taken all required actions to obtain the NFA Letter and is waiting only for the governmental agency to issue the NFA Letter; or (2) the Borrower is completing ongoing corrective actions required to obtain the NFA Letter. The Borrower shall submit any request for such an extension to the Bondholder Representative in writing at least 60 days prior to the expiration of the December 31, 2018 deadline or any extension thereof. The Bondholder Representative shall determine the appropriate period of any such extension based on the circumstances set forth in Discovery Prep's extension request. The Bondholder Representative may exercise its reasonable discretion in determining whether to withhold its consent to an extension request hereunder.

The Borrower shall copy the Bondholder Representative on each of its submittals to the LACFD or DTSC.

SECTION 5.19 Guaranteed Maximum Price Contract. The Borrower shall not enter into, or permit the Lessee under the Lease to enter into, any contract for the construction of improvements at the School unless: (a) such agreement provides for a guaranteed maximum price; (b) such agreement has been reviewed and approved by the Bondholder Representative's construction counsel and other representative(s) (the "Construction Representatives"); (c) the Borrower or the Lessee, as the case may be, provides the Bondholder Representative with evidence satisfactory to it that, between moneys in the Project Fund and other funds of the Borrower and Lessee, the Borrower or Lessee can afford the costs of such improvements. The Borrower or the Lessee shall be responsible for the payment of all expenses and costs incurred by the Construction Representatives.

ARTICLE VI

DEFAULTS AND REMEDIES

SECTION 6.01 Events of Default. Any one of the following which occurs and continues shall constitute an Event of Default hereunder:

(a) failure by the Borrower to pay or cause to be paid the Loan Repayments when due, or

(b) failure by the Borrower to pay or cause to be paid when due any other amounts required to be paid under this Loan Agreement and continuation of such failure to pay for ten (10) Business Days following the giving of written notice thereof to the Borrower; or

(c) failure of the Borrower to observe and perform any covenant, condition or agreement on its part to be observed or performed hereunder (other than failure by the Borrower to pay the amounts required to be paid hereunder, as referred to in Section 6.01(a) or (b) above, and other than as provided in subparagraph (d) below) after the Borrower shall have been given 30 days' written notice specifying such default and requesting it be remedied, unless the Trustee shall have consented to an extension beyond such 30-day period, which extension shall not exceed 90 days; provided that the Borrower shall have commenced cure and be diligently pursuing cure in good faith; or

(d) voluntary initiation by the Borrower of any proceeding under any federal or state law relating to bankruptcy, insolvency, arrangement, reorganization, readjustment of debt or any other form of debtor relief, or the initiation against the Borrower of any such proceeding that shall remain undismissed for 60 calendar days, or failure by the Borrower to promptly have discharged any execution, garnishment or attachment of such consequence as would impair the ability of the Borrower to carry on its operations, or assignment by the Borrower for the benefit of creditors, or the entry by the Borrower into an agreement of composition with creditors or the failure generally by the Borrower to pay its debts as they become due;

(e) occurrence and continuance of an "Event of Default" under the Indenture or any of the Borrower Documents, including a Breach under any of the Lease, provided, however, that an Event of Default under the Indenture arising solely from the actions or inactions of the Authority or the Trustee shall not be an Event of Default hereunder;

(f) occurrence of a default under any other material financial obligation of the Borrower; or

(g) any representation or warranty made herein or any statement or representation made by the Borrower in any certificate, report, opinion, financial statement or other instrument furnished in connection with the Loan or any of the Borrower Documents proves to be false or misleading in any material respect when made.

SECTION 6.02 Remedies.

(a) Upon the occurrence of an Event of Default pursuant to Section 6.01 hereof and at any time thereafter during the continuance of such Event of Default, the Trustee may, and at the direction of the Bondholder Representative, shall take one or more or any combination of the following remedial steps:

(i) By written notice to the Borrower, declare the unpaid indebtedness on the Bonds and all amounts then due and payable hereunder, whether by acceleration of maturity or otherwise, to be immediately due and payable, whereupon the same shall become immediately due and payable; and

(ii) Take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due hereunder, or to enforce performance and observance of any obligation, agreement or covenant of the Borrower under this Loan Agreement, the Bonds or any other Borrower Document.

Any amounts collected pursuant to action taken by the Trustee under this Section 6.02(a) shall be applied in accordance with provisions of the Indenture. Notwithstanding anything herein to the contrary, the indebtedness of the Borrower under this Loan Agreement may be separately and independently accelerated with or without an acceleration of the Bonds.

(b) If the Trustee shall have proceeded to enforce the rights of the Authority under this Loan Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Authority, then the Borrower, the Trustee and the Authority shall be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Borrower, the Authority and the Trustee shall continue as though no such proceedings had taken place.

SECTION 6.03 Additional Remedies. In addition to the above remedies, if an Event of Default occurs hereunder, the Authority and the Trustee shall have the right and remedy, without posting bond or other security, to have the provisions of this Loan Agreement specifically enforced by any court having equity jurisdiction, it being acknowledged and agreed that any such breach will cause irreparable injury to the Trustee and the Authority and that money damages will not provide an adequate remedy thereto.

SECTION 6.04 No Remedy Exclusive. No remedy herein conferred upon or reserved to the Authority is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Loan Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Trustee or the Authority to exercise any remedy reserved to it in this Article VI, it shall not be necessary to give notice, other than such notice as may be required in this Article VI. Such rights and remedies as are given the Authority hereunder shall also extend to Trustee on behalf of the Holders of the Bonds, who shall be entitled to the benefit of all covenants and agreements herein contained.

SECTION 6.05 No Additional Waiver Implied by One Waiver. In the event any agreement or covenant contained in this Loan Agreement should be breached by the Borrower and thereafter waived by the Authority, the Bondholder Representative or the Trustee, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

SECTION 6.06 Agreement to Pay Fees and Expenses Upon Default. In the event the Borrower is in default under any provision of this Loan Agreement or causes an event of default under the other Borrower Documents, the Borrower shall be liable to, and upon demand shall pay to, the Authority, the Bondholder Representative and the Trustee all reasonable fees and disbursements of such Persons and their agents (including attorneys' fees and expenses) that are reasonably connected therewith or incidental thereto, except with respect to the Trustee and the Authority, such payment obligation shall be reduced to the extent such fees and disbursements are paid to the Trustee and the Authority from money available therefor under the Indenture.

