

LIMITED OFFERING MEMORANDUM

NEW ISSUE - BOOK-ENTRY ONLY

NOT RATED

In the opinion of Robinson, Bradshaw & Hinson, P.A. Bond Counsel, under existing law and subject to compliance with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), as described herein, interest on the Series 2017 Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account for purposes of computing the alternative minimum tax imposed on certain corporations. See "TAX MATTERS" herein. The interest on the Series 2017 Bonds is not exempt from Wisconsin or North Carolina income taxes.



\$31,805,000
PUBLIC FINANCE AUTHORITY
EDUCATION REVENUE BONDS
(PHOENIX ACADEMY PROJECT)
SERIES 2017

Dated: Date of Delivery

The Public Finance Authority (the "Issuer"), a unit of government and a body corporate and politic of the State of Wisconsin (the "State"), will issue its Education Revenue Bonds (Phoenix Academy Project) Series 2017 in the aggregate principal amount of \$31,805,000 (the "Series 2017 Bonds") pursuant to an Indenture of Trust, dated as of June 1, 2017 (the "Indenture"), between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"). The proceeds of the Series 2017 Bonds will be loaned to Phoenix Academy, Inc. (the "Academy") and Phoenix Academy Foundation, Inc. (the "Foundation"), each a North Carolina nonprofit corporation (collectively the "Borrowers"), pursuant to a Loan Agreement, dated as of June 1, 2017 (the "Loan Agreement"), between the Issuer and the Borrowers. See **APPENDIX A – "THE BORROWERS, THE SCHOOL AND THE PROJECT."** The Academy currently operates Phoenix Academy (the "School"), a charter school serving approximately 1,200 students. Proceeds of the Series 2017 Bonds will be used to (1) pay a portion of the costs of acquiring, constructing, improving and equipping educational facilities located in High Point, North Carolina, including (i) an approximately 20,000 square foot Primary School building located on Meeting Way, (ii) an approximately 45,000 square foot Elementary School building located on Mendenhall Oaks Parkway, and (iii) an approximately 65,000 square foot Middle School building located on Clinard Farms Road (collectively, the "Project"), (2) fund a debt service reserve fund for the Series 2017 Bonds, and (3) pay all or a portion of the costs of issuance of the Series 2017 Bonds.

The Series 2017 Bonds will be payable from the moneys held for the payment thereof by the Trustee under the Indenture, including amounts held in a debt service reserve fund and Loan Payments (as defined herein) to be made by the Borrowers under the Loan Agreement. The Series 2017 Bonds will be secured by an assignment and pledge of (i) amounts payable pursuant to the Loan Agreement, (ii) the Deed of Trust (as defined herein), and (iii) an assignment of all rents, revenues and profits of the Project (as defined herein) in favor of the Trustee, as beneficiary, subject to certain Permitted Encumbrances (as defined herein). The Project will be initially owned by the Foundation and operated by the Academy. 7 Degrees of Change Foundation, a North Carolina nonprofit corporation that is engaged to manage certain operational aspects of the School, will serve as manager for the Project. Under the Loan Agreement and the promissory note given pursuant thereto, the Borrowers will be required to make Loan Payments in amounts sufficient to pay debt service on the Series 2017 Bonds, plus certain other payments. See **"THE SERIES 2017 BONDS"** and **"SECURITY FOR THE SERIES 2017 BONDS"** herein.

Interest on the Series 2017 Bonds will accrue from the date of delivery thereof and will be payable semiannually on each June 15 and December 15, commencing December 15, 2017. The Series 2017 Bonds will be issued as fully registered bonds in the denomination of \$100,000 or any integral multiples of \$5,000 in excess thereof, and will initially be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of the Series 2017 Bonds will be made in book-entry form only. Purchasers of beneficial interests will not receive certificates representing their interest in the Series 2017 Bonds. Payments of principal of, premium, if any, and interest on the Series 2017 Bonds will be made directly to DTC or its nominee, Cede & Co., so long as DTC or Cede & Co. is the registered owner of the Series 2017 Bonds. Disbursement of such payment to the DTC Participants (as defined herein) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as defined herein) is the responsibility of the DTC Participants, as more fully described herein.

The Series 2017 Bonds are subject to mandatory and optional redemption as described on the inside cover page hereof and under **"THE SERIES 2017 BONDS - REDEMPTION"** herein.

THE SERIES 2017 BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE TRUST ESTATE, AND EXCEPT FROM SUCH SOURCE, NONE OF THE ISSUER, ANY SPONSOR, ANY MEMBER, ANY ISSUER INDEMNIFIED PARTY, THE STATE OF WISCONSIN OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF OR ANY POLITICAL SUBDIVISION APPROVING THE ISSUANCE OF THE SERIES 2017 BONDS SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST THEREON OR ANY COSTS INCIDENTAL THERETO. THE SERIES 2017 BONDS ARE NOT A DEBT OF THE STATE OF WISCONSIN OR ANY MEMBER AND DO NOT, DIRECTLY, INDIRECTLY OR CONTINGENTLY, OBLIGATE, IN ANY MANNER, ANY MEMBER, THE STATE OF WISCONSIN OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF OR ANY POLITICAL SUBDIVISION APPROVING THE ISSUANCE OF THE SERIES 2017 BONDS TO LEVY ANY TAX OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, THE SERIES 2017 BONDS OR ANY COSTS INCIDENTAL THERETO. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF ANY MEMBER, THE STATE OF WISCONSIN OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF OR ANY POLITICAL SUBDIVISION APPROVING THE ISSUANCE OF THE SERIES 2017 BONDS NOR THE FAITH AND CREDIT OF THE ISSUER OR OF ANY SPONSOR OR ISSUER INDEMNIFIED PARTY SHALL BE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, THE SERIES 2017 BONDS OR ANY COSTS INCIDENTAL THERETO. THE ISSUER HAS NO TAXING POWER.

NO RECOURSE SHALL BE HAD FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2017 BONDS, OR ANY COSTS INCIDENTAL THERETO, AGAINST ANY ISSUER INDEMNIFIED PARTY, UNDER ANY RULE OF LAW OR EQUITY, STATUTE, OR CONSTITUTION OR BY THE ENFORCEMENT OF ANY ASSESSMENT OR PENALTY OR OTHERWISE, AND ALL SUCH LIABILITY OF ANY ISSUER INDEMNIFIED PARTY IS HEREBY EXPRESSLY WAIVED AND RELEASED AS A CONDITION OF AND CONSIDERATION FOR THE EXECUTION AND ISSUANCE OF THE SERIES 2017 BONDS.

No indebtedness of any kind incurred or created by the Borrowers shall constitute an indebtedness of the State of North Carolina or its political subdivisions, and no indebtedness of the Borrowers shall involve or be secured by the faith, credit, or taxing power of the State of North Carolina or its political subdivisions.

EACH INITIAL BENEFICIAL OWNER OF THE SERIES 2017 BONDS SHALL BE EITHER (1) A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT OF 1933, AS AMENDED); OR (II) AN INSTITUTIONAL "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) OF REGULATION D UNDER THE SECURITIES ACT OF 1933, AS AMENDED) THAT IN EITHER CASE HAS PROVIDED AN "INVESTOR LETTER" IN THE FORM ATTACHED HERETO AS APPENDIX H TO THE TRUSTEE. THE SERIES 2017 BONDS MAY NOT AFTER THE INITIAL SALE THEREOF BE TRANSFERRED TO ANY BENEFICIAL OWNER THAT IS NOT A QUALIFIED INSTITUTIONAL BUYER OR AN ACCREDITED INVESTOR. THE ISSUER MAY REMOVE SUCH LIMITATION WITHOUT NOTICE TO OR CONSENT OF ANY BENEFICIAL OWNER OR REGISTERED OWNER. AT SUCH TIME AS THE BORROWERS SHALL PROVIDE TO THE ISSUER AND THE TRUSTEE WRITTEN EVIDENCE TO THE EFFECT THAT EACH RATING AGENCY THEN RATING THE SERIES 2017 BONDS HAS RATED THE SERIES 2017 BONDS "BBB-" OR EQUIVALENT, OR HIGHER (WITHOUT REGARD FOR GRADATION WITHIN A RATING CATEGORY AND WITHOUT REGARD FOR CREDIT ENHANCEMENT UNLESS SUCH CREDIT ENHANCEMENT EXTENDS THROUGH THE FINAL MATURITY DATE OF THE SERIES 2017 BONDS), THIS RESTRICTION SHALL BE OF NO FURTHER FORCE OR EFFECT, NOTWITHSTANDING WHETHER AT A FUTURE TIME THE SERIES 2017 BONDS ARE NO LONGER RATED IN SUCH RATING CATEGORY. SEE **"BONDHOLDERS' RISKS – SECONDARY MARKET; TRANSFER RESTRICTIONS"** HEREIN AND APPENDIX H – **"FORM OF INVESTOR LETTER"** ATTACHED HERETO.

Investment in the Series 2017 Bonds involves a degree of risk for a variety of reasons as described under **"BONDHOLDERS' RISKS"** herein and under other sections of this Limited Offering Memorandum. The Borrowers have limited operating history. The ability of the Borrowers to pay the amounts due under the Loan Agreement is primarily based on moneys paid by the State of North Carolina ("North Carolina" or the "State of North Carolina") as well as the local school districts within which each student resides to the Academy to educate students, and the amount payable is based on student enrollment. No assurance can be given that the Academy will retain its charter until maturity of the Series 2017 Bonds, maintain its current student enrollment, attract additional students or receive approval to amend its charter if necessary to serve additional students. Furthermore, it is impossible to predict whether the North Carolina General Assembly will enact legislation adversely affecting the operation of or funding for charter schools. The Borrowers have no taxing powers. While the Series 2017 Bonds will be secured by certain real and personal property of the Borrowers, there is no requirement that the market value of such property equal or exceed the Borrowers' obligations under the Loan Agreement. In addition, Bondholders do not have consent rights with respect to the issuance of additional parity bonds under the terms and conditions described herein. See **"BONDHOLDERS' RISKS"** herein.

This cover page contains certain information for general reference only. It is not a summary of this issue. Investors must read the entire Limited Offering Memorandum to obtain information essential to make an informed investment decision.

The Series 2017 Bonds are offered, subject to prior sale, when, as and if accepted by George K. Baum & Company (the "Underwriter") and subject to an opinion as to validity and tax exemption by Robinson Bradshaw & Hinson, P.A., Charlotte, North Carolina, Bond Counsel, the approval of certain matters by Parker Poe Adams & Bernstein LLP, Raleigh, North Carolina, as counsel to the Underwriter, the approval of certain matters by Wyatt Early Harris Wheeler, LLP, High Point, North Carolina, as counsel to the Borrower, and the approval of certain matters by von Briesen & Roper, s.c., Milwaukee, Wisconsin, as counsel to the Issuer. It is expected that delivery of the Series 2017 Bonds will be made on or about June 30, 2017, through the facilities of DTC in New York, New York, against payment therefor.

George K. Baum & Company

Phoenix Academy



Elementary School



Primary School



Middle School



MATURITY SCHEDULE

PUBLIC FINANCE AUTHORITY

\$31,805,000

EDUCATION REVENUE BONDS (PHOENIX ACADEMY PROJECT) SERIES 2017

\$3,835,000 5.00% Term Bonds Maturing June 15, 2027, Price: 100%, CUSIP NO: 74442EBR0*
\$9,320,000 5.625% Term Bonds Maturing June 15, 2037, Price: 98.524%, CUSIP NO: 74442EBS8*
\$18,650,000 5.875% Term Bonds Maturing June 15, 2047, Price: 98.267%, CUSIP NO: 74442EBT6*

* The above-referenced CUSIP numbers have been assigned by an independent company not affiliated with the Issuer, the Borrowers, the Underwriter or Trustee, and are included solely for the convenience of the holders of the Series 2017 Bonds. None of the Issuer, the Borrowers, the Underwriter or the Trustee is responsible for the selection or use of such CUSIP numbers, and no representation is made as to their correctness on the Series 2017 Bonds or as indicated above. The CUSIP number for a specific maturity is subject to change after the issuance of the Series 2017 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.

†Preliminary; subject to change.

This Limited Offering Memorandum contains certain statements that are “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, both as amended. All statements other than statements of historical facts included in this Limited Offering Memorandum, including without limitation statements that use terminology such as “estimate,” “expect,” “intend,” “anticipate,” “believe,” “may,” “will,” “continue” and similar expressions, are forward-looking statements. These forward-looking statements include, among other things, the discussions related to the Borrowers’ charter school operations and expectations regarding student enrollment, future operations, revenues, capital resources and expenditures for capital projects. Although the Borrowers believe that the assumptions upon which the forward-looking statements contained in this Limited Offering Memorandum are based are reasonable, any of the assumptions could prove to be inaccurate and, as a result, the forward-looking statements based on those assumptions also could be incorrect. All phases of the operations of the Borrowers, including the Academy’s operation of the School (as defined herein) involve risks and uncertainties, many of which are outside the control of the Borrowers and any one of which, or a combination of which, could materially affect the results of the Borrowers’ operations and whether the forward-looking statements ultimately prove to be correct. Factors that could cause actual results to differ from those expected include, but are not limited to, general economic conditions such as inflation and interest rates, both nationally and in the area of the State of North Carolina (“*North Carolina*” or the “*State of North Carolina*”) where the Project is located; changes in general business regulation that could adversely impact the Borrowers’ operations; unanticipated delays in completion of the Project and/or unanticipated cost overruns; the willingness of North Carolina to fund charter school operations at present or increased levels; competitive conditions within the School’s market, including the acceptance of the education services offered by the School; lower enrollments than projected; unanticipated expenses; the capabilities of the Borrowers’ management; changes in government regulation of the education industry or in the North Carolina charter school statute; future claims for accidents or other torts at the School’s sites and the extent of insurance coverage for such claims; and other risks discussed in this Limited Offering Memorandum. Important factors that could cause actual results to differ materially from the Borrowers’ expectations (“*cautionary statements*”) are disclosed in this Limited Offering Memorandum including in conjunction with the forward-looking statements included in this Limited Offering Memorandum, under “**BONDHOLDERS’ RISKS**” and in **APPENDICES A and B**.

NO REPRESENTATION OR ASSURANCE CAN BE GIVEN THAT THE BORROWERS WILL REALIZE REVENUES IN AMOUNTS SUFFICIENT TO MAKE THE REQUIRED PAYMENTS UNDER THE LOAN AGREEMENT. THE REALIZATION OF FUTURE REVENUES IS DEPENDENT UPON, AMONG OTHER THINGS, THE MATTERS DESCRIBED IN THE FOREGOING

PARAGRAPH AND FUTURE CHANGES IN ECONOMIC AND OTHER CONDITIONS THAT ARE UNPREDICTABLE AND CANNOT BE DETERMINED AT THIS TIME. SEE “**BONDHOLDERS’ RISKS**” HEREIN. THE UNDERWRITER MAKES NO REPRESENTATION AS TO THE ACCURACY OF THE PROJECTIONS CONTAINED HEREIN OR AS TO THE ASSUMPTIONS ON WHICH THE PROJECTIONS ARE BASED.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2017 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 Issuer, the Borrowers or the Underwriter to give any information or to make any representation with respect to the Series 2017 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, nor shall there be any sale of the Series 2017 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Issuer, the Borrowers and other sources that are believed to be reliable. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Limited Offering Memorandum nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the Issuer, the Borrowers, the Project or other matters described herein since the date hereof. This Limited Offering Memorandum contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinions or that they will be realized.

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.

Neither the Issuer nor the Trustee assumes any responsibility for this Limited Offering Memorandum and has not reviewed or undertaken to verify any information contained herein.

The order and placement of 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 Series 2017 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 the Borrowers, the Project and the terms of the offering, including the merits and risks involved. The Series 2017 Bonds have not been approved or disapproved by the Securities and Exchange Commission or any state securities commission, nor has the Securities and Exchange Commission 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.

The Borrowers have covenanted to provide continuing disclosure as described in this Limited Offering Memorandum in **APPENDIX F — “FORM OF CONTINUING DISCLOSURE UNDERTAKING AGREEMENT,”** pursuant to Rule 15c2-12 of the Securities and Exchange Commission. The Issuer has not, and will not, undertake any responsibilities to provide continuing disclosure with respect to the Series 2017 Bonds and will have no liability to Bondholders with respect to any such disclosures.

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

TABLE OF CONTENTS

INTRODUCTORY STATEMENT 1

 GENERAL..... 1

LOAN AGREEMENT AND DEED OF TRUST 1

 DEBT SERVICE RESERVE FUND..... 2

 SPECIAL COVENANTS OF THE BORROWERS 2

 FORWARD-LOOKING STATEMENTS..... 2

 BONDHOLDERS’ RISKS..... 3

 LIMITED OFFERING; TRANSFER RESTRICTIONS 3

 MISCELLANEOUS..... 4

THE ISSUER..... 4

 FORMATION AND GOVERNANCE 4

 POWERS 4

 LOCAL AND TEFRA APPROVALS 4

 GOVERNING BODY 5

 RESOLUTION; APPROVAL 5

 LIMITED OBLIGATIONS 6

 OTHER OBLIGATIONS..... 6

 LIMITED INVOLVEMENT OF THE ISSUER 6

THE BORROWERS, THE SCHOOL AND THE PROJECT..... 6

SOURCES AND USES OF FUNDS 7

DEBT SERVICE SCHEDULE 8

THE SERIES 2017 BONDS 9

 INTEREST; MATURITY; PAYMENT 9

 REDEMPTION PROVISIONS 9

 NOTICE OF REDEMPTION; PAYMENT..... 11

 METHOD OF SELECTING BONDS 11

 INCURRENCE OF ADDITIONAL INDEBTEDNESS 11

 ADDITIONAL BONDS 12

 OWNERSHIP..... 12

SECURITY FOR THE SERIES 2017 BONDS 12

 LIMITED OBLIGATIONS 12

 TRUST INDENTURE..... 12

 PAYMENTS UNDER THE LOAN AGREEMENT; ASSIGNMENT OF LOAN
 AGREEMENT 14

 DEED OF TRUST..... 16

 DEFEASANCE..... 16

BONDHOLDERS’ RISKS 16

 GENERAL..... 16

 ECONOMIC AND OTHER FACTORS..... 17

 RELIANCE ON FINANCIAL PROJECTIONS 18

 REVOCATION, NON-RENEWAL OR EXPIRATION OF CHARTER 18

 INCOME AND PROPERTY TAX EXEMPTION 18

 CHARTER SCHOOLS IN GENERAL..... 19

KEY LEADERSHIP	19
STATE OF NORTH CAROLINA BUDGET.....	19
CHANGES IN LAW; ANNUAL APPROPRIATION; INADEQUATE STATE OF NORTH CAROLINA PAYMENTS.....	19
DISPUTES WITH LOCAL SCHOOL ADMINISTRATIVE UNITS.....	20
FACTORS ASSOCIATED WITH EDUCATION	20
OTHER SCHOOLS/COMPETITION FOR STUDENTS	21
SCHOOL CHOICE INITIATIVES; COMPETITION FOR STUDENTS.....	21
LITIGATION	21
REPUTATIONAL RISK	22
RISKS OF REAL ESTATE INVESTMENT.....	22
VALUE OF PROPERTY MAY FLUCTUATE; LIMITATIONS OF APPRAISALS	23
ENVIRONMENTAL RISKS	23
DEBT SERVICE RESERVE FUND.....	24
TAXATION OF THE SERIES 2017 BONDS.....	24
UNRELATED BUSINESS INCOME.....	24
IRS AUDITS	25
LEGAL OPINIONS.....	25
INABILITY OR DELAY IN LIQUIDATING THE PROJECT AT AN ADEQUATE SALE PRICE	25
POTENTIAL EFFECTS OF BANKRUPTCY	25
ENFORCEMENT OF REMEDIES	26
FAILURE TO PROVIDE ONGOING DISCLOSURE.....	26
SECONDARY MARKET; TRANSFER RESTRICTIONS	26
NO RATING.....	27
ENFORCEABILITY OF OBLIGATIONS	27
LEGAL MATTERS.....	27
RELATIONSHIP AMONG PARTIES	28
TAX MATTERS	28
UNDERWRITING; LIMITED OFFERING.....	29
CONTINUING DISCLOSURE	30
ABSENCE OF MATERIAL LITIGATION.....	31
THE ISSUER	31
THE BORROWERS	31
FINANCIAL STATEMENTS.....	31
CERTAIN RELATIONSHIPS	31
MISCELLANEOUS	31

APPENDIX A	- THE BORROWERS, THE SCHOOL AND THE PROJECT	A-1
APPENDIX B-1	- FINANCIAL STATEMENTS OF PHOENIX ACADEMY, INC. FOR THE YEARS ENDED JUNE 30, 2014, 2015 AND 2016 AND FINANCIAL STATEMENTS OF PHOENIX ACADEMY FOUNDATION, INC. FOR THE YEARS ENDED JUNE 30, 2016.....	B-1-1
APPENDIX B-2	- CERTAIN INTERIM FINANCIAL INFORMATION OF PHOENIX ACADEMY, INC. DISCLOSED TO THE DEPARTMENT OF PUBLIC INSTRUCTION	B-2-1
APPENDIX C	- CHARTER SCHOOL LAWS IN NORTH CAROLINA	C-1
APPENDIX D	- SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS	D-1
APPENDIX E	- FORM OF BOND COUNSEL OPINION	E-1
APPENDIX F	- FORM OF CONTINUING DISCLOSURE UNDERTAKING AGREEMENT	F-1
APPENDIX G	- BOOK ENTRY ONLY SYSTEM.....	G-1
APPENDIX H	- FORM OF INVESTOR LETTER.....	H-1

[THIS PAGE INTENTIONALLY LEFT BLANK]

SUMMARY STATEMENT

The following introductory material is only a brief description of, and is qualified by, the more complete information contained throughout this Limited Offering Memorandum. A full review should be made of the entire Limited Offering Memorandum and the documents summarized or described herein. The offering of the Series 2017 Bonds to potential investors is made only by means of the entire Limited Offering Memorandum. No person is authorized to detach this Summary Statement from this Limited Offering Memorandum or otherwise use it without the entire Limited Offering Memorandum. For the definitions of certain words and terms used in this Summary Statement, see **APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS.”**

Purpose of the Issue The Public Finance Authority (the “*Issuer*”) is issuing its \$31,805,000 Education Revenue Bonds (Phoenix Academy Project) Series 2017 (the “*Series 2017 Bonds*”) pursuant to an Indenture of Trust, dated as of June 1, 2017 (the “*Indenture*”).

Proceeds from the sale of the Series 2017 Bonds will be loaned to Phoenix Academy, Inc. (the “*Academy*”) and Phoenix Academy Foundation, Inc. (the “*Foundation*”, and together with the Academy, the “*Borrowers*”) pursuant to the terms of a Loan Agreement, dated as of June 1, 2017 (the “*Loan Agreement*”), by and between the Issuer and the Borrowers, and will be used to (1) pay a portion of the costs of acquiring, constructing, improving and equipping educational facilities located in High Point, North Carolina, including (i) an approximately 20,000 square foot Primary School building located on Meeting Way, (ii) an approximately 45,000 square foot Elementary School building located on Mendenhall Oaks Parkway and (iii) an approximately 65,000 square foot Middle School building located on Clinard Farms Road (collectively, the “*Project*”), (2) fund a debt service reserve fund for the Series 2017 Bonds, and (3) pay all or a portion of the costs of issuance of the Series 2017 Bonds. See “**SOURCES AND USES OF FUNDS**” and “**THE BORROWERS, THE SCHOOL AND THE PROJECT.**”

The Issuer The Issuer is a unit of government and a body corporate and politic separate and distinct from, and independent of, the State of Wisconsin and the Members (as hereinafter defined). The Issuer was created in 2010 pursuant to Section 66.0304 of the State of Wisconsin State Statutes by local governments for the public purpose of providing local governments a means to efficiently and reliably finance projects that benefit local governments, nonprofit organizations and other eligible private

borrowers in the State of Wisconsin and throughout the country. See **“THE ISSUER.”**

The Borrowers, the School and the Project See **APPENDIX A** hereto for a description of the Borrowers, the School and the Project.

Limited Obligations The Series 2017 Bonds are special limited obligations of the Issuer payable solely from the Trust Estate (as defined herein), and except from such source, none of the Issuer, any Sponsor (as defined herein), any Member (as defined herein), any Issuer Indemnified Party (as defined in the indenture), the State of Wisconsin or any political subdivision or agency thereof or any political subdivision approving the issuance of the Series 2017 Bonds shall be obligated to pay the principal of, premium, if any, or interest thereon or any costs incidental thereto. The Series 2017 Bonds are not a debt of the State of Wisconsin or any Members and do not, directly, indirectly or contingently, obligate, in any manner, any Member, the State of Wisconsin or any political subdivision or agency thereof or any political subdivision approving the issuance of the Series 2017 Bonds to levy any tax or to make any appropriation for payment of the principal of, premium, if any, or interest on, the Series 2017 Bonds or any costs incidental thereto. Neither the faith and credit nor the taxing power of any Member, the State of Wisconsin or any political subdivision or agency thereof or any political subdivision approving the issuance of the Series 2017 Bonds nor the faith and credit of the Issuer or of any Sponsor or Issuer Indemnified Party shall be pledged to the payment of the principal of, premium, if any, or interest on, the Series 2017 Bonds or any costs incidental thereto. The Issuer has no taxing power. See **“SECURITY FOR THE SERIES 2017 BONDS.”**

No Indebtedness of the State of North Carolina ... No indebtedness of any kind incurred or created by the Borrowers shall constitute an indebtedness of the State of North Carolina or its political subdivisions, and no indebtedness of the Borrowers shall involve or be secured by the faith, credit, or taxing power of the State of North Carolina or its political subdivisions.

Registration and Denominations The Series 2017 Bonds will be issued by the Issuer as fully registered bonds without coupons in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof (the *“Authorized Denominations”*); provided, however, in the case of

any institutional accredited investor who is not a qualified institutional buyer, the Series 2017 Bonds to be transferred must be in a minimum principal amount of \$100,000 or any integral multiples of \$5,000 in excess thereof.

Purchase and Transfer Restrictions;

Investor Letter Requirement EACH INITIAL BENEFICIAL OWNER OF THE SERIES 2017 BONDS SHALL BE EITHER (I) A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT OF 1933, AS AMENDED); OR (II) AN INSTITUTIONAL “ACCREDITED INVESTOR” (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) OF REGULATION D UNDER THE SECURITIES ACT OF 1933, AS AMENDED) THAT IN EITHER CASE HAS PROVIDED AN “INVESTOR LETTER” IN THE FORM ATTACHED HERETO AS **APPENDIX H** TO THE TRUSTEE. THE SERIES 2017 BONDS MAY NOT AFTER THE INITIAL SALE THEREOF BE TRANSFERRED TO ANY BENEFICIAL OWNER THAT IS NOT A QUALIFIED INSTITUTIONAL BUYER OR AN INSTITUTIONAL ACCREDITED INVESTOR. THE ISSUER MAY REMOVE SUCH LIMITATION WITHOUT NOTICE TO OR CONSENT OF ANY BENEFICIAL OWNER OR REGISTERED OWNER. AT SUCH TIME AS THE BORROWERS SHALL PROVIDE TO THE ISSUER AND THE TRUSTEE WRITTEN EVIDENCE TO THE EFFECT THAT EACH RATING AGENCY THEN RATING THE SERIES 2017 BONDS HAS RATED THE SERIES 2017 BONDS “BBB-” OR EQUIVALENT, OR HIGHER (WITHOUT REGARD FOR GRADATION WITHIN A RATING CATEGORY AND WITHOUT REGARD FOR CREDIT ENHANCEMENT UNLESS SUCH CREDIT ENHANCEMENT EXTENDS THROUGH THE FINAL MATURITY DATE OF THE SERIES 2017 BONDS), THIS RESTRICTION SHALL BE OF NO FURTHER FORCE OR EFFECT, NOTWITHSTANDING WHETHER AT A FUTURE TIME THE SERIES 2017 BONDS ARE NO LONGER RATED IN SUCH RATING CATEGORY. SEE **“BONDHOLDERS’ RISKS – SECONDARY MARKET; TRANSFER RESTRICTIONS.”**

Book-Entry-Only Registration..... The Series 2017 Bonds will be issued in fully registered form and will be registered initially in the name of “Cede & Co.” as nominee for The Depository Trust Company, New York, New York (“DTC”), a securities depository. Beneficial ownership interests may be acquired through participants in the DTC system (the “Participants”). Such beneficial ownership interests will be recorded in the records of the Participants. Persons for which Participants acquire interests in the Series 2017

Bonds (the “*Beneficial Owners*”) will not receive certificates evidencing their interests in the Series 2017 Bonds so long as DTC or a successor securities depository acts as the securities depository with respect to the Series 2017 Bonds. So long as DTC or its nominee is the registered owner of the Series 2017 Bonds, payments of principal, premium, if any, and interest on the Series 2017 Bonds, as well as notices and other communications made by or on behalf of the Issuer pursuant to the Indenture, will be made to DTC or its nominee only. Disbursement of such payments, notices and other communications by DTC to Participants, and by Participants to the Beneficial Owners, is the responsibility of DTC and the Participants pursuant to rules and procedures established by such entities. See **APPENDIX G – “BOOK-ENTRY-ONLY SYSTEM”** for a discussion of the operating procedures of the DTC system with respect to payments, registration, transfers, notices, and other matters.

Payment Provisions..... The Series 2017 Bonds will be issued in the aggregate principal amounts and will bear interest at the rates set forth on the inside cover page hereof. Interest will be payable semiannually on June 15 and December 15 (each an “*Interest Payment Date*”) of each year, commencing December 15, 2017. Interest will be calculated on the basis of a 360-day year with twelve months of thirty days.

Redemption..... The Series 2017 Bonds are subject to optional, extraordinary and mandatory sinking fund redemption. The terms and provisions regarding such redemption are set forth in “**THE SERIES 2017 BONDS – REDEMPTION.**”

Security The Series 2017 Bonds are special, limited obligations of the Issuer as described under “*Limited Obligations*” herein. Under the Loan Agreement, the Borrowers are obligated unconditionally to pay amounts sufficient to provide for the payment of the principal of, premium, if any, and interest on the Series 2017 Bonds. The Series 2017 Bonds are secured by a pledge of (a) certain rights and interests of the Issuer under to the Loan Agreement, (b) certain rights, title and interests of the Trustee under and pursuant to the Deed of Trust, Assignment of Rents and Fixture Filing dated as of June 1, 2017 (the “*Deed of Trust*”), encumbering the Project and certain rights and interests of the Issuer in the Project, (c) the Revenues (defined in **APPENDIX D**) and all rights and interests of the

Issuer in the Pledged Revenues, subject to Permitted Encumbrances, except the Issuer's Unassigned Rights, (d) the rights and interests of the Issuer under the Series 2017 Promissory Note, (e) all Funds created in the Indenture (other than the Cost of Issuance Fund) subject to certain provisions of the Indenture; and (f) any and all other interests in real or personal property specifically mortgaged, pledged, or hypothecated as and for additional security under the Indenture.

The Series 2017 Bonds are secured by and payable solely from funds payable by the Borrowers under the terms and conditions of the Loan Agreement. **No representation or assurance can be made that the Borrowers will continue to generate sufficient Pledged Revenues to meet its obligations under the Loan Agreement. See "SECURITY FOR THE 2016 BONDS."**

Debt Service Reserve Fund. A debt service reserve fund will be established pursuant to the Indenture for the Series 2017 Bonds (the "*Debt Service Reserve Fund*") in an amount equal to \$2,341,687.50 (the "*Debt Service Reserve Fund Requirement*"). The Debt Service Reserve Fund is pledged for the repayment of the Series 2017 Bonds.

Debt Service Coverage Ratio Covenant..... The Borrowers are required to deliver annually, upon completion of the Borrowers' annual audit, to the Issuer and the Trustee a certificate stating the Debt Service Coverage Ratio for the Fiscal Year then ended and evidencing the calculation thereof, commencing with the Fiscal Year ending June 30, 2018. The Debt Service Coverage Ratio is required to be at or above 1.00 to 1 for each Fiscal Year, commencing with the Fiscal Year ending June 30, 2018 and at or above 1.10 to 1 for each Fiscal Year thereafter. See "**SECURITY FOR THE SERIES 2017 BONDS-PAYMENTS UNDER THE LOAN AGREEMENT; ASSIGNMENT OF LOAN AGREEMENT – Financial Covenants – Debt Service Coverage Ratio**" for a description of the Debt Service Coverage Ratio requirement.

Liquidity Covenant..... Under the Loan Agreement, the Borrowers covenant and agree that as of June 30 of each year, commencing June 30, 2018, they will have at least 45 Days Cash on Hand. See "**SECURITY FOR THE 2017 BONDS – PAYMENTS UNDER THE LOAN AGREEMENT; Assignment of Loan**

Agreement – Financial Covenants – Liquidity Covenant” herein.

Repair and Replacement Fund The Indenture creates a Repair and Replacement Fund. The Borrowers shall pay or cause to be paid to the Trustee on the first day of each month, commencing July 1, 2020, for deposit into the Repair and Replacement Fund, the Repair and Replacement Fund Contribution or the Modified Repair and Replacement Fund Contribution, as applicable (each as defined below). On or before April 1, 2020, and every fifth anniversary thereafter as long as the Bonds are Outstanding, the Borrower shall select an Independent Consultant to complete a capital needs assessment of the Borrower projecting the Borrower’s capital needs and the total cost thereof over the five year period commencing on the following July 1 (each a “*Capital Needs Assessment*”). The total cost set forth in a Capital Needs Assessment less the amount then on deposit in the Repair and Replacement Fund, divided by 60, shall be the “*Repair and Replacement Fund Contribution*” for such five year period; *provided, however,* that in the event (i) the Borrower pays all or a portion of the cost of a capital need projected in the Capital Needs Assessment from a source of funds other than the Repair and Replacement Fund, the Repair and Replacement Fund Contribution for the remainder of the applicable five year period shall be decreased by the amount of such projected cost that is paid from such other source of funds divided by the number of Repair and Replacement Fund Contribution payments remaining in the applicable five year period or (ii) a draw is made upon the Repair and Replacement Fund in excess of the cost for a capital need projected in the Capital Needs Assessment or in any amount for a capital need not projected in the Capital Needs Assessment, the Repair and Replacement Fund Contribution for the subsequent 12 month period shall be increased by the excess amount of such draw or the total amount of such unanticipated draw, as applicable, divided by 12 (the Repair and Replacement Fund Contribution as modified by either clause (i) or clause (ii), the “*Modified Repair and Replacement Fund Contribution*”). See “**SECURITY FOR THE SERIES 2017 BONDS – TRUST INDENTURE – Repair and Replacement Reserve Fund.**”

Bondholders’ Risks Purchase of the Series 2017 Bonds involves a degree of risk and the Series 2017 Bonds are a speculative investment. Prospective purchasers are advised to

read this entire Limited Offering Memorandum and the Appendices attached hereto in their entirety, particularly the section **“BONDHOLDERS’ RISKS”** herein, for a discussion of certain risk factors, which should be considered in connection with an investment in the Series 2017 Bonds.