ARTICLE VII

PREPAYMENT

SECTION 7.01 Prepayment of the Loan.

(a) *General*. As further described below, the Borrower shall have the right, so long as all amounts which have become due hereunder have been paid, at any time or from time to time to prepay all or any part of its Loan Repayments and the Authority agrees that the Trustee shall 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) shall be deposited upon receipt in the applicable account of the Redemption Fund and, at the request of and as determined by the Borrower, credited against payments due hereunder or used for the redemption of Outstanding Bonds in the manner and subject to the terms and conditions set forth in Section 4.01 or Section 4.02 of the Indenture. The Borrower also shall 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, shall be deemed to be paid and retired. Notwithstanding any such prepayment or surrender of Bonds, as long as any Bonds remain Outstanding or any Additional Payments required to be made hereunder remain unpaid, the Borrower shall not be relieved of its obligations hereunder.

(b) *Prepayment in Whole or in Part*. The Loan may be prepaid in whole or in part at any time by delivering to the Trustee amounts sufficient to defease a like principal amount of Bonds to their optional redemption date pursuant to Section 4.02 and Article X of the Indenture.

(c) *Prepayment in Whole or in Part from Amounts Transferred from Insurance and Condemnation Proceeds.* The Loan may be prepaid in whole or in part at any time in a principal amount corresponding to amounts transferred from the Insurance and Condemnation Proceeds Fund pursuant to the Indenture and used to redeem Bonds at the option of the Borrower pursuant to the Indenture.

(d) *Prepayment in Part from Amounts Transferred from Project Fund.* The Loan may be prepaid in part at any time in a principal amount corresponding to amounts transferred from the Project Fund pursuant to Section 5.08(a) of the Indenture and used to redeem Bonds at the option of the Borrower pursuant to Section 4.01(b) of the Indenture.

SECTION 7.02 Redemption of Bonds Upon Prepayment. Upon prepayment of the Loan as provided in Section 7.01, the Trustee shall do any of the following, as applicable: (1) call all or part of the Bonds for redemption, as required by the Indenture in the respective amounts set forth in the applicable paragraph of Section 4.01 or Section 4.02 of the Indenture and (2) provide for the defeasance of Bonds pursuant to Article X of the Indenture.

SECTION 7.03 Amount of Prepayment. In the event of any prepayment pursuant to Section 7.01, the amount of the Loan deemed to be prepaid shall be equal to the principal amount of Bonds defeased or redeemed as described in Section 4.01 or Section 4.02 of the Indenture. In the case

of prepayment of the Loan in full, the Borrower shall pay to the Trustee an amount sufficient, together with other funds held by the Trustee and available for such purpose, to pay all reasonable and necessary fees and expenses (including attorneys' fees) of the Authority, the Trustee and any paying agent accrued and to accrue through final payment of the Bonds and all other liabilities of the Borrower accrued and to accrue under this Loan Agreement and shall pay to the Authority an amount required by Section 3.02(c). In the case of partial prepayment of the Loan, the Borrower shall pay or cause to be paid to the Trustee an amount sufficient, together with other funds held by the Trustee and available for such purpose, to pay expenses of redemption of the Bonds to be redeemed upon such prepayment.

The Borrower agrees that it will not prepay the Loan or any part thereof, except in amounts sufficient to redeem Bonds in Authorized Denominations.

ARTICLE VIII

MISCELLANEOUS

SECTION 8.01 Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when delivered and shall be mailed by registered or certified mail, postage prepaid, or sent by messenger or overnight delivery service or by Electronic Notice, to the notice addresses set forth in the Indenture.

A duplicate copy of each notice, certificate or other communication given hereunder by the Authority or the Borrower shall also be given to the Trustee and the Bondholder Representative. The Authority, the Borrower, the Bondholder Representative and the Trustee may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

SECTION 8.02 Concerning Successors and Assigns. All covenants, agreements, representations and warranties made herein and in the certificates delivered pursuant hereto shall survive the execution and delivery of this Loan Agreement by the Authority and the Borrower. Whenever in this Loan Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party; and all covenants, promises and agreements by or on behalf of the Borrower that are contained in this Loan Agreement shall bind its successors and assigns and inure to the benefit of the successors and assigns of the Authority.

SECTION 8.03 Governing Law; Venue. This Loan Agreement shall be construed in accordance with and governed by the laws of the State of California applicable to contracts made and performed in the State of California. This Loan Agreement shall be enforceable in the State of California, and any action arising hereunder shall (unless waived by the Authority in writing) be filed and maintained in the Superior Court of California, County of Sacramento.

SECTION 8.04 Amendments; Modifications in Writing. Except as otherwise provided in this Loan Agreement or the Indenture, subsequent to the initial issuance of Bonds and prior to their payment in full, or provision for such payment having been made as provided in the Indenture, this Loan Agreement may be effectively amended, changed, modified, altered or terminated only as permitted under the Indenture, by written instrument executed by the parties hereto and consented to by the Bondholder Representative. The Authority hereby agrees that it will not consent to an amendment of the Indenture without the approval of the Borrower and the Bondholder Representative.

SECTION 8.05 Captions. The section headings contained herein are for reference purposes only and shall not in any way affect the meaning or interpretation of this Loan Agreement.

SECTION 8.06 Severability. In the event any provision of this Loan Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

SECTION 8.07 Counterparts. This Loan Agreement may be signed in any number of counterparts with the same effect as if the signatures thereto and hereto were upon the same instrument.

SECTION 8.08 Effective Date and Term. This Loan Agreement shall become effective upon its execution and delivery by the Parties hereto, shall remain in full force from the date thereof and, subject to the provisions hereof, shall continue in effect as long as any of the Bonds are outstanding or the Trustee holds any money under the Indenture.

SECTION 8.09 Non-Liability of Authority. The Authority shall not be obligated to pay the principal (or Redemption Price) of or interest on the Bonds, except from Revenues and other moneys and assets received by the Trustee pursuant to this Loan Agreement. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof (including the Program Participant(s)), nor the faith and credit of the Authority is pledged to the payment of the principal (or Redemption Price) of or interest on the Bonds. The Authority shall not be liable for any costs, expenses, losses, damages, claims or actions, of any conceivable kind on any conceivable theory, under or by reason of or in connection with this Loan Agreement, the Bonds or the Indenture, except only to the extent amounts are received for the payment thereof from the Borrower under this Loan Agreement.

The Borrower hereby acknowledges that the Authority's sole source of moneys to repay the Bonds (whether by maturity, redemption, acceleration or otherwise) will be provided by the payments made by the Borrower to the Trustee pursuant to this Loan Agreement, together with amounts on deposit in and investment income on certain funds and accounts held by the Trustee under the Indenture, and hereby agrees that if the payments to be made hereunder shall ever prove insufficient to pay all principal (or Redemption Price) of and interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Trustee, the Borrower shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal (or Redemption Price) or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Trustee, the Borrower, the Authority or any third party, subject to any right of reimbursement from the Trustee, the Authority or any such third party, as the case may be, therefor.

The Borrower acknowledges that the Program Participant(s) shall not be liable for any 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 Bonds.

SECTION 8.10 Waiver of Personal Liability. No member, officer, agent or employee of the Program Participant or the Authority or any director, officer, agent or employee of the Bondholder Representative, the Borrower, the Sole Member or the School shall be individually or personally liable for the payment of any principal (or redemption price) of or interest on the Bonds or any other sum hereunder or under the Indenture or be subject to any personal liability or accountability by reason of the execution and delivery of this Loan Agreement; but nothing herein contained shall relieve any such member, director, officer, agent or employee from the performance of any official duty provided by law or by this Loan Agreement.

SECTION 8.11 No Prevailing Party Provision. Nothing in this Loan Agreement shall be construed to provide for award of attorneys' fees and costs to the Authority or the Borrower for the enforcement of this Loan Agreement as described in Section 1717 of the Civil Code. Nothing in this Section affects the rights of the Trustee provided herein.

SECTION 8.12 Binding Effect. This Loan Agreement shall inure to the benefit of and shall be binding upon the Authority, the Trustee, the Borrower and their respective successors and assigns, subject, however, to the limitations contained in Section 8.02 hereof.

SECTION 8.13 Third Party Beneficiary. The Bondholder Representative shall be a third-party beneficiary of this Loan Agreement to the extent set forth herein.

IN WITNESS WHEREOF, the parties hereto have executed this Loan Agreement as of the date stated above.

CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY

By: _____

Authorized Signatory

DCPS ELDRIDGE AVENUE LLC

By: _____

Authorized Signatory

EXHIBIT A

THE PROJECT

Acquisition, improvement, equipping and furnishing of the real property and improvements located at 13570 Eldridge Avenue, Sylmar, California 91324, Los Angeles County, California (the "Project").

EXHIBIT B

LEASE PROVISIONS

- Pledge of Gross Revenues of the School

    - To secure the payment of Rent payments in accordance with the terms and provisions of this Lease and all other obligations of Lessee under this Lease, the Lessee pledges, transfers, and grants a security interest in and assigns to the Trustee, as assignee of Lessor's rights under this Lease, all Gross Revenues of the School. Said pledge shall constitute a lien on and security interest in such Gross Revenues of the School and shall attach and be valid and binding from and after the date of this Lease, without any physical delivery thereof or further act.

    - From time to time, Lessee may own or hold funds or other assets subject to a statutory, regulatory, grantor-imposed or donor-imposed restriction on use that prohibits the use of such funds or assets to satisfy the obligations of Lessee under this Lease and/or prohibits the encumbrance of such funds or assets to secure such obligations. The foregoing pledge, transfer, grant of security interest and assignment shall not encumber, attach to or transfer, and the holder of any claims against of Lessee under this Lease shall have no recourse under this Lease to, any funds or assets of Lessee to the extent that any transfer of such funds or assets to or for the benefit of such holder would violate any such donor-imposed restriction on the use of such funds or assets.

- School Gross Revenue Fund (Lessee DACA Account).

    - Monthly installments of Base Rent shall be automatically withdrawn on the 10th day of each month, beginning January 10, 2017, and paid to the Trustee;

    - Any Additional Payments or other amounts due and payable to the Authority, the Trustee or the Bondholder Representative, including amounts required to be deposited to the Repair and Replacement Fund established under the Indenture, shall be paid to such party(ies);

    - Any other Additional Rent due and payable under this Lease shall be paid to Lessor;

    - Amounts constituting no more than 105% of the monthly budget amounts established by the Lessee pursuant to its current fiscal year budget (which budget shall have been approved by the Bondholder Representative) may be requisitioned by the Lessee in accordance with the form of requisition attached to the deposit account control agreement for the account constituting the School Gross Revenue Fund;

    - Upon approval by the Bondholder Representative, amounts in addition to those described above requisitioned by the Borrower on behalf of the Lessee and necessary for the operations of the School shall be transferred or paid into the Lessee's operating account;

    - Upon approval by the Bondholder Representative, which approval shall be in the Bondholder Representative's sole discretion, any other amounts which are approved for use by the Lessee shall be transferred or paid into the Lessee's operating account or as the Borrower shall otherwise direct.