Continuing Disclosure The Borrowers have agreed for the benefit of the Registered Owners and Beneficial Owners of the Series 2017 Bonds to provide certain financial information, including certain quarterly and annual financial information, other operating data, and notices of material events. See **“CONTINUING DISCLOSURE”** and **APPENDIX F – “FORM OF CONTINUING DISCLOSURE UNDERTAKING AGREEMENT.”**

Tax Status In the opinion of Robinson, Bradshaw & Hinson, P.A. Bond Counsel, under existing law and subject to compliance with the provisions of the Internal Revenue Code of 1986, as amended (the *“Code”*), as described herein, interest on the Series 2017 Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account for purposes of computing the alternative minimum tax imposed on certain corporations. See **“TAX MATTERS”** herein. The interest on the Series 2017 Bonds is not exempt from Wisconsin or North Carolina income taxes.

Authority for Issuance The Series 2017 Bonds are being issued in full conformity with the constitution and laws of the State of Wisconsin, and pursuant to an authorizing resolution adopted by the Issuer’s Board of Directors at a meeting held on May 10, 2017, and pursuant to the terms of the Indenture.

Delivery Information The Series 2017 Bonds are offered when, as, and if issued by the Issuer and accepted by George K. Baum and Company, as underwriter for the Series 2017 Bonds (the *“Underwriter”*), subject to the prior sale and the approving legal opinion of Bond Counsel and certain other conditions. It is expected that the Series 2017 Bonds will be available for delivery through the facilities of DTC on or about June 30, 2017.

Financial Information The audited financial statements for the Foundation for the fiscal year ended June 30, 2016, and for the

Academy for the fiscal years ending June 30, 2014 through 2016 are included in **APPENDIX B-1** to this Official Statement. In addition, **APPENDIX B-2** contains certain unaudited interim financial information as disclosed to the Department of Public Instruction. Certain projected financial information for the Academy for the Fiscal Years ending June 30, 2017 through 2022, is included in **APPENDIX A**.

Appraisal..... All properties to be acquired and improved with the proceeds of the Series 2017 Bonds have been appraised. The collective approved “as built” value of the Project is \$21,300,000. See **APPENDIX A** hereto.

Agents and Advisors George K. Baum and Company, will serve as the Underwriter. Robinson Bradshaw & Hinson, P.A., Charlotte, North Carolina, has acted as Bond Counsel. Certain legal matters will be passed on for the Borrowers by their counsel, Wyatt Early Harris & Wheeler, LLP, for the Issuer by its counsel von Briesen & Roper, s.c., Milwaukee, Wisconsin, and for the Underwriter by its counsel Parker Poe Adams & Bernstein, Raleigh, North Carolina. U.S. Bank National Association will serve as the Trustee for the Series 2017 Bonds. Certain fees that are payable with respect to the Series 2017 Bonds to various counsel, the Underwriter and the Trustee are contingent upon the issuance and delivery of the Series 2017 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 George K. Baum & Company, 651 Holiday Drive, Suite 110, Pittsburgh, Pennsylvania, 15220, Attention: Jason Appelt.

[Remainder of page intentionally left blank]

LIMITED OFFERING MEMORANDUM

\$31,805,000

**PUBLIC FINANCE AUTHORITY
EDUCATION REVENUE BONDS
(PHOENIX ACADEMY PROJECT)
SERIES 2017**

INTRODUCTORY STATEMENT

The following is a brief introduction as to certain matters discussed elsewhere in this Limited Offering Memorandum and is qualified in its entirety as to such matters by such discussion and the text of the actual documents described or referenced. Any capitalized term not required to be capitalized is used with the meaning assigned in **APPENDIX D** or in the Indenture of Trust dated as of June 1, 2017 (the “*Indenture*”), between Public Finance Authority (the “*Issuer*”) and U.S. Bank National Association (the “*Trustee*”), the Loan Agreement dated as of June 1, 2017 (the “*Loan Agreement*”), between the Issuer and Phoenix Academy, Inc. (the “*Academy*”) and Phoenix Academy Foundation, Inc. (the “*Foundation*”), each a North Carolina nonprofit corporation (together, the “*Borrowers*”), or other document with respect to which the term is used. Definitions contained in the text hereof are for ease of reference only and are qualified in their entirety by the definitions in **APPENDIX D** or the documents with respect to which such terms relate. The Appendices hereto are an integral part of this Limited Offering Memorandum and each potential investor should review the Appendices in their entirety.

GENERAL

This Limited Offering Memorandum provides information regarding the Education Revenue Bonds (Phoenix Academy Project) Series 2017 in the aggregate principal amount of \$31,805,000 (the “*Series 2017 Bonds*”) to be issued by the Issuer pursuant to the Indenture. Pursuant to the Loan Agreement, proceeds of the Series 2017 Bonds will fund a loan (the “*Loan*”) to the Borrowers. See **APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – *The Loan Agreement.*”**

The Borrowers have requested that the Issuer issue the Series 2017 Bonds and loan the proceeds thereof to the Borrowers. The Borrowers intend to use the proceeds of the Series 2017 Bonds to (1) pay a portion of the costs of acquiring, constructing, improving and equipping educational facilities located in High Point, North Carolina, including (i) an approximately 20,000 square foot Primary School building located on Meeting Way, (ii) an approximately 45,000 square foot Elementary School building located on Mendenhall Oaks Parkway and (iii) an approximately 65,000 square foot Middle School building located on Clinard Farms Road (collectively, the “*Project*”), (2) fund a debt service reserve fund for the Series 2017 Bonds, and (3) pay all or a portion of the costs of issuance of the Series 2017 Bonds. See “**SOURCES AND USES OF FUNDS**” and **APPENDIX A – “THE BORROWERS, THE SCHOOL AND THE PROJECT.”**

LOAN AGREEMENT AND DEED OF TRUST

The Borrowers’ obligations to make Loan Payments will be evidenced by the Series 2017 Promissory Note (the “*Series 2017 Promissory Note*”), executed by the Borrowers in favor of the Issuer, which will be assigned without recourse against the Issuer but with recourse against the Borrowers to the Trustee. Proceeds of the Series 2017 Bonds in the Project Fund will be disbursed pursuant to the Loan Agreement and the Indenture. Pursuant to the Loan Agreement, the Borrowers will make certain

representations and covenants related to maintaining the exclusion from gross income for federal income tax purposes of interest on the Series 2017 Bonds.

Pursuant to the Indenture, the Issuer has pledged to the Trustee, for the benefit of the holders of the Series 2017 Bonds, all of its interest in the Loan Agreement and the Series 2017 Promissory Note (other than the Issuer's Unassigned Rights, (as defined in the Indenture), to secure payment of the principal of, premium, if any, and interest on the Series 2017 Bonds. The Borrowers have executed a Deed of Trust, Assignment of Rents and Fixture Filing dated as of June 1, 2017 (the "*Deed of Trust*"), in favor of the Trustee, as beneficiary, for the benefit of the Issuer to secure the repayment of the Series 2017 Promissory Note, which grants a lien on and security interest in the Project, subject to certain "*Permitted Encumbrances*" described in the Deed of Trust. See **APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – *The Loan Agreement*" and " – *The Deed of Trust.*"**

DEBT SERVICE RESERVE FUND

On the date of issuance of the Series 2017 Bonds, an amount equal to \$2,341,687.50 of Series 2017 Bond Proceeds, which amount shall be equal to the Debt Service Reserve Requirement for the Series 2017 Bonds, will be deposited in the account related to the Series 2017 Bonds in the Debt Service Reserve Fund created under the Indenture. Earnings on amounts in the Debt Service Reserve Fund will be deposited therein, so long as the balance therein is less than the Debt Service Reserve Fund Requirement. Amounts in the Debt Service Reserve Fund will secure only the Series 2017 Bonds and may be used by the Trustee to pay principal of, premium, if any, and interest on the Series 2017 Bonds in the event monies in the Bond Fund are insufficient for such purpose. There is no guarantee that the Debt Service Reserve Fund will be available to pay debt service on the Series 2017 Bonds. See "**SECURITY FOR THE SERIES 2017 BONDS – DEBT SERVICE RESERVE FUND**" and **APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – *The Indenture – Debt Service Reserve Fund.*"**

SPECIAL COVENANTS OF THE BORROWERS

The Loan Agreement places certain restrictions on the incurrence of additional indebtedness by the Borrowers. The Borrowers have agreed in the Loan Agreement to provide annual audited financial statements. See **APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – *The Loan Agreement – Limitations on Additional Indebtedness*" and "*Audits; Reports.*"**

FORWARD-LOOKING STATEMENTS

This Limited Offering Memorandum contains certain statements that are "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, both as amended. All statements other than statements of historical facts included in this Limited Offering Memorandum, including without limitation statements that use terminology such as "estimate," "expect," "intend," "anticipate," "believe," "may," "will," "continue" and similar expressions, are forward-looking statements. These forward-looking statements include, among other things, the discussions related to the Borrowers' charter school operations and expectations regarding student enrollment, future operations, revenues, capital resources and expenditures for capital projects. Although the Borrowers believe that the assumptions upon which the forward-looking statements contained in this Limited Offering Memorandum are based are reasonable, any of the assumptions could prove to be inaccurate and, as a result, the forward-looking statements based on those assumptions also could be incorrect, and such inaccuracy could be material. All phases of the operations of the Borrowers, including the Borrowers' operation of the School, involve risks and uncertainties, many

of which are outside the control of the Borrowers and any one of which, or a combination of which, could materially affect the results of the Borrowers' operations and whether the forward-looking statements ultimately prove to be correct. Factors that could cause actual results to differ from those expected include, but are not limited to, general economic conditions such as inflation and interest rates, both nationally and in the area of the State of North Carolina ("*North Carolina*" or the "*State of North Carolina*") where the Project is located; changes in general business regulation that could adversely impact the Borrowers' operations; unanticipated delays in completion of the Project and/or unanticipated cost overruns; the willingness of North Carolina to fund charter school operations at present or increased levels; competitive conditions within the School's market, including the acceptance of the education services offered by the School; lower enrollments than projected; unanticipated expenses; the capabilities of the Borrowers' management; changes in government regulation of the education industry or in the North Carolina charter school statute; future claims for accidents or other torts at the School's sites and the extent of insurance coverage for such claims; and other risks discussed in this Limited Offering Memorandum. Important factors that could cause actual results to differ materially from the Borrowers' expectations ("*cautionary statements*") are disclosed in this Limited Offering Memorandum including in conjunction with the forward-looking statements included in this Limited Offering Memorandum, under **"BONDHOLDERS' RISKS"** and in **APPENDIX A** and **APPENDIX B**.

NO REPRESENTATION OR ASSURANCE CAN BE GIVEN THAT THE BORROWERS WILL REALIZE REVENUES IN AMOUNTS SUFFICIENT TO MAKE THE REQUIRED PAYMENTS UNDER THE LOAN AGREEMENT. THE REALIZATION OF FUTURE REVENUES IS DEPENDENT UPON, AMONG OTHER THINGS, THE MATTERS DESCRIBED IN THE FOREGOING PARAGRAPH AND FUTURE CHANGES IN ECONOMIC AND OTHER CONDITIONS THAT ARE UNPREDICTABLE AND CANNOT BE DETERMINED AT THIS TIME. SEE **"BONDHOLDERS' RISKS"** HEREIN. THE UNDERWRITER MAKES NO REPRESENTATION AS TO THE ACCURACY OF THE PROJECTIONS CONTAINED HEREIN OR AS TO THE ASSUMPTIONS ON WHICH THE PROJECTIONS ARE BASED.

BONDHOLDERS' RISKS

Certain risks associated with an investment in the Series 2017 Bonds are discussed under **"BONDHOLDERS' RISKS."**

LIMITED OFFERING; TRANSFER RESTRICTIONS

EACH INITIAL BENEFICIAL OWNER OF THE SERIES 2017 BONDS SHALL BE EITHER (I) A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT OF 1933, AS AMENDED); OR (II) AN INSTITUTIONAL "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) OF REGULATION D UNDER THE SECURITIES ACT OF 1933, AS AMENDED) THAT IN EITHER CASE HAS PROVIDED AN "INVESTOR LETTER" IN THE FORM ATTACHED HERETO AS **APPENDIX H** TO THE TRUSTEE. THE SERIES 2017 BONDS MAY NOT AFTER THE INITIAL SALE THEREOF BE TRANSFERRED TO ANY BENEFICIAL OWNER THAT IS NOT A QUALIFIED INSTITUTIONAL BUYER OR AN INSTITUTIONAL ACCREDITED INVESTOR. THE ISSUER MAY REMOVE SUCH LIMITATION WITHOUT NOTICE TO OR CONSENT OF ANY BENEFICIAL OWNER OR REGISTERED OWNER. AT SUCH TIME AS THE BORROWERS SHALL PROVIDE TO THE ISSUER AND THE TRUSTEE WRITTEN EVIDENCE TO THE EFFECT THAT EACH RATING AGENCY THEN RATING THE SERIES 2017 BONDS HAS RATED THE SERIES 2017 BONDS "BBB-" OR EQUIVALENT, OR HIGHER (WITHOUT REGARD FOR GRADATION WITHIN A RATING CATEGORY AND WITHOUT REGARD FOR CREDIT ENHANCEMENT UNLESS SUCH CREDIT ENHANCEMENT EXTENDS THROUGH THE FINAL MATURITY DATE OF THE SERIES 2017 BONDS), THIS RESTRICTION SHALL BE OF NO FURTHER FORCE OR EFFECT, NOTWITHSTANDING WHETHER AT A FUTURE TIME THE SERIES 2017 BONDS ARE NO LONGER RATED IN SUCH RATING CATEGORY. SEE **"BONDHOLDERS' RISKS – SECONDARY MARKET; TRANSFER RESTRICTIONS"** HEREIN AND **APPENDIX H – "FORM OF INVESTOR LETTER"** ATTACHED HERETO.

MISCELLANEOUS

This Limited Offering Memorandum (including the Appendices hereto) contains descriptions of, among other matters, the Indenture, the Loan Agreement, the Deed of Trust, the Issuer, the Borrowers, the Project and the Series 2017 Bonds. Such descriptions and information do not purport to be comprehensive or definitive. All references to documents described herein are qualified in their entirety by reference to such documents, copies of which are available for inspection at the designated corporate trust office of the Trustee.

THE ISSUER

FORMATION AND GOVERNANCE

In early 2010, both houses of the Wisconsin Legislature passed 2009 Wisconsin Act 205 (the “Act”), which was signed into law by the Governor of the State of Wisconsin (the “State”) on April 21, 2010. The Act added Section 66.0304 to the Wisconsin Statutes (the “Statute”) authorizing two or more political subdivisions to create a commission to issue bonds under the Statute. Before an agreement for the creation of such a commission could take effect, the Act requires that such agreement be submitted to the Attorney General of the State who shall determine whether the agreement is in proper form and compatible with the laws of the State. The Issuer was formed upon execution of a Joint Exercise of Powers Agreement Relating to the Public Finance Authority dated as of June 30, 2010, as amended by an Amended and Restated Joint Exercise of Powers Agreement Relating to the Public Finance Authority dated September 28, 2010 (as amended and as may be further amended from time to time, the “Agreement”) among Adams County, Wisconsin, Bayfield County, Wisconsin, Marathon County, Wisconsin, Waupaca County, Wisconsin and the City of Lancaster, Wisconsin (each a “Member” and, collectively, the “Members,” which term shall include any political subdivision designated in the future as a “Member” of the Issuer pursuant to the Agreement). The Agreement was approved by the Attorney General on September 30, 2010. The Act also provides that only one commission may be formed thereunder.

Pursuant to the Statute, the Issuer is a unit of government and a body corporate and politic separate and distinct from, and independent of, the State and the Members. The Issuer was established by local governments, primarily for local governments, for the public purpose of providing local governments a means to efficiently, and reliably finance projects that benefit local governments, and nonprofit organizations and other eligible private borrowers in the State and throughout the country.

POWERS

Under the Statute, the Issuer has all of the powers necessary or convenient to any of the purposes of the Act, including the power to issue bonds, notes or other obligations or refunding obligations to finance or refinance a project, make loans to, lease property from or to enter into agreements with a participant or other entity in connection with financing a project. The proceeds of bonds issued by the Issuer may be used for a project in the State or any other state or territory of the United States, or outside the United States if a participating borrower is incorporated and maintains its principal place of business in, the United States or its territories. The Statute defines “project” as any capital improvement, purchase of receivables, property, assets, commodities, bonds or other revenue streams or related assets, working capital program, or liability or other insurance program, located within or outside of the State.

LOCAL AND TEFRA APPROVALS

Under the Subsection (11)(a) of the Statute and Section 4 of the Agreement, financing for all “capital improvement projects” located outside the State requires approval from the governing body or

highest-ranking executive or administrator of at least one political subdivision within whose boundaries the capital improvement project is located (the “*Issuer Local Approval Requirement*”). The issuance of the Series 2017 Bonds was approved (i) by the Board of Supervisors of Marathon County, Wisconsin, a Member of the Issuer duly authorized to give such approval on behalf of the Issuer, on May 1, 2017, and (ii) based upon information provided by the Borrowers, by the City Council of the City of High Point, North Carolina, on May 1, 2017, in each case after public notice and hearing. Such approvals were given in satisfaction of and in accordance with the requirements of Section 147(f) of the Code and the Issuer Local Approval Requirement, as applicable.

GOVERNING BODY

The Agreement provides for a Board of Directors of the Issuer (the “*Board*”) consisting of seven directors (each a “*Director*” and collectively, the “*Directors*”), a majority of whom are required to be public officials or current or former employees of a political subdivision located in the State. The Directors serve staggered three-year terms. The Directors are selected by majority vote of the Board based upon nomination from the organization that nominated the predecessor Director. Four Directors are nominated by the Wisconsin Counties Association, and one Director is nominated from each of the National League of Cities, the National Association of Counties and the League of Wisconsin Municipalities (collectively, the “*Sponsors*” and each a “*Sponsor*”). Directors and alternate Directors may be removed and replaced at any time by the Board upon recommendation of the Sponsor that nominated such Director.

As of the date of this Limited Offering Memorandum there is one vacant Board seat (representing the nominee of the National League of Cities) and one Alternate Director (nominated by the Wisconsin Counties Association).

<u>NAME</u>	<u>TITLE</u>	<u>CURRENT TERM EXPIRES (MAY 31)</u>	<u>POSITION</u>
William Kacvinsky	Chair	2018	Former Board Chair – Bayfield County, Wisconsin
Jerome Wehrle	Vice Chair	2018	Former Mayor – City of Lancaster, Wisconsin
Heidi Dombrowski	Treasurer	2019	Finance Director – Waupaca County, Wisconsin
Allen Buechel	Secretary	2019	County Executive – Fond du Lac County, Wisconsin
Del Twidt	Director	2019	Former Board Chair – Buffalo County, Wisconsin
Michael Gillespie	Director	2020	Former Chair – Madison County, Alabama Board of Commissioners
John West	Alternate Director	2019*	Board Chair – Adams County, Wisconsin

*Mr. West is an alternate for Directors Buechel, Dombrowski, and Twidt.

The Issuer has no employees and contracts with a full-service program management firm, GPM Municipal Advisors, LLC, to manage the day-to-day operations of the Issuer including but not limited to staff and administrative support and ongoing compliance matters. All of these services provided by GPM Municipal Advisors, LLC, are subject to review and approval by the Board.

RESOLUTION; APPROVAL

On May 10, 2017, the Board adopted the Resolution approving the issuance of the Series 2017 Bonds.

LIMITED OBLIGATIONS

THE SERIES 2017 BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE TRUST ESTATE, AND EXCEPT FROM SUCH SOURCE, NONE OF THE ISSUER, ANY SPONSOR, ANY MEMBER, ANY ISSUER INDEMNIFIED PARTY, THE STATE OF WISCONSIN OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF OR ANY POLITICAL SUBDIVISION APPROVING THE ISSUANCE OF THE SERIES 2017 BONDS SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST THEREON OR ANY COSTS INCIDENTAL THERETO. THE SERIES 2017 BONDS ARE NOT A DEBT OF THE STATE OF WISCONSIN OR ANY MEMBER AND DO NOT, DIRECTLY, INDIRECTLY OR CONTINGENTLY, OBLIGATE, IN ANY MANNER, ANY MEMBER, THE STATE OF WISCONSIN OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF OR ANY POLITICAL SUBDIVISION APPROVING THE ISSUANCE OF THE SERIES 2017 BONDS TO LEVY ANY TAX OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, THE SERIES 2017 BONDS OR ANY COSTS INCIDENTAL THERETO. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF ANY MEMBER, THE STATE OF WISCONSIN OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF OR ANY POLITICAL SUBDIVISION APPROVING THE ISSUANCE OF THE SERIES 2017 BONDS NOR THE FAITH AND CREDIT OF THE ISSUER OR OF ANY SPONSOR OR ISSUER INDEMNIFIED PARTY SHALL BE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, THE SERIES 2017 BONDS OR ANY COSTS INCIDENTAL THERETO. THE ISSUER HAS NO TAXING POWER.

OTHER OBLIGATIONS

The Issuer has issued, sold and delivered in the past, and expects to issue, sell and deliver in the future, obligations other than the Series 2017 Bonds, which other obligations are and will be secured by instruments separate and apart from the Indenture and the Series 2017 Bonds. The holders of such obligations of the Issuer will have no claim on the security for the Series 2017 Bonds, and the owners of the Series 2017 Bonds will have no claim on the security for such other obligations issued by the Issuer.

LIMITED INVOLVEMENT OF THE ISSUER

The Issuer has not participated in the preparation of or reviewed any appraisal for the Project or any feasibility study or other financial analysis of the Project and has not undertaken to review or approve expenditures for the Project, to supervise the construction of the Project, or to review the financial statements of the Borrowers.

The Issuer has not participated in the preparation of or reviewed this Limited Offering Memorandum and is not responsible for any information contained herein, except for the information in this section and under the caption “**ABSENCE OF MATERIAL LITIGATION – THE ISSUER**” as such information applies to the Issuer.

THE BORROWERS, THE SCHOOL AND THE PROJECT

See **APPENDIX A** for more information relating to the Borrowers, the School and the Project.

SOURCES AND USES OF FUNDS

The following table sets forth the expected sources and uses of the proceeds of the Series 2017 Bonds¹:

Sources of Funds:	
Series 2017 Bond Proceeds	\$31,805,000
Original Issue Discount	(460,767)
Equity Contribution	86,690
Total	<u>\$31,430,923</u>
 Uses of Funds:	
Facilities Purchase	\$25,619,766
Project Improvement Funds	2,709,992
Debt Service Reserve Fund	2,341,688
Costs of Issuance ²	759,477
Total	<u>\$31,430,923</u>

¹ Amounts have been rounded to the nearest dollar.

² Includes legal fees and expenses, Underwriter's discount, printing, Trustee's fees and Issuer's fees.

DEBT SERVICE SCHEDULE

The following table sets forth, for each year ending June 30, the amounts required to be paid with respect to the Series 2017 Bonds, assuming no prepayment other than for mandatory sinking fund redemptions. Principal of the Series 2017 Bonds will be paid on June 15 of each year, commencing June 15, 2021, and interest will be paid semi-annually on June 15 and December 15, commencing December 15, 2017. On the date of issuance, the Borrowers will have no outstanding debt other than the Series 2017 Bonds.

YEAR ENDING JUNE 30	PRINCIPAL	INTEREST	TOTAL DEBT SERVICE
2018		\$ 1,736,201	\$ 1,736,201
2019		1,811,688	1,811,688
2020		1,811,688	1,811,688
2021	\$ 200,000	1,811,688	2,011,688
2022	525,000	1,801,688	2,326,688
2023	565,000	1,775,438	2,340,438
2024	590,000	1,747,188	2,337,188
2025	620,000	1,717,688	2,337,688
2026	650,000	1,686,688	2,336,688
2027	685,000	1,654,188	2,339,188
2028	720,000	1,619,938	2,339,938
2029	760,000	1,579,438	2,339,438
2030	805,000	1,536,688	2,341,688
2031	850,000	1,491,406	2,341,406
2032	895,000	1,443,594	2,338,594
2033	945,000	1,393,250	2,338,250
2034	1,000,000	1,340,094	2,340,094
2035	1,055,000	1,283,844	2,338,844
2036	1,115,000	1,224,500	2,339,500
2037	1,175,000	1,161,891	2,336,891
2038	1,245,000	1,095,688	2,340,688
2039	1,315,000	1,022,544	2,337,544
2040	1,395,000	945,288	2,340,288
2041	1,475,000	863,331	2,338,331
2042	1,560,000	776,675	2,336,675
2043	1,655,000	685,025	2,340,025
2044	1,750,000	587,794	2,337,794
2045	1,855,000	484,981	2,339,981
2046	1,965,000	376,000	2,341,000
2047	4,435,000	260,556	4,695,556
TOTAL	\$31,805,000	\$38,726,668	\$70,531,668

THE SERIES 2017 BONDS

INTEREST; MATURITY; PAYMENT

The Series 2017 Bonds will be issued in the aggregate principal amounts and will bear interest at the rates set forth on the inside cover page hereof. Interest will be payable semiannually on June 15 and December 15 (each an “*Interest Payment Date*”) of each year, commencing December 15, 2017. Interest will be calculated on the basis of a 360-day year with twelve months of thirty days.

The Series 2017 Bonds will be issued in the form of fully registered bonds without interest coupons in the denomination of \$100,000 or any integral multiple of \$5,000 in excess thereof; provided, however, in the case of any institutional accredited investor who is not a qualified institutional buyer, the Series 2017 Bonds to be transferred must be in a minimum principal amount of \$100,000 or any integral multiples of \$5,000 in excess thereof.

The principal of, interest on, and premium, if any, on the Series 2017 Bonds shall be payable when due by wire of the Trustee to The Depository Trust Company, New York, New York (“*DTC*”), which will in turn remit such principal, interest and premium, if any, to Participants (as defined below), which Participants will in turn remit such principal, interest and premium, if any, to the Beneficial Owners (as defined below) of the Series 2017 Bonds as described herein. See **APPENDIX G – “BOOK ENTRY ONLY SYSTEM”** below.

In the event the Series 2017 Bonds are not registered in the name of Cede & Co., as nominee of DTC, or another eligible depository as described below, the principal of and premium, if any, on each Series 2017 Bond will be payable only at the designated corporate trust office of the Trustee, as described in the Indenture. Payment of interest on the Series 2017 Bonds will be paid by check or draft mailed on each Interest Payment Date by the Trustee to the registered owners of record appearing on the registration books kept by the Trustee as of the applicable Regular Record Date preceding each Interest Payment Date, or upon written request, as provided in the Indenture, of any registered owner of at least \$500,000 in aggregate principal amount of Bonds Outstanding, by wire transfer on each Interest Payment Date to the account designated by such registered owner to the Trustee in writing at least ten Business Days prior to the Regular Record Date for any interest payment.

The registered owner of any Series 2017 Bond will be the person or persons in whose name or names a Series 2017 Bond is registered on the registration books kept for that purpose by the Trustee in accordance with the terms of the Indenture.

REDEMPTION PROVISIONS

Optional Redemption. The Series 2017 Bonds are subject to redemption at the option of the Issuer (which option shall be exercised upon the written direction of the Borrower from prepayment of the Series 2017 Promissory Note made by the Borrower pursuant to the Loan Agreement) in whole or in part in Authorized Denominations on any date commencing June 15, 2024, at a redemption price equal to the principal amount to be redeemed, together with accrued interest to the date fixed for redemption, without premium.

In case of optional redemption of the Series 2017 Bonds, the Borrower shall, at least 45 days prior to the redemption date (unless a shorter notice shall be satisfactory to the Trustee), deliver a written request to the Issuer and the Trustee notifying the Issuer and the Trustee of such redemption date and of the principal amount of the Bonds to be redeemed and shall, prior to the redemption date, deliver to the Trustee funds sufficient to pay the redemption price of all Series 2017 Bonds subject to redemption.

Mandatory Sinking Fund Redemption. The Series 2017 Bonds maturing June 15, 2027, are subject to mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date from amounts on deposit in the Bond Fund on the redemption dates and in the principal amounts as follows:

DATE (JUNE 15)	PRINCIPAL AMOUNT	DATE (JUNE 15)	PRINCIPAL AMOUNT
2021	\$200,000	2025	\$620,000
2022	525,000	2026	650,000
2023	565,000	2027*	685,000
2024	590,000		

* Maturity Date

The Series 2017 Bonds maturing June 15, 2037, are subject to mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date from amounts on deposit in the Bond Fund on the redemption dates and in the principal amounts as follows:

DATE (JUNE 15)	PRINCIPAL AMOUNT	DATE (JUNE 15)	PRINCIPAL AMOUNT
2028	\$720,000	2033	\$ 945,000
2029	760,000	2034	1,000,000
2030	805,000	2035	1,055,000
2031	850,000	2036	1,115,000
2032	895,000	2037*	1,175,000

* Maturity Date

The Series 2017 Bonds maturing June 15, 2047, are subject to mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date from amounts on deposit in the Bond Fund on the redemption dates and in the principal amounts as follows:

DATE (JUNE 15)	PRINCIPAL AMOUNT	DATE (JUNE 15)	PRINCIPAL AMOUNT
2038	\$1,245,000	2043	\$1,655,000
2039	1,315,000	2044	1,750,000
2040	1,395,000	2045	1,855,000
2041	1,475,000	2046	1,965,000
2042	1,560,000	2047*	4,435,000

* Maturity Date

Extraordinary Redemption. The Series 2017 Bonds are subject to extraordinary redemption as a whole or in part at the principal amount thereof plus accrued interest thereon to the date of prepayment at the expense of the Borrower if at any time the Project is damaged or destroyed or taken in condemnation proceedings as provided in the Loan Agreement. See **APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – The Loan Agreement – Extraordinary Mandatory Prepayment.”** If called pursuant to the Indenture, the Series 2017 Bonds are callable on any date, in whole or in part, from and to the extent of funds on deposit under the Indenture and available for this

purpose, at a redemption price equal to the principal amount to be redeemed plus accrued interest to the redemption date.

Mandatory Redemption Upon Determination of Taxability. The Series 2017 Bonds are subject to mandatory redemption as a whole, at their principal amount, plus accrued interest to the date of redemption, plus a premium equal to 101% of the principal amount of the Series 2017 Bonds to be redeemed, upon the occurrence of a Determination of Taxability. The redemption date shall be the earliest practicable date selected by the Trustee, after consultation with the Borrower, but in no event later than six months following the finalization of the Determination of Taxability.

NOTICE OF REDEMPTION; PAYMENT

All or a portion of the Series 2017 Bonds shall be called for optional redemption by the Trustee as herein provided upon receipt by the Trustee at least 45 days prior to the redemption date of a certificate of the Borrowers specifying the principal amount of the Series 2017 Bonds to be called for redemption, the applicable redemption price or prices, and the provision or provisions of the Indenture pursuant to which such Series 2017 Bonds are to be called for redemption and whether such redemption will be conditional. In the case of every redemption, the Trustee shall cause notice of such redemption by mailing by first-class mail a copy of the redemption notice to the Registered Owners of the Series 2017 Bonds designated for redemption in whole or in part, at their addresses as the same shall last appear upon the registration records (or by such other means as required by the Depository Trust Company), in each case not more than 45 nor less than 20 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 Series 2017 Bonds. The Trustee shall furnish the Borrowers with a copy of each notice of redemption, as soon as practicable after the delivery of notice to the Registered Owners of the Series 2017 Bonds.

Each notice of redemption shall 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 Series 2017 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 Series 2017 Bonds are to be redeemed, the notice of redemption shall specify the numbers of the Series 2017 Bonds or portions thereof to be redeemed.

METHOD OF SELECTING BONDS

Unless otherwise specifically stated, in the case of any partial redemption of Series 2017 Bonds, the Series 2017 Bonds called for redemption shall be redeemed in inverse order of maturity, or if less than all of the Series 2017 Bonds of a single maturity are being redeemed, the Series 2017 Bonds redeemed shall be selected by lot within such maturity. Redemptions of term Series 2017 Bonds shall be credited against the latest scheduled mandatory sinking fund payment for such Series 2017 Bonds.

INCURRENCE OF ADDITIONAL INDEBTEDNESS

The Loan Agreement permits the Borrower to incur additional indebtedness upon compliance with the provisions thereof. The incurrence of such additional indebtedness could increase the economic burden on the Borrower and thereby adversely affect the ability of the Borrower to pay debt service on the Series 2017 Bonds. In addition, in connection with the incurrence of Additional Indebtedness, the Borrower may secure Additional Indebtedness with a deed of trust on the Project that would be on parity with the Deed of Trust that secures the Series 2017 Bonds. See **APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT – *Limitations on Additional Indebtedness.*”**

ADDITIONAL BONDS

Pursuant to the Indenture, the Issuer, at the request of the Borrower, may (but shall be under no obligation to) issue Additional Bonds, secured and payable on a parity basis with the Series 2017 Bonds, provided that, prior to the issuance of any such Additional Bonds, certain terms and conditions have been met. See **APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – *The Indenture – Additional Indebtedness.*”** In connection with the issuance of Additional Bonds, the Borrower may secure the payment of the principal of, premium, if any, and interest on the Additional Bonds by a deed of trust on and security interest in the Project on a parity with the Deed of Trust. Such deed of trust would be in addition to and on an equal priority with the Deed of Trust that secures the Series 2017 Bonds.