- At such time, if at all, that the Release Conditions have been met, amounts in the School Gross Revenue Fund may be used and withdrawn by the Lessee at any time for any lawful purpose, except as hereinafter provided. In the event that the Lessee is delinquent for more than one

Business Day in the payment of any Base Rent or any Additional Payments, the Trustee, upon notice from the Lessor or the Bondholder Representative or actual knowledge of such delinquency, shall notify the Lessor, the Bondholder Representative and the Depository Bank of such delinquency, and, unless such Base Rent or Additional Payments, as applicable, is paid, or provision for payment is duly made, in a manner satisfactory to the Bondholder Representative and the Trustee, within five days after receipt of such notice, the Lessee shall cause the Depository Bank to transfer the School Gross Revenue Fund to the name and credit of the Trustee. The School Gross Revenue Fund shall continue to be held in the name and to the credit of the Trustee until six months after the amounts on deposit in said fund are sufficient to pay in full, or have been used to pay in full, all Base Rent and Additional Payments in default and all other Events of Default known to the Trustee shall have been made good or cured to the satisfaction of the Trustee and the Bondholder Representative or provision deemed by the Trustee and the Bondholder Representative to be adequate shall have been made therefor, whereupon the School Gross Revenue Fund (except for the Gross Revenues of the School required to make such payments or cure such defaults) shall be returned to the name and credit of the Lessee.

- During any period that the School Gross Revenue Fund is held in the name and to the credit of the Trustee, the Trustee shall use and withdraw amounts in said Fund from time to time (1) first, to make payment of Base Rent and Additional Payments as such payments become due, and, if such amounts shall not be sufficient to pay in full all such payments due on any date, then to the payment of Base Rent and Additional Payments ratably without any discrimination or preference, and (2) second, to such other payments in the order which the Trustee, at the direction of the Bondholder Representative, shall determine to be in the best interests of the Bondholders without discrimination or preference.

- During any period that the School Gross Revenue Fund is held in the name and to the credit of the Trustee, the Lessee shall not be entitled to use or withdraw any of the Gross Revenues of the School unless and to the extent that the Trustee, at the direction of the Bondholder Representative, so directs for the payment of current or past due operating expenses of the Lessee (including with respect to the operations of the School). The Lessee agrees to execute and deliver a control agreement and all other instruments as may be required to implement this Section. The Lessee further agrees that a failure to comply with the terms of this Section shall cause irreparable harm to the Bondholders and shall entitle the Trustee, with or without notice, as assignee of the Lessor, to take immediate action to compel the specific performance of the obligations of the Lessee as provided in this Section.

- Liquidity Covenant.

    - The Lessee shall maintain Days Cash on Hand equal to at least 65 days as measured on June 30, 2017, and as measured on each December 31 and June 30 thereafter. Days Cash on Hand shall be calculated by the Lessee within 120 days of each Fiscal Year end beginning as of June 30, 2018 and within 45 days of each December 31, beginning December 31, 2017 and the calculation shall be forwarded by Lessee's Chief Financial Officer or other authorized officer to the Bondholder Representative and the Trustee. The June 30, 2017 calculation of Days Cash on Hand shall be for informational and reporting purposes only.

    - "*Days Cash on Hand*" shall mean, as of any date of determination with respect to the Lessee, the product of 365 times a fraction, (a) the numerator of which is the aggregate amount of the Lessee's (i) unrestricted cash, (ii) unrestricted investments, and (iii) board designated funds that are not otherwise restricted (either permanently or temporarily) as to their use; and (b) 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.

- "*Operating Expenses*" shall mean, means fees and expenses of the Lessee, including maintenance, repair expenses, utility expenses, administrative and legal expenses, miscellaneous operating expenses, advertising costs, payroll expenses (including taxes), the cost of materials and supplies used for current operations of the School, the cost of vehicles, equipment leases and service contracts, taxes upon the operations of the School, charges for the accumulation of appropriate reserves for current expenses not annually recurrent, but which are such as may reasonably be expected to be incurred in accordance with Generally Accepted Accounting Principles, all in such amounts as reasonably determined by the School; provided, however, "Operating Expenses" shall not include rent payable under the Lease, depreciation, amortization or other non-cash expenses nor payment for improvements to the Facility which are capitalized for accounting purposes.

- If the certification referred to in the Lease Agreement discloses that Lessee's Days Cash on Hand are less than what is required above as of any calculation date from and after December 31, 2017, the Bondholder Representative (or if there is no Bondholder Representative, Bondholders holding a majority of the Outstanding Bonds) shall have the right to direct the Trustee in writing to require the Lessee to engage, at the Lessee's expense, an Independent Consultant acceptable to the Bondholder Representative (or if there is no Bondholder Representative, to the Bondholders). Notwithstanding the foregoing, (x) the Bondholder Representative (or if there is no Bondholder Representative, the Holders of a majority of the Outstanding Bonds) will have the right, by written notice to the Lessee, to require the Lessee to comply with any recommendation of the Independent Consultant with respect to items set forth above in such Independent Consultant's report and (y) the failure of Lessee to comply with the Lease Agreement shall not constitute a Default or Breach unless Lessee fails to comply with the written direction of the Bondholder Representative (or if, there is no Bondholder Representative, the Holders of a majority of the Outstanding Bonds as provided in the Lease Agreement). In addition, if the Days Cash on Hand is below the required level, the Lessee's senior management and the Bondholder Representative shall meet within three (3) Business Days following receipt of the calculation to discuss such failure and any additional actions to be taken by the Lessee.

- "*Independent Consultant*" means a Person, acceptable to the Bondholder Representative, that does not have any direct financial interest or any material indirect financial interest in the Borrower, the Lessee, the Sole Member or the School and is not connected with the Borrower, the Lessee, the Sole Member or the School as an officer, employee, promoter, trustee, partner, director or Person performing similar functions, and designated by the Borrower, qualified to pass upon questions relating to the financial affairs of facilities of the type or types operated by the Lessee and having a favorable reputation for skill and experience in the financial affairs of such facilities.

- Coverage Ratio Covenants.

  - Lessee shall maintain a Debt Service Coverage Ratio equal to at least 1:20:1:00 for each December 31 and June 30 beginning December 31, 2017. The Debt Service Coverage Ratio shall be calculated by the Lessee within 120 days of each Fiscal Year end and within 45 days of each December 31, commencing as of June 30, 2017. the calculation shall be forwarded by Lessee's Chief Financial Officer or other authorized officer to the Bondholder Representative and the Trustee. Failure by Lessee to meet the required Debt Service Coverage Ration shall result in Lessee's senior management having an initial meeting with the Bondholder within three (3) Business days of receipt of the calculation, followed by quarterly calls with the Bondholder Representative to discuss actions to be taken by Lessee to increase the Debt Service Coverage Ratio to the required level. In addition, the Bondholder Representative shall be entitled to require that

Lessee engage an Independent Consultant and undertake the same actions as are set forth above with respect to Lessee's failure to meet its Days Cash on Hand covenant. The calculation of the Debt Service Coverage Ratio as of June 30, 2017 shall be for informational and reporting purposes only.

- In the event that Lessee maintains at least 90 Days Cash on Hand as of any two consecutive calculation dates, Lessee's required Debt Service Coverage Ratio for the twelve month period ending on the second calculation date shall be 1.00:1.00.

- For the purpose of the Debt Service Coverage Ratio, the following terms shall be prescribed the following meanings:

    - "*Debt Service Coverage Ratio*" means, for the indicated period, the ratio obtained by dividing (i) Lessee's Net Income Available for Lease and Debt Payments by (ii) Lessee's Debt Service.

    - *"Net Income Available for Lease and Debt Payments"* means, for the indicated period, the Gross Revenues less Operating Expenses (as defined above).

    - *"Gross Revenues"* means all revenues, income, receipts and moneys received by the Lessee or on behalf of the Lessee solely relating to the operations of the School by the Lessee that may be used to make lease payments under the Lease or otherwise used for the Lessee's Operating Expenses, including from any applicable district or county or from the State pursuant to the School Law from any categorical block grant, general purpose entitlement or revenue limit.

    - *"Debt Service"* means, for any period of time, the sum of (a) the interest payable during such period on all Indebtedness of the applicable entity, (b) that portion of the principal amount of all Indebtedness of the applicable entity maturing on each principal payment date during such period, and (c) that portion of the principal amount of all Indebtedness of the applicable entity that are required to be redeemed or paid from sinking fund installments during such period (together with the redemption premiums, if any, thereon).

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

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

    - "*Long-Term Indebtedness*" means Indebtedness having an original maturity greater than one year or renewable at the option of the Lessee for a period greater than one year from the date of original incurrence or issuance thereof unless, by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least twenty (20) consecutive days during each calendar year.

    - "*Short-Term Indebtedness*" means all Indebtedness of the Lessee not considered Long-Term Indebtedness or a Guaranty.

- Additional Indebtedness.

    - The Lessee covenants and agrees that it will not incur any Additional Indebtedness after the date hereof except for Fifty Thousand Dollars ($50,000) in the aggregate in any Fiscal Year. For purposes of this covenant, operating lease payments shall be taken into account in determining the amount of indebtedness permitted hereunder.

    - Additional Indebtedness consented to by the Bondholder Representative in its sole discretion.

    - As used herein, *Additional Indebtedness*" means any Indebtedness incurred subsequent to the execution and delivery of this Lease and for purposes of Additional Indebtedness, "*Indebtedness*" means all obligations for borrowed money, installment sales and capitalized or operating lease obligations, incurred or assumed by the Lessee, including Guaranties, Long-Term Indebtedness, Short-Term Indebtedness or any other obligation for payments of principal and interest with respect to money borrowed.

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APPENDIX F
FORM OF BOND COUNSEL OPINION

Dated date of issuance

California Statewide Communities Development Authority
Sacramento, California

Wilmington Trust, N.A., as Trustee
Baltimore, Maryland

RE: $6,850,000 California Statewide Communities Development Authority

School Facilities Revenue Bonds (Discovery Charter Preparatory School Project)

consisting of $6,100,000 Series 2016A and $750,000 Series 2016B

Ladies and Gentlemen:

We have acted as Bond Counsel with respect to the issuance by the California Statewide Communities Development Authority (the "Authority"), a public body corporate and politic organized pursuant to the laws of the State of California (the "State"), of its $6,850,000 School Facilities Revenue Bonds (Discovery Charter Preparatory School Project), consisting of $6,100,000 Series 2016A (the "Series 2016A Bonds") and $750,000 Series 2016B (the "Series 2016B Bonds," and together with the Series 2016A Bonds, the "Bonds").

The Bonds are being issued by the Authority pursuant to the provisions of (i) Chapter 5 of Division 7 of Title 1 of the California Government Code (commencing with Section 6500) (the "Act"), (ii) the Indenture dated as of December 1, 2016 (the "Indenture") by and between the Authority and Wilmington Trust, N.A., as trustee (the "Trustee"), and (iii) a resolution duly adopted by the Authority on June 16, 2016. The Bonds are being issued for the purpose of loaning the proceeds therefrom to DCPS Eldridge Avenue LLC (the "Borrower"), a California limited liability company whose sole member is Coalition for Engaged Education, a California nonprofit public benefit corporation designated as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), for the purpose of funding (a) the acquisition, furnishing and equipping of educational facilities located at 13570 Eldridge Avenue in Sylmar, California, to be leased to Discovery Charter Preparatory School ("Discovery Prep"), a California nonprofit public benefit corporation designated as an organization described in Section 501(c)(3) of the Code, for use as a charter school; (b) funding the July 1, 2017 interest payment on the Bonds and (c) certain issuance expenses relating to the Bonds (collectively, the "Project").

The Project is subject to the terms of the Tax Certificate and Agreement dated as of December 15, 2016 (the "Tax Certificate"). 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 December 1, 2016 (the "Loan Agreement") by and between the Authority and the Borrower. The Facility will be leased by the Borrower to Discovery Prep under the Lease Agreement dated as of July 1, 2016 (the "Lease") by and between the Borrower and Discovery Prep.

The Bonds and the payment of amounts owed thereon are secured by the Indenture and, upon recordation, by the Deed of Trust, Security Agreement, Assignment of Rents and Leases and Fixture Filing dated as of December 1, 2016 (the "Deed of Trust").