The Loan Agreement provides limitations on the Borrower’s ability to incur Indebtedness on parity with the Series 2017 Bonds, requiring certain tests to be satisfied.

OWNERSHIP

The person in whose name a Series 2017 Bond is registered may be treated for all purposes as the owner thereof.

SECURITY FOR THE SERIES 2017 BONDS

LIMITED OBLIGATIONS

THE SERIES 2017 BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE TRUST ESTATE, AND EXCEPT FROM SUCH SOURCE, NONE OF THE ISSUER, ANY SPONSOR, ANY MEMBER, ANY ISSUER INDEMNIFIED PARTY, THE STATE OF WISCONSIN OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF OR ANY POLITICAL SUBDIVISION APPROVING THE ISSUANCE OF THE SERIES 2017 BONDS SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST THEREON OR ANY COSTS INCIDENTAL THERETO. THE SERIES 2017 BONDS ARE NOT A DEBT OF THE STATE OF WISCONSIN OR ANY MEMBER AND DO NOT, DIRECTLY, INDIRECTLY OR CONTINGENTLY, OBLIGATE, IN ANY MANNER, ANY MEMBER, THE STATE OF WISCONSIN OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF OR ANY POLITICAL SUBDIVISION APPROVING THE ISSUANCE OF THE SERIES 2017 BONDS TO LEVY ANY TAX OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, THE SERIES 2017 BONDS OR ANY COSTS INCIDENTAL THERETO. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF ANY MEMBER, THE STATE OF WISCONSIN OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF OR ANY POLITICAL SUBDIVISION APPROVING THE ISSUANCE OF THE SERIES 2017 BONDS NOR THE FAITH AND CREDIT OF THE ISSUER OR OF ANY SPONSOR OR ISSUER INDEMNIFIED PARTY SHALL BE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, THE SERIES 2017 BONDS OR ANY COSTS INCIDENTAL THERETO. THE ISSUER HAS NO TAXING POWER.

TRUST INDENTURE

Trust Estate. Under the Indenture, the following are pledged to the Trustee as security for the Series 2017 Bonds (collectively, the “*Trust Estate*”):

- (i) The rights and interests of the Issuer under the Loan Agreement, as amended from time to time, between the Issuer and the Borrowers, except the Issuer’s Unassigned Rights.

(ii) The rights, title and interests of the Issuer in the Project, subject to Permitted Encumbrances, except the Issuer's Unassigned Rights.

(iii) The Revenues and all rights and interests of the Issuer in the Pledged Revenues, subject to Permitted Encumbrances, except the Issuer's Unassigned Rights.

(iv) The rights and interests of the Issuer under the Series 2017 Promissory Note.

(v) All Funds created in the Indenture (other than the Cost of Issuance Fund), *except for* (a) moneys or obligations deposited with or paid to the Trustee for the payment or redemption of Bonds that are no longer deemed to be Outstanding under the Indenture, (b) all trust accounts containing all insurance and condemnation proceeds, and (c) all Revenues payable to the Trustee by or for the account of the Issuer pursuant to the Loan Agreement and 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.

(vi) Any and all other interests in real or personal property of every name and nature from time to time after the date of issuance of the Series 2017 Bonds by delivery or by writing of any kind specifically mortgaged, pledged or hypothecated, as and for additional security under the Indenture by the Issuer or by anyone on its behalf or with its written consent in favor of the Trustee (including the Deed of Trust and proceeds of related title insurance), which is authorized by the Indenture to receive any and all such property at any and all times and to hold and apply the same, subject to the terms of the Indenture.

Capitalized terms used but not defined herein have the meanings assigned thereto in **APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – Definitions.”**

Debt Service Reserve Fund. On the date of issuance of the Series 2017 Bonds, the Borrowers will deposit an amount equal to \$2,341,687.50 from the Series 2017 Bond proceeds, which amount shall be equal to the Debt Service Reserve Requirement for the Series 2017 Bonds, in the account for the Series 2017 Bonds created under the Indenture. Amounts in such account of the Debt Service Reserve Fund will secure only the Series 2017 Bonds and may be used by the Trustee to pay principal of, premium, if any, and interest on the Series 2017 Bonds in the event monies in the Bond Fund are insufficient for such purpose. There is no guarantee that the Debt Service Reserve Fund will be available to pay debt service on the Series 2017 Bonds.

Amounts in the Debt Service Reserve Fund are required to be valued semiannually as provided in the Indenture. The Borrowers are required to cure any deficiency in the Debt Service Reserve Fund that occurs as a result of a valuation on or prior to the first day of the month following that valuation date, and if the deficiency occurs as a result of a transfer to cure a shortfall in the Bond Fund, the Borrower are required to restore such withdrawal in six substantially equal monthly installments beginning in the month following such deficiency. If amounts in the Debt Service Reserve Fund are in excess of the Debt Service Reserve Requirement, such excess amount shall be transferred to the Bond Fund. See **“SECURITY FOR THE SERIES 2017 BONDS – DEBT SERVICE RESERVE FUND”** and **APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – *The Indenture – Debt Service Reserve Fund.*”**

Repair and Replacement Reserve Fund. The Indenture creates a Repair and Replacement Fund. The Borrowers shall pay or cause to be paid to the Trustee on the first day of each month, commencing July 1, 2020, for deposit into the Repair and Replacement Fund, the Repair and Replacement Fund Contribution or the Modified Repair and Replacement Fund Contribution, as applicable (each as defined

below). On or before April 1, 2020, and every fifth anniversary thereafter as long as the Bonds are Outstanding, the Borrower shall select an Independent Consultant to complete a capital needs assessment of the Borrower projecting the Borrower's capital needs and the total cost thereof over the five year period commencing on the following July 1 (each a "*Capital Needs Assessment*").

The total cost set forth in a Capital Needs Assessment less the amount then on deposit in the Repair and Replacement Fund, divided by 60, shall be the "*Repair and Replacement Fund Contribution*" for such five year period; *provided, however*, that in the event (i) the Borrower pays all or a portion of the cost of a capital need projected in the Capital Needs Assessment from a source of funds other than the Repair and Replacement Fund, the Repair and Replacement Fund Contribution for the remainder of the applicable five year period shall be decreased by the amount of such projected cost that is paid from such other source of funds divided by the number of Repair and Replacement Fund Contribution payments remaining in the applicable five year period or (ii) a draw is made upon the Repair and Replacement Fund in excess of the cost for a capital need projected in the Capital Needs Assessment or in any amount for a capital need not projected in the Capital Needs Assessment, the Repair and Replacement Fund Contribution for the subsequent 12 month period shall be increased by the excess amount of such draw or the total amount of such unanticipated draw, as applicable, divided by 12 (the Repair and Replacement Fund Contribution as modified by either clause (i) or clause (ii), the "*Modified Repair and Replacement Fund Contribution*").

PAYMENTS UNDER THE LOAN AGREEMENT; ASSIGNMENT OF LOAN AGREEMENT

Loan Payments. Monthly Loan Payments from the Borrowers are required under the Loan Agreement and the Series 2017 Promissory Note to be paid in amounts that will be sufficient, if paid promptly and in full, to pay when due all principal of, premium, if any, and interest on the Loan and certain ongoing costs. Under the Indenture, the Issuer has pledged its interest in the Loan Agreement (including the payments payable thereunder to the Issuer by the Borrowers, but excluding the Issuer's Unassigned Rights) to the Trustee to secure the Series 2017 Bonds. See **APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – *The Loan Agreement.*"** The Trustee is authorized to exercise the rights of the Issuer (other than the Issuer's Unassigned Rights) and enforce the obligations of the Borrowers under the Loan Agreement.

Financial Covenants.

Debt Service Coverage Ratio; Independent Consultant. The Borrowers are required to deliver annually, upon completion of the Borrowers' annual audit, to the Issuer and the Trustee a certificate stating the Debt Service Coverage Ratio for the Fiscal Year then ended and evidencing the calculation thereof, commencing with the Fiscal Year ending June 30, 2018. The Debt Service Coverage Ratio is required to be at or above 1.00 to 1 for each Fiscal Year, commencing with the Fiscal Year ending June 30, 2018 and at or above 1.10 to 1 for each Fiscal Year thereafter. If, for any Fiscal Year after the Fiscal Year ending June 30, 2018, the Debt Service Coverage Ratio is below 1.10 to 1, the Borrowers shall retain, at its expense, an Independent Consultant to submit a written report and make recommendations within 45 days of being retained (a copy of such report and recommendations shall be filed with the Trustee) with respect to increasing income of the Borrower, decreasing Operating Expenses or other financial matters of the Borrowers which are relevant to increasing the Debt Service Coverage Ratio to at least the required level. The Borrowers agree that promptly upon the receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, they shall revise their methods of operation and take such other actions to comply with any reasonable recommendation of the Independent Consultant identified in the report of the Independent Consultant. Within 5 Business Days of receipt of the certificate to be delivered as described herein, the Trustee is required to notify Registered Owners of the Outstanding Bonds of the Debt Service Coverage Ratio if the Debt Service Coverage Ratio is below 1.00 to 1. So long as the Debt Service Coverage Ratio is not below 1.00 to 1, and so long as the

Borrowers shall retain an Independent Consultant and complies with such Independent Consultant's reasonable recommendations (subject to applicable requirements or restrictions imposed by law), no default or Event of Default shall be declared solely by reason of a violation of the requirements described herein.

Notwithstanding the foregoing provisions described above, the failure of the Borrowers to have a Debt Service Coverage Ratio of at least 1.00 to 1 for any Fiscal Year ending June 30, 2018 or after shall be an Event of Default under the Loan Agreement.

"Debt Service Coverage Ratio" means, for any Fiscal Year, the ratio obtained by dividing (a) the greater of (i) the combined Net Income Available for Debt Service for the Foundation and the Academy for such Fiscal Year and (ii) Net Income Available for Debt Service, calculated solely with respect to the Academy, by (b) the amount of Debt Service on all Long-Term Indebtedness for the Foundation and the Academy payable in such Fiscal Year. See **APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – Definitions"** for the definition of capitalized terms used but not defined in this definition of Debt Service Coverage Ratio, and for other defined terms used in this section.

Liquidity Requirement. Under the Loan Agreement, the Borrowers covenant and agree that as of June 30 of each year, commencing June 30, 2018, it will have at least 45 Days Cash on Hand.

"Unrestricted Cash and Investments" means the sum of unrestricted cash, cash equivalents, marketable securities, including without limitation board-designated assets, but excluding any trustee-held or similar funds held under the Indenture or similar debt documents. For the purposes of calculations of the liquidity requirements of the Loan Agreement, an unrestricted contribution from a third party or affiliate shall be treated as being made during the period of such calculation so long as the unrestricted contribution is made prior to the date the applicable certificate is required to be delivered with respect to such calculation.

"Days Cash On Hand" for any Fiscal Year is equal to the quotient obtained by dividing (a) the Unrestricted Cash and Investment for the Foundation and the Academy as of the last day of the such Fiscal Year by (b) the quotient obtained by dividing the total Operating Expenses, calculated solely respect to the Academy, for such Fiscal Year by 365.

The covenant described above is to be tested as of June 30 of each year and evidenced by a certificate of the Borrowers setting forth the calculation of such amount based on the results of the annual audit of the Borrowers for such Fiscal Year upon release of such audit. If on any testing date the Borrower's Days Cash on Hand is below that required as described above, and upon written request of a majority of Registered Owners of the Outstanding Bonds, the Borrower is required to retain, at its expense, an Independent Consultant to submit a written report and make recommendations within 45 days of being retained (a copy of such report and recommendations shall be filed with the Trustee) with respect to increasing income of the Borrower, decreasing Operating Expenses of the Borrower or other financial matters of the Borrower which are relevant to increasing the Borrower's Days Cash on Hand to at least the required level. The Borrower agrees that promptly upon the receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, it shall revise its methods of operation and take such other actions to comply with any reasonable recommendation of the Independent Consultant identified in the report of the Independent Consultant. So long as the Borrower shall retain an Independent Consultant and complies with such Independent Consultant's reasonable recommendations (subject to applicable requirements or restrictions imposed by law), no default or Event of Default shall be declared solely by reason of a violation of the requirements described in this paragraph.

DEED OF TRUST

The Borrowers will deliver the Deed of Trust, which creates a lien on the Project and all fixtures therein to secure the Borrowers' obligation to make payment under the Series 2017 Promissory Note to the Trustee. Under the Deed of Trust, the Borrowers will also grant a security interest in all leases and rents with respect to the Project. The Deed of Trust will be subject to certain Permitted Encumbrances, as described in the Deed of Trust. See **APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – *The Deed of Trust.*”**

DEFEASANCE

Upon certain terms and conditions specified in the Indenture, including provision for the payment of the Series 2017 Bonds, the Series 2017 Bonds or portions thereof will be deemed to be paid and shall no longer be secured by or entitled to the benefits of the Indenture and the Deed of Trust. In that case, the Series 2017 Bonds will be secured solely by the cash and securities deposited with the Trustee for such purpose. See **APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – *The Indenture – Discharge of Indenture.*”**

BONDHOLDERS' RISKS

Investment in the Series 2017 Bonds involves a degree of risk. Anyone considering investing in the Series 2017 Bonds should carefully examine this Limited Offering Memorandum, including the Appendices hereto. INVESTMENT IN THE SERIES 2017 BONDS SHOULD BE UNDERTAKEN ONLY BY INVESTORS 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.

GENERAL

THE SERIES 2017 BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE TRUST ESTATE, AND EXCEPT FROM SUCH SOURCE, NONE OF THE ISSUER, ANY SPONSOR, ANY MEMBER, ANY ISSUER INDEMNIFIED PARTY, THE STATE OF WISCONSIN OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF OR ANY POLITICAL SUBDIVISION APPROVING THE ISSUANCE OF THE SERIES 2017 BONDS SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST THEREON OR ANY COSTS INCIDENTAL THERETO. THE SERIES 2017 BONDS ARE NOT A DEBT OF THE STATE OF WISCONSIN OR ANY MEMBER AND DO NOT, DIRECTLY, INDIRECTLY OR CONTINGENTLY, OBLIGATE, IN ANY MANNER, ANY MEMBER, THE STATE OF WISCONSIN OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF OR ANY POLITICAL SUBDIVISION APPROVING THE ISSUANCE OF THE SERIES 2017 BONDS TO LEVY ANY TAX OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, THE SERIES 2017 BONDS OR ANY COSTS INCIDENTAL THERETO. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF ANY MEMBER, THE STATE OF WISCONSIN OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF OR ANY POLITICAL SUBDIVISION APPROVING THE ISSUANCE OF THE SERIES 2017 BONDS NOR THE FAITH AND CREDIT OF THE ISSUER OR OF ANY SPONSOR OR ISSUER INDEMNIFIED PARTY SHALL BE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, THE SERIES 2017 BONDS OR ANY COSTS INCIDENTAL THERETO. THE ISSUER HAS NO TAXING POWER.

NO RECOURSE SHALL BE HAD FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2017 BONDS, OR ANY COSTS INCIDENTAL THERETO, AGAINST ANY ISSUER INDEMNIFIED PARTY, UNDER ANY RULE OF LAW OR EQUITY, STATUTE, OR CONSTITUTION OR BY THE ENFORCEMENT OF ANY ASSESSMENT OR PENALTY OR OTHERWISE, AND ALL SUCH LIABILITY OF ANY ISSUER INDEMNIFIED PARTY IS HEREBY EXPRESSLY WAIVED AND RELEASED AS A CONDITION OF AND CONSIDERATION FOR THE EXECUTION AND ISSUANCE OF THE SERIES 2017 BONDS.

NO REPRESENTATION OR ASSURANCE CAN BE MADE THAT THE BORROWERS WILL CONTINUE TO GENERATE SUFFICIENT PLEDGED REVENUES TO MEET ITS OBLIGATIONS UNDER THE LOAN AGREEMENT.

No indebtedness of any kind incurred or created by the Borrowers shall constitute an indebtedness of the State of North Carolina or its political subdivisions, and no indebtedness of the Borrowers shall involve or be secured by the faith, credit, or taxing power of the State of North Carolina or its political subdivisions.

ECONOMIC AND OTHER FACTORS

Currently the North Carolina State Board of Education (“*NCSBE*”) allocates funds to each charter school based on such school’s Average Daily Membership (“*ADM*”) and the dollars per ADM of the local school administrative unit in which the school is located. Except with respect to allocations for children with disabilities and children with limited English proficiency, each charter school generally receives an allocation in an amount equal to the average per pupil allocation for ADM from the local school administrative unit allotments in which the charter school is located for each child attending the charter school. Each charter school receives an additional amount for each child with disabilities and each child with limited English proficiency. The local school administrative unit in which a child resides must transfer to the charter school an amount equal to the per pupil local current expense appropriation for that local school administrative unit for the fiscal year. The amount transferred that consists of revenue derived from supplemental taxes will be transferred only to a charter school located in the tax district for which these taxes are levied and in which the student resides. The charter school sends a bill to the county in which the student resides. For additional information, see **APPENDIX C – “CHARTER SCHOOL LAWS IN NORTH CAROLINA”**.

Future economic and other factors may adversely affect the Borrowers’ revenues and expenses and, consequently, the Borrowers’ ability to make payments under the Loan Agreement. Among the factors that could have such adverse effects are: decreases in the number of students seeking to attend the School at optimum levels for each grade level; decreases in the level of payments from the State of North Carolina, or other student enrollment-based funding by the federal or state governments; decline in the ability of the Borrowers and their management to provide education desired and accepted by the population served; general economic factors, including inflation and interest rates; economic developments in the affected service area, including loss of employment; diminishment of the standing of the Borrowers in their field; non-renewal or revocation of the Charter; competition from other educational institutions, including other charter schools, private schools, and public schools in the areas from which the School draws students; the lessened ability of the Borrowers to attract and retain qualified teachers and staff at salaries that permit payment of debt service and expenses; increased costs associated with technological advances; changes in government regulation of the education industry or in the North Carolina charter school statutes; future claims for accidents or other torts and the extent of insurance coverage for such claims; and the occurrence of natural disasters.

RELIANCE ON FINANCIAL PROJECTIONS

Payment by the Trustee of principal of and interest on the Series 2017 Bonds is dependent upon receipt of Loan Payments by the Trustee from the Borrowers. The ability of the Borrowers to make such Loan Payments when due is dependent on net operating income of the Borrowers.

The projections of revenues and expenditures prepared by Acadia NorthStar, LLC in **APPENDIX A**” (the “*Projections*”) are based upon historical operation of, and forecasts for, the School and the Borrowers’ assumptions about future North Carolina funding levels, student enrollment and expenses. No assurance can be given that the results described in the Projections will be achieved, or that there has been no change in underlying considerations since the date of this Limited Offering Memorandum. The Borrower does not intend to update the Projections and, accordingly, there are risks inherent in using the Projections in the future as they become outdated. The Projections are only for the years ending June 30, 2017 through 2022 and do not cover the entire period during which the Series 2017 Bonds may be outstanding. The Underwriter has not independently verified the Projections, and makes no representations nor gives any assurances that such Projections, or the assumptions underlying them, are complete or correct.

No representation is made that the Projections will correspond with the results achieved in the future because there is no assurance that actual events will correspond with the assumptions made by the Borrowers. The Borrowers’ actual future operations and financial condition may differ from those projected and actual future events and conditions may differ from those assumed by the Borrowers. Such differences may be material and adverse. Actual operating results may be affected by many factors, including, but not limited to, increased costs, lower than anticipated revenues (as a result of changes in demographic trends, insufficient enrollment, changes in North Carolina or federal funding of education or otherwise), and local and general economic conditions.

REVOCATION, NON-RENEWAL OR EXPIRATION OF CHARTER

The current Charter will expire pursuant to its terms on June 30, 2022, unless renewed by the NCSBE prior to such date. The current expiration date of the Charter is prior to the final maturity date of the Series 2017 Bonds. In addition, the Charter may be terminated as a result of a material breach of the Charter, or the NCSBE may revoke the Charter if the School fails to meet academic standards. **The North Carolina General Statutes provide that upon dissolution of a charter school, all net assets of the charter school purchased with public funds shall be deemed the property of the local school administrative unit in which the charter school is located.**

Although the Academy believes it enjoys a good relationship with the NCSBE, it does not anticipate any non-renewal or revocation of the Charter, and has covenanted in the Loan Agreement to seek renewals; there can be no assurance that the NCSBE will renew the Charter prior to or upon expiration.

INCOME AND PROPERTY TAX EXEMPTION

Under present federal and North Carolina law, regulations and rulings, the income and revenue of nonprofit, 501(c)(3) qualified exempt organizations are exempt from federal and state income tax, except for any unrelated business income as defined in the Code. Both Borrowers are North Carolina nonprofit corporations, and the Borrowers have received a determination letter from the IRS that the Borrowers are 501(c)(3) qualified tax-exempt organizations. Under present North Carolina law and rulings, charter schools are exempt from property taxes levied by political subdivisions of North Carolina so long as such property is used for charter school purposes (although such property maybe subject to special assessments

for local improvements to the property). Guilford County, North Carolina, the county in which the School is located, has recognized such exemption.

The Borrowers will covenant in the Tax Agreement not to take any action and not to omit to take any action, including with respect to receipt of unrelated business income, which could jeopardize the Borrowers' status as 501(c)(3) organizations exempt from federal and state income tax. If the Borrowers were to take any such action or omit to take any such action jeopardizing the Borrowers' status as 501(c)(3) organizations exempt from federal and state income tax, interest on the Series 2017 Bonds could be deemed to be taxable, which would result in a Determination of Taxability, as described herein under the heading **“THE SERIES 2017 BONDS – REDEMPTION PROVISIONS – *Mandatory Redemption Upon Determination of Taxability.*”**

CHARTER SCHOOLS IN GENERAL

Nationally, charter schools in general have come under some criticism as having failed to meet certain objectives in educating students to a success level above students in traditional public school systems. Proponents of charter schools have indicated that comparisons used in such critiques often fail to measure performances between similarly situated schools, or fail to acknowledge the time that will be required for a charter school system to develop historically significant data. In any event, the politically sensitive issues surrounding the development of charter schools will continue to warrant public and media attention, and any development of a national sense that charter schools do not present a fiscally responsible alternative could adversely affect the willingness of states, including North Carolina, to fund charter school operations, or the willingness of local or North Carolina school officials to approve or renew school charters.

KEY LEADERSHIP

The creation of, and the philosophy of teaching in, charter schools generally may reflect the vision and commitment of a few key persons on the board of directors and/or the upper management of a charter school. Loss of such key persons with respect to the School, and the Borrowers' inability to find comparable qualified replacements, could adversely affect the Borrowers' operations or financial results.

STATE OF NORTH CAROLINA BUDGET

For fiscal years 2013-14, 2014-15, and 2015-16 the General Assembly appropriated \$7.81 billion, \$8.09 billion, \$8.11 billion and \$8.7 billion to the Department of Public Instruction, respectively. The North Carolina General Assembly is currently working on the 2017-19 biennial budget. On May 12, 2017, the North Carolina Senate adopted its budget. The Senate budget appropriates \$9 billion for fiscal year 2017-18 and \$9.34 billion for 2018-19 to the Department of Public Instruction, respectively. There is no assurance that budget funding as set forth in the Senate budget will ultimately be adopted. As described in **APPENDIX C – “CHARTER SCHOOL LAWS IN NORTH CAROLINA,”** for each recent historical fiscal year, a large percentage of State of North Carolina General Fund expenditures fund public education, so financial pressure on the General Fund may lead to reductions in spending on public schools, including charter schools. There can be no assurance that current levels of per pupil spending for public schools in North Carolina, including charter schools, will be maintained in future years.

CHANGES IN LAW; ANNUAL APPROPRIATION; INADEQUATE STATE OF NORTH CAROLINA PAYMENTS

The North Carolina General Assembly has amended the charter school laws a number of times since they were first enacted in 1996, including most recently in 2014. Past and future amendments to the law may adversely affect the Borrowers by withholding a percentage of the state payments if a charter school is deemed not to be in compliance with contract or charter provisions or North Carolina and

federal laws; by decreasing the charter term from ten years to some other shorter term; by requiring a State of North Carolina body to make an assessment of the School's effectiveness every year; by limiting the number of students for which North Carolina funds are available; by mandating new facilities or programs which may increase costs beyond projections; by reducing the maximum amount payable by North Carolina for students enrolled by the School; by revising the relative responsibilities between public schools and the State of North Carolina for financing schools (including charter schools); or by eliminating the authority for State of North Carolina-supported charter schools.

In addition, the North Carolina General Assembly must appropriate funds for public education—including charter schools—each year, and it may not appropriate sufficient funds to enable the Borrowers to pay debt service on the Series 2017 Bonds and meet budgeted expenses. Similarly, the State of North Carolina allocation per student may be reduced or may not keep pace with expenses such that the aggregate state payments to the Borrowers are inadequate to allow the Borrowers to pay debt service on the Series 2017 Bonds and its operating expenses. The Borrowers have no taxing authority and are substantially dependent upon the State of North Carolina to continue to provide funding for public education. If the State of North Carolina payments are insufficient, the Borrowers may be unable to make the Loan Payments as and when required. See **APPENDIX A – “THE BORROWERS, THE SCHOOL AND THE PROJECT – *Certain Financial Information – Historical Revenue and Expenditure Statements*” and “– *Financial Projections.*”**

The Loan Agreement requires the Borrowers to make Loan Payments from the Pledged Revenues. Pledged Revenues include payments received from the State of North Carolina (“*State Payments*”), which comprise approximately 68% of the Borrowers’ operating budget. Pursuant to State of North Carolina policy, as set forth in the NCSBE’s Department of Public Instruction’s “Financial Guide For Charter Schools,” revised May 2015, the Borrowers must request disbursement of State Payments for the School’s operating expenses and must spend any funds disbursed within three business days of such request. As such, State Payments may not be held by the Borrowers for the purpose of building cash reserves. Instead, all State Payments received by the Borrowers are used to pay operating expenses within three business days of receipt and other Pledged Revenues of the Borrowers are used, at the discretion of management, in part to build cash reserves. In light of the foregoing, while the Borrowers has pledged its Pledged Revenues as security for its obligations under the Loan Agreement, there can be no assurance that the portion of such Pledged Revenues comprising State Payments may lawfully be the subject of a lien or will be available as security for such obligations of the Borrowers as a practical matter.

DISPUTES WITH LOCAL SCHOOL ADMINISTRATIVE UNITS

The local school administrative unit in which a child resides must transfer to the charter school an amount equal to the per pupil local current expense appropriation for that local school administrative unit for the fiscal year. Disputes between a charter school and the local school administrative unit(s) may arise. Although the North Carolina General Statutes allows for the use of mediation to resolve differences on calculation and transference of the per pupil share of the local current expense fund, there have been instances when such disputes have resulted in prolonged and costly litigation. The School has not had any issue with its respective local school administrative units to date.

FACTORS ASSOCIATED WITH EDUCATION

There are a number of factors affecting schools in general, including the Academy, that could have an adverse effect on the Borrowers’ financial position and its ability to make the payments required under the Loan Agreement. These factors include, but are not limited to, increased costs of compliance with Federal or North Carolina laws or regulations, including, without limitation, laws or regulations concerning environmental quality, work safety and accommodating persons with disabilities; any

unionization of the Borrowers' work force with consequent impact on wage scales and operating costs of the Borrowers; the inability to attract a sufficient number of students; Federal requirements to provide services to special education students; unfavorable changes to existing statutes pertaining to the powers of the Borrowers and legislation or regulations which may affect program funding; and disruption of the Borrowers' operations by real or perceived threats against the school, its employees or students. The Borrowers cannot assess or predict the ultimate effect of these factors on its operations or financial results of operations.

OTHER SCHOOLS/COMPETITION FOR STUDENTS

The Academy receives state payments based on student enrollment. The Borrower competes for students with public schools (including charter schools), private schools as well as home schooling environments. There can be no assurance that the Borrower will attract and retain the number of students that are needed to produce Pledged Revenues sufficient to pay the debt service on the Series 2017 Bonds. Among other things, the number of charter schools in the State of North Carolina could increase substantially, and one or more new charter schools could be established in Guilford County or the other counties in the School's service area. See **APPENDIX A – "THE BORROWER, THE SCHOOL AND THE PROJECT – *The School – Service Area*"** for information regarding other schools in the School's service area.

SCHOOL CHOICE INITIATIVES; COMPETITION FOR STUDENTS

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

LITIGATION

Schools are often the subject of litigation. Section 115C-218.20 of the North Carolina General Statutes specifically provides that "[t]he board of directors of a charter school may sue and be sued." Educator's professional liability and other actions alleging wrongful conduct and seeking punitive damages often are filed against education providers such as the Borrower. Litigation may also arise from the corporate and business activities of the Borrower, or from employee-related matters. As with educator's professional liability, 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 the Borrower if determined or settled adversely. Although the Borrower maintains insurance policies covering educator's professional and general liability, management of the Borrower is unable to predict the availability, cost or adequacy of such

insurance in the future. Any inability of the Borrower in the future to secure affordable, adequate insurance may expose the Borrower to litigation risks which may adversely affect the Borrower's ability to generate adequate funds from its operation of the School to pay debt service on the Series 2017 Bonds.

REPUTATIONAL RISK

The Borrower is subject to financial and other risks, which risks may differ from those of other private, charter or public schools. For example, changes in the reputation of the Borrower; any third-party service providers; affiliates, and/or the Borrower's leadership, faculty or student body, either generally or with respect to certain academic or extra-curricular areas, may affect the Borrower's ability to attract students to projected enrollment levels, and may affect the Borrower's ability to attract quality teachers and staff at competitive salaries. In addition, litigation brought against the Borrower or any of the other parties listed above by parents, civil authorities, students or former or potential employees may have a materially adverse impact on the reputation of the Borrower. There can be no assurance that these or other factors will not adversely affect the Borrower's ability to generate adequate funds from its operation of the School to pay all Loan Payments when due.

RISKS OF REAL ESTATE INVESTMENT

General.

Development, ownership and operation of real estate, such as the Project, involves certain risks, including the risk of adverse changes in general economic and local conditions, including population decreases; uninsured losses; operating deficits and mortgage foreclosure; lack of attractiveness of the property to students/parents; cyclical nature of the real estate market; adverse changes in neighborhood values; and adverse changes in zoning laws, other laws and regulations and real property tax rates (to the extent such taxes are applicable to the Project). Such losses also include the possibility of fire or other casualty or condemnation. If the Project, or any portion thereof, were not available during the period of restoration, this could adversely affect the ability of the Project to generate sufficient Revenues to pay debt service on the Series 2017 Bonds. Changes in general or local economic conditions and changes in interest rates and the availability of mortgage funding may render the sale or refinancing of the Project difficult or unattractive.

Damage, Destruction or Condemnation.

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

If the Project, or any portion thereof, is damaged or destroyed, or are taken in a condemnation proceeding, the proceeds of insurance or any such condemnation award for the Project, or any portion thereof, must be applied as provided in the Agreement to restore or rebuild the Project or to redeem Series 2017 Bonds. There can be no assurance that the amount of Revenues available to restore or rebuild the Project, or any portion thereof, or to redeem Series 2017 Bonds will be sufficient for that purpose, or that any remaining portion of the Project will generate Revenues sufficient to pay the expenses of the Project and the debt service on the Series 2017 Bonds remaining outstanding.

VALUE OF PROPERTY MAY FLUCTUATE; LIMITATIONS OF APPRAISALS

All properties to be acquired and improved with the proceeds of the Series 2017 Bonds have been appraised. The collective approved “as built” value of the Project is \$21,300,000. See **APPENDIX A** hereto. Accordingly the appraised value of the real estate portion of the collateral for the Series 2017 Bonds is less than the principal amount of the Series 2017 Bonds.

An appraisal represents only the opinion of the appraiser and only as of its date. There may be a difference between the actual value of the Borrowers’ land and facilities and the amount of the Series 2017 Bonds, and that difference may be material and adverse to Bondholders. In particular, it cannot presently be determined with certainty what the value of the Borrowers’ land and facilities would be in the event of foreclosure under the Deed of Trust, especially in light of the fact that the facilities have been or are being improved specifically for use as a charter school. Further, the value of the land and facilities 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 Series 2017 Bond transaction. Real property values can fluctuate substantially depending on a variety of factors. There is nothing associated with the land or facilities to suggest that their value would remain stable or would not decrease if the general values of property in the School’s service area were to decline.

ENVIRONMENTAL RISKS

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

ECS Carolinas, LLC (the “*Phase I Consultant*”) performed a Phase I Environmental Site Assessment of the property on which the Project is located and prepared a report dated June 26, 2014 (the “*Phase I Report*”). As set forth in the Phase I Report, the Phase I Consultant found no evidence of any Recognized Environmental Conditions on the property on which the Project is located and did not recommend further investigation thereof. Since the date of the Phase I Report, the site(s) have only been used continuously by the Academy for educational purposes.

The intent of the Phase I Environmental Site Assessment was to identify the potential for recognized environmental conditions; however, no environmental assessment can completely eliminate the uncertainty regarding the potential for recognized environmental conditions. In addition, observations and conclusions pertaining to environmental conditions are necessarily limited to the conditions observed, and or materials reviewed at the time the assessment was performed. In the event environmental enforcement actions are initiated, the Borrowers could be liable for the costs of removing or otherwise treating pollutants or contaminants located at the Project. Such obligations could adversely affect the Borrower’s budget and cash flow and could adversely affect the Borrowers’ ability to generate Pledged Revenues sufficient to meet its obligations under the Loan Agreement, and the debt service requirements on the Series 2017 Bonds. In addition, under certain environmental statutes, in the event an enforcement action is initiated, a lien could be attached to the Project, or a portion thereof. In the event of a foreclosure on the Deed of Trust, the Borrowers may be held liable for costs and other liabilities relating to Hazardous Materials, if any, on the site of the Project, or any portion thereof, on a strict-liability basis, and such costs might exceed the value of such property.

DEBT SERVICE RESERVE FUND

The Indenture has established the Debt Service Reserve Fund for payment of principal and interest due to the Owners of the Series 2017 Bonds to the extent Pledged Revenues are insufficient to make such payments. Although the Borrowers believe such reserve to be reasonable, and anticipates that Pledged Revenues will be sufficient to cover the debt service on the Series 2017 Bonds, there is no assurance that funds reserved and future Pledged Revenues will be sufficient to cover debt service on the Series 2017 Bonds.