As Bond Counsel, we have examined and relied on originals or copies, certified or otherwise identified to our satisfaction, of such instruments, certificates, opinions and documents (including all documents constituting the record of proceedings with respect to the issuance of the Bonds) 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, the Tax Certificate 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. The Indenture creates a lien on the Trust Estate to secure the payment of the principal of, premium, if any, and interest on the Bonds, subject to the provisions of the Indenture.

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 and are entitled to the benefit of the Act and the Indenture.

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 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 or any public agency (other than the Authority) or any member of the Authority.

4. The interest on the 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 Bonds will be included in the “adjusted current earnings” of such corporations. The opinions set forth in the preceding sentence are subject to the condition that the Authority, the Borrower, the Sole Member and Discovery Prep comply with all requirements of the Code that must be satisfied subsequent to the issuance of the 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 Discovery Prep have covenanted to comply with such requirements. Failure to comply with certain of such requirements may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

5. 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, the Sole Member and Discovery Prep with respect to matters solely within the knowledge of the Authority, the Borrower, the Sole Member and Discovery Prep which we have not independently verified. We have assumed continuing compliance with covenants in the Indenture, the Loan Agreement, the Lease Agreement and the Tax Certificate pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. In the event that such representations are determined to be inaccurate or incomplete or the Authority, the Borrower, the Sole Member or Discovery Prep fail to comply with the foregoing covenants in the Indenture, the Loan Agreement, the Lease Agreement and the Tax Certificate, interest on the Bonds could become included in gross income for federal income tax purposes from the date of their original delivery, regardless of the date on which the event causing such inclusion occurs.

Although we have rendered an opinion that interest on the Bonds is excludable from gross income for federal income tax purposes, the accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences. Purchasers of the Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property and casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise 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 holding the Bonds.

In addition, the possible modification or repeal of certain existing federal income tax laws, the change of Internal Revenue Service policies or positions, the change of the Borrower's, the Sole Member's or Discovery Prep's method of operations, purposes or character or other factors could result in loss by the Borrower, the Sole Member or Discovery Prep of their tax-exempt status. The Borrower, the Sole Member and Discovery Prep are subject to a number of requirements affecting their operations to maintain their exempt status and not to be considered a "private foundation" (as defined in Section 509(a) of the Code). The failure of the Borrower or the Sole Member to maintain their tax-exempt status could result in the loss of the exemption of interest on the Bonds from federal income taxation.

The foregoing opinion is qualified to the extent that the enforceability of the Bonds, the Indenture and the other instruments enumerated above may be subject to valid 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, or its governmental bodies, and the exercise of judicial discretion in appropriate cases.

In rendering the foregoing opinions, we are not passing upon the matters of: (i) the legal entity status of the Borrower, the Sole Member or Discovery Prep; (ii) the power of the Borrower, the Sole Member or Discovery Prep to execute and deliver any document; or (iii) the accuracy, completeness or sufficiency of the Limited Offering Memorandum distributed in connection with the Bonds, or any other statements made in connection with the offer and sale of the Bonds. In addition, we have relied upon, and assumed the accuracy of, the opinions, dated this date, of Musick, Peeler and Garrett LLP, counsel to Discovery Prep, with respect to Discovery Prep being an organization described in Section 501(c)(3) of the Code whose activities do not and will not generate unrelated trade or business income and whose earnings do not and will not be deemed inuring to the benefit of a private person or entity, and the opinion of Fox Rothschild LLP with respect to the Sole Member being an organization described in Section 501(c)(3) of the Code whose activities do not and will not generate unrelated trade or business income and whose earnings do not and will not be deemed inuring to the benefit of a private person or entity. We we express no opinion with respect to such matters and are relying solely on the opinions of Borrower's and the Sole Member's counsel.

This letter is issued to and for the sole benefit of the above addressees and is issued for the sole purpose of the transaction specifically referred to herein. No person other than the above addressees 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,

HINCKLEY, ALLEN & SNYDER LLP

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APPENDIX G
FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") dated as of December 15, 2016 is executed and delivered by DCPS Eldridge Avenue LLC (the "Borrower"), Discovery Charter Preparatory School (the "School") and Wilmington Trust, N.A., as dissemination agent (the "Dissemination Agent") in connection with the issuance by the California Statewide Communities Development Authority (the "Authority") of its $6,850,000 School Facilities Revenue Bonds (Discovery Charter Preparatory School Project), Series 2016A and Series B (the "Bonds"). The Borrower, the School and Dissemination Agent, intending to be legally bound hereby and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Borrower, the School and the Dissemination Agent for the benefit of the registered owners and the Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Rule 15c2-12(b)(5) adopted by the United States Securities and Exchange Commission (the "SEC") under the Securities and Exchange Act of 1934 (the "Securities Exchange Act"), as the same may be amended from time to time.

SECTION 2. Definitions. In addition to the definitions set forth above, the following terms shall have the following meanings:

"Beneficial Owner" means the person or persons in whose name the beneficial ownership of a particular Bond is registered on the register maintained for that purpose.

"EMMA" means the Electronic Municipal Market Access System established pursuant to the MSRB.

"MSRB" shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act.

"Participating Underwriter" shall mean the original underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Reportable Events" shall mean any of the events listed in Section 4(a) of this Disclosure Certificate.

"Rule" shall mean Rule 15c2-12 adopted by the SEC under the Securities Exchange Act, as the same may be amended or replaced from time to time.

SECTION 3. Provision of Annual Financial Information and Operating Data.

(a) The Borrower and the School shall, or will cause the Dissemination Agent to, within 120 days after the end of the Borrower or School's fiscal year, as applicable, commencing with the fiscal year ending December 31, 2016, file with the MSRB an Annual Report. No later than 15 Business Days prior to said date, the Borrower and the School will provide its respective Annual Report to the Dissemination Agent. In each case, the Annual Report of the School or the Borrower may be submitted as a single document or separate documents comprising a package.