If there is a draw on the Debt Service Reserve Fund that is not replenished as required by the terms of the Indenture and the Loan Agreement, or if there is a loss on investments of funds in the Debt Service Reserve Fund, then the amount available in the Debt Service Reserve Fund, together with amounts provided by the Borrowers under the Loan Agreement, may be insufficient to pay debt service on the Series 2017 Bonds when due.

TAXATION OF THE SERIES 2017 BONDS

Purchasers of the Series 2017 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 or certain recipients of Social Security benefits, are advised to consult their tax advisors as to the tax consequences of purchasing or owning Series 2017 Bonds.

The interest on the Series 2017 Bonds may be includable in gross income for purposes of federal income taxation retroactive to the date of issuance of the Series 2017 Bonds for a variety of reasons. The exclusion from gross income is dependent upon, among other things, compliance with certain restrictions regarding investment of bond proceeds and continuing compliance by the Borrowers with the Loan Agreement and the Tax Agreement under which enforcement remedies available to the Issuer and the Trustee are limited. See “**TAX MATTERS**” herein.

If interest on the Series 2017 Bonds becomes includable in gross income for federal income tax purposes, the market for and value of the Series 2017 Bonds could be adversely affected. Moreover, there can be no assurance that the presently advantageous provisions of the Code, or the rules and regulations thereunder, will not be retroactively adversely amended or modified, thereby resulting in the inclusion in gross income of the interest on the Series 2017 Bonds for federal income tax purposes. While no such legislation has been proposed or adopted, there can be no assurance that Congress would not adopt legislation applicable to the Series 2017 Bonds or to the Borrowers and that the Project would be able to comply with any such future legislation in a manner necessary to maintain the tax-exempt status of the Series 2017 Bonds. The Borrowers are required to use best efforts to comply with federal income tax law requirements in order to maintain the tax-exempt status of the Series 2017 Bonds to the extent that any such other requirements are made applicable to the Project. There is no assurance, however, that the Borrowers would be able to comply with any such other requirements.

UNRELATED BUSINESS INCOME

The IRS, the State of North Carolina, county or local tax authorities may undertake audits and reviews of the operations of tax-exempt organizations with respect to the generation of unrelated business taxable income (“*UBTI*”). The Borrowers may participate in activities that generate UBTI. An investigation or audit could lead to a challenge that could result in taxes, interest and penalties with respect to UBTI and, in some cases, ultimately could affect the tax-exempt status of the Borrowers as well as the exclusion from gross income for federal income tax purposes of the interest payable on the Series 2017 Bonds.

IRS AUDITS

IRS officials have indicated that more resources will be invested in audits of tax-exempt bonds in the charitable organization sector. The Series 2017 Bonds may be, from time to time, subject to audits by the IRS. The Borrowers believe that they are in compliance with tax laws relating to the Series 2017 Bonds. In addition, Bond Counsel will render an opinion with respect to the tax-exempt status of the Series 2017 Bonds, as described under the caption “**TAX MATTERS**” herein, which opinion speaks only as of its date. No ruling with respect to the tax-exempt status of the Series 2017 Bonds has been or will be sought from the IRS, however, and opinions of counsel are not binding on the IRS or the courts and are not guarantees. There can be no assurance that an audit of the Series 2017 Bonds will not adversely affect the tax status of the Series 2017 Bonds.

LEGAL OPINIONS

The various legal opinions to be delivered concurrently with the delivery of the Series 2017 Bonds will express the professional judgment of the attorneys rendering the opinions on the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to such transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

In addition, such opinions will be qualified as to the enforceability of the various legal instruments by, among others, limitations imposed by North Carolina, Wisconsin and federal laws, rulings and decisions affecting remedies, and by bankruptcy, reorganization or other laws affecting the enforcement of creditors’ rights generally.

INABILITY OR DELAY IN LIQUIDATING THE PROJECT AT AN ADEQUATE SALE PRICE

An Event of Default gives the Trustee the right to possession of, and the right to sell, the Project pursuant to a foreclosure sale under the Deed of Trust. The Project has been or will be specifically constructed or renovated for use as a school and may not be readily adaptable and marketable for other uses. Furthermore, while the Borrowers consider the location of the Project to be desirable for its purposes, there can be no assurance that potential purchasers will consider the location desirable for their particular purposes. Accordingly, there can be no assurance that the sale of the Project could be accomplished rapidly, or at all. Any sale of the Project may require compliance with the laws of the State of North Carolina. Such compliance may be difficult, time-consuming and/or expensive. Any delays in the ability of the Trustee to foreclose under the Deed of Trust could result in delays in the payment of the Series 2017 Bonds. Further, attempts to foreclose under the Deed of Trust or to obtain other remedies under the Deed of Trust, the Indenture, the Loan Agreement or any other documents relating to the Series 2017 Bonds may be met with protracted litigation and/or bankruptcy proceedings, which could cause delays, and a court may decide not to order specific performance of covenants contained in such documents.

POTENTIAL EFFECTS OF BANKRUPTCY

If the Borrowers were to file a petition for relief (or if a petition were filed against it as debtor) under the United States Bankruptcy Code, 11 U.S.C. Section 101 et seq., as amended, or other similar laws that protect creditors, the filing could operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the property of the debtor. If the bankruptcy court so ordered, the debtor’s property and revenues could be used for the benefit of the debtor despite the claims of its creditors (including the Bondholders of the Series 2017 Bonds).

In a bankruptcy proceeding, the debtor could file a plan for the adjustment of its debts that modified the rights of creditors generally or the rights of any class of creditors, secured or unsecured (including the Bondholders of the Series 2017 Bonds). The plan, when confirmed by the court, binds all creditors who had notice or knowledge of the plan and discharges all claims against the debtor provided for in the plan. The Borrowers are prohibited from creating secured indebtedness except as provided in the Loan Agreement. See **APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT – *Limitation on Additional Indebtedness*”** which will apply to the Borrower.

ENFORCEMENT OF REMEDIES

The remedies available to the Trustee or the Bondholders of the Series 2017 Bonds upon an Event of Default under the Indenture, the Loan Agreement or the Deed of Trust are in many respects dependent upon judicial actions that 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 Deed of Trust may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 2017 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 North Carolina and the constitutional powers of the United States of America, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

FAILURE TO PROVIDE ONGOING DISCLOSURE

Failure of the Borrowers to comply with the continuing disclosure undertaking described in **“CONTINUING DISCLOSURE”** below in the future may adversely affect the liquidity of the Series 2017 Bonds and their market price in the secondary market. See **APPENDIX F – “FORM OF CONTINUING DISCLOSURE UNDERTAKING AGREEMENT.”**

SECONDARY MARKET; TRANSFER RESTRICTIONS

EACH INITIAL BENEFICIAL OWNER OF THE SERIES 2017 BONDS SHALL BE EITHER (I) A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT OF 1933, AS AMENDED); OR (II) AN INSTITUTIONAL “ACCREDITED INVESTOR” (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) OF REGULATION D UNDER THE SECURITIES ACT OF 1933, AS AMENDED) THAT IN EITHER CASE HAS PROVIDED AN “INVESTOR LETTER” TO THE TRUSTEE IN THE FORM ATTACHED HERETO AS **APPENDIX H**. THE SERIES 2017 BONDS MAY NOT AFTER THE INITIAL SALE THEREOF BE TRANSFERRED TO ANY BENEFICIAL OWNER THAT IS NOT A QUALIFIED INSTITUTIONAL BUYER OR AN INSTITUTIONAL ACCREDITED INVESTOR. THE ISSUER MAY REMOVE SUCH LIMITATION WITHOUT NOTICE TO OR CONSENT OF ANY BENEFICIAL OWNER OR REGISTERED OWNER. AT SUCH TIME AS THE BORROWERS SHALL PROVIDE TO THE ISSUER AND THE TRUSTEE WRITTEN EVIDENCE TO THE EFFECT THAT EACH RATING AGENCY THEN RATING THE SERIES 2017 BONDS HAS RATED THE SERIES 2017 BONDS “BBB-” OR EQUIVALENT, OR HIGHER (WITHOUT REGARD FOR GRADATION WITHIN A RATING CATEGORY AND WITHOUT REGARD FOR CREDIT ENHANCEMENT UNLESS SUCH CREDIT ENHANCEMENT EXTENDS THROUGH THE FINAL MATURITY DATE OF THE SERIES 2017 BONDS), THIS RESTRICTION SHALL BE OF NO FURTHER FORCE OR EFFECT, NOTWITHSTANDING WHETHER AT A FUTURE TIME THE SERIES 2017 BONDS ARE NO LONGER RATED IN SUCH RATING CATEGORY. SEE **APPENDIX H – “FORM OF INVESTOR LETTER”** ATTACHED HERETO.

There is no guarantee that a secondary trading market will develop for the Series 2017 Bonds. Consequently, prospective investors should be prepared to hold their Series 2017 Bonds to maturity or prior redemption. Subject to applicable securities laws and prevailing market conditions, the Underwriter intends, but is not obligated, to make a market in the Series 2017 Bonds.

NO RATING

The Series 2017 Bonds are not rated by a nationally recognized rating agency. Neither the Issuer nor the Borrowers requested or applied for a rating on the Series 2017 Bonds from any rating service. Typically, unrated bonds lack liquidity in the secondary market. Because of the lack of credit rating, Bondholders may not be able to sell their Series 2017 Bonds in the secondary market.

Conclusion

AN INVESTMENT IN THE SERIES 2017 BONDS INVOLVES A DEGREE OF RISK AND IS SPECULATIVE IN NATURE. Each prospective investor should carefully examine this Limited Offering Memorandum, and the Appendices hereto, and such investor's own financial condition in order to make a judgment as to whether the Series 2017 Bonds are an appropriate investment for such investor.

ENFORCEABILITY OF OBLIGATIONS

On the date of delivery of the Series 2017 Bonds, Robinson Bradshaw & Hinson, P.A., Charlotte, Bond Counsel, will deliver its opinion, dated the delivery date that the Series 2017 Bonds, the Loan Agreement and the Indenture are valid and legally binding on the Issuer, and are enforceable in accordance with their respective terms. Wyatt Early Harris & Wheeler, LLP, High Point, North Carolina, as counsel to the Borrower, will deliver its opinion that the Loan Agreement, the Series 2017 Promissory Note and the Deed of Trust are valid and legally binding agreements of the Borrower, each enforceable in accordance with its respective terms. The foregoing opinions will be generally qualified to the extent that the enforceability of the respective instruments may be limited by laws, decisions and equitable principles affecting remedies and by bankruptcy or insolvency or other laws, decisions and equitable principles affecting creditors' rights generally.

While the Series 2017 Bonds are secured or payable pursuant to the Indenture, the Loan Agreement, the Series 2017 Promissory Note and the Deed of Trust, the practical realization of payment from any security will depend upon the exercise of various remedies specified in the respective instruments. These and other remedies are dependent in many respects upon judicial action, which is subject to discretion and delay. Accordingly, the remedies specified in the above documents may not be readily available or may be limited.

LEGAL MATTERS

Legal matters incident to the issuance and sale of the Series 2017 Bonds and with regard to the tax-exempt status of interest on the Series 2017 Bonds under existing laws are subject to the legal opinion of Robinson Bradshaw & Hinson, P.A. Charlotte, North Carolina, as Bond Counsel. Certain legal matters will be passed on by von Briesen & Roper, s.c., Milwaukee, Wisconsin, as counsel to the Issuer, and by Wyatt Early Harris & Wheeler, LLP, High Point, North Carolina, as counsel to the Borrower. Parker Poe Adams & Bernstein LLP, Raleigh, North Carolina, represents the Underwriter in this transaction.

The legal fees paid to Bond Counsel, as well as any of the other foregoing firms, for services rendered in connection with the issuance of the Series 2017 Bonds are contingent upon the actual sale and delivery of the Series 2017 Bonds.

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.

RELATIONSHIP AMONG PARTIES

As set forth in **APPENDIX A**, the leadership and directors of the Academy, the Foundation and the School's operator, 7 Degrees of Change Foundation, overlap in various respects.

TAX MATTERS

General. The opinion of Bond Counsel will state that under existing law and subject to compliance with provisions of the Internal Revenue Code of 1986, as amended (the "*Code*"), interest on the Series 2017 Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account for purposes of computing the alternative minimum tax imposed on certain corporations.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Series 2017 Bonds for interest on the Series 2017 Bonds to be and remain excludable from gross income for purposes of federal income taxation. Examples include: the requirement that the Borrowers maintain their status as organizations exempt from federal income taxation by reason of being described in Section 501(c)(3) of the Code; the requirement that the Borrowers rebate certain excess earnings on proceeds and amounts treated as proceeds of the Series 2017 Bonds to the United States Treasury; restrictions on investment of such proceeds and other amounts; and restrictions on the ownership and use of the facilities financed or refinanced with proceeds of the Series 2017 Bonds. The foregoing is not an exhaustive list of the post-issuance tax compliance requirements of the Code. Failure to comply with certain of such requirements may cause interest on the Series 2017 Bonds to be included in gross income retroactively to the date of issuance of the Series 2017 Bonds. The Borrowers have covenanted to comply with these requirements. The opinion of Bond Counsel delivered on the date of issuance of the Series 2017 Bonds will be conditioned on the compliance by the Borrowers with such requirements, and Bond Counsel has not been retained to monitor compliance with requirements such as those described above subsequent to the issuance of the Series 2017 Bonds.

Ownership of the Series 2017 Bonds may result in collateral federal, state or local tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be eligible for the earned income tax credit, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the Series 2017 Bonds. Bond Counsel expresses no opinion regarding any such collateral tax consequences. Prospective purchasers of the Series 2017 Bonds should consult their tax advisors regarding collateral tax consequences.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to Bond Counsel as of the date thereof. Bond Counsel assumes no duty to revise or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of a particular result, and are not binding on the Internal Revenue Service (the "IRS") or the courts. Rather, such opinions represent Bond Counsel's professional judgment based on its review of existing law and in reliance on the representations and covenants it deems relevant to such opinions.

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Series 2017 Bonds and could affect the market price or marketability of the Series 2017 Bonds.

Original Issue Discount. Some of the Series 2017 Bonds have been sold at an original issue discount. The original issue discount of a Series 2017 Bond is the excess of the stated redemption price at maturity of such Series 2017 Bond over its initial offering price to the public, excluding underwriters and other intermediaries. Original issue discount, to the extent properly allocable to an owner of a Series 2017 Bond, is excludable from gross income for federal income tax purposes.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to any owner of a tax-exempt bond during any accrual period generally equals (i) the issue price of such tax-exempt bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such tax-exempt bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), minus (iii) any interest payable on such tax-exempt bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be treated as received ratably on each day of the accrual period, will be excludable from gross income for federal income tax purposes, and will increase the owner's tax basis in such tax-exempt bond. Purchasers of any Series 2017 Bonds at an original issue discount should consult their tax advisors regarding the determination and treatment of original issue discount for income tax purposes.

Future Changes. Proposed legislation is considered from time to time by the United States Congress that, if enacted, would affect the tax consequences of owning the Series 2017 Bonds. No assurance can be given that any future legislation or clarifications or amendments to the Code, if enacted, will not contain provisions which could cause the interest on the Series 2017 Bonds to be subject directly or indirectly to federal income taxation, adversely affect the market price or marketability of the Series 2017 Bonds, or otherwise prevent the owners of the Series 2017 Bonds from realizing the full current benefit of the status of the interest on the Series 2017 Bonds. Similarly, no assurance can be given that any future court decisions will not cause the interest on the Series 2017 Bonds to be subject directly or indirectly to federal income taxation, adversely affect the market price or marketability of the Series 2017 Bonds or otherwise prevent the owners of the Series 2017 Bonds from realizing the full current benefit of the status of interest on the Series 2017 Bonds.

UNDERWRITING; LIMITED OFFERING

The Series 2017 Bonds will be purchased by George K. Baum & Company (the "Underwriter"). The Underwriter has agreed to purchase the Series 2017 Bonds at a purchase price of \$30,867,157.30 (equal to the par amount of the Series 2017 Bonds, less original issue discount of \$460,767.70, less Underwriter's discount of \$477,075.00), subject to the terms of a Bond Purchase Agreement among the Issuer, the Borrowers and the Underwriter. The Bond Purchase Agreement provides that the Underwriter shall purchase all Series 2017 Bonds if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions. The initial offering prices set forth on the cover hereof may be changed from time to time by the Underwriter. The Borrowers have agreed under the Bond Purchase Agreement to indemnify the Underwriter and the Issuer against certain liabilities, including certain liabilities under federal and state securities laws.

INVESTMENT IN THE SERIES 2017 BONDS INVOLVES A SIGNIFICANT DEGREE OF RISK AND EACH PROSPECTIVE INVESTOR SHOULD CONSIDER ITS FINANCIAL CONDITION AND THE RISKS INVOLVED TO DETERMINE THE SUITABILITY OF INVESTING IN THE SERIES 2017 BONDS.

EACH INITIAL BENEFICIAL OWNER OF THE SERIES 2017 BONDS SHALL BE EITHER (I) A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT OF 1933, AS AMENDED); OR (II) AN INSTITUTIONAL "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) OF REGULATION D UNDER THE SECURITIES ACT OF 1933, AS AMENDED) THAT IN EITHER CASE

HAS PROVIDED AN “INVESTOR LETTER” IN THE FORM ATTACHED HERETO AS **APPENDIX H** TO THE TRUSTEE. THE SERIES 2017 BONDS MAY NOT AFTER THE INITIAL SALE THEREOF BE TRANSFERRED TO ANY BENEFICIAL OWNER THAT IS NOT A QUALIFIED INSTITUTIONAL BUYER OR AN INSTITUTIONAL ACCREDITED INVESTOR. THE ISSUER MAY REMOVE SUCH LIMITATION WITHOUT NOTICE TO OR CONSENT OF ANY BENEFICIAL OWNER OR REGISTERED OWNER. AT SUCH TIME AS THE BORROWERS SHALL PROVIDE TO THE ISSUER AND THE TRUSTEE WRITTEN EVIDENCE TO THE EFFECT THAT EACH RATING AGENCY THEN RATING THE SERIES 2017 BONDS HAS RATED THE SERIES 2017 BONDS “BBB-” OR EQUIVALENT, OR HIGHER (WITHOUT REGARD FOR GRADATION WITHIN A RATING CATEGORY AND WITHOUT REGARD FOR CREDIT ENHANCEMENT UNLESS SUCH CREDIT ENHANCEMENT EXTENDS THROUGH THE FINAL MATURITY DATE OF THE SERIES 2017 BONDS), THIS RESTRICTION SHALL BE OF NO FURTHER FORCE OR EFFECT, NOTWITHSTANDING WHETHER AT A FUTURE TIME THE SERIES 2017 BONDS ARE NO LONGER RATED IN SUCH RATING CATEGORY. SEE “**BONDHOLDERS’ RISKS – SECONDARY MARKET**” HEREIN AND **APPENDIX H – “FORM OF INVESTOR LETTER”** ATTACHED HERETO.

CONTINUING DISCLOSURE

The Borrowers will execute and deliver a Continuing Disclosure Agreement with respect to the Series 2017 Bonds (the “*Continuing Disclosure Agreement*”) dated as of June 1, 2017 by and among the Borrowers and School Improvement Partnership, LLC, as Continuing Disclosure Agent (the “*Continuing Disclosure Agent*”). The Continuing Disclosure Agreement is made for the benefit of the registered and beneficial owners of the Series 2017 Bonds and in order to assist the Underwriter in complying with its obligations pursuant to Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the “*Continuing Disclosure Rule*”). See “**APPENDIX F – FORM OF CONTINUING DISCLOSURE UNDERTAKING AGREEMENT**” hereto. The Borrowers have not previously entered into any undertaking pursuant to the Continuing Disclosure Rule.

Pursuant to the Continuing Disclosure Agreement, the Borrowers will agree to provide, or cause to be provided, annually within 180 (one hundred eighty) days after the close of each Fiscal Year and quarterly within 45 (forty-five) days of the close of each fiscal quarter to the Municipal Securities Rulemaking Board (the “*MSRB*”) certain quantitative financial information and operating data of the type specified in the Continuing Disclosure Agreement (the “*Disclosure Information*”); and to provide in a timely manner (not in excess of ten (10) business days) to the MSRB notice of Material Events (as described in Continuing Disclosure Agreement).

The duties of the Continuing Disclosure Agent are to

- contact the Borrowers at least 30 days before each Quarterly and Annual Report are due under the Continuing Disclosure Agreement
- send the draft template to management, with those sections completed that can be obtained from publicly available data
- assist the Borrowers in completing the template by its required filing date
- once the completed template and accompanying attachments are received by the Continuing Disclosure Agent, the Continuing Disclosure Agent will file such information with the MSRB
- e-mail alert to the Borrowers, the Underwriter, any holder of at least 20% of the Bonds outstanding and the Trustee when any documents are filed with the MSRB
- post notice with the MSRB when the Borrowers miss a filing deadline;
- post notice with the MRSB when it receives notice of a Material Event from the Borrowers
- arrange investor calls in coordination with the Underwriter as required under the Continuing Disclosure Agreement

In the event of a failure of the Borrowers to comply with any provision of the Continuing Disclosure Agreement, the Bondholder of any Bond may seek specific performance by court order to cause the Borrowers to comply with its obligations under the Continuing Disclosure Agreement. A default under the Continuing Disclosure Agreement shall not be deemed an Event of Default under the Indenture or any other agreement, and the sole remedy under the Continuing Disclosure Agreement in the event of any failure of the Borrowers to comply with the Continuing Disclosure Agreement shall be an action to compel performance.

ABSENCE OF MATERIAL LITIGATION

THE ISSUER

To the Issuer's knowledge, as of the date of this Limited Offering Memorandum, there is not pending or threatened, any litigation restraining or enjoining the issuance or delivery of the Series 2017 Bonds or questioning or affecting the validity of the Series 2017 Bonds or the proceedings or authority under which they are to be issued or which in any manner questions the right of the Issuer to enter into the Indenture or the Loan Agreement or to secure the Series 2017 Bonds in the manner provided in the Indenture. From time to time the Issuer receives inquiries and requests for documents and information pertaining to unrelated bond issues from various regulatory agencies, including the Securities & Exchange Commission, and in connection with audits by the Internal Revenue Service.

THE BORROWERS

There is no litigation pending or, to the knowledge of the Borrowers, threatened, against the Borrowers, which in any manner questions the right or ability of the Borrowers to enter into the Loan Agreement or to fulfill the obligations imposed upon the Borrowers thereby. The Borrowers may, from time to time, be involved in various legal actions consistent with the general experience of entities of similar nature and size.

FINANCIAL STATEMENTS

The audited financial statements of the Academy, as of June 30, 2014, 2015 and 2016, included in this Limited Offering Memorandum as **APPENDIX B-1** have been audited by Rives & Associates, LLP, to the extent and for the periods indicated in their reports thereon. The audited financial statements of the Foundation, as of June 30, 2016, included in this Limited Offering Memorandum as **APPENDIX B-1** have been audited by Rives & Associates, LLP, to the extent and for the periods indicated in their reports thereon. **APPENDIX B-2** contains certain interim financial disclosure for the current fiscal year that have been provided to the Department of Public Instruction.

CERTAIN RELATIONSHIPS

Parker Poe Adams & Bernstein LLP has previously represented or currently represents the Issuer, the Underwriter and the Trustee in transactions unrelated to the issuance of the Series 2017 Bonds.

MISCELLANEOUS

The Borrowers have furnished the information in this Limited Offering Memorandum relating to itself and the Project and has reviewed the information related to the plan of financing and related documents and information. The Issuer has furnished only the information in this Limited Offering Memorandum under the captions "**THE ISSUER**" and "**ABSENCE OF MATERIAL LITIGATION – ISSUER.**" The Underwriter has furnished the information in this Limited Offering Memorandum with

respect to the offering prices of the Series 2017 Bonds and the information under the caption **“UNDERWRITING; LIMITED OFFERING.”**

All quotations from, and summaries and explanations of, the Act, the Indenture, the Loan Agreement, the Deed of Trust, and other documents referred to herein do not purport to be complete, and reference is made to such law and documents for full and complete statements of their provisions. Such documents are on file and available for inspection at the office of the Trustee. All references herein to the Series 2017 Bonds are qualified by the definitive forms thereof and the information with respect thereto contained in the Indenture. This Limited Offering Memorandum shall not be construed as constituting an agreement with any purchaser of any Series 2017 Bonds. The cover page, introductory statement and the Appendices attached hereto are part of this Limited Offering Memorandum.

ANY STATEMENTS MADE IN THIS LIMITED OFFERING MEMORANDUM INVOLVING MATTERS OF OPINION OR OF ESTIMATES, WHETHER OR NOT SO EXPRESSLY STATED, ARE SET FORTH AS SUCH AND NOT AS REPRESENTATIONS OF FACT, AND NO REPRESENTATION IS MADE THAT ANY OF THE ESTIMATES WILL BE REALIZED.

OTHER THAN WITH RESPECT TO INFORMATION CONCERNING THE ISSUER CONTAINED UNDER THE CAPTIONS **“THE ISSUER”** AND **“ABSENCE OF MATERIAL LITIGATION - ISSUER,”** AS SUCH INFORMATION RELATES TO THE ISSUER, NONE OF THE INFORMATION IN THIS LIMITED OFFERING MEMORANDUM HAS BEEN SUPPLIED OR VERIFIED BY THE ISSUER, AND THE ISSUER MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO (I) THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION; (II) THE VALIDITY OF THE SERIES 2017 BONDS; OR (III) THE FEDERAL INCOME TAX STATUS OF THE INTEREST ON THE SERIES 2017 BONDS OR ANY STATE INCOME TAX STATUS OF THE SERIES 2017 BONDS.

The Borrowers have approved the information contained herein.

PHOENIX ACADEMY, INC., a North Carolina non-profit corporation, as Borrower

By: /s/ Perry Flynn
Perry Flynn, Chairman

PHOENIX ACADEMY FOUNDATION, INC., a North Carolina non-profit corporation, as Borrower

By: /s/ Paul J. Norcross
Paul J. Norcross, Chairman

APPENDIX A

THE BORROWERS, THE SCHOOL AND THE PROJECT

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

THE BORROWERS, THE SCHOOL AND THE PROJECT

A.	PHOENIX ACADEMY, INC.....	1
	OVERVIEW & HISTORY	1
	MISSION.....	1
	SCHOOL PHILOSOPHY	1
	CURRICULUM: PRIMARY SCHOOL	2
	CURRICULUM: ELEMENTARY SCHOOL.....	3
	CURRICULUM: MIDDLE SCHOOL	4
	EXTRACURRICULAR ACTIVITIES.....	4
	TRANSPORTATION AND LUNCHES	5
	PARENT AND FAMILY ENGAGEMENT	5
	ORGANIZATION AND MANAGEMENT.....	5
	BOARD OF DIRECTORS	6
	FOUNDERS	9
	CONFLICTS OF INTEREST POLICY	9
	EMPLOYEES	9
B.	PHOENIX ACADEMY FOUNDATION, INC.	10
C.	7 DEGREES OF CHANGE FOUNDATION: MANAGER.....	11
	MANAGEMENT CONTRACT	11
D.	ENROLLMENT AND RELATED DATA	12
	WAITLIST, ATTENDANCE, & RETENTION	13
	DEMOGRAPHICS	13
E.	STUDENT OUTCOMES	14
	STATE ASSESSMENT MEASURES.....	14
F.	LOCAL DEMOGRAPHICS.....	16
	COMPETITIVE ENVIRONMENT	17
	MARKET SHARE FOR K-8 STUDENTS	18
G.	FINANCIAL SUMMARY.....	18
	PRIMARY SOURCE OF REVENUES	18
	FINANCIAL OVERSIGHT	19
	ACCOUNTING MATTERS.....	19
	SUMMARY OF AUDITED FINANCIAL DATA.....	19
	BUDGETING AND FINANCIAL PROJECTIONS	23
H.	THE PROJECT	25
I.	ADDITIONAL INFORMATION.....	26
	INSURANCE.....	26
	LITIGATION.....	26

EXHIBIT A – CHARTER AGREEMENT

EXHIBIT B – UNAUDITED FINANCIAL STATEMENTS OF PHOENIX ACADEMY, INC. FOR APRIL, 2016

**EXHIBIT C – UNAUDITED FINANCIAL STATEMENTS OF 7 DEGREES OF CHANGE FOUNDATION AS OF
DECEMBER 31, 2016**

EXHIBIT D – APPRAISAL REPORTS OF THE PROPERTY SET FORTH ON A-25

EXHIBIT E – PHOENIX ACADEMY, INC.’S CONFLICT OF INTEREST POLICY, WITH ADDENDUM

A. PHOENIX ACADEMY, INC.

OVERVIEW & HISTORY

Paul and Kim Norcross established Phoenix Academy, Inc. (the “*School*” or “*Phoenix*”) as a private independent school in 1997. The School opened in the fall of 1998 with five students in kindergarten and first grade. It was converted to a charter school and granted a charter in 2000 by the North Carolina State Board of Education (the “*SBE*”). It opened that fall with 214 students in grades K-5, and remained at approximately the same size until 2012.

During 2012 and based on overwhelming demand, the Board decided to increase enrollment substantially by adding the 6th grade with the intention of building an additional grade level each subsequent year through 12th grade. The strategy progressed effectively, but after adding 9th grade in fall 2016, the Board determined in March 2017 that it was not cost effective to offer high school due to numerous mitigating factors in the marketplace. Enrollment in 2016-17 reached 1,186 in grades K-9. In fall 2017, the School intends to admit approximately 230 kindergarten students and 180 each year thereafter, with very few, if any, students added to middle grades, which had been its strategy before the expansion. Beginning in fall 2017, Phoenix will no longer offer grades beyond 8th. However, the Board of the School has established a sub-committee to develop the financial, academic and demographic criteria under which the School will continue to explore adding a high school program serving grades 9-12.

The initial charter granted by the SBE was effective July 1, 2000 was for a 5-year term. The charter was renewed for 10 years on July 1, 2005, and again for 7 years on July 1, 2015. At the time of the School’s charter renewal in 2015, 25% of the charter school renewals at that time received less than the full 10-year renewal. The School believes a 10-year charter was not granted at such time due to Phoenix’s assimilation of such a large group of new students who entered the School at all grade levels, and who were not performing at grade level at their prior schools. The current charter expires June 30, 2022.

MISSION

The mission of the School is informed by the following quote: “Treat people as if they were what they ought to be, and you help them become what they are capable of becoming.” – *Goethe*

Phoenix chose its name and symbol with great purpose. The mythological bird represents “Soaring to Excellence.” This representation is self-evident in an educational setting. The School provides children with a safe, individualized, yet structured environment that promotes and fosters excellence, wisdom, integrity and perseverance. Those qualities enhance learning and performance.

SCHOOL PHILOSOPHY

Kim Norcross created a program utilized by the School called Positive Behavior Intervention and Support (“*PBIS*”). The program establishes and reinforces clear behavior expectations toward ensuring caring and safe communities for learning. PBIS was recognized by the former North Carolina Superintendent of Public Instruction as being the first program of its kind in North Carolina, and has since required its integration into every public school in the State of North Carolina. Such forward thinking is not only representative of the School, but reflective of how charter schools are intended to benefit and enhance the public school system.

Phoenix has relatively low teacher to student ratios (see Figure 3 below). Small class sizes enable teachers to meet the individual needs of diverse learners. A positive reinforcement program enhances the small class sizes enabling students to grow not only academically but socially as well.

Primary School

Phoenix's Kindergarten and First Grade Primary School is focused on building a strong academic foundation and love of learning. Research-based programs prepare students to read early. Students also learn math, science and social studies in small groups where teachers are able to meet student's individual needs. Additionally, online math and reading programs personalize learning and connect home to school.

Elementary School

Phoenix's Second through Fifth Grade Elementary School challenges students to work at their highest level. Maintaining small groups, children learn math and reading in interactive and collaborative environments. Science, social studies and arts education provide children with opportunities to observe, record and experiment with the world around them. Students practice critical and creative thinking while fostering emotional and social growth that will last a lifetime.

Middle School

Phoenix's Sixth through Eighth Grade Middle School is an International Baccalaureate ("IB") school. The Middle Years Programme ("MYP"), which requires rigorous academic standards and community service requirements, gives students a balanced and globally-minded education. IB MYP students have core subjects, including language, science and math as well as electives in music, art and health.

CURRICULUM: PRIMARY SCHOOL

The Primary School includes grades Kindergarten through First and is located on one of the School's three campus locations.

Kindergarten

The Kindergarten curriculum uses a research based hands-on reading program; state of the art technology such as interactive white boards, classroom computers, neo boards, and access to educational web-based programs; positive reinforcement behavior system; Common Core Standards; and North Carolina essential standards. English Language Arts instruction focuses on phonological awareness, word recognition, fluency, writing and oral communication and technology skills. Math addresses counting and cardinality, operations and algebraic thinking, numbers and operations in base ten, measurement and geometry. Social Studies addresses changes over time, basic economic concepts, citizenship, and cultural similarities and differences. In Science, kindergarteners learn about forces and motion, matter, weather and animals. Field trips also take place to enhance learning.

First Grade

The First Grade curriculum uses interactive whiteboards and computer projectors in each classroom. Additionally, document cameras, flip cameras, and other technology are used to make learning exciting for the first grade population. First graders use a mobile laptop lab to practice keyboarding as well as creating and saving documents.

Students learn at their own pace receiving challenging materials or special help depending on their needs. Guided reading groups, math centers, science experiments, group projects and individual and

shared writing are all part of the first grade curriculum. In Math, the students work on using the Common Core Standards to develop language and comprehension skills, as well as their oral and written communication skills. In Science, students focus on forces and motion, Earth science, ecosystems and molecular biology. In Social Studies, students delve into history, geography, civics and economics, financial literacy and cultures.

CURRICULUM: ELEMENTARY SCHOOL

The Elementary School includes grades Second through Fifth and is located on a separate campus in close proximity to the Primary School.

Second Grade

The Second Grade curriculum incorporates technology; character education; web-based programs; behavior program based on rewards and consequences; challenging curriculum that teaches the Common Core and North Carolina Essential Standards; and differentiated instruction. In English Language Arts, students focus on developing comprehension, as well as their oral and written communication skills using a variety of texts and genres. The Common Core Math Standards focus on place value, addition and subtraction, measurement and geometry. In Science, students study forces and motion, matter, weather, animal life cycles and genetics. In Social Studies, students explore history, geography, basic economic concepts, citizenship, government and cultures.

Third Grade

The Third Grade curriculum follows the Common Core and North Carolina Essential Standards. In Science, students investigate, forces and motion, matter, Earth systems, and ecosystems. Each student is required to participate in the annual Science Fair. In Math, students concentrate on multiplication and division, arrays and area, developing an understanding of fractions, measurement and data, and geometry (2d shapes). English Language Arts uses the Common Core Standards to develop students' language and comprehension skills, as well as their oral and written communication skills. In Social Studies, students concentrate on history, geography, financial literacy, local government and diverse cultures.

Fourth Grade

The Fourth Grade curriculum incorporates hands-on project based learning, literature circles/novel studies, interactive multipurpose whiteboards, trait based writing, and laptop computer lab. Common Core and North Carolina Essential Standards are taught and followed. Assessments are done quarterly using benchmark testing and teaching is individualized based upon student needs. Each student is required to participate in the annual Science Fair and students are prepared for and take end-of-grade tests as required for all public schools. In Math the students work on using the Common Core Math Standards, whole number operations, fractions, geometry, measurement and data operations, and algebraic thinking. In English Language Arts, students use the Common Core Standards to develop language and comprehension skills, as well as their oral and written communication skills. In Science we focus on forces and motion, matter, energy, Earth, ecosystems, and molecular biology. In Social Studies students delve into North Carolina history and geography, civics and economics, and culture

Fifth Grade

The Fifth Grade curriculum follows Common Core and North Carolina Essential Standards. In English Language Arts students use the Common Core Standards to develop language and comprehension skills, as well as their oral and written communication skills. In Math, the students work using the Common Core Math Standards, operations with fractions, extending division, volume, geometry,

measurement and data, operations, and algebraic thinking. In Science, students participate in the Science Fair, study forces and motion, matter, energy Earth systems, ecosystems, and genetics. In Social Studies, students engage in studying US history and geography, economics and financial literacy, civics, and cultural diversity.

CURRICULUM: MIDDLE SCHOOL

The Middle School houses grades Sixth through Ninth, currently, but will include grades Sixth through Eighth for academic year 2017-2018. It is located at the largest of the three campuses with extensive room for expansion.

IB World Schools share a common philosophy—a commitment to improve the teaching and learning of a diverse and inclusive community of students by delivering challenging, high quality programmes of international education that share a powerful vision.

Students in the middle grades receive instruction geared towards mastery of the North Carolina Standard Course of Study goals. Students are challenged to think outside the box, applying information to real world situations. The curriculum is challenging and assessments are rigorous. Teachers are caring and diligently work to develop and equip students with the skills needed to be successful.

At Phoenix students are encouraged to develop a love for learning and explore interesting topics in all subject areas. Learning takes place in a variety of ways. Student study topics whole group, individually, and in teams. Students take part in discussion groups, and participate in project-based learning. Students learn through research and have online research resources at their fingertips.

Phoenix teachers strive to provide students with tools to properly prepare for rigorous but meaningful assessments. Students in turn have to apply themselves to rise to the challenges set in all classes.

Middle School subjects include Language Arts, Math, Science, Humanities, Physical Education, Art (Music Class or Art), Design, and Spanish. Web-based programs such as Dreambox and I-Station are incorporated into the learning and laptops are provided by the School to every middle school student. Middle school teachers follow the North Carolina Standard Course of Study in all subjects. Students in all grade levels are encouraged and required to complete a set amount of service learning hours which vary by grade level. One of the annual events hosted by the middle grade teachers and students is an international night, where parents from all grade levels are invited to present information, traditional food, and music from another country. The Science Olympiad, Interact club, Art club, Chess, club, aviation explorer club, and Go Far Running club are available to middle school students, along with cheerleading and girls' and boys' basketball.

EXTRACURRICULAR ACTIVITIES

The Middle School offers a variety of extracurricular activities to students including the following clubs and sports teams:

- Clubs: science Olympiad, club fit and well, photography, running, walking, golf, and aviation.
- Sports: boys and girls basketball, girls cheerleading, girls volleyball, boys and girls soccer.

TRANSPORTATION AND LUNCHES

The School is in compliance with statutory guidelines with respect to transportation for students. No transportation is provided by the School at this time.

The School does not currently have any students that participate in the federal free/reduced lunch program, although it believes several families would qualify.

PARENT AND FAMILY ENGAGEMENT

Parent engagement is a key aspect of the School's success through its expansion. Parents are encouraged to volunteer 4 hours per month and they help in a variety of ways:

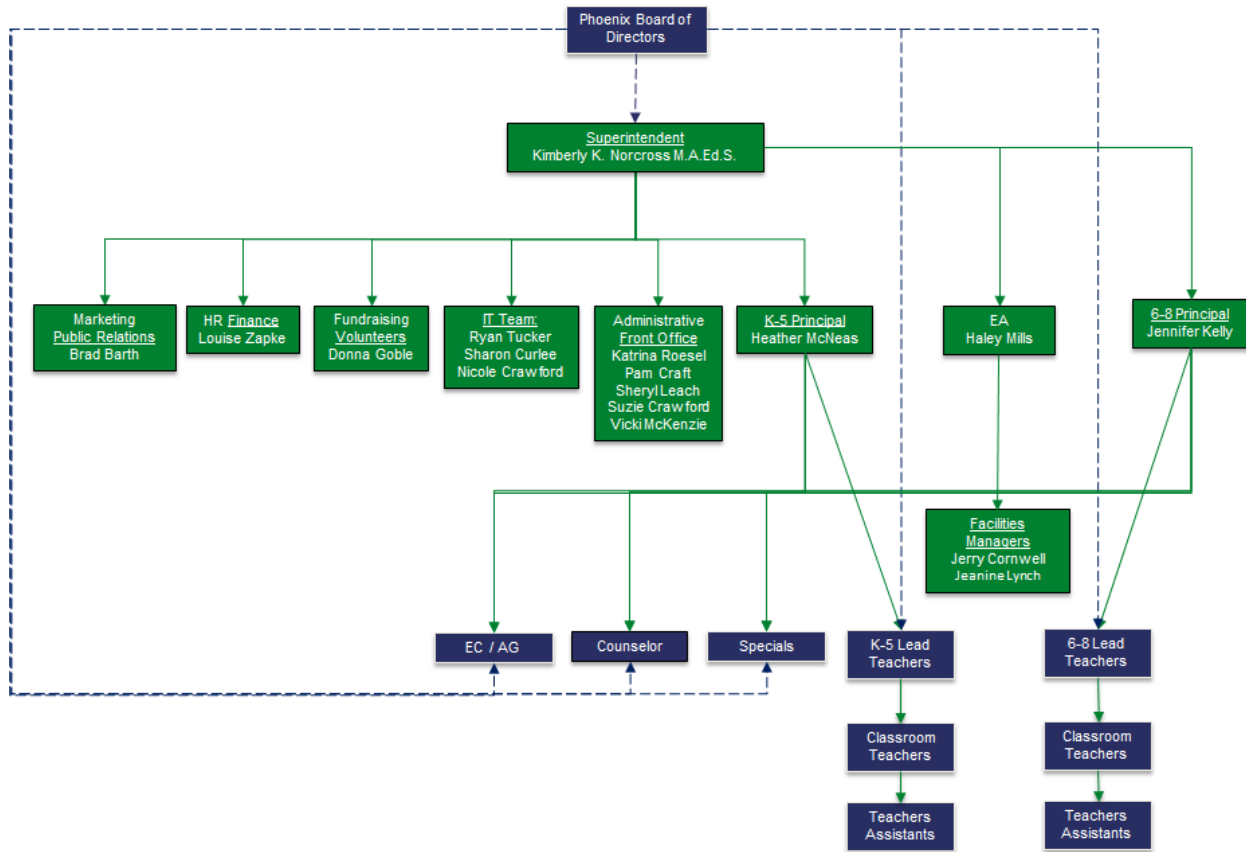
- basic tutoring;
- fundraisers;
- chaperoning class events;
- transportation to student events;
- food donations and service at the concession stand;

Parents also meet with the principals on a monthly basis to share feedback on anything school related. They can also opt to participate in several committees that are directly related to school culture and student development: Technology, Leadership, Curriculum, Culture, and Staff Development.

ORGANIZATION AND MANAGEMENT

As shown below, the leadership of Phoenix has engaged 7 Degrees of Change Foundation (whose employees are shown in green) to provide the administrative management and support for the School. The School (whose Board and employees are shown in blue) directly employs all student-facing personnel, such as teachers and counselors.

FIGURE 1. ORGANIZATION & MANAGEMENT CHART



BOARD OF DIRECTORS

The Board of Directors (the “*Board*”) of the School is composed of a group of highly respected members with diverse backgrounds and areas of expertise. They meet at minimum on a bi-monthly basis, and on an ad hoc basis when necessary. The Board interacts on a continual basis with management providing advice and consent. A minimum number of five and maximum of nine members may serve on the Board at any given time. Each member shall serve a term of up to three years, except to the extent necessary to implement staggered directorships, and each member may serve successive terms upon approval by a majority vote of the Board. There is no external control of the membership of the Board. Annual meetings take place within 120 days after the end of each fiscal year. There are currently two committees: the Executive Committee and Long Range Planning – Benchmarking Committee.

FIGURE 2. BOARD OF DIRECTORS

NAME	OCCUPATION	TERM (JUNE 30)
Perry Flynn, M.Ed., CCC-SLP, <i>Chair</i>	AP Professor & Consultant to the North Carolina Department of Public Instruction (Speech Language Pathology)	2017
Charles A. Alt, Esquire, <i>Secretary</i>	Attorney, General Counsel to Dixon Hughes Goodman	2018
Joel M. Palma, PE <i>Assistant Secretary</i>	President, Palma Engineers	2018
Colonel Chris Swadener (ASAF Retired) <i>Treasurer</i>	Vice President of Operations, NCI Information Systems, Inc.	2017
Major General John F. Phillips (ASAF Retired)	Commander, Sacramento Air Logistics Center; Consultant, International Relations and Public Policy	2017
Kenneth A. Kopf, Esquire (ASAF Retired)	Vice President General Counsel & Secretary, Infosys Public Services, Inc.; Retired Army Officer, JAG Judge, and CIA Agent	2017
Terry Green (ex-officio)	Patrol Lieutenant, High Point Police Department	

Perry Flynn: Perry Flynn, M.Ed. CCC/SLP is an AP Professor and the Consultant to the North Carolina Department of Public Instruction in the area of Speech Language Pathology. He is the Vice President for Planning and a Fellow of the American Speech-Language-Hearing Association. He has served as a member of ASHA’s Board of Directors (2013-2015) as the Chair of the Speech-Language Pathology Advisory Council. Perry has served two terms on the Board of Directors of the North Carolina Speech Hearing Language Association in addition to serving on many of the association’s committees. He has chaired ASHA’s School Finance Committee, and been a member of the School Service Delivery Committee, Convention Committee and Child Language Specialty Certification Task Force Practice Analysis Committee. He has served two terms as President of the State Education Agencies Disabilities Council. Mr. Flynn is a graduate of UNC-Greensboro.

Charles A. Alt: Mr. Alt serves as General Counsel for Dixon Hughes Goodman (“DHG”), the largest accounting firm based in the Southeast. In this role he fulfills the firm’s legal needs, including contractual, employment, professional liability and compliance related matters, and serves as key advisor to the firm’s leadership and Executive Committee. In addition to his internal role at DHG, he manages the firm’s relationships with various outside legal organizations. He has a 30 year history of serving on and chairing many community service organizations and foundations. He has had a relationship with the Phoenix Academy and Phoenix Academy Foundation almost since the beginning as it’s attorney, then solely as a member of the Board when moving from private practice in 2015. Mr. Alt is a graduate of Washington and Lee University with a B.S. in Commerce, and he is a graduate of the College of William and Mary with a J.D. and a Masters in Taxation.

Joel Palma: Mr. Palma is a 1994 graduate of the North Carolina A&T State University Architectural Engineering program with the specialization in Mechanical, Electrical, and Plumbing Design. He is registered as a Professional Engineer in the states in North Carolina and Virginia with reciprocity in 47 states. As President of Palma Engineers, a Mechanical, Electrical, and Plumbing Consulting Engineering Firm, Mr. Palma has been involved in the management, design, and commissioning of numerous buildings ranging from a small park building to the design of an entire university campus. Though Mr. Palma and his company have expertise in the design of a wide array of building and structure types (medical, municipal, mixed use, commercial, sports, coliseum, auto, dining, etc.), one of his premier passions is the design of education facilities including Kindergarten thru grade 12 and higher education (colleges and universities) facilities. Mr. Palma has expertise in all type of mechanical, electrical, and plumbing systems, but is especially interested in the design of green and

sustainable systems. He has been involved in numerous LEED (Leadership in Energy and Environmental Design) certified/inspired building under the guidelines of the United States Green Building Council (USGBC) and of the American Society of Heating, Refrigerating, and Air-Conditioning Engineers (ASHRAE). Mr. Palma two daughters attended the School.

Colonel Christopher Swadener (USAF) Retired: Colonel Swadener is the Associate Director of Air Operations for the Air National Guard, National Guard Bureau, Joint Base Andrews, Maryland. As the Associate Director, Mr. Swadener is the senior civilian in Air Operations and oversees the war planning, training, mobilization, and deployment of 105,500 Air National Guardsmen in 50 states, three territories, and the District of Columbia. He manages a portfolio of over 1,500 aircraft the fly 230,000 hours per year at a cost of \$1.6 billion and is responsible for 15 of the 16 fighter alert sites protecting the Homeland while providing forces to every contingency in the world today. Col. Swadener is responsible for a training enterprise that includes airfields, air-to-ground ranges, airspace, and training centers as well as hosting numerous large exercises with joint and international partners. Additionally, he manages the Battlefield Airmen career fields that are key to the Special Operations Forces. Prior to his current position he was the Vice President of Air National Guard Programs for NCI Information Systems, Inc. where he managed three major contracts supporting information technology for the US Government including software development and support, project and program management, network operations and security, and local area network engineering and support. While serving in the US Air Force and Air National Guard in uniform, Col. Swadener was the Director of Operations for the Air National Guard as well as being a pilot and navigator with over 3,500 hours in the C/HC-130 and C-38 and serving in major operations.

Major General John F. Phillips (ASAF Retired): Major General Phillips is the former commander of the Sacramento Air Logistics Center, McClellan Air Force Base, California. The center provides worldwide logistics support to a number of aircraft that include the F-117 Stealth fighter, F-22, F-111 series, A-10, F-15 and KC-135; manages more than 200 communications systems and eight space systems; and repairs, overhauls and modifies entire categories of complex avionics components, hydraulic and pneumatic systems, and flight control systems. The center manages \$3.2 billion annually, including a \$548 million payroll and \$820 million in contract awards. Major General Phillips entered the Air Force in December 1963, accepting his commission as a second lieutenant from Officer Training School, Lackland Air Force Base, Texas. He has a wide range of experience in managing various Air Force systems, and commanded the Logistics Management Systems Center and Joint Logistics Systems Center before assuming his current position. The general is an experienced pilot, navigator and instructor pilot with more than 3,000 flying hours, including more than 300 combat flying hours over Vietnam. He served in senior positions in both the Clinton and Bush Departments of Defense.

Kenneth A. Kopf, Esq.: Mr. Kopf is Vice President, General Counsel & Secretary at Infosys Public Services, Inc. Mr. Kopf has practiced corporate and government procurement law for over 30 years, representing both large and small corporations. Prior to Infosys, Mr. Kopf served as Chief Legal Officer at Trusted Computer Solutions, (acquired by Raytheon Corp.) a leading producer of (commercial and) classified government cross-domain information and cyber security software. In all his corporate positions, Mr. Kopf was responsible for all U.S. and International legal, ethics, and compliance matters. Prior to joining Trusted Computer Solutions, Mr. Kopf spent 22 years as Chief Legal Officer for Cubic Corporation, a \$1B multi-product international commercial and government defense contractor. In addition to the above corporate positions, he held various legal positions with the U.S. Navy, Veterans Administration and U.S. Air Force. Mr. Kopf's legal specialties are in Corporate law, ethics and compliance, federal, state and municipal government contract law, US and international commercial IP and contract law, US and international ADR, and investigations. Mr. Kopf served in the Air Force as a JAG and as a Russian Linguist with the U.S. intelligence community, and has served as a special assistant U.S. Attorney and a pro tem Superior Court Judge in California. Mr. Kopf taught law school and is a sought-after lecturer on many legal, corporate and government topics. He participated in a State

Department Trade Mission to Russia, served on law review, graduated with honors from Hamline U. School of Law, and served as law clerk to a Minnesota District Court judge. Mr. Kopf was a licensed clinical psychologist, teacher, is an “AV” rated attorney with Martindale Hubbell. Mr. Kopf recently ran for U.S. Congress in the N.C. 6th District.

Terry Green: Mr. Green joined the High Point Police Department in 1989. Since that time he has worked as a patrol officer, traffic accident investigator, field training officer, special investigations and has served the past 9 years as a patrol lieutenant. Mr. Green has a daughter in the School.

FOUNDERS

Kimberly K. Norcross M.A.Ed: Starting her career in education after receiving her BS in Elementary Education from Appalachian State University, she then transitioned into the business world as a sales executive in the telecommunications industry taking the New York/New England territory from less than \$100 a month to over one million dollars a month. She then cofounded a supply chain management company with her husband that started with a \$100 capitalization to over seven million per year in annual sales. She also served as the chief financial officer of a company that managed hotel and resort renovations and new construction across the globe. Kim transitioned back into education taking over the helm at the request of the Board as Principal, then Superintendent receiving her Master’s in Education Management and Supervision from the University of Phoenix. Superintendent Norcross is recognized by the Superintendent of Public Instruction of the State of North Carolina as the individual responsible for bringing the Positive Behavior Intervention System, or PBIS to the State. This methodology has morphed into the Multi-Tiered Support System, or MTSS which is now being mandated in every public school in North Carolina.

Paul J. Norcross: Mr. Norcross grew up in the Philippines and graduated with BS in Business Finance from the University of San Francisco. He has founded and operates several businesses in the United States and abroad providing a range of services including shipping, warehousing, installation, project management, LEAN management and consulting. He and wife Kim have worked hand-in-hand founding businesses as well as the Phoenix Academy and the 7 Degrees of Change Foundation. He was one the founders of both the North Carolina Alliance for Public Charter Schools and the NC State Board of Education Charter School Advisory Council and Charter School Advisory Board, where he wrote the legislation creating the body.

CONFLICTS OF INTEREST POLICY

The Board has a conflict of interest policy in compliance with statutory guidelines. No transaction may be approved if it would constitute self-dealing. The conflict of interest policy, with addendum, is attached hereto as Exhibit E.

EMPLOYEES

Over the course of the past four years, nearly 100 new staff members have been hired through a robust recruitment and retention process; utilizing web based tools, word of mouth and advertising. The School does not participate in the North Carolina retirement plan, but adheres closely to state salary levels for staff.

Teachers and administrators have identified several reasons for employment satisfaction, including but not limited to the state-of-the-art facilities, supportive leadership, strict adherence to discipline standards and code of conduct required of the student body. The School offers a healthcare plan and a 403(b) retirement plan. There is not now, nor has there been, a defined ongoing benefit pension plan, so there are no pension liabilities.

The following table provides information regarding the School’s faculty and staff for the years indicated. For the 2016-17 school year, 23 teachers (28%) have an advanced degree, two are National Board Certified, and 98% are rated as Highly Qualified on their license.

FIGURE 3. TEACHER LEVELS AND ATTRITION

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18*
Teachers	24	52	64	69	82	80
Retention Rate	87.5	88	91.3	91.3	90.3	90
Student-Teacher Ratio	1:13	1:12	1:13	1:16	1:13	1:13

* Projected

In partnership with and in service to the North Carolina Department of Public Instruction and the Office of Charter Schools, the School founders have developed a “Charter School Leadership Institute” to start in July 2017. A follow-up session in October at the official State Leadership Conference hosted by the North Carolina Office of Charter Schools will provide training and tools to public school leaders. This three-day intensive annual course is limited to 25 Principals and Administrators and is based on the Education Leadership Doctoral Program at Coastal Carolina University. Each participant will receive continuing education units and participate in an ongoing program, with a new cohort of participants added to the program every year. The objective of the Institute is to build a stronger base of charter school leaders in the State of North Carolina. It will also allow the School a program under which it can identify and recruit potential leaders for the School.

B. PHOENIX ACADEMY FOUNDATION, INC.

The Phoenix Academy Foundation, Inc. (the “*Foundation*”) was established by the founders of the School, incorporated on February 13, 2013 and received its 501(c)(3) determination letter on August 25, 2014 as a supporting entity of Phoenix Academy. As previously stated, the Foundation was originally established to better administer assets of the School, including its fixed assets as well as certain of its (charitable) investments. Upon closing of the Series 2017 Bonds, the Foundation will own all of the School properties and lease them to the School. The Foundation and the School will be co-borrowers and will both be obligors on the 2017 Bonds.

FIGURE 4. BOARD OF DIRECTORS OF THE FOUNDATION

NAME	OCCUPATION
Paul J. Norcross, <i>Founder & Chairman</i>	CEO - Phoenix Group
Seth Tyler Haymore, <i>Secretary</i>	Education Policy Advisor for Representative Ted Budd
Perry Flynn, M.Ed., CCC-SLP	AP Professor & Consultant to the North Carolina Department of Public Instruction (Speech Language Pathology)
Joel M. Palma, PE	President, Palma Engineers

Biographical information for Mr. Norcross, Mr. Flynn and Mr. Palma can be found on pages A-6 through A-8.

Seth Tyler Haymore: Mr. Haymore a native of Winston-Salem, NC, currently serves on the legislative staff for Representative Ted Budd (NC-13). He is a graduate of the University of North Carolina at Greensboro with a Bachelor of Arts degree in Economics. Previously, Mr. Haymore has worked in the private sector for a 4th-generation family business and has political experience working for the Republican National Committee and campaigns across North Carolina.”

C. 7 DEGREES OF CHANGE FOUNDATION: MANAGER

The 7 Degrees of Change Foundation (“7 Degrees”) was established by the founders of the School, incorporated on May 21, 2009 and received its 501(c)(3) determination letter on August 6, 2010, as an entity dedicated to global literacy. Beyond its service to Phoenix, 7 Degrees has opened over 210 libraries throughout the world in areas where children lack access to books. In addition to the literacy program, 7 Degrees directly supports local causes and charitable foundations in the Piedmont Triad region.

In 2013, when Phoenix was planning its expansion, the Board of the School made a strategic decision to separate the real estate, education, and management areas of the School. The Foundation was created to hold real estate and other assets (including gift receipts). The senior management team from the School became employees of 7 Degrees and 7 Degrees formed its “Innovation in Education” unit. 7 Degrees in turn added the charter school management organization model to its scope of services.

On or about December 2017, Colonel Chris Swadener, who is Treasurer of the Board, will become an employee of 7 Degrees and take over fulltime chief financial officer duties with respect to the management of the School. Biographical information for Col. Swadener can be found on page A-8.

MANAGEMENT CONTRACT

The School contracts with 7 Degrees to provide management services. All non-student facing administrative staff at the School are employed by 7 Degrees for a flat fee of 16% of gross revenues. 7 Degrees does not own any of the assets used by the School. Although it is a long-term contract, it can be terminated without penalty with a 90-day notice at the discretion of the School’s Board. As a mission-based organization committed to Phoenix Academy and the High Point community, 7 Degrees does not manage any other schools. 7 Degrees compensates its staff on a scale consistent with the local employment market, which is commensurate with the State scale.

The 7 Degrees management fee covers employee costs of all non-student facing personnel and the related functions. The fee also covers additional staff development, special and community events, marketing, advertising, and similar support. All management fees will be subordinated to debt service payments on the Series 2017 Bonds.

FIGURE 5. BOARD OF DIRECTORS – 7 DEGREES OF CHANGE

NAME	OCCUPATION
Paul J. Norcross, Founder & Chairman	CEO - Phoenix Group
Scott J. Kockos, Treasurer	Vice President - JP Morgan
Scott E. Adamson, Esq., Secretary	Partner – Vedder Price

FIGURE 6. OVERALL GROWTH OF THE SCHOOL AFTER MANAGEMENT FROM 7 DEGREES

	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
	Baseline	Actual	Actual	Actual	Actual	Projected
Students	318	681	857	1,021	1,186	1,206
Staff	35	85	100	115	120	125
Buildings	1	2	2	3	3	3
Square Feet	15,000	35,000	60,000	105,000	105,000	130,000
Grades	K-5	K-6	K-7	K-8	K-9	K-8
Revenues	\$2,400,000	\$4,900,000	\$6,900,000	\$8,300,000	\$9,900,000	\$10,000,000
	Start	Year 1	Year 2	Year 3	Year 4	Year 5

D. ENROLLMENT AND RELATED DATA

The School generates applications based on word of mouth and strong support from the community. Set forth in the following tables is various enrollment data.

FIGURE 7. CURRENT & HISTORIC ENROLLMENT BY GRADE LEVEL

	K	1	2	3	4	5	6	7	8	9	Total
2012-13	62	56	58	53	51	38					318
2013-14	148	117	97	98	82	72	67				681
2014-15	157	148	143	105	112	93	92	67			917
2015-16	152	154	144	141	108	104	108	97	74		1,082
2016-17	141	155	162	136	133	104	108	108	94	45	1,186

FIGURE 8. PROJECTED ENROLLMENT BY GRADE LEVEL

	K	1	2	3	4	5	6	7	8	Total
2017-18	230	154	159	142	109	136	125	69	82	1,206
2018-19	180	228	151	154	136	104	128	116	63	1,260
2019-20	180	178	223	146	148	130	97	119	107	1,328
2020-21	180	176	174	218	143	144	126	95	116	1,372
2021-22	180	176	171	169	212	139	141	123	93	1,404

WAITLIST, ATTENDANCE, & RETENTION

Set forth below are student waitlist, attendance, and retention rates for the past 5 years. Waitlists are based on total demand prior to the allocation of students through the lottery process.

FIGURE 9. WAITLIST

	K	1	2	3	4	5	6	7	8	9	Total
2013-14	323	73	80	55	72	46	81	32	0	-	762
2014-15	358	78	60	71	62	46	95	45	39	-	845
2015-16	264	60	63	51	52	36	80	36	40	-	682
2016-17	265	27	28	22	29	25	57	12	16	20	501

FIGURE 10. ATTENDANCE & RETENTION RATES

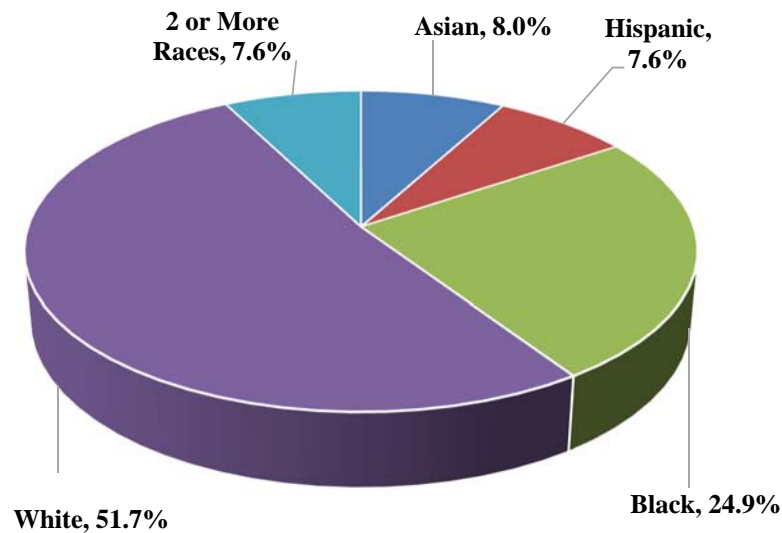
	2012-13	2013-14	2014-15	2015-16	2016-17*
Attendance	96%	96%	96%	96%	95%
Retention		96%	96%	98%	96%

* YTD

DEMOGRAPHICS

The enrollment breakdowns by ethnicity are shown below. The School current has approximately 13% special education students.

FIGURE 11. ENROLLMENT BY ETHNICITY



E. STUDENT OUTCOMES

STATE ASSESSMENT MEASURES

Academic Results

Set forth in the charts below is a comparison of test scores for area schools, and a map showing the location of those schools and the School’s facilities. The scores are in direct correlation with the School’s massive growth. During the time frame shown, the School brought in hundreds of testing age students from other school districts – all but one student came from a “underperforming district”.

With the transition to Common Core, currently approximately one million of the one and a half million students in the State, approximately 65%, are in “underperforming schools”, which many attribute to the complete restructuring of the testing and evaluation systems effective in 2013. Currently, the scores of students that assimilate from another school immediately become those of Phoenix with no lag time, masking the growth and success of the existing students. Efforts are being made to correct this in statute and SBE Policy. Phoenix works diligently with these students from underperforming schools, but has not had time enough, when scores such as these below are calculated, to transition them to be “on track,” consistent with their grade level. Phoenix utilizes traditional as well as high tech techniques and methodologies, as well as Saturday School and Summer School, in an aggressive effort to get the students back on track to grade level performance.

In contrast to the methodology employed by the State of North Carolina for grading students and schools, the International Baccalaureate Organization (www.ibo.org) conducted a three-year evaluation process, which resulted in Phoenix being awarded status of “IBO World School” for its “Middle Years Programme”. Phoenix is the first and only charter school in the State to achieve this standing. The very intensive candidacy involves staff development and trainings as well as student, teacher, parent and administrator on site interviews and evaluations by the International Baccalaureate Organization team.

For each of the final three years of the prior system of State accountability and assessment measures, the School was designated a “School of Distinction”.

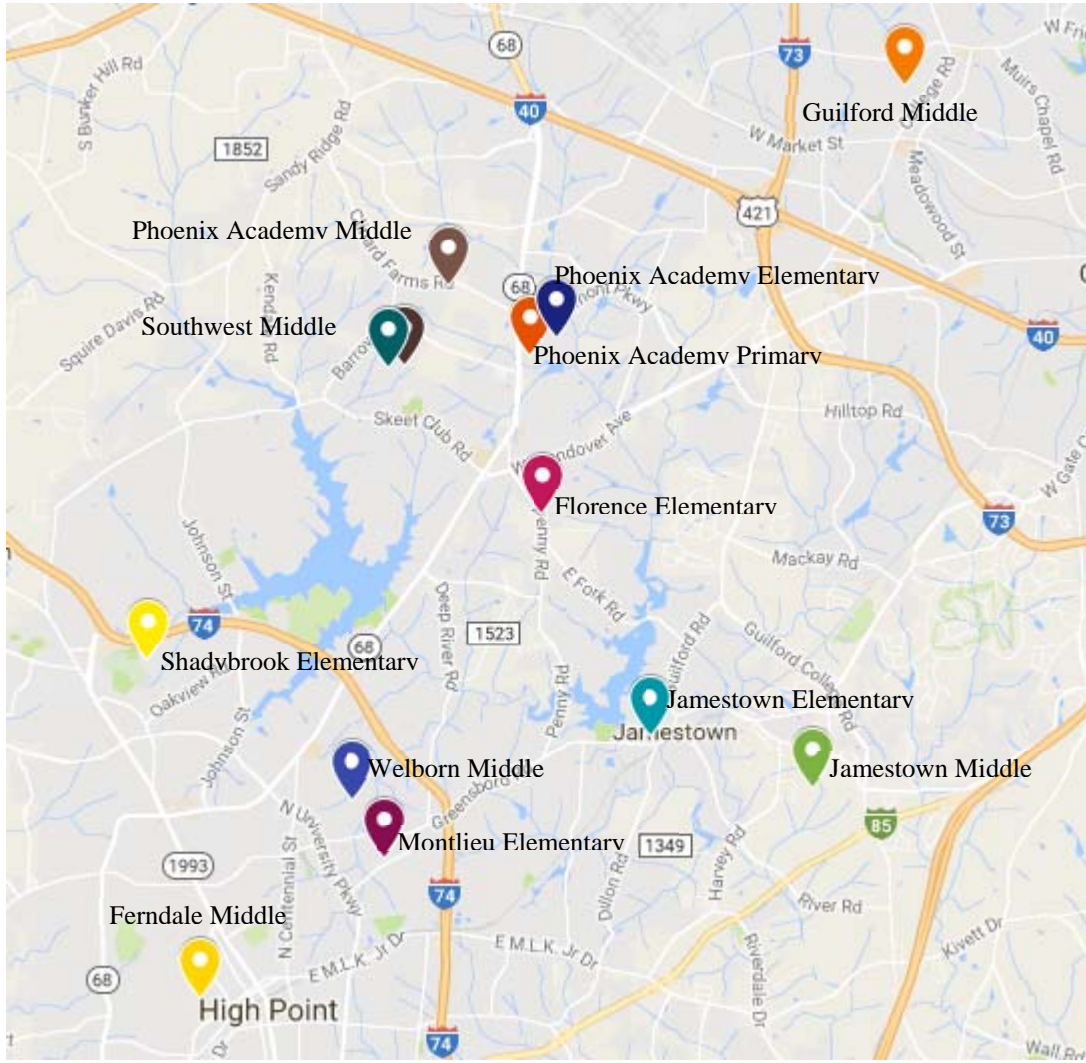
**FIGURE 12. ASSESSMENT & ACCOUNTABILITY RESULTS
FOR THE PAST THREE SCHOOL YEARS**

2013-14 School Year	Grades	SPG*	SPG Score	Reading SPG	Reading SPG Score	Math SPG	Math SPG Score
Phoenix Academy	K-6	C	57	C	64	D	53
Florence Elementary	K-5	B	72	B	71	B	73
Jamestown Elementary	K-5	D	53	C	56	D	52
Montlieu Academy of Technology	K-5	D	51	D	47	C	56
Shadybrook Elementary	K-5	C	56	C	59	C	59
Southwest Elementary	K-5	B	79	B	78	B	75
Ferndale Middle	6-8	F	38	D	41	F	32
Guilford Middle	6-8	C	55	C	55	D	52
Jamestown Middle	6-8	C	66	C	62	C	61
Southwest Guilford Middle	6-8	C	61	C	63	D	54
Welborn Middle	6-8	D	44	D	44	F	37

2014-15 School Year	Grades	SPG*	SPG Score	Reading SPG	Reading SPG Score	Math SPG	Math SPG Score
Phoenix Academy	K-7	C	56	C	62	D	53
Florence Elementary	K-5	B	72	B	72	B	73
Jamestown Elementary	K-5	D	53	C	55	C	55
Montlieu Academy of Technology	K-5	C	59	D	53	C	62
Shadybrook Elementary	K-5	C	68	C	68	C	68
Southwest Elementary	K-5	B	80	B	77	B	80
Ferndale Middle	6-8	F	36	D	40	F	30
Guilford Middle	6-8	D	53	D	53	D	48
Jamestown Middle	6-8	C	66	C	63	C	63
Southwest Guilford Middle	6-8	C	67	C	66	C	61
Welborn Middle	6-8	F	30	F	36	F	22

2015-16 School Year	Grades	SPG*	SPG Score	Reading SPG	Reading SPG Score	Math SPG	Math SPG Score
Phoenix Academy	K-8	D	54	C	58	D	51
Florence Elementary	K-5	B	75	B	70	B	75
Jamestown Elementary	K-5	C	60	D	54	C	61
Montlieu Academy of Technology	K-5	C	55	D	43	C	60
Shadybrook Elementary	K-5	C	61	C	57	C	62
Southwest Elementary	K-5	B	80	B	80	B	74
Ferndale Middle	6-8	D	43	D	46	F	35
Guilford Middle	6-8	C	60	C	55	C	56
Jamestown Middle	6-8	C	65	C	65	D	52
Southwest Guilford Middle	6-8	C	68	C	66	C	62
Welborn Middle	6-8	F	30	F	39	F	24

FIGURE 13. MAP OF THE SCHOOL’S FACILITIES AND COMPETITOR PUBLIC SCHOOLS



F. LOCAL DEMOGRAPHICS

Guilford County has grown nearly 11% since 2009 with a population growth of 464,041 to 521,330 in 2016. The population of residents in ages 5 through 19 went from 92,800 to 101,500 or 8,700 students. Over that time, the county school district attendance has been flat at under 72,000 students. Over that same period the charter school population in the county increased by 3,706 students, and homeschooling increased by approximately 2,200. With the growth of the aviation and logistics industries in the area, the base of skilled, higher paying jobs are returning. Greensboro has had a surge in development over the past several years with new business and industry growth. High Point has a new City Manager who is actively promoting economic growth in the area. Additionally, there is a new CEO for Business High Point, Inc., a division of the High Point Chamber of Commerce. That entity was formed in 2015 with a mission “to be the voice for the private sector, working to unite an engaged and informed business perspective to transform High Point into the single most livable, safe and prosperous community in America”, according to its website. The coordinated efforts of political and civic organizations, coupled with the construction of a new stadium, is expected to contribute to further economic and population growth in the High Point area. Following are several statistics reported in the 2016 Annual Report of the High Point Economic Development Corporation.