(b) If by 15 Business Days prior to the date specified in subsection (a) for providing an Annual Report to the MSRB, the Dissemination Agent has not received a copy of the Annual Report from the Borrower or the School, the Dissemination Agent will contact the Borrower and/or the School to determine if the School is in compliance with subsection (a).

(c) If the School or the Borrower is unable to provide to the MSRB any financial information required by this Section 3 by the date specified above, as applicable, the Borrower, the School, as applicable, or the Dissemination Agent shall provide, in a timely manner, a notice of such failure to the MSRB, in an electronic format as prescribed by the MSRB or if the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent will send a notice to the MSRB in an electronic format proscribed by the MSRB.

(d) The Dissemination Agent will file a report with the School or the Borrower, as applicable, certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided.

For purposes of this section "Annual Report" shall contain:

With respect to the School:

Audited financial statements, which shall consist of either combined or consolidated financial statements of the School and its related entities for such fiscal year prepared in accordance with generally accepted accounting principles and examined and reported on by a certified public accountant, which shall include consolidating schedules showing the statement of financial position, statement of activities and statement of cash flows of the School;

With Respect to the Borrower:

Audited financial statements, which shall consist of either combined or consolidated financial statements of the Borrower and its related entities for such fiscal year prepared in accordance with generally accepted accounting principles and examined and reported on by a certified public accountant, which shall include consolidating schedules showing the statement of financial position, statement of activities and statement of cash flows of the Borrower;

(e) Any or all of the information to be provided pursuant to this Section may be set forth in a document or set of documents, or may be included by specific reference to documents available to the public on the MSRB's internet website or filed with the SEC. The Borrower, the School and/or the Dissemination Agent shall identify clearly each other document so included by specific reference.

(f) The Borrower and the School shall promptly file, or cause the Dissemination Agent promptly file, with the MSRB a notice of a change in its accounting principles applied in the preparation of the annual financial statements of the Borrower or the School or any change in the dates on which the fiscal year of the Borrower or the School begins and ends.

SECTION 4. Reportable Event Notices. The School shall file, or cause the Dissemination Agent to file, with the MSRB a notice of a Reportable Event (as defined below) in a timely manner not in excess of 10 business days after the occurrence of such event. For purposes of this subsection, a "Reportable Event" includes:

(a) Principal and interest payment delinquencies;

(b) Non-payment related defaults, if material;

(c) Unscheduled draws on debt service reserves reflecting financial difficulties;

(d) Unscheduled draws on credit enhancements reflecting financial difficulties;

(e) Substitution of credit or liquidity providers, or their failure to perform;

(f) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701-TEB) or other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds, if material;

(g) Modifications to rights of Owners of the Bonds, if material;

(h) Optional, unscheduled or contingent Bond redemptions, if material, and tender offers;

(i) Defeasances;

(j) Release, substitution or sale of property securing repayment of the Bonds, if material; rating changes;

(k) Bankruptcy, insolvency, receivership or similar events of the obligated person*;

(l) The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the Borrower or the School, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(m) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

SECTION 5. Termination of Obligations. The Borrower, the School or the Dissemination Agent may terminate this disclosure certificate by giving written notice to the other party at least 30 days prior to such termination. The Borrower's and the School's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If any such termination occurs prior to the scheduled final maturity of the Bonds, the Borrower and/or the School shall give notice of such termination in the same manner as for a Reportable Event under Section 4.

SECTION 6. Amendment.

(a) Notwithstanding any other provision of this Disclosure Certificate, the Borrower, the School and the Dissemination Agent may amend this Disclosure Certificate, provided that such amendment is permitted by the Rule or interpretations of the Rule by the SEC.

(b) In the event this Disclosure Certificate is amended pursuant to subsection (a) above with respect to the financial information or operating data to be provided annually in accordance with Section 3(a), the financial information or operating data provided by the School in accordance with Section 3(a), as applicable, that contains the amended financial information or operating data shall

* For the purposes of the event identified in subparagraph (k), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person 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 obligated person, or if such jurisdiction has been assumed by leaving the existing governmental 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 obligated person.

explain, in narrative form, the reasons for the amendment and the impact of the change in the type of financial information or operating data being provided.

(c) If an amendment is made to this Disclosure Certificate regarding the accounting principles to be followed in preparing financial statements, the financial information provided pursuant to Section 3(a) or (e), as applicable, for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information. To the extent reasonably feasible, the comparison also shall be quantitative. Either the Borrower, the School or the Dissemination Agent shall provide to the MSRB, in an electronic format as prescribed by the MSRB, a notice of the change in the accounting principles.

SECTION 7. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Borrower, the School or the Dissemination Agent from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any financial information or operating data provided annually pursuant to Section 3 or in any notice of the occurrence of a Reportable Event, in addition to that which is required by this Disclosure Certificate. If the Borrower or the School chooses to include any information in any financial information or operating data provided annually pursuant to Section 3 or in any notice of the occurrence of a Reportable Event in addition to that which is specifically required by this Disclosure Certificate, the Borrower and/or the School shall have no obligation under this Disclosure Certificate to update such information or include it in any future financial information or operating data provided annually pursuant to Section 3 or in any future notice of the occurrence of a Reportable Event.

SECTION 8. Failure to Comply. In the event of a failure of the Borrower and/or the School to comply with any provision of this Disclosure Certificate, any registered owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by a court order to cause the Borrower and/or the School to comply with its obligations under this Disclosure Certificate. A failure to comply with the provisions of this Disclosure Certificate shall not be deemed an event of default under the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the Borrower and/or the School to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 9. Notice of Failure. The Borrower and the School shall be given written notice at the address set forth below of any claimed failure by the Borrower or the School to perform its obligations under this Disclosure Certificate, and the Borrower and/or the School shall be given 15 days to remedy any such claimed failure.

SECTION 10. Notices. Any notices or communications to or among any parties to this Disclosure Certificate may be given at the addresses below/ Any person may, by written notice to the other person listed above, designate a different address or telephone number(s) to which subsequent notices of communication should be sent, effective upon receipt.