- According to the Guilford County Economic Development Alliance, Guilford County has “the highest number of manufacturing jobs of any county in North Carolina and is among the five highest counties in the Southeast U.S.”
- Guilford Tech Community College to open Center for Advanced Manufacturing.
- Daimler’s Thomas Built Buses (the leading school bus manufacturer in North America) continues to grow in High Point, adding 544 new jobs in the past 2 years.
- Davis Furniture added 50 jobs in the past 2 years.
- Mickey Truck Bodies added 50 jobs in 2016.
- Since November 2016, Alorica (the largest provider of customer service solutions in the United States) has announced 1,400 new full-time jobs in High Point.

In March 2017, The City of High Point announced plans for a Multi-Purpose Stadium and Mixed Use Development to be achieved via a public private partnership. In addition to attracting a minor league baseball team, the project is expected to be catalyst for downtown projects that are forecasted to produce 500 private sector jobs, 15-20 new restaurants and shops, and 250 additional residential housing units.

COMPETITIVE ENVIRONMENT

There are 100 counties in the State of North Carolina, of which 60 have charter schools. Of these, 32 counties have only a single school, 17 counties have only have 2 schools, 3 counties with 3 schools, 1 county with 4 schools, and 4 counties with 5 schools. Four counties contain a total of 69 schools or 41% of the 168 operating charter schools. Mecklenburg County has the most at 25, followed by Wake County at 20 and Durham County at 15. The desire by state authorizers and supporters of the charter school movement are to open schools in the 40 counties that do not have them, with 20 counties being specifically targeted.

Guilford County, where the School is located, ranks fourth, with 9 charter schools. There are no current applications for additional charter schools in Guilford County.

There are seven private schools in and around High Point that are predominantly denominational with enrollment remaining flat, in the same percentage as the district schools and consistent with the countywide numbers.

FIGURE 14. PRIVATE INDEPENDENT SCHOOLS IN HIGH POINT

School	Grades	Students	Kind of school
Hayworth Christian School	PK-12	155	Wesleyan
High Point Christian Academy	PK-12	690	Baptist
High Point Friends	NS-8	200	Quaker
Immaculate Heart of Mary	PK-8	220	Catholic
Tri-City Christian	K-10	80	7th Day
Wesleyan Christian School	NS-12	1,230	Methodist
Westchester Country Day	PK-12	425	Non-Sectarian
		3,000	

The only non-secular school, Westchester Country Day, has standard tuition rates ranging from \$10,000 in Kindergarten up to \$17,000 in High School.

MARKET SHARE FOR K-8 STUDENTS

Set forth below is current and historical market share data in Guilford County.

FIGURE 15. MARKET SHARE OF PUBLIC SCHOOL STUDENTS

School Year	Phoenix Students	Charter School Enrollment	Private School Enrollment	Home School Enrollment	Total District Enrollment	Total Public School Enrollment	Phoenix Students as % of Charter Students	Phoenix Students as a % of Public School Students
2016-17	1,165	6,197	N/A	N/A	71,452	77,649	18.8%	1.5%
2015-16	1,036	5,211	6,318	4,239	71,429	76,640	19.9%	1.4%
2014-15	875	4,523	6,383	3,917	71,502	76,025	19.3%	1.2%
2013-14	657	3,646	6,438	3,587	71,787	75,433	18.0%	0.9%
2012-13	314	2,472	6,652	3,186	71,885	74,357	12.7%	0.4%

Notes:

2016-2017 ADM as of Month 5

2012-2016 Final ADM

G. FINANCIAL SUMMARY

PRIMARY SOURCE OF REVENUES

Set forth below is the per-pupil funding rate for the current and past three years. The funding is based on a base per-pupil rate from the State, plus the special education supplement (if applicable), plus the local per-pupil allocation that varies based on the sending school district. The chart also shows the total enrollment and enrollment from each district.

FIGURE 16. PER-PUPIL FUNDING RATE

	2013-2014		2014-2015		2015-2016		2016-2017	
	ADM	Funding@	ADM	Funding@	ADM	Funding@	ADM	Funding@
State	681	\$ 4,419.13	917	\$ 4,619.25	1,082	\$ 4,756.00	1,186	\$ 4,985.29
Special Ed	26	\$ 3,523.77	71	\$ 3,673.99	92	\$ 3,702.01	133	\$ 3,844.65
Asheboro	0	\$ -	1	\$ 2,005.50	0	\$ -	-	\$ -
Guilford	580	\$ 2,315.39	760	\$ 2,390.48	914	\$ 2,420.67	1,012	\$ 2,723.63
Davidson	11	\$ 3,556.61	50	\$ 1,149.28	46	\$ 1,255.33	61	\$ 1,191.83
Forsyth	12	\$ 1,792.03	30	\$ 1,683.66	33	\$ 2,017.55	43	\$ 2,075.35
Randolph	22	\$ 1,098.68	14	\$ 1,149.12	15	\$ 1,066.14	14	\$ 848.57
Rockingham	1	\$ 1,161.96	1	\$ 878.22	0	\$ -	1	\$ 1,206.00
Stokes	1	\$ 1,531.08	1	\$ 1,573.32	1	\$ 1,680.23	1	\$ 750.60
Thomasville	3	\$ 1,126.04	2	\$ 1,144.20	11	\$ 742.95	6	\$ 678.75
Wake	0	\$ -	1	\$ 2,115.60	0	\$ -	-	\$ -
Lexington	0	\$ -	0	\$ -	1	\$ 1,147.42	2	\$ 1,280.78

The School receives its State aid payments in two installments in July and December each year. The July payment is one half of the total annual per-pupil aid amount multiplied by the School's expected enrollment. In September and October, the School reports actual average daily attendance for each of two separate 20-day periods. The attendance is averaged to determine the final enrollment figure for the State

aid, then multiplied by the full annual State aid amount. The School's July payment is then subtracted from that result, which the difference then being paid to the School in December.

The School bills its sending county school districts 10 times per year for one-tenth of the annual per-pupil aid amount based on actual head count at the time of billing. By statute, the payments are then due from the districts by the 15th of each following month from September through June. Some districts with very few students enrolled at the School will occasionally pay the full annual amount at the beginning of the year rather than in monthly installments.

FINANCIAL OVERSIGHT

The School has a proven record of consistent operating surpluses over most of the past twenty years, and has had no audit findings. Since converting to a charter school in 1999, it has used the services of Acadia NorthStar, LLC ("*Acadia*") as an independent financial management service provider. Acadia works with many charter schools across the State and has always played an integral role in preparing and reviewing budgets, as well as producing cash flow projections. In addition to the relationship with Acadia, the School and 7 Degrees consult regularly with the Treasurer of the Board (Colonel Swadener), who has a very active day-to-day role in fiscal management of the School, and who has 30 years in public finance and strategic planning in the military.

ACCOUNTING MATTERS

The accounting records for Phoenix reflect generally accepted accounting principles, as promulgated by the *Government Auditing Standards*. The School and the Foundation use Rives & Associates, LLP as auditor.

In the opinion of the School and the Foundation, there has been no material adverse change in the financial condition of either entity since June 30, 2016, the most recent date for which audited financial statements have been prepared for each.

Potential purchasers of the Bonds should carefully examine the audited financial statements for the School and the Foundation that are included as Appendix B-1 to this Official Statement, in their entirety for more information regarding the financial position of each entity. In addition, Appendix B-2 contains certain unaudited interim financial information as disclosed to the Department of Public Instruction.

SUMMARY OF AUDITED FINANCIAL DATA

Consolidated financial information for the School and the Foundation is provided below for the fiscal year ended June 30, 2016. The Foundation only began producing audited financial statements as of the fiscal year ended June 30, 2016, and will continue doing so for as long as the 2017 Bonds are outstanding. The audited financial statements for the Foundation for the fiscal year ended June 30, 2016, and for the School for the fiscal years ending June 30, 2015 through 2016 are included in Appendix B-1 to this Official Statement. In addition, Appendix B-2 contains certain unaudited interim financial information as disclosed to the Department of Public Instruction. Furthermore, the interim financial statements for the School for April 30, 2017 are set forth in Exhibit B.

The unaudited financial statements for the 7 Degrees as of December 31, 2016 are set forth in Exhibit C.

FIGURE 17. SUMMARY OF COMBINED STATEMENTS OF ACTIVITIES

	<u>School</u>	<u>Foundation</u>	<u>Total</u>
REVENUE AND SUPPORT			
Governmental activities			
Instructional services	\$ 104,801	\$ -	\$ 104,801
Business-type activities			
School food service	5,315	-	5,315
General Revenues			
Unrestricted county appropriations	2,363,811	-	2,363,811
Unrestricted state appropriations	5,506,756	-	5,506,756
Donations-general	1,255	-	1,255
Fines and forfeitures	40,872	-	40,872
Rent revenue - debt property	-	41,150	41,150
Contribution income	-	87,600	87,600
Miscellaneous, unrestricted	292,183	-	292,183
TOTAL REVENUES AND SUPPORT	<u>8,314,993</u>	<u>128,750</u>	<u>8,443,743</u>
EXPENSES			
Governmental activities			
Instructional services	4,798,104	-	4,798,104
System-wide support services	3,904,064	-	3,904,064
Business-type activities			
School food service	68,800	-	68,800
Foundation activities			
Accounting fees	-	9,159	9,159
Legal fees	-	3,285	3,285
Depreciation	-	95,013	95,013
Settlement expense	-	52,000	52,000
Bank service charges	-	60	60
Consulting	-	10,170	10,170
Donations	-	52,216	52,216
Amortization of loan fees	-	1,797	1,797
Miscellaneous	-	2,278	2,278
TOTAL EXPENSES	<u>8,770,968</u>	<u>225,978</u>	<u>8,996,946</u>
INCOME (LOSS) FROM OPERATIONS	<u>(455,975)</u>	<u>(97,228)</u>	<u>(553,203)</u>
NON-OPERATING INCOME (LOSS)			
Foundation activities			
Interest expense	-	(7,933)	(7,933)
Gain on sale of property and equipment	-	366,856	366,856
TOTAL NON-OPERATING INCOME (LOSS)	<u>-</u>	<u>358,923</u>	<u>358,923</u>
NET ASSETS, BEGINNING	<u>1,430,508</u>	<u>116,497</u>	<u>1,547,005</u>
NET ASSETS, ENDING	<u>\$ 974,533</u>	<u>\$ 378,192</u>	<u>\$ 1,352,725</u>

[The remainder of this page is intentionally left blank.]

FIGURE 18. SUMMARY OF COMBINED STATEMENTS OF FINANCIAL POSITION

	<u>School</u>	<u>Foundation</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 560,131	\$ 371,755	\$ 931,886
Due from other governments	9,628	-	9,628
Accounts receivable (net)	4,136	-	4,136
Prepaid items	191,475	-	191,475
Property and equipment, net	-	148,704	148,704
Other Capital Assets, net	333,564	-	333,564
TOTAL ASSETS	<u>\$ 1,098,934</u>	<u>\$ 520,459</u>	<u>\$ 1,619,393</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 124,401	\$ -	\$ 124,401
Capital lease obligation, current portion	-	88,267	88,267
Capital lease obligation, net of current portion	-	53,999	53,999
TOTAL LIABILITIES	<u>\$ 124,401</u>	<u>\$ 142,266</u>	<u>\$ 266,667</u>
NET ASSETS			
Net investment in capital assets	\$ 333,564	\$ -	\$ 333,564
Unrestricted	640,969	378,193	1,019,162
TOTAL NET ASSETS	<u>\$ 974,533</u>	<u>\$ 378,193</u>	<u>\$ 1,352,726</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,098,934</u>	<u>\$ 520,459</u>	<u>\$ 1,619,393</u>

Figures 19. and 20. below show certain financial information for the Academy only.

FIGURE 19. SUMMARY OF STATEMENTS OF ACTIVITIES

**Phoenix Academy, Inc.
Consolidated Statements of Activities
For Years Ended June 30, 2012-2016**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
REVENUE AND SUPPORT					
Governmental activities					
Instructional services	\$ 39,158	\$ 41,802	\$ 78,187	\$ 146,618	\$ 104,801
Business-type activities					
School food service	7,449	6,742	11,341	5,343	5,315
School childcare service	4,810	4,570	-	-	-
General Revenues					
Unrestricted county appropriations	807,820	704,288	1,430,058	1,949,686	2,363,811
Unrestricted state appropriations	1,520,234	1,539,045	3,161,139	4,513,898	5,506,756
Donations-general	1,236	1,370	940	12,429	1,255
Fines and forfeitures	37,886	17,967	14,599	48,386	40,872
Investment earnings, unrestricted	3,465	427	1,644	-	-
Fundraising	91,451	96,539	-	-	-
Miscellaneous, unrestricted	15,648	16,473	165,056	217,561	292,183
TO TAL REVENUES AND SUPPORT	<u>2,529,157</u>	<u>2,429,223</u>	<u>4,862,964</u>	<u>6,893,921</u>	<u>8,314,993</u>
EXPENSES					
Governmental activities					
Instructional services	1,769,449	2,052,525	3,152,360	3,951,284	4,798,104
System-wide support services	587,824	700,025	1,656,298	2,533,194	3,904,064
Community services	-	389	-	-	-
Business-type activities					
School childcare service	5,708	1,731	-	-	-
School food service	1,887	5,569	11,614	49,916	68,800
TO TAL EXPENSES	<u>2,364,868</u>	<u>2,760,239</u>	<u>4,820,272</u>	<u>6,534,394</u>	<u>8,770,968</u>
INCOME (LOSS) FROM OPERATIONS	<u>164,289</u>	<u>(331,016)</u>	<u>42,692</u>	<u>359,527</u>	<u>(455,975)</u>
NET ASSEIS, BEGINNING	<u>1,294,937</u>	<u>1,459,226</u>	<u>1,128,210</u>	<u>1,070,981</u> *	<u>1,430,508</u>
NET ASSEIS, ENDING	<u>\$ 1,459,226</u>	<u>\$ 1,128,210</u>	<u>\$ 1,170,902</u>	<u>\$ 1,430,508</u>	<u>\$ 974,533</u>

* restated

FIGURE 20. SUMMARY OF STATEMENTS OF FINANCIAL POSITION

Phoenix Academy, Inc.
Consolidated Statements of Financial Position
For Years Ended June 30, 2012-2016

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
ASSETS					
Cash and cash equivalents	\$ 713,118	\$ 440,282	\$ 61,559	\$ 744,814	\$ 560,131
Certificate of deposit	536,714	286,917	-	-	-
Due from other governments	528	56,417	10,237	320,090	9,628
Note receivable	-	40,000	900,414	-	-
Accounts receivable (net)	2,149	2,193	-	699	4,136
Prepaid items	25,324	54,252	6,752	103,186	191,475
Security deposit	45,250	45,250	45,250	-	-
Construction in progress	-	-	99,920	-	-
Other Capital Assets, net	209,364	242,497	180,260	377,047	333,564
TOTAL ASSETS	<u>\$ 1,532,447</u>	<u>\$ 1,167,808</u>	<u>\$ 1,304,392</u>	<u>\$ 1,545,836</u>	<u>\$ 1,098,934</u>
LIABILITIES					
Accounts payable and accrued expenses	\$ 36,655	\$ 11,311	\$ 62,793	\$ 115,328	\$ 124,401
Note payable	-	-	50,000	-	-
Long-term liabilities	36,566	28,287	20,697	-	-
TOTAL LIABILITIES	<u>\$ 73,221</u>	<u>\$ 39,598</u>	<u>\$ 133,490</u>	<u>\$ 115,328</u>	<u>\$ 124,401</u>
NET ASSETS					
Net investment in capital assets	\$ 209,364	\$ 214,210	\$ 259,483	\$ 377,047	\$ 333,564
Unrestricted	1,249,862	914,000	911,419	1,053,461	640,969
TOTAL NET ASSETS	<u>\$ 1,459,226</u>	<u>\$ 1,128,210</u>	<u>\$ 1,170,902</u>	<u>\$ 1,430,508</u>	<u>\$ 974,533</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,532,447</u>	<u>\$ 1,167,808</u>	<u>\$ 1,304,392</u>	<u>\$ 1,545,836</u>	<u>\$ 1,098,934</u>

BUDGETING AND FINANCIAL PROJECTIONS

On an ongoing basis, the School and 7 Degrees partner with Acadia review to the financials of the School. At mid-year, the entities begin preparing the budget for the forthcoming school year. The baseline for the budget is the current year expenditures based on enrollment projections following the enrollment lottery held in March. State per-pupil funding levels are typically not available until July, a month after the projected budget has to be provided to the State for the coming fiscal year. Therefore the budget is initially based upon recent average annual increases. Similarly, teacher pay increases at the State level are typically not announced until July when the General Assembly often completes the budget and ends session, so the budget reflects increases expected to be commensurate with State levels. Other operating expenses are adjusted based upon historical averages. A contingency is always incorporated into the budget to ensure smooth operation. Every line item is dissected and analyzed to see where they will be based on ADM, staffing levels and facility requirements.

The following are financial projections for the current fiscal year ending June 30, 2017 and the next five fiscal years, including projected financial ratios. This information has been prepared by Acadia. Because events and circumstances frequently do not occur as expected there will usually be differences between the projected and actual results and those differences may be material.

The projections are based upon the following assumptions: (i) 2% annual increases in funding from the State; (ii) 1% annual increases in funding from local school districts and (iii) 2% annual increase in most expenses, with the exception of 5% annual increases in insurance costs and 3% annual increases in food costs.

FIGURE 21. HISTORICAL AND PROJECTED FINANCIAL RATIOS

Fiscal Year	2017	2018	2019	2020	2021	2022
Enrollment	1,186	1,206	1,260	1,328	1,371	1,404
Revenue						
State Funding	6,500,343	6,670,681	7,108,717	7,643,963	8,050,161	8,410,172
Davidson County Schools	82,842	80,497	84,843	89,269	93,775	95,898
Forsyth County Schools	88,992	89,591	92,543	99,700	102,795	108,061
Guilford County Schools	2,521,072	2,631,617	2,776,012	2,952,943	3,077,755	3,181,888
Lexington City Schools	2,581	4,009	4,049	4,089	4,130	4,171
Randolph County Schools	15,739	15,896	17,202	18,532	18,717	20,086
Rockingham County Schools	2,412	2,436	2,460	2,485	2,510	2,535
Stokes County Schools	1,695	1,698	1,715	1,732	1,750	1,767
Thomasville City Schools	6,948	7,259	7,331	8,639	8,725	8,812
Contributions	100,000	100,000	100,000	100,000	100,000	100,000
Fundraising	200,000	200,000	200,000	200,000	200,000	200,000
Miscellaneous	8,155	8,155	8,155	8,155	8,155	8,155
Total Revenue	9,530,779	9,811,839	10,403,027	11,129,507	11,668,473	12,141,545
Expenses						
Salaries & Bonuses	3,508,510	3,618,680	3,811,054	4,007,275	4,167,421	4,330,769
Benefits	859,118	887,300	938,046	989,807	1,031,603	1,074,235
Books & Supplies	170,850	174,267	177,752	181,307	184,933	188,632
Technology	218,000	222,360	226,807	231,343	235,970	240,689
Non-Cap Equipment & Leases	58,450	59,619	60,811	62,027	63,268	64,533
Contracted Student Services	325,500	332,010	338,650	345,423	352,331	359,378
Administrative Services	2,010,600	1,786,965	1,882,839	2,000,373	2,087,918	2,164,932
Insurances	66,510	69,836	73,328	76,994	80,844	84,886
Rent	1,403,663	0	0	0	0	0
Facilities	393,600	401,472	409,501	417,691	426,045	434,566
Utilities	180,000	189,000	198,450	208,373	218,792	229,732
Nutrition & Food	76,350	78,641	81,000	83,430	85,933	88,511
Other	56,275	57,115	57,972	58,846	59,737	60,646
Operating Expenses	9,327,426	7,877,265	8,256,210	8,662,889	8,994,795	9,321,509
Interest	0	1,754,861	1,822,383	1,810,511	1,792,703	1,746,009
Principal Amortization	0	0	0	0	385,000	515,000
Net Income	203,353	179,713	324,434	656,107	495,975	559,027
Cash, beginning of year	560,131	1,135,239	1,314,952	1,639,387	2,295,494	2,791,470
Cash, end of year	1,135,239	1,314,952	1,639,387	2,295,494	2,791,470	3,350,497
Days Cash on Hand	n/a	61	72	97	113	131
Debt Service Coverage	n/a	1.10x	1.18x	1.36x	1.23x	1.25x

note: cash above includes the Foundation projected at June 30, 2017, but no additional Foundation cash thereafter

H. THE PROJECT

The School currently leases its three facilities in High Point, North Carolina. With the bond proceeds, the Foundation will purchase all three facilities for approximately \$25.9 million. The bond proceeds will also fund approximately \$2.7 million of capital projects that will include various recreation and athletic improvements, as well as expansions to each facility as described below. The acquisition and the improvements of these facilities is the “Project.”

4020 Meeting Way: Situated on 2.7 acres with a 5.7 acre adjacent parcel, this facility consists of 22 classrooms, a library, and open area serving as a cafeteria and gym, with pullout and tutoring rooms totaling over a total of 15,000 square feet. Bond proceeds will be used to fund an approximately 5,000 square feet addition that will add 5 classrooms and a restroom as well as field improvements and a covered outdoor play area and venue for performances bringing total student capacity at the facility to 400. The facility is used for kindergarten and first grade. The facility has a full security system and an advanced Wi-Fi and tech capacity.

4191 Mendenhall Oaks Parkway: Situated on 6.2 acres with a 5.7 acre adjacent parcel, this facility consists of 34 classrooms, a library, cafeteria, gymnasium, computer lab and music and band room over a total of 45,000 square feet. Bond proceeds will be used to fund an approximately 5,000 square feet addition that will add 5 classrooms, a restroom and a covered play area, events venue as well as grading the fields, bringing total student capacity at the facility to 700. This facility is used for second through fifth grades. The facility has a full security system and an advanced Wi-Fi and tech capacity.

7847 Clinard Farms Road: Situated on 27 acres, this facility consists of 21 classrooms, a library, gymnasium, computer lab, art room, indoor event area, labs, art room, and wired study areas over a total of 45,000 square feet. Bond proceeds will be used to fund an approximately 15,000 square feet addition that will add 9 classrooms, two labs, restrooms, admin office, security monitoring, storage, band and chorus rooms, as well as grading the fields, bringing total student capacity at the facility to 500. This facility is used for sixth through eighth grades. The facility has a full fire system and an advanced Wi-Fi and tech capacity.

As mentioned above, the Borrowers will use \$2.7 million of the proceeds to improve the above facilities. The Borrowers will utilize contractors and consultants that it has successfully used at such sites in the past. Such contractors and consultants have delivered such prior improvements on time and on budget.

In conjunction with bidding the contracts for the capital projects being funded with the bonds, the Foundation is requesting bids for ongoing maintenance and upkeep of the facilities. The Foundation intends to contract with the winning bidder to perform routine property maintenance, and to manage the long-term physical condition of the facilities. The contractor will provide input with respect to budgeting for short- and long-term maintenance costs, and will perform periodic capital needs assessments. Set forth below is the purchase price for each facility and the cost of the project related to that facility. A total of \$400,000 (not shown below) of bond proceeds will also be allocated to the recreation and student activity areas for all facilities.

<u>Facility</u>	<u>Purchase Price</u>	<u>Project Cost</u>	<u>Total</u>
4020 Meeting Way	\$6,193,386	\$500,000	\$6,693,386
4191 Mendenhall Oaks Parkway	\$8,051,401	\$300,000	\$8,351,401
7847 Clinard Farms Road	\$11,634,986	\$1,500,000	\$13,134,986
TOTAL	<u>\$25,879,773</u>	<u>\$2,300,000</u>	<u>\$28,179,773</u>

Each of the above facilities has been appraised by Hylton-Crowder and Associates, Inc. The “as completed” value of the facilities (all assuming the completion of the improvements noted above) are as follows:

<u>Facility</u>	<u>Appraised “as completed” value</u>
4020 Meeting Way	\$5,090,000
4191 Mendenhall Oaks Parkway	\$6,500,000
7847 Clinard Farms Road	\$9,710,000
TOTAL	<u>\$21,300,000</u>

Note: Appraisals reports are set forth in Exhibit D.

I. ADDITIONAL INFORMATION

INSURANCE

Phoenix maintains insurance coverage related to property, casual and liability claims that is comparable to insurance coverage maintained by other Indiana public schools. The Foundation contracts with an insurance consultant which has confirmed that all insurance coverage required by the Loan Agreement will be in place as of the Closing Date.

LITIGATION

Neither the School nor the Foundation is aware of any litigation pending or threatened, wherein any unfavorable decision would have a materially adverse effect on the financial condition, property, or operation of such entities, taking into consideration available insurance coverage.

CHARTER

A form of School’s charter is attached as Exhibit A.

EXHIBIT A

CHARTER AGREEMENT

Pursuant to G.S. 115C-218 et seq. the North Carolina State Board of Education (hereinafter referred to as “SBE”) grants this license to Phoenix Academy, Inc. (hereinafter referred to as “*the Nonprofit*”) to operate Phoenix Academy, a Public Charter School.

1. TERM

- 1.1** The Charter is effective on July 1, 2015 through June 30, 2022. It shall terminate June 30 of the last year without further notice from or action by the SBE.
- 1.2** In accordance with 115C-218.5(d)- the Nonprofit will ensure the Public Charter School completes the Five Year Review process which includes reporting on the application’s approved goals as well as selecting new goals for the next five years.
- 1.3** The Nonprofit may apply to renew the Charter pursuant to SBE policies and procedures; however, this agreement, in no way, binds the SBE to renew the Charter for an additional term. The SBE shall make renewal decisions consistent with State law, SBE policies, and the terms of this agreement.
- 1.4** If the Public Charter School ceases operating in accordance with its Charter and terminates instruction, without prior permission from the SBE, it will be deemed to have surrendered its charter and all rights thereunder.

2. CHARTER SCHOOL A NORTH CAROLINA PUBLIC SCHOOL

- 2.1** Pursuant to Article IX, Section 2, of the North Carolina Constitution and Part 6A of Article 16 of Chapter 115C of the North Carolina General Statute, a Charter School is a public school and shall be accessible to all North Carolina students eligible to attend public schools under G.S. 115C-366.

3. APPLICATION BINDING

- 3.1** The SBE has reviewed the Application submitted by the Nonprofit and has approved it subject to adherence to all requirements set forth in this Charter and in the Charter School Act. The Application is fully incorporated in this Charter and all representations and conditions contained in the Application are binding on the charter school.
- 3.2** The self-selected goals and objectives contained within the charter application will be annually evaluated. If, at Year 3 of the charter term, the Public Charter School is not meeting these goals and objectives, the charter may be terminated.
- 3.3** The Nonprofit shall immediately submit in writing to the Office of Charter Schools and the SBE any proposed substantial changes to the Application No proposed amendment is valid until the SBE approves that modification.

4. CHARTER SCHOOL GOVERNING BOARD

- 4.1** The Public Charter School shall at all times be operated by the board of directors of the non-profit corporation in accordance with G.S. 115C-218-et seq. and all other applicable

laws and regulations. All members of the non-profit corporation shall have their primary residence in North Carolina.

- 4.2** The members of the governing board of the nonprofit shall receive no compensation other than reimbursement of reasonable expenses incurred while fulfilling duties as a member of the board.
- 4.3** The Nonprofit board of directors shall adopt and ensure compliance with a conflict of interest policy. This policy shall include, at a minimum, the following provisions:
 - a. No voting member of the governing board shall be an employee of a for-profit company that provides substantial services to the charter school for a fee.
 - b. No employee of the charter school shall be immediate family (as defined in G.S. 115C-12.2) to any member of the Nonprofit board of directors.
 - c. No employee of the charter school, whether hired by the board of directors or a management company, shall be a voting member of the Nonprofit board of directors.
 - d. No teacher or staff member that is immediate family of the chief administrator shall be hired without the board of directors evaluating their credentials, establishing a structure to prevent conflicts of interest, and notifying the Department, with evidence, that this process has occurred.
- 4.4** The Nonprofit shall have ultimate responsibility for employment, management, dismissal and discipline of its employees. In no event shall the governing board delegate or assign its responsibility for fulfilling terms of this charter.
 - a. The Nonprofit shall not enter into or terminate an agreement for comprehensive management services without the prior, explicit approval of the SBE.
 - b. The Nonprofit shall comply with all SBE requests regarding the management agreement that are reasonably related to compliance with all provisions of this charter agreement and the charter school statute.

5. COMPLIANCE WITH OTHER LAWS

- 5.1** The Nonprofit shall ensure that the Public Charter School complies with the Federal and State Constitutions and all applicable federal laws and regulations, including, but not limited to, such laws and regulations governing employment, environment, disabilities, civil rights, children with special needs, transportation, and student records.
- 5.2** The Nonprofit shall ensure that its operation of the Public Charter School complies with all applicable health and safety laws and regulations, whether federal, state, or local.
- 5.3** Neither the SBE nor the local board of education assumes the duty to oversee the operations of the Public Charter School except as may otherwise be provided by law or separate contract.
- 5.4** Neither the SBE nor the local board is required to monitor the Public Charter School for compliance with applicable laws and regulations.

6. TAX-EXEMPT STATUS

Pursuant to G.S. 115C-218.15(b) to the Nonprofit shall obtain federal tax-exempt status no later than twenty-four months from the date the SBE gives final approval of its Application. The loss of federal tax-exempt status shall result in the revocation of the charter.

7. ENROLLMENT

7.1 Admission and enrollment of students shall be as prescribed by the Charter School Act. Failure to adhere to the lottery requirements set forth in G.S. 115C-218.45 is grounds for termination of this Charter.

7.2 Student recruitment and enrollment decisions shall be made in a nondiscriminatory manner and without regard to race, color, creed, national origin, sex, religion, ancestry, disability or need for special education services.

7.3 The Nonprofit shall ensure that the Public Charter School reports the names, addresses, names of the legal custodian of the students, addresses of the legal custodian of the students, and Student ID number of all students enrolled, as required by the SBE. On September 1 of each year or following the 20th day Average Daily Membership (hereinafter referred to as “ADM”) headcount, whichever is later, the Public Charter School will provide to the local boards of education from which it is entitled to receive local funds the above information with regard to any students from those districts enrolled in the School. This information will be provided electronically in a Uniform Education Reporting System approved software or system. When a student withdraws, the Public Charter School shall promptly notify the local board of education responsible for the attendance area in which the student resides so that the local board may fulfill its legal obligation to verify the student’s compliance with compulsory attendance laws.

7.4 Enrollment numbers in the application are projections, or estimates, and do not bind the State to fund the Public Charter School at a particular level.

- a. For the first two years of the initial charter the State will fund the school up to the maximum projected enrollment for each of those years as set forth in the application. However, in subsequent years, the School may increase its enrollment only as permitted by the charter school statute.
- b. After three years of operation, G.S. 115C-218.5(f) permits a charter school to expand to offer one grade higher than the charter school currently offers if the charter school has not be identified as having inadequate performance as defined in statute.
- c. Any increase above 20% must be submitted to the Office of Charter Schools and approved by the State Board of Education in accordance with G.S. 115C-218.5(e).

8. FINANCIAL AND GOVERNANCE WARNINGS

This Charter incorporates by reference, and the Nonprofit is subject to, State Board Policy for Schools on Financial and Governance Noncompliance, and any subsequent amendments to such Policy.

9. CHILDREN WITH SPECIAL NEEDS

- 9.1** As prescribed by the SBE and in accordance with state and federal laws, the Nonprofit shall provide to the SBE the total number of children with special needs, identified in accordance with state and federal laws, enrolled in the Public Charter School.
- 9.2** The Nonprofit accepts and understands that for purposes of federal and state law, it is obligated to provide free and appropriate education and related services to children with special needs.
- 9.3** The Nonprofit shall be designated a local education agency (LEA) solely for purposes of meeting special education requirements pursuant to the Individuals with Disabilities Education Act (IDEA).
- 9.4** The Nonprofit shall be responsible for meeting the needs of English language learners in compliance with State and Federal law.

10. REPORTS

The Nonprofit shall ensure the Public Charter School submits such reports as required by the SBE. Failure to submit such reports may be grounds for revocation of the Charter.

11. NOTIFICATIONS

- 11.1** The Nonprofit shall notify the SBE immediately of any conditions that it knows are likely to cause it to violate the terms of this Charter or applicable law.
- 11.2** The Nonprofit shall notify the SBE immediately of any circumstance requiring the closure of the Public Charter School, including but not limited to a natural disaster, such as an earthquake, storm, flood or other weather-related event, other extraordinary emergency, or destruction of or damage to the school facility.
- 11.3** The Nonprofit shall immediately notify the SBE of the arrest or charge of any members of the governing board or of a Public Charter School employee for a crime punishable as a felony, any crime related to the misappropriation of funds or theft, and any crime or misdemeanor constituting an act against a minor child or student. The Nonprofit shall also notify the SBE of the investigation of a member of the governing board or of any Public Charter School employee for child abuse.
- 11.4** The Nonprofit shall notify the SBE immediately of any change in its corporate status with the North Carolina Secretary of State's Office.
- 11.5** The Nonprofit shall notify the SBE immediately of a default on any obligation, which shall include debts that are past due by sixty (60) days or more.
- 11.6** The Nonprofit shall notify the SBE immediately if, at any time, student enrollment decreases by twenty percent (20%) or more compared to the most recent pupil count submitted to the SBE and/or DPI.
- 11.7** Failure by the Public Charter School to provide the above-stated notifications may be deemed a violation of this Charter and may be grounds for revocation.

12. RECORDS

- 12.1** Subject to state and federal laws, the SBE, its agents, and the State Auditor shall have the right to examine and copy all records, reports, documents, and files relating to any activity, program, employee or student of the Public Charter School.
- 12.2** The Nonprofit is subject to the Public Records Law, Chapter 132 of the General Statutes. This provision is effective upon the SBE's approval of the Charter Application.
- 12.3** The Public Charter School is subject to all the provisions of Article 29 of Chapter 115C, entitled "Protective Provisions and Maintenance of Student Records."
- 12.4** The Nonprofit shall ensure compliance with the Family Educational Right to Privacy Act 42U.S.C. §1232g.

13. INSURANCE AND BONDING

- 13.1** The Nonprofit shall name the SBE as an additional insured to their liability coverage while obtaining and maintaining insurance at a minimum in the following amounts:
 - a. Errors and omissions: one million dollars (\$1,000,000) per occurrence;
 - b. General liability: one million dollars (\$1,000,000) per occurrence;
 - c. Boiler and machinery: the replacement cost of the owned building;
 - d. Real and personal property: the appraised value of the owned building and contents;
 - e. Fidelity bonds: no less than two hundred fifty thousand dollars (\$250,000) to cover employee dishonesty;
 - f. Automobile liability: one million dollars (\$1,000,000) per occurrence; and
 - g. Workers' compensation: as specified by Chapter 97 of the General Statutes.
- 13.2** These provisions shall not preclude the Nonprofit from obtaining liability insurance coverage in addition to or in excess of the requirements stated in this section.

14. HEALTH, SAFETY, WELFARE

- 14.1** The Nonprofit shall ensure that the Public Charter School adheres to all applicable federal, state, and local health and safety laws and regulations.
- 14.2** The Nonprofit shall grant access to local health and fire department officials for inspection of premises or operations of the charter school for purposes of ensuring the health, safety and welfare of students and employees.

15. FACILITIES

- 15.1** Prior to commencing operation, the Nonprofit shall provide to the SBE a description of any facility it intends to use, the financing for the facility and evidence from local government inspection authorities that the School's facilities are currently safe (e.g., Certificate of Occupancy for Educational Use).

- 15.2** Any change in location requires immediate notification by the Nonprofit to the SBE, and the Public Charter School must comply with the following conditions:
- a. Notification to the SBE;
 - b. Submission of a valid Certificate of Occupancy or Temporary Certificate of Occupancy for the new Facilities prior to the first day of occupancy by students; and
 - c. Modified insurance binder to show the Public Charter School coverage is still valid for the new location.
- 15.3** Relocation into a different county and/or LEA shall constitute a material revision to this Charter and requires approval of the SBE.

16. LICENSED EMPLOYEES

- 16.1** All employees who hold professional valid licenses issued by the SBE are subject to the rules pertaining to licensed professionals and their licenses may be revoked based on any of the grounds listed in 16 N.C.A.C. 6C. 0312.
- 16.2** All Public Charter School administrators must report to the SBE if an employee engages in physical or sexual abuse of a child as listed in 16 N.C.A.C. 6C.0312.
- 16.3** Prior to each academic year, and as required by the SBE, the Nonprofit will ensure the Public Charter School reports the total number of teachers and the total number of teachers who hold valid licenses who are employed to teach at the Public Charter School. Failure to employ at least the number of licensed teachers required by law to teach in the charter school shall be grounds for revocation of the Charter.
- 16.4** The Nonprofit shall not employ, or accept voluntary services from, any individual whose certificate or license has been suspended or revoked by the SBE or any other licensing board or agency on the grounds of unethical or immoral behavior, including improper sexual or physical conduct with children or students. Violation of this provision is grounds for revocation of the Charter.
- 16.5** In the case of a Nonprofit employee who is on leave from employment with the local board pursuant to G.S. 115C-218.90(3) or its successor statute, the Nonprofit will notify the local board if such employee is suspended, terminated, asked to resign, or otherwise subjected to disciplinary action because of poor performance or misconduct. The Nonprofit shall cooperate with the local board and shall provide any information requested concerning such employees.

17. FEES

As prescribed by law, the Public Charter School shall not charge tuition or fees, except that the school may charge any fees that are charged by the local school administrative unit in which the charter school is located.

18. TRANSPORTATION

The Nonprofit shall ensure the Public Charter School provides transportation for students as prescribed by law and the approved charter application. G.S. 115C-218.40

19. INDEMNITY

- 19.1** The Nonprofit agrees to indemnify and hold harmless the SBE, DPI, the constituent institutions of the University of North Carolina, and local boards of education, their officers, agents, employees, successors and assigns from all claims, damages, losses and expenses, including attorney's fees, arising out of or resulting from any action of the School caused by any intentional or negligent act or omission of the School, its officers, agents, employees, and contractors.
- 19.2** No indebtedness of any kind incurred or created by the Public Charter School shall constitute an indebtedness of the State or its political subdivisions, and no indebtedness of the Public Charter School shall involve or be secured by the faith, credit, or taxing power of the State or its political subdivisions. The Nonprofit shall clearly indicate to vendors and other entities and individuals that the obligations of the Nonprofit under agreement or contract are solely the responsibility of the Nonprofit and are not the responsibility of the SBE or the State.
- 19.3** This Charter is not an employment contract. No officer, employee, agent, or subcontractor of the Nonprofit is an officer, employee, or agent of the SBE or DPI.

20. STUDENT DISCIPLINE

- 20.1** The Nonprofit shall comply with Article 27 of Chapter 115C of the General Statutes.
- 20.2** The Public Charter School shall comply with all applicable federal and state laws and regulations governing discipline of children with disabilities, including compliance with 20 U.S.C. Sec. 1400 et seq. and Section 504 of the Rehabilitation Act of 1973, 29 U.S.C. Sec. 706(8).
- 20.3** The Public Charter School shall comply with state and federal due process requirements both in notifying students of conduct for which they may be suspended or expelled and in providing notice and hearing opportunities to students being recommended for exclusion. If the Public Charter School suspends a student with special needs, it shall continue to provide to the student all continuing education services to the extent mandated by federal and state laws and regulations.
- 20.4** In the event the school suspends or expels a student, the Public Charter School shall promptly notify local School officials in the School district to which the student would otherwise be assigned. Such notification shall include the student's name, special education status, length of suspension/expulsion and the circumstances giving rise to the suspension or expulsion.

21. INSTRUCTION

As prescribed by G.S. 115C-218.85(a)(1), the Nonprofit shall ensure the Public Charter School provides the minimum days or hours of instruction as required by statute.

22. CRIMINAL BACKGROUND CHECKS

The Nonprofit agrees to comply with the statutory requirement regarding background checks. G.S. 115C-218.90 (4)

23. OPEN MEETINGS

The Nonprofit agrees to be subject to the Open Meetings law (Article 33C of Chapter 143 of the General Statutes). This provision is effective upon the SBE's final approval of the charter application.

24. ASSIGNMENT

Assignment of the Public Charter School to another entity is deemed a material revision to the Charter and must have prior written approval of the SBE.

25. ADEQUATE PERFORMANCE

The Nonprofit shall comply with all statutory and SBE requirements defining adequate criteria for Public Charter School performance and consequences for failing to meet the statutory requirements.

26. TERMINATION OF CHARTER

26.1 The SBE may terminate this Charter on any of the following grounds:

- a. Failure to meet the requirements for student performance;
- b. Failure to meet generally accepted standards of fiscal management;
- c. Violation of law;
- d. Material violation of any of the conditions, standards, or procedures set forth in the Charter;
- e. Two-thirds of the faculty and instructional support personnel at the Public Charter School request termination or nonrenewal; or
- f. Other good cause warranting nonrenewal or termination.

26.2 The following procedures will apply to the termination proceedings:

- a. When sufficient information exists to initiate termination of a Charter, DPI shall give the Nonprofit written notice of its intention to initiate revocation of the Charter. The notice will be sent by certified mail, return receipt requested, and shall state in reasonable detail the grounds for the recommendation.
- b. If information available to the SBE indicates that the Public Charter School's current operation poses an immediate threat to the education, health, safety, or welfare of the Public Charter School's students or employees or the public, the SBE may take appropriate protective action pending a final decision on the termination of the Charter.

26.3 If the Nonprofit objects to the termination of the Charter, it must, within ten days following the date on which notice of the SBE's action was mailed, deliver to the State Board of Education a written request for a review by the SBE. If the Nonprofit fails to deliver a timely request for review, the Charter shall terminate on the eleventh day after the date the notice was mailed. If a timely request for a review is made by the Nonprofit, the Chair of the SBE may approve a Review Panel to consider the appeal. The Review Panel may review the matter with or without a formal hearing. If the Review Panel elects to conduct a hearing, the hearing shall be held within 30 days of receipt of the written request, unless otherwise agreed to by the parties. At the conclusion of its review, the Review Panel shall submit a written recommendation to the SBE. Unless the SBE and

the Nonprofit otherwise agree, the SBE shall make a final decision at its next regularly scheduled meeting.

- 26.4** In the event that the Nonprofit is required to cease operation for any reason, including but not limited to non-renewal, revocation, or voluntary surrender of the Charter, the Nonprofit shall comply with the SBE's closure requirements.

27. CHARTER AMENDMENT

- 27.1** The Nonprofit shall submit any proposed material revision of the charter to the SBE in accordance with guidance provided by the Office of Charter Schools. Changes that constitute a material revision include, but are not limited to, the following:

- a. Enrollment growth beyond 20% as set out in statute;
- b. Relocation;
- c. Transferring the charter to another non-profit entity;
- d. Altering the mission or targeted student population;
- e. Employing or terminating a management company;
- f. Changing the application respecting the National School Lunch program; and
- g. Changing the application with respect to student transportation.

- 27.2** The following proposed amendments to a charter may be approved by Department staff without the necessity of Board action; however, the charter school must seek approval prior to implementation of the change. Further, the Board must be notified by the Department of any approved amendments in the following areas:

- a. Bylaws;
- b. The name of the charter school;
- c. The Articles of Incorporation;
- d. Class sizes as stated in the application;
- e. Length of school day and/or academic year; and
- f. Curriculum changes.

- 27.3** Any potential changes not contained in 27.2 above must be reviewed and approved by the State Board of Education. Notwithstanding the foregoing, the Department may carry any proposed amendment to the Board for its review.

28. AGREEMENTS WITH LOCAL BOARDS OF EDUCATION

This Charter shall not preclude the Nonprofit from entering into any agreements with the local board of education; provided, no such agreements shall supersede or override any provision of this Charter.

29. OVERSIGHT AND INTERVENTION

- 29.1** The SBE will, at its discretion, conduct announced or unannounced site visits at the Public Charter School consistent with its oversight authority.

- 29.2** The SBE and DPI are, in no event, responsible for any financial support other than the funding as provided by law.

30. NOTICE

Any notice the Public Charter School is required or permitted to be submitted under this Charter shall be delivered to:

Director, Office of Charter Schools
Department of Public Instruction
6303 Mail Service Center
Raleigh, NC 27699-6303

All faxes or emails sent by the School shall be followed by hard copies postmarked within the next business day of the fax transmittal.

31. SEVERABILITY

If any provision of this Charter is determined to be unenforceable or invalid for any reason, the remainder of this Charter shall remain in effect, unless the Charter is revoked or relinquished.

32. NON-ENDORSEMENT

The Public Charter School acknowledges that the granting of a Charter in no way represents or implies endorsement by the SBE of any method of instruction, philosophy, practices, curriculum, or pedagogy used by the School or its agents; nor does the granting of this Charter constitute a guarantee by the SBE of the success of the Public Charter School in providing a learning environment that will improve student achievement.

33. LEGISLATIVE ACTION

This Charter and any amendments to it and renewals of it are subject to applicable laws enacted by the General Assembly and shall be deemed amended to reflect applicable changes to those laws. Upon repeal of the statutes authorizing this Charter, this Charter is null and void.

34. STATUS OF PARTIES TO THE CHARTER

34.1 This Charter is not intended to create and shall not be interpreted to create employer-employee, contractor-subcontractor, or principal-agent relationships between or among any party or parties to this Charter. "Parties," for purposes of this paragraph only, include the parties to this Charter. No officers, employees, agents, or subcontractors of the School shall be considered officers, employees, agents or subcontractors of the SBE.

34.2 The Nonprofit certifies that all contracts obligating the Nonprofit have been and will be undertaken by the Nonprofit and failure to act strictly as a nonprofit corporation shall be grounds for revocation of the Charter.

Phoenix Academy

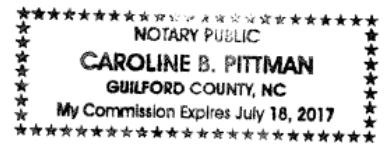
SIGNATURE AND NOTARIZATION PAGE

FOR THE SCHOOL: Phoenix Academy
(School Name)

This 4th day of May, 2015.

Perry F. Flynn
(Print Name of Board Chair/ President)

[Signature]
(Signature of Board Chair/President)



Sworn to and subscribed before me this 4th
day of May, 2015.

(Official Seal)

Caroline B. Pittman
Notary Public
My commission expires July 18, 2017.

FOR THE STATE BOARD OF EDUCATION:

This 3 day of June, 2015.

(State Superintendent)

Jana Atkins
(Signature of State Superintendent)

Sworn to and subscribed before me this 3
day of June, 2015.



Joan P. Champagne
Notary Public
My commission expires 1-9, 2018.

[THIS PAGE INTENTIONALLY LEFT BLANK]

PHOENIX ACADEMY
BUDGET REPORT (CONDENSED)
From 4/1/2016 to 4/30/2016

REVENUE	CURRENT BUDGET	MTD ACTIVITY	YTD ACTIVITY	BUDGET BALANCE	PERCENT REMAINING	NOTES
STATE REVENUE						
Rev - Summer Reading - 016	\$22,751.00	\$0.00	\$22,751.00	\$0.00	0.00%	
Rev - Charter Schools	\$5,502,693.00	\$426.39	\$5,502,693.00	\$0.00	0.00%	
TOTAL STATE REVENUE	\$5,525,444.00	\$426.39	\$5,525,444.00	\$0.00	0.00%	
LOCAL REVENUE						
Rev - Sales Tax	\$7,500.00	\$0.00	\$0.00	\$7,500.00	100.00%	
Rev - Field Trip	\$10,000.00	-\$42.00	\$1,405.00	\$8,595.00	85.95%	
Rev - Field Trips 9922	\$10,000.00	\$0.00	\$0.00	\$10,000.00	100.00%	
Rev - Contributions and Donati	\$700.00	\$0.00	\$1,054.80	\$(354.80)	-50.69%	
Rev - Various	\$2,000.00	\$0.00	\$25,983.83	\$(23,983.83)	-1,199.19%	
Rev - Student Supply Fees	\$1,000.00	\$0.00	\$17.98	\$982.02	98.20%	
Rev - Athletics	\$0.00	\$0.00	\$4,122.00	\$(4,122.00)	0.00%	
Rev - Clubs	\$580.00	\$0.00	\$0.00	\$580.00	100.00%	
Fund Balance Appropriated	\$450,000.00	\$0.00	\$0.00	\$450,000.00	100.00%	
Rev - Ashboro City Schools	\$1,002.24	\$0.00	\$0.00	\$1,002.24	100.00%	
Rev - Davidson County Schools	\$53,398.24	\$0.00	\$39,605.33	\$13,792.91	25.83%	
F & F - Davidson County School	\$0.00	\$0.00	\$1,546.07	\$(1,546.07)	0.00%	
Rev - Forsyth County Schools	\$44,151.90	\$5,351.28	\$50,493.66	\$(6,341.76)	-14.36%	
Rev - Guilford County Schools	\$2,257,464.60	\$181,523.79	\$1,670,295.70	\$587,168.90	26.01%	
F & F - Guilford County School	\$45,000.00	\$0.00	\$39,128.00	\$5,872.00	13.05%	
Rev - Lexington City Schools	\$0.00	\$0.00	\$571.10	\$(571.10)	0.00%	
Rev - Randolph County Schools	\$14,777.00	\$1,631.85	\$11,096.58	\$3,680.42	24.91%	
Rev - Rockingham Co Schools	\$1,170.96	\$0.00	\$0.00	\$1,170.96	100.00%	
Rev - Stokes County Schools	\$1,311.10	\$374.54	\$1,116.56	\$194.54	14.84%	
Rev - Thomasville City Schools	\$2,746.08	\$0.00	\$5,020.25	\$(2,274.17)	-82.82%	
Rev - Wake County	\$2,050.00	\$0.00	\$0.00	\$2,050.00	100.00%	
Rev - Fundraising - 653	\$200,000.00	\$26,213.71	\$207,376.07	\$(7,376.07)	-3.69%	
TOTAL LOCAL REVENUE	\$3,104,852.12	\$215,137.17	\$2,058,832.93	\$1,046,019.19	33.69%	
FEDERAL REVENUE						
Rev - IDEA VI-B - 060	\$132,759.00	\$7,435.86	\$67,178.57	\$65,580.43	49.40%	
Rev - IDEA VI-B Targeted Assis	\$900.00	\$0.00	\$0.00	\$900.00	100.00%	
TOTAL FEDERAL REVENUE	\$133,659.00	\$7,435.86	\$67,178.57	\$66,480.43	49.74%	
FUND 5 REVENUE						
Rev - USDA - 035	\$550.00	\$0.00	\$670.00	\$(120.00)	-21.82%	
Rev - Lunch (Full Pay)	\$0.00	\$660.00	\$2,180.00	\$(2,180.00)	0.00%	
TOTAL FUND 5 REVENUE	\$550.00	\$660.00	\$2,850.00	\$(2,300.00)	-418.18%	

PHOENIX ACADEMY
BUDGET REPORT (CONDENSED)
 From 4/1/2016 to 4/30/2016

	CURRENT BUDGET	MTD ACTIVITY	YTD ACTIVITY	BUDGET BALANCE	PERCENT REMAINING	NOTES
TOTAL REVENUE	\$8,764,505.12	\$223,659.42	\$7,654,305.50	\$1,110,199.62	12.67%	
EXPENSES						
1. Salaries & Bonuses	\$3,197,170.01	\$250,542.05	\$2,496,151.03	\$701,018.98	21.93%	
2. Benefits	\$683,795.13	\$65,057.09	\$546,768.49	\$137,026.64	20.04%	
3. Books & Supplies	\$197,851.00	\$18,438.72	\$325,141.80	\$(127,290.80)	-64.34%	
4. Technology	\$161,000.00	\$1,300.98	\$147,132.80	\$13,867.20	8.61%	
5. Non-Cap Equipment & Leases	\$45,250.00	\$3,623.79	\$45,339.40	\$(89.40)	-0.20%	
6. Contracted Student Services	\$338,501.00	\$14,419.79	\$205,039.12	\$133,461.88	39.43%	
7. Staff Development	\$25,000.00	\$460.28	\$8,482.51	\$16,517.49	66.07%	
8. Administrative Services	\$1,668,427.94	\$395,466.92	\$1,638,993.80	\$29,434.14	1.76%	
9. Insurances	\$46,100.00	\$14,897.00	\$51,165.00	\$(5,065.00)	-10.99%	
10. Rents & Debt Service	\$2,025,851.04	\$152,288.83	\$1,275,575.00	\$750,276.04	37.04%	
11. Facilities	\$35,000.00	\$42,452.88	\$322,183.44	\$(287,183.44)	-820.52%	
12. Utilities	\$16,000.00	\$2,006.38	\$103,229.19	\$(87,229.19)	-545.18%	
13. Nutrition & Food	\$60,900.00	\$4,356.73	\$53,412.72	\$7,487.28	12.29%	
14. Transportation & Travel	\$1,000.00	\$0.00	\$814.49	\$185.51	18.55%	
15. Capital Purchases	\$129,000.00	\$0.00	\$55,976.01	\$73,023.99	56.61%	
80. Federal Programs	\$133,659.00	\$7,435.86	\$67,178.57	\$66,480.43	49.74%	
TOTAL EXPENSES	\$8,764,505.12	\$972,747.30	\$7,342,583.37	\$1,421,921.75	16.22%	

NET SURPLUS/(DEFICIT) \$0.00 \$(749,087.88) \$311,722.13

7 DEGREES OF CHANGE FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
As of December 31, 2016

EXHIBIT C

ASSETS

CURRENT ASSETS	
BB&T Checking	\$ 3,139.21
BB&T Payroll	63,557.53
BB&T Fundraising	11,738.27
Accounts Receivable	33,724.30
Accounts Receivable - Norcross	<u>10,785.69</u>
TOTAL CURRENT ASSETS	<u>122,945.00</u>
FIXED ASSETS	
Furniture and Fixtures	10,418.78
7851 Clinard Farms Property	122,340.50
7851 Office Improvements	16,680.31
7851 Clinard Farms Land	30,000.00
4539 R1 Walpole Rd.	95,638.35
Vehicles	48,264.45
Leasehold Improvements	10,198.68
7853-7855 Clinard Farms Property	47,500.00
Less Accumulated Depreciation	<u>(40,796.07)</u>
TOTAL FIXED ASSETS	<u>340,245.00</u>
TOTAL ASSETS	<u>\$ 463,190.00</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
American Express 1002	\$ 19,731.73
Payroll Liabilities	<u>5,712.28</u>
TOTAL CURRENT LIABILITIES	<u>25,444.01</u>
LONG-TERM LIABILITIES	
Note Payable - BB&T 7851 Clinard Farms	94,947.99
Note Payable - BB&T Walpole Rd	57,811.62
Note Payable - BB&T 7853-7855	28,113.42
Note Payable - BB&T Commercial Loan	<u>18,468.51</u>
TOTAL LONG-TERM LIABILITIES	<u>199,341.54</u>
TOTAL LIABILITIES	<u>224,785.55</u>
Net Assets	
Unrestricted	127,204.97
Current Earnings	<u>111,199.48</u>
TOTAL NET ASSETS	<u>238,404.45</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 463,190.00</u>



SMITH LEONARD
Accountants & Consultants

Smith Leonard PLLC
P.O. Box 1974, 11 Shoaf Street
Lexington, NC 27293-1974
Phone: 336.243.2772, Fax: 336.248.5887

INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

To the Board of Directors
7 Degrees of Change Foundation, Inc.
High Point, North Carolina

Management is responsible for the accompanying financial statements of 7 Degrees of Change Foundation, Inc., a non profit, which comprise the statement of financial position of December 31, 2016, and the related statement of activities for the six months then ended in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Management has elected to omit substantially all of the disclosures and the statement of cash flows required by accounting principles generally accepted in the United States of America. If the omitted disclosures and statement of cash flows were included in the financial statements, they might influence the user's conclusions about the Company's assets, liabilities, net assets, revenues, expenses, and cash flows. Accordingly, the financial statements are not designed for those who are not informed about such matters.

Smith Leonard PLLC

February 20, 2017

7 DEGREES OF CHANGE FOUNDATION, INC.
STATEMENT OF ACTIVITIES
For The Six Months Ended December 31, 2016

	2016	
	YEAR-TO-DATE	
	AMOUNT	PERCENT
REVENUE		
Program Service Fees	\$ 875,582.01	98.74
Special Events Contributions	<u>11,202.47</u>	<u>1.26</u>
TOTAL REVENUE	<u>886,784.48</u>	<u>100.00</u>
 OPERATING EXPENSES		
Community Events / Programs	15,086.72	1.70
Bank Fees	231.95	0.03
License Fees & Taxes	873.15	0.10
Accounting Fees	19,426.00	2.19
Legal Fees	14,869.64	1.68
Depreciation and Amortization	10,931.65	1.23
Utilities	2,400.36	0.27
Repairs & Maintenance	2,348.48	0.26
Rent Expense	775.09	0.09
Membership & Dues	1,990.29	0.22
Printing and Copying	960.75	0.11
Telephone	6,573.20	0.74
Advertising Expense / Media / Publishing / Internet	56,964.70	6.42
Insurance	27,051.35	3.05
Interest Expense	3,510.17	0.40
Salaries & Wages	493,580.71	55.66
Payroll Taxes	36,550.61	4.12
Employee Benefits	38,452.86	4.34
Travel / Public Affairs / Staff Development	32,502.36	3.67
Vehicle Maintenance	6,894.96	0.78
Shipping	<u>3,610.00</u>	<u>0.41</u>
TOTAL OPERATING EXPENSES	<u>775,585.00</u>	<u>87.46</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>111,199.48</u>	<u>12.54</u>
 NON-OPERATING ACTIVITIES		
 CHANGE IN NET ASSETS	 111,199.48	 <u>12.54</u>
 NET ASSETS - BEGINNING OF PERIOD	 <u>127,204.97</u>	
 NET ASSETS - END OF PERIOD	 <u>\$ 238,404.45</u>	

[THIS PAGE INTENTIONALLY LEFT BLANK]

AN APPRAISAL REPORT

OF

A VACANT 5.676 ACRE SITE AND
A 2.652 ACRE SITE IMPROVED WITH
A SCHOOL - PHOENIX ACADEMY

LOCATED AT

4000 MEETING WAY AND 4020 MEETING WAY
HIGH POINT, NORTH CAROLINA 27265

PREPARED FOR

PHOENIX ACADEMY, INC. AND PHOENIX ACADEMY FOUNDATION, INC.
7851 CLINARD FARMS ROAD
HIGH POINT, NORTH CAROLINA 27265

DATES OF VALUE ESTIMATES

APRIL 26, 2017 AND OCTOBER 1, 2017

PREPARED BY

HYLTON-CROWDER AND ASSOCIATES, INC.
132 EAST PARRIS AVENUE
HIGH POINT, NORTH CAROLINA 27262

HYLTON - CROWDER & ASSOCIATES, INC.

APPRAISERS - CONSULTANTS - REALTORS

132 EAST PARRIS AVENUE

HIGH POINT, NC 27262

336/882-0131

FAX 336/882-0135

Ron D. Crowder, SRPA
Brian R. Crowder, MAI
Gerry C. Crowder
Molly M. Chisholm

May 9, 2017

Phoenix Academy, Inc. and Phoenix Academy Foundation, Inc.
Attn: Paul J. Norcross
7851 Clinard Farms Road
High Point, NC 27265

Re: 4000 Meeting Way and 4020 Meeting Way, High Point, NC 27265
Clients: Phoenix Academy, Inc. and Phoenix Academy
Foundation, Inc.

Dear Mr. Norcross:

Upon request, I have inspected the above captioned property and researched the local market in order to estimate the market value of the subject property. The real property interest appraised is leased fee, subject to the normal restrictions of ownership, those being escheat, police power, taxes, and eminent domain. The interest appraised is also subject to market conditions and contract lease in place as of the date of inspection/appraisal for the market value as is estimate.

Market value is defined as: "The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably, and assuming the price is not affected by undue stimulus." Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- a. buyer and seller are typically motivated;
- b. both parties are well informed or well advised, and each acting in what they consider their own best interests;
- c. a reasonable time is allowed for exposure in the open market;

Mr. Paul J. Norcross
May 9, 2017
Page 2

- d. payment is made in terms of cash in U. S. dollars or in terms of financial arrangements comparable thereto; and
- e. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

The subject property in this appraisal actually consists of two physically adjoining, but separately platted and mapped, legal lots of record which are both included in this appraisal as follows:

Property #1: This property is located at the southeast corner of the intersection of Meeting Way with NC Highway 68 inside the city limits of High Point in High Point township, Guilford County North Carolina, containing a total site area of 5.676 acres. This property is vacant land with no building improvements and is further identified as Guilford County North Carolina tax parcel ID 0207829, also known as PIN: 7813578078-000. The address of the property is 4000 Meeting Way, High Point, North Carolina 27265. This property was vacant undeveloped land as of the date of inspection on April 26, 2017. After proposed addition is completed for the subject property located at 4020 Meeting Way, also included in this appraisal, a portion of this site will be used for playground/recreational needs (future soccer field, 2 tennis courts, softball field, etc.) of school located next door at 4020 Meeting Way.

Property #2: This property is located at the southwest corner of the intersection of Meeting Way with Mendenhall Oaks Parkway inside the city limits of High Point in High Point township of Guilford County North Carolina containing a total site area of 2.652 acres. This site has been improved with one building improvement. On the date of inspection, April 26, 2017, the site was improved with a one level single occupant building that was 100% occupied by Phoenix Academy as their K-1 school campus for children's kindergarten and first grade, containing a total of 19,724 square feet of gross building and net leasable area as of the date of inspection on April 26, 2017, according to appraiser's on site measurements. This subject property physically adjoins the eastern

property line of subject's other property included in this appraisal at 4000 Meeting Way. This subject property is further identified as Guilford County North Carolina tax parcel 0207849, also known as PIN: 7813671197-000. The address of this property is 4020 Meeting Way, High Point, North Carolina 27265. Phoenix Academy is planning on constructing an addition and other improvements to the rear or south side of current existing building with additional classroom and restroom space and a cement pad with covered shelter play area. This proposed addition will have 9,862 +/- square feet of gross building and net leasable area according to verbal data and proposed floor plan drawings by Tracy E. Pratt, Architect, PLLC, Project 16-022-2, dated April 30, 2017, resulting in a total building area at completion of the addition of 29,586 square feet. Construction on this proposed addition is to begin shortly with an estimated completion date of October 1, 2017. The address of this subject property is 4020 Meeting Way, High Point, North Carolina 27265.

I have made a detailed analysis of the information pertinent to the formulation of the value estimates and have included an explanation of my conclusions in the following attached appraisal report per request of client. Based on my investigation and in depth analysis of available market data, the prospective market value of the subject property at completion with interest appraised being fee simple (since current contract lease in place on the subject property located at 4020 Meeting Way should no longer exist on October 1, 2017), as of October 1, 2017 (estimated date of completion of proposed addition and all proposed improvements) is as follows:

4000 Meeting Way, High Point, NC 27265	\$1,050,000
4020 Meeting Way, High Point, NC 27265	<u>\$4,040,000</u>
Total As Is Market Value Estimate	\$5,090,000

There are no hypothetical conditions in this appraisal. There are 3 extraordinary assumptions: (1) Value assumes contract lease in place on 4020 Meeting Way on the date of inspection, April 26, 2017 will be terminated and no longer exist as of October 1, 2017 (subject's current contract lease will terminate once subject

Mr. Paul J. Norcross
May 9, 2017
Page 4

property is purchased by Phoenix Academy Foundation, Inc.) NOTE: There will reportedly be a lease in place for the 4020 Meeting Way property on October 1, 2017. However, lease will be non arms length, as owner of the real estate has related party interests to the tenant or occupant in the building at completion of proposed addition and proposed improvements. Since lease is non arms length between related parties, it is not considered in this appraisal. (2) Value assumes all proposed construction and proposed improvements have been completed on or before October 1, 2017, estimated date of completion of all proposed improvements. This is a prospective appraisal as on the date of inspection on April 26, 2017, none of these future improvements had been started. (3) Appraiser assumes all proposed improvements have been completed as planned based on verbal and written data provided to the appraiser from Mr. Paul J. Norcross, Tracy E. Pratt, Architect, PLLC, and Tim Hight of Holden Building Company, Inc. in a quality workmanship manner. There are no other extraordinary assumptions in this appraisal. If any of these extraordinary assumptions are not true, the assignment results and subject's market value estimate at completion of all proposed improvements may change.