To the Dissemination Agent: Wilmington Trust, N.A.
25 South Charles Street, 11th Floor
Mail Code: MD2-CS58
Baltimore, Maryland 21201
Attention: Corporate Trust Department

To the Borrower: DCPS Eldridge Avenue LLC
13570 Eldridge Ave.
Sylmar, California 91342

To the School: Discovery Charter Preparatory School
13570 Eldridge Ave.
Sylmar, California 91342

SECTION 11. Performance of Obligations. Notwithstanding anything to the contrary contained in this Disclosure Certificate, the Borrower's and the School's obligations as set forth in this Disclosure Certificate shall be undertaken and performed in accordance with the Rule, interpretations of the Rule by the SEC as published or provided from time to time, and applicable federal securities laws.

SECTION 12. Filing with Electronic Municipal Market Access System (EMMA). Unless otherwise required by the MSRB, all filings with the MSRB shall be made with EMMA and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Borrower, the School, the Dissemination Agent, the Participating Underwriter and the registered owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

IN WITNESS WHEREOF, this Continuing Disclosure Certificate has been executed on behalf of each of the parties hereto by their duly authorized signatory as of the date set forth above.

DISCOVERY CHARTER PREPARATORY SCHOOL, a California nonprofit public benefit corporation

By: _____
Authorized Signatory

DCPS ELDRIDGE AVENUE LLC, a California limited liability corporation

By: _____
Authorized Signatory

WILMINGTON TRUST, N.A.

By: _____
Authorized Signatory

Dated: July 6, 2016

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APPENDIX H
FORM OF CERTIFICATE OF BONDHOLDER REPRESENTATIVE

The undersigned, an Officer of RPM Capital Management, LLC (the "Bondholder Representative"), does hereby certify, represent and agree, as follows:

1. The Bondholder Representative is the duly elected representative of Beneficial Owners of 100% in outstanding aggregate principal amount of the $6,750,000 California Statewide Communities Development Authority School Facilities Revenue Bonds (Discovery Charter Preparatory School Project), Series 2016A (the "Bonds"), of the California Statewide Communities Development Authority (the "Issuer"), which Bonds have been issued and delivered on the date of this Certificate.

2. The Bonds are currently Outstanding in the aggregate principal amount of $6,750,000. The Bondholder Representative represents the Owners of all of the Bonds Outstanding. The Bondholder Representative is delivering this Certificate on behalf of such Owners and all other Owners of the Bonds from time to time represented by the Bondholder Representative (the "Owner" or "Owners").

3. Each Owner is informed that the Bonds are not general obligations of the Issuer, but are special, limited obligations payable and secured solely as provided for in the Indenture, dated as of December 1, 2016, between the Issuer and Wilmington Trust, N.A. (the "Trustee"), as trustee (the "Indenture") and a Loan Agreement, dated as of December 1, 2016, between DCPS Eldridge Avenue LLC (the "Borrower") and the Issuer (the "Loan Agreement" and together with the Indenture, the "Bond Documents").

4. Each Owner and the Bondholder Representative has full power and authority to carry on its business as now conducted.

5. Each Owner is an "accredited investor", as defined in Rule 501 of Regulation D of the Securities Act of 1933, as amended ("Securities Act") or a "qualified institutional buyer", as defined in Rule 144A of the Securities and Exchange Commission.

6. Each Owner has retained RPM Capital Management, LLC to advise and represent the Owner regarding the purchase and sale of securities of entities such as the Borrower and of securities such as the Bonds. Each Owner has the ability to bear the economic risks of an investment in the Bonds, and is an "accredited investor" "as that term is defined in Rule 501 of Regulation D Promulgated under the Securities Act" or a "qualified institutional buyer" "as that term is defined under rule 144A of the Securities and Exchange Commission".

7. Each Owner is not now, and has never been controlled by, or under common control, with the Borrower. The Borrower has never been, and is not now, controlled by any Owner. No Owner has entered into any arrangements with the Borrower or with any affiliate of the Borrower in connection with the Bonds, other than as disclose to the Issuer or Trustee.

8. The Issuer, the State of California, and the Trustee have not undertaken and will not undertake steps to ascertain the accuracy or completeness of the information furnished to any Owner with respect to the Borrower, the Bonds, or the Facility financed by the Bonds. No Owner has relied or will rely upon the Issuer, the State of California, or the Trustee in any way with regard to the accuracy or completeness of the information furnished to any Owner in connection with the purchase of the Bonds, nor have any such parties made any representation to any Owner with respect to that information.

9. The Bondholder Representative is sufficiently knowledgeable and experienced in financial and business matters, including the purchase and ownership of municipal and other tax-exempt and taxable debt obligations, to be able to evaluate the risks and merits of the investment represented by the purchase of the Bonds, and it is capable of and has made its own investigation of the Borrower, Discovery Prep and the Facility in connection with its decision to recommend the purchase of the Bonds on behalf of the Owners.

10. The Bonds are purchased by every Owner for the purpose of investment and each Owner intends to hold the Bonds for its own account as a long-term investment, without a current view to any distribution or sale of the Bonds. Each Owner is informed that it may need to bear the risks of this investment for an indefinite time, since any sale prior to maturity may not be possible.

11. Each Owner is informed that the Bonds will not be listed on any stock or other securities exchange and were issued without registration under the provisions of the Securities Act, or any state securities laws, and the Bonds may not be resold, transferred, pledged or hypothecated, in whole or in part, unless they are registered under the Securities Act and applicable state securities laws or unless an exemption from registration is available. Each Owner is informed that the Bonds will not carry any rating from any rating service. Each Owner is informed that, unless the Issuer is informed that the Bonds have an investment grade rating, the Bonds may be transferred only to an "accredited investor" "as that term is defined in Rule 501 of Regulation D Promulgated under the Securities Act", a "qualified institutional buyer" "as that term is defined under Rule 144A of the Securities and Exchange Commission" or a broker-dealer of securities.

Dated this ___th day of December, 2016.

RPM CAPITAL MANAGEMENT, LLC

By: _____
Its:

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