In addition, appraiser is also providing a second value estimate in this appraisal: Market value of the subject property in its as is existing condition on the date of inspection on April 26, 2017. On the date of inspection on April 26, 2017, none of the proposed improvements had been started. Based on my investigation and in depth analyses of available market data, the estimated market value of the subject property in its as is existing condition on the date of inspection/appraisal on April 26, 2017 with real property interest appraised being leased fee (since there was a contract lease in place on the date of inspection) is as follows:

4000 Meeting Way, High Point, NC	27265	\$1,050,000
4020 Meeting Way, High Point, NC	27265	<u>\$2,795,000</u>
Total As Is Market Value Estimate		\$3,845,000

Mr. Paul J. Norcross
May 9, 2017
Page 5

There are no hypothetical conditions in this appraisal. There is one extraordinary assumption. According to Mr. Paul J. Norcross, representing my client, there was a contract lease in place on the subject property located at 4020 Meeting Way as of April 26, 2017. However, plans are for my client to purchase the subject property in the near future with contract lease to terminate at time of purchase. Appraiser makes an extraordinary assumption that the contract lease will terminate in the near future and, as a result, will have no significant impact on subject's market value. If this extraordinary assumption is not true, the assignment results and subject's market value as is estimate are subject to change. There are no other extraordinary assumptions in the market value as is estimate of the subject property.

I have not appraised or provided any other professional services on the subject property within 3 years of acceptance of this assignment.

I hereby certify I have made a complete inspection of the subject property, reviewed plans and specifications of proposed improvements, and found them to be as stated in this report. To my best knowledge and belief, all statements and information in this enhanced appraisal report are true and correct with no important facts withheld. Neither my employment nor compensation are contingent upon the amount of valuation reported.


Mr. Paul J. Norcross
May 9, 2017
Page 6

Thank you for this opportunity to serve you. If you have any questions or if I can be of further assistance, please do not hesitate to contact my office.

Very truly yours,

HYLTON-CROWDER & ASSOCIATES, INC.




Ron D. Crowder, SRPA
President
NC Certified General Real
Estate Appraiser - A1556
License Expiration - June 30, 2017

RDC/ob
Attachments

AN APPRAISAL REPORT

OF

A VACANT 5.650 ACRE SITE AND
A 6.245 ACRE SITE IMPROVED WITH
A SCHOOL - PHOENIX ACADEMY

LOCATED AT

4191 MENDENHALL OAKS PARKWAY AND 4193 MENDENHALL OAKS PARKWAY
HIGH POINT, NORTH CAROLINA 27265

PREPARED FOR

PHOENIX ACADEMY, INC. AND PHOENIX ACADEMY FOUNDATION, INC.
7851 CLINARD FARMS ROAD
HIGH POINT, NORTH CAROLINA 27265

DATES OF VALUE ESTIMATES

APRIL 26, 2017 AND SEPTEMBER 1, 2017

PREPARED BY

HYLTON-CROWDER AND ASSOCIATES, INC.
132 EAST PARRIS AVENUE
HIGH POINT, NORTH CAROLINA 27262

HYLTON - CROWDER & ASSOCIATES, INC.

APPRAISERS - CONSULTANTS - REALTORS

132 EAST PARRIS AVENUE

HIGH POINT, NC 27262

336/882-0131

FAX 336/882-0135

Ron D. Crowder, SRPA
Brian R. Crowder, MAI
Gerry C. Crowder
Molly M. Chisholm

May 10, 2017

Phoenix Academy, Inc. and Phoenix Academy Foundation, Inc.

Attn: Paul J. Norcross

7851 Clinard Farms Road

High Point, NC 27265

Re: 4191 Mendenhall Oaks Parkway and 4193 Mendenhall Oaks Parkway,
High Point, NC 27265

Clients: Phoenix Academy, Inc. and Phoenix Academy
Foundation, Inc.

Dear Mr. Norcross:

Upon request, I have inspected the above captioned property and researched the local market in order to estimate the market value of the subject property. The real property interest appraised is leased fee, subject to the normal restrictions of ownership, those being escheat, police power, taxes, and eminent domain. The interest appraised is also subject to market conditions and contract lease in place as of the date of inspection/appraisal for the market value as is estimate.

Market value is defined as: "The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably, and assuming the price is not affected by undue stimulus." Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- a. buyer and seller are typically motivated;
- b. both parties are well informed or well advised, and each acting in what they consider their own best interests;

Mr. Paul J. Norcross
May 10, 2017
Page 2

- c. a reasonable time is allowed for exposure in the open market;
- d. payment is made in terms of cash in U. S. dollars or in terms of financial arrangements comparable thereto; and
- e. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

The subject property in this appraisal actually consists of two physically adjoining, but separately platted and mapped, legal lots of record which are both included in this appraisal as follows:

Property #1: This property is located on the west side of Mendenhall Oaks Parkway inside the city limits of High Point in High Point township, Guilford County North Carolina, containing a total site area of 5.650 acres. This property is vacant land with no building improvements. It does however have some asphalt and concrete paved area on site. This property is further identified as Guilford County North Carolina tax parcel ID 0207839, also known as PIN: 7813780371-000. On the date of inspection, April 26, 2017, this site is vacant land with some paved area. After completion of improvements by September 1, 2017, this site is planned to be used for recreational needs for the subject property located at 4191 Mendenhall Oaks Parkway, also included in this appraisal. The address of this subject property is 4193 Mendenhall Oaks Parkway, High Point, North Carolina, 27265.

Property #2: This property is located on the west side of Mendenhall Oaks Parkway (physically adjoining the southern border of subject's site at 4193 Mendenhall Oaks Parkway) inside the city limits of High Point in High Point township, Guilford County North Carolina containing a total site area of 6.245 acres. This site has been improved with one building improvement. On the date of inspection on April 26, 2017, the site was improved with a one level single occupant building that was 100% occupied by Phoenix Academy as their elementary school, grades 2-5 campus, containing 44,300

Mr. Paul J. Norcross
May 10, 2017
Page 3

square feet of gross building and net leasable area of which approximately 5,000 +/- square feet at the western end of the building is unfinished "shell space" on the date of inspection on April 26, 2017, according to appraiser's on site measurements. This subject property is further identified as Guilford County North Carolina tax parcel ID 0207852, also known as PIN: 7813780024-000. The address of this property is 4191 Mendenhall Oaks Parkway, High Point, North Carolina 27265. Phoenix Academy is planning on finishing this "shell space" portion of the building for additional classroom space. Construction on finishing this shell space is to begin shortly with an estimated completion date of September 1, 2017.

I have made a detailed analysis of the information pertinent to the formulation of the value estimates and have included an explanation of my conclusions in the following attached appraisal report per request of client. Based on my investigation and in depth analysis of available market data, the prospective market value of the subject property at completion with interest appraised being fee simple (since current contract lease in place on the subject property located at 4191 Mendenhall Oaks Parkway should no longer exist on September 1, 2017), as of September 1, 2017 (estimated date of completion of finishing "shell space" portion of subject's building) is as follows:

4193 Mendenhall Oaks Parkway, High Point, NC 27265	\$ 900,000
4191 Mendenhall Oaks Parkway, NC 27265	<u>\$5,850,000</u>
Total As Is Market Value Estimate	\$6,750,000

There are no hypothetical conditions in this appraisal. There are 3 extraordinary assumptions: (1) Value assumes contract lease in place on 4191 Mendenhall Oaks Parkway on the date of inspection, April 26, 2017 will be terminated and no longer exist as of September 1, 2017 (subject's current contract lease will terminate once subject property is purchased by Phoenix Academy Foundation, Inc.) NOTE: There will reportedly be a lease in place for the 4191 Mendenhall Oaks Parkway property on September 1, 2017. However, lease will be non arms length, as owner of the real estate has

Mr. Paul J. Norcross
May 10, 2017
Page 4

related party interests to the tenant or occupant in the building at completion of proposed improvements. Since lease is non arms length between related parties, it is not considered in this appraisal. (2) Value assumes all proposed construction and proposed improvements have been completed on or before September 1, 2017, estimated date of completion of all proposed improvements. This is a prospective appraisal as on the date of inspection on April 26, 2017, none of these future improvements had been started. (3) Appraiser assumes all proposed improvements have been completed as planned based on verbal data provided to the appraiser from Mr. Paul J. Norcross, Tracy E. Pratt, Architect, PLLC, and Tim Hight of Holden Building Company, Inc. in a quality workmanship manner. There are no other extraordinary assumptions in this appraisal. If any of these extraordinary assumptions are not true, the assignment results and subject's market value estimate at completion of all proposed improvements may change.

In addition, appraiser is also providing a second value estimate in this appraisal: Market value of the subject property in its as is existing condition on the date of inspection on April 26, 2017. On the date of inspection on April 26, 2017, none of the proposed improvements had been started. Based on my investigation and in depth analyses of available market data, the estimated market value of the subject property in its as is existing condition on the date of inspection/appraisal on April 26, 2017 with real property interest appraised being leased fee (since there was a contract lease in place on the date of inspection) is as follows:

4193 Mendenhall Oaks Parkway, High Point, NC 27265	\$ 900,000
4191 Mendenhall Oaks Parkway, High Point, NC 27265	<u>\$5,600,000</u>
Total As Is Market Value Estimate	\$6,500,000

There are no hypothetical conditions in this appraisal. There is one extraordinary assumption. According to Mr. Paul J. Norcross, representing my client, there was a contract lease in place on the subject property located at 4191 Mendenhall Oaks Parkway as of April 26, 2017. However, plans are for my client to purchase the subject property in the near future with contract lease to terminate at time

Mr. Paul J. Norcross
May 10, 2017
Page 5

of purchase. Appraiser makes an extraordinary assumption that the contract lease will terminate in the near future and, as a result, will have no significant impact on subject's market value. If this extraordinary assumption is not true, the assignment results and subject's market value as is estimate are subject to change. There are no other extraordinary assumptions in the market value as is estimate of the subject property.

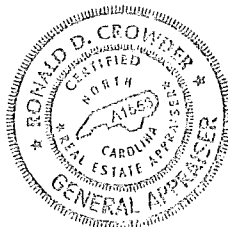
I have not appraised or provided any other professional services on the subject property within 3 years of acceptance of this assignment.

I hereby certify I have made a complete inspection of the subject property, reviewed plans and specifications of proposed improvements, and found them to be as stated in this report. To my best knowledge and belief, all statements and information in this enhanced appraisal report are true and correct with no important facts withheld. Neither my employment nor compensation are contingent upon the amount of valuation reported.

Thank you for this opportunity to serve you. If you have any questions or if I can be of further assistance, please do not hesitate to contact my office.

Very truly yours,

HYLTON-CROWDER & ASSOCIATES, INC.




Ron D. Crowder, SRPA
President

NC Certified General Real
Estate Appraiser - A1556
License Expiration - June 30, 2017

RDC/ob
Attachments

AN APPRAISAL REPORT

OF

A SCHOOL-PHOENIX ACADEMY

LOCATED AT

7847 CLINARD FARMS ROAD

HIGH POINT, NORTH CAROLINA 27265

PREPARED FOR

PHOENIX ACADEMY, INC. AND PHOENIX ACADEMY FOUNDATION, INC.

7851 CLINARD FARMS ROAD

HIGH POINT, NORTH CAROLINA 27265

DATES OF VALUE ESTIMATE

APRIL 27, 2017 AND OCTOBER 1, 2017

PREPARED BY

HYLTON-CROWDER AND ASSOCIATES, INC.

132 EAST PARRIS AVENUE

HIGH POINT, NORTH CAROLINA 27262

HYLTON - CROWDER & ASSOCIATES, INC.
APPRAISERS - CONSULTANTS - REALTORS
132 EAST PARRIS AVENUE
HIGH POINT, NC 27262
336/882-0131
FAX 336/882-0135

Ron D. Crowder, SRPA
Brian R. Crowder, MAI
Gerry C. Crowder
Molly M. Chisholm

May 9, 2017

Phoenix Academy, Inc. and Phoenix Academy Foundation, Inc.
Attn: Paul J. Norcross
7851 Clinard Farms Road
High Point, NC 27265

Re: 7847 Clinard Farms Road, High Point, NC 27265
Clients: Phoenix Academy, Inc. and Phoenix Academy
Foundation, Inc.

Dear Mr. Norcross:

Upon request, I have inspected the above captioned property and researched the local market in order to estimate the market value of the subject property. The real property interest appraised is leased fee, subject to the normal restrictions of ownership, those being escheat, police power, taxes, and eminent domain. The interest appraised is also subject to market conditions and contract lease in place as of the date of inspection/appraisal for the market value as is estimate.

Market value is defined as: "The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably, and assuming the price is not affected by undue stimulus." Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- a. buyer and seller are typically motivated;
- b. both parties are well informed or well advised, and each acting in what they consider their own best interests;
- c. a reasonable time is allowed for exposure in the open market;

Mr. Paul J. Norcross
May 9, 2017
Page 2

- d. payment is made in terms of cash in U. S. dollars or in terms of financial arrangements comparable thereto; and
- e. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

The subject property is located on the south side of Clinard Farms Road, 950 +/- feet east of its intersection with Blackberry Ridge Drive, inside the city limits of High Point in High Point township, Guilford County, North Carolina containing a total site area of 26.743 acres. The site has been improved with one building improvement. On the date of inspection, April 27, 2017, the site was improved with a one level single occupant custom built school that was 100% occupied by Phoenix Academy as their middle school campus containing a total of 39,167 square feet of gross building and net leasable area according to appraiser's on site measurements. The subject property is further identified as Guilford County, North Carolina tax parcel ID 0216465, also known as PIN: 7814104371-000. Phoenix Academy is planning on constructing an addition and other improvements which include an additional 14,000 square feet of lab, classroom, music, and multi purpose rooms according to proposed floor plan by Tracy E. Pratt, Architect, PLLC, Project 16-022-2 dated April 25, 2017, resulting in total building area of 53,167 square feet at completion of addition. Construction on this proposed addition is to begin shortly with an estimated completion date of October 1, 2017. The address of the subject property is 7847 Clinard Farms Road, High Point, North Carolina 27265.

I have made a detailed analysis of the information pertinent to the formulation of the value estimates and have included an explanation of my conclusions in the following attached appraisal report per request of client. Based on my investigation and in depth analysis of available market data, the prospective market value of the subject property at completion with interest appraised being fee simple (since current contract lease in place on the subject property should no longer exist on October 1, 2017), as of October 1, 2017 (estimated date of completion of proposed addition and all proposed improvements) located at 7847 Clinard Farms Road, High Point, North Carolina 27265, is:

NINE MILLION SEVEN HUNDRED TEN THOUSAND DOLLARS

(\$9,710,000.00)

There are no hypothetical conditions in this appraisal. There are 3 extraordinary assumptions: (1) Value assumes contract lease in place on the date of inspection, April 27, 2017 will be terminated and no longer exist as of October 1, 2017 (subject's current contract lease will terminate once subject property is purchased by Phoenix Academy Foundation, Inc.) NOTE: There will reportedly be a lease in place on October 1, 2017. However, lease will be non arms length, as owner of the real estate has related party interests to the tenant or occupant in the building at completion of proposed addition and proposed improvements. Since lease is non arms length between related parties, it is not considered in this appraisal. (2) Value assumes all proposed construction and proposed improvements have been completed on or before October 1, 2017, estimated date of completion of all proposed improvements. This is a prospective appraisal as on the date of inspection on April 27, 2017, none of these future improvements had been started. (3) Appraiser assumes all proposed improvements have been completed as planned based on verbal and written data provided to the appraiser from Mr. Paul J. Norcross, Tim Hight of Holden Building Company, Inc. including proposed floor plan by Tracy E. Pratt, Architect, PLLC, Project # 16-022-2, dated April 25, 2017 for The Phoenix Foundation in a quality workmanship manner. There are no other extraordinary assumptions in this appraisal. If any of these extraordinary assumptions are not true, the assignment results and subject's market value estimate at completion of all proposed improvements may change.

In addition, appraiser is also providing a second value estimate in this appraisal: Market value of the subject property in its as is existing condition on the date of inspection on April 27, 2017. On the date of inspection on April 27, 2017, none of the proposed improvements had been started. Based on my investigation and in depth analyses of available market data, the estimated market value of the subject property in its as is existing condition on the

Mr. Paul J. Norcross
May 9, 2017
Page 4

date of inspection/appraisal on April 27, 2017 with real property interest appraised being leased fee (since there was a contract lease in place on the date of inspection) located at 7847 Clinard Farms Road, High Point, North Carolina 27265.

SEVEN MILLION SEVEN HUNDRED THIRTY THOUSAND DOLLARS

(\$7,730,000.00)

There are no hypothetical conditions in this appraisal. There is one extraordinary assumption. According to Mr. Paul J. Norcross, representing my client, there was a contract lease in place on the subject property as of April 27, 2017. However, plans are for my client to purchase the subject property in the near future with contract lease to terminate at time of purchase. Appraiser makes an extraordinary assumption that the contract lease will terminate in the near future and as a result, will have no significant impact on subject's market value. If this extraordinary assumption is not true, the assignment results and subject's market value as is estimate are subject to change. There are no other extraordinary assumptions in the market value as is estimate of the subject property.

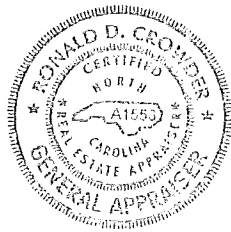
I have not appraised or provided any other professional services on the subject property within 3 years of acceptance of this assignment.

I hereby certify I have made a complete inspection of the subject property, reviewed plans and specifications of proposed improvements, and found them to be as stated in this report. To my best knowledge and belief, all statements and information in this enhanced appraisal report are true and correct with no important facts withheld. Neither my employment nor compensation are contingent upon the amount of valuation reported.


Mr. Paul J. Norcross
May 9, 2017
Page 5

Thank you for this opportunity to serve you. If you have any questions or if I can be of further assistance, please do not hesitate to contact my office.

Very truly yours,



HYLTON-CROWDER & ASSOCIATES, INC.


Ron D. Crowder, SRPA
President
NC Certified General Real
Estate Appraiser - A1556
License Expiration - June 30, 2017

RDC/ob
Attachments

[THIS PAGE INTENTIONALLY LEFT BLANK]

CONFLICT OF INTEREST

SECTION 1. GENERAL PROVISIONS.

Directors shall avoid improper conduct arising from conflicts of interest and shall abide by all legal requirements governing conflicts of interests, including G.S. 55A-8-31. If any Director has or may have a conflict of interest in a matter pending before the Board, such member shall fully disclose to the Board the nature of the conflict or potential conflict. No transaction may be approved if it would constitute self-dealing.

SECTION 2. STATUTORY REQUIREMENTS.

Board practice regarding conflicts of interest shall be governed primarily by G.S. 55A-8-31, as amended or replaced at any time subsequent to the adoption of these bylaws. Specific statutory requirements include the following.

(a) A conflict of interest transaction is a transaction with the Corporation in which a Director of the Corporation has a direct or indirect interest. A conflict of interest transaction is not voidable by the Corporation solely because of the Director's interest in the transaction if any one of the following is true:

- (1) The material facts of the transaction and the Director's interest were disclosed or known to the Board of Directors or a committee of the Board and the Board or committee authorized, approved, or ratified the transaction;
- (2) The material facts of the transaction and the Director's interest were disclosed or known to the members entitled to vote and they authorized, approved, or ratified the transaction; or
- (3) The transaction was fair to the Corporation.

(b) A Director of the Corporation has an indirect interest in a transaction if:

(1) Another entity in which he has a material financial interest or in which he is a general partner is a party to the transaction;

or

(2) Another entity of which he is a Director, officer, or trustee is a party to the transaction and the transaction is or should be considered by the Board of Directors of the Corporation.

(c) For purposes of subdivision (a)(1) of this section, a conflict of interest transaction is authorized, approved, or ratified if it receives the affirmative vote of a majority of the Directors on the Board of Directors (or on the committee) who have no direct or indirect interest in the transaction, but a transaction shall not be authorized, approved, or ratified under this section by a single Director. If a majority of the Directors who have no direct or indirect interest in the transaction vote to authorize, approve, or ratify the transaction, a quorum is present for the purpose of taking action under this section. The presence of, or a vote cast by, a Director with a direct or indirect interest in the transaction does not affect the validity of any action taken under subdivision (a)(1) of this section if the transaction is otherwise authorized, approved, or ratified as provided in that subdivision.

(d) For purposes of subdivision (a)(2) of this section, a conflict of interest transaction is authorized, approved, or ratified by the members if it receives a majority of the votes entitled to be counted under this subsection. Votes cast by or voted under the control of a Director who has a direct or indirect interest in the transaction, and votes cast by or voted under the control of an entity described in subdivision (b)(1) of this section, shall not be counted in a vote of members to determine whether to authorize, approve, or ratify a conflict of interest transaction under subdivision (a)(2) of this section. The vote of these members, however, is counted in determining whether the transaction is approved under other sections of this Chapter. A majority of the votes, whether or not present, that are entitled to be cast in a vote on the transaction under this subsection constitutes a quorum for the purpose of taking action under this section.

(e) The articles of incorporation, bylaws, or a resolution of the Board may impose additional requirements on conflict of interest transactions.

SECTION 3. DEFINITIONS.

(a) Interested Person.

Any Director, principal officer, or member of a committee with Board-delegated powers, who has a direct or indirect financial interest, as defined below, is an interested person.

(b) Financial Interest.

A person has a financial interest if the person has, directly or indirectly, through business, investment, or family:

- (1) An ownership or investment interest in any entity with which the Corporation has a transaction or arrangement,
- (2) A compensation arrangement with the Corporation or with any entity or individual with which the Corporation has a transaction or arrangement, or
- (3) A potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which the Corporation is negotiating a transaction or arrangement. Compensation includes direct and indirect remuneration as well as gifts or favors that are not insubstantial.

SECTION 4. PROCEDURES.

(a) Duty to Disclose.

In connection with any actual or possible conflict of interest, an interested person must disclose the existence of the financial interest and be given the opportunity to disclose all material facts to the Directors and members of committees with board delegated powers considering the proposed transaction or arrangement.

(b) Determining Whether a Conflict of Interest Exists.

After disclosure of the financial interest and all material facts, and after any discussion with the interested person, he/she shall leave the Board or committee meeting while the determination of a conflict of interest is discussed and voted upon. The remaining Board or committee members shall decide if a conflict of interest exists.

(c) Procedures for Addressing the Conflict of Interest.

- (1) An interested person may make a presentation at the Board of Directors or committee meeting, but after the presentation, he/she shall leave the meeting during the discussion of, and the vote on, the transaction or arrangement involving the possible conflict of interest.
- (2) The Chair of the Board of Directors or the chair of the committee if a committee meeting if appropriate, appoint a disinterested person or committee to investigate alternatives to the proposed transaction or arrangement.
- (3) After exercising due diligence, the Board or committee shall determine whether the Corporation can obtain with reasonable efforts a more advantageous transaction or arrangement from a person or entity that would not give rise to a conflict of interest.
- (4) If a more advantageous transaction or arrangement is not reasonably possible under circumstances not producing a conflict of interest, the Board or committee shall determine by a majority vote of the disinterested Directors whether the transaction or arrangement is in the Corporation's best interest, for its own benefit, and whether it is fair and reasonable. In conformity with the above determination it shall make its decision as to whether to enter into the transaction or arrangement.

(d) Violations of the Conflicts of Interest Policy.

- (1) If the Board of Directors or one of its committees has reasonable cause to believe a member has failed to disclose actual or a foreseeable conflicts of interest, it shall inform the member of the basis for such belief and afford the member an opportunity to explain the alleged failure to disclose.
- (2) If, after hearing the member's response and after making further investigation as warranted by the circumstances, the Board or committee determines the member has failed to disclose an actual or possible conflict of interest, it shall take appropriate disciplinary and corrective action.

SECTION 5. RECORDS OF PROCEEDINGS.

The minutes of the Board of Directors and all committees with Board-delegated powers shall contain:

- (a) The names of the persons who disclosed or otherwise were found to have a financial interest in connection with an actual or possible conflict of interest, the nature of the financial interest, any action taken to determine whether a conflict of interest was present, and the decision of the Board or committee as to whether a conflict of interest in fact existed.
- (b) The names of the persons who were present for discussions and votes relating to the transaction or arrangement, the content of the discussion, including any alternatives to the proposed transaction or arrangement, and a record of any votes taken in connection with the proceedings.

SECTION 6. COMPENSATION.

- (a) A voting member of the Board of Directors who receives compensation, directly or indirectly, from the Corporation for services is precluded from voting on matters pertaining to that member's compensation.
- (b) A voting member of any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Corporation for services is precluded from voting on matters pertaining to that member's compensation.
- (c) No voting member of the Board of Directors or any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Corporation, either individually or collectively, is prohibited from providing information to any committee regarding compensation.

SECTION 7. ANNUAL STATEMENTS.

Each Director, principal officer and member of a committee with Board-delegated powers shall annually sign a statement which affirms such person:

- (a) Has received a copy of the conflicts of interest policy,
- (b) Has read and understands the policy,
- (c) Has agreed to comply with the policy, and
- (d) Understands the Corporation is charitable and in order to maintain its federal tax exemption it must engage primarily in activities, which accomplish one or more of its tax-exempt purposes.

SECTION 8. PERIODIC REVIEWS.

To ensure the Corporation operates in a manner consistent with charitable purposes and does not engage in activities that could jeopardize its tax-exempt status, periodic reviews shall be conducted. The periodic reviews shall, at a minimum, include the following subjects:

- (a) Whether compensation arrangements and benefits are reasonable, based on competent survey information, and the result of arm's length bargaining.
- (b) Whether partnerships, joint ventures, and arrangements with management organizations conform to the Corporation's written policies, are properly recorded, reflect reasonable investment or payments for goods and services, further charitable purposes and do not result in inurement, impermissible private benefit or in an excess benefit transaction.

SECTION 9. USE OF OUTSIDE EXPERTS.

When conducting the periodic reviews as provided for in this Article, the Corporation may choose to employ outside experts. If outside experts are used, their use shall not relieve the Board of Directors of its responsibility for ensuring that periodic reviews are conducted.

POLICY CODE: 103 – CONFLICT OF INTEREST AND NEPOTISM

It is the policy of the Board to protect Phoenix Academy’s interest when it is contemplating entering into a transaction or arrangement that might benefit the private interest of an officer or director. Directors, administrators, and employees shall avoid improper conduct arising from conflicts of interest. Directors shall abide by all legal requirements governing conflicts of interest as provided for in the Bylaws of Phoenix Academy, Inc. (last amended and restated on February 11, 2013).

A. Contracting

A Director, administrator, or employee involved in the contracting process shall notify the Board at a public meeting, before the Board enters into the contract, if the Director, administrator, or employee

1. Has more than a ten percent ownership in, is employed by, or is under contract with a business enterprise with which the Board is considering entering into a contract;
2. Will derive any income or commission directly from or acquire any property under the contract; or
3. Knows that he or she has a family member who has an ownership interest in or is employed by that business enterprise.

The Board shall vote at the public meeting on whether or not it considers the relationship to be a conflict of interest.

B. Nepotism

The Board recognizes the need to avoid nepotism. With the implementation of this policy, the Board directs that:

1. No employee of the Academy shall be immediate family to any member of the Board.
 2. No employee of the Academy, whether hired by the Board or a management company, shall be a voting member of the Board.
 3. No teacher or staff member that is immediate family of the chief administrator shall be hired without the Board evaluating their credentials, establishing a structure to prevent conflicts of interest, and notifying the Department, with evidence, that this process has occurred.
- References: G.S. §§14-234, 55A-8-31;

Adopted

Policy 103

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B-1

**FINANCIAL STATEMENTS OF PHOENIX ACADEMY, INC.
FOR THE YEARS ENDED JUNE 30, 2014, 2015 AND 2016**

AND

**FINANCIAL STATEMENTS OF PHOENIX ACADEMY FOUNDATION, INC.
FOR THE YEARS ENDED JUNE 30, 2016**

[THIS PAGE INTENTIONALLY LEFT BLANK]

PHOENIX ACADEMY, INC.
HIGH POINT, NORTH CAROLINA

Financial Statements and
Supplementary Information

Year Ended June 30, 2014

PHOENIX ACADEMY, INC.

Table of Contents

June 30, 2014

<u>Exhibit</u>		<u>Page</u>
	Financial Section	
	Independent Auditors' Report.....	1
	Management's Discussion and Analysis.....	3
	Basic Financial Statements:	
	Government-wide Financial Statements:	
1	Statement of Net Position.....	11
2	Statement of Activities.....	12
	Fund Financial Statements:	
3	Balance Sheet – Governmental Funds.....	14
3	Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position.....	14
4	Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	15
5	Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities.....	16
6	Statement of Net Position – Proprietary Funds.....	17
7	Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds.....	18
8	Statement of Cash Flows – Proprietary Funds.....	19
	Notes to the Financial Statements.....	20
	Schedule	
	Supplementary Information:	
1	Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Government Fund Types.....	31
2	Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Proprietary Fund Types.....	32
	Compliance Section:	
	Independent Auditors' Report On Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit Of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	33
	Independent Auditors' Report On Compliance For Each Major State Program; Report On Internal Control Over Compliance; In Accordance with OMB Circular A-133 and the State Single Audit Implementation Act.....	35
	Schedule of Findings and Questioned Costs.....	37
	Summary Schedule of Prior Year Audit Findings	38
	Schedule of Expenditures of Federal and State Awards.....	39

FINANCIAL SECTION

[THIS PAGE INTENTIONALLY LEFT BLANK]



Rives & Associates, LLP
Certified Public Accountants

Member:
American Institute of
Certified Public Accountants

Member:
North Carolina Association of
Certified Public Accountants

www.rivescpa.com

Independent Auditors' Report

To the Board of Directors
Phoenix Academy, Inc.
High Point, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Phoenix Academy, Inc., as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Phoenix Academy Inc.'s basic financial statements as listed in the table of contents.

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.

Auditors' 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 from 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.

Opinion

In our opinion, the financial statements referred to present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Phoenix Academy, Inc. as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Phoenix Academy, Inc.'s basic financial statements. The budgetary schedules, as well as the accompanying schedule of expenditures of federal and State awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary schedules, as well as the accompanying schedule of expenditures of federal and State awards is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary schedules and the accompanying schedule of expenditures of federal and State awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 25, 2014 on our consideration of Phoenix Academy, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Phoenix Academy, Inc.'s internal control over financial reporting and compliance.

River & Associates LLP

Raleigh, North Carolina
November 25, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

[THIS PAGE INTENTIONALLY LEFT BLANK]

Management's Discussion and Analysis

Phoenix Academy

June 30, 2014

As management of Phoenix Academy, we offer readers of Phoenix Academy's audited financial statements this narrative overview and analysis of the financial activities of Phoenix Academy for the fiscal year ended June 30, 2014. We encourage readers to read the information presented herein in conjunction with additional information that we have furnished in the School's financial statements, which follow this narrative.

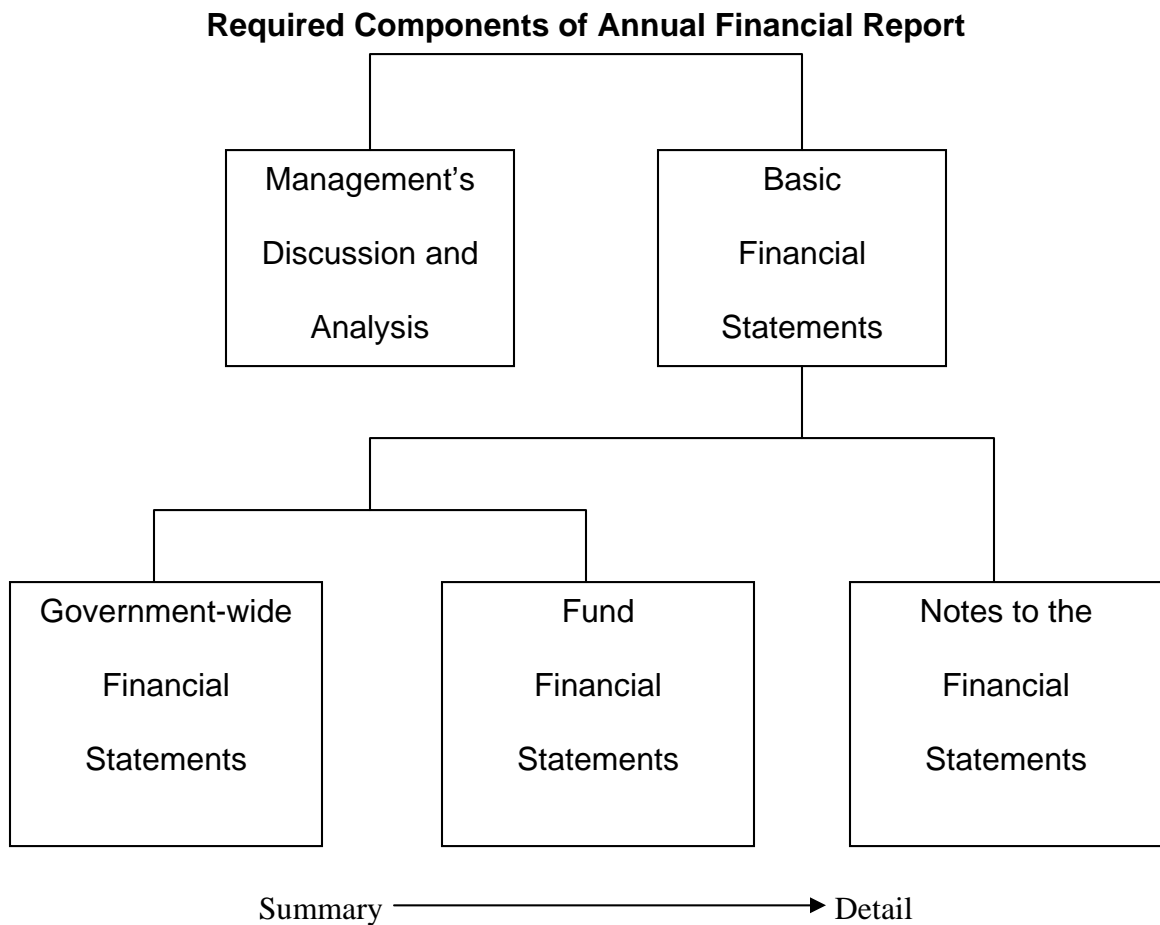
Financial Highlights

- The assets of Phoenix Academy exceeded its liabilities and deferred inflows at the close of the fiscal year by \$1,170,902 (*net position*).
- The school's total net position increased by \$42,692, primarily due to increases in the governmental activities net position.
- As of the close of the current fiscal year, Phoenix Academy's governmental funds reported combined ending fund balances of \$878,613, an increase of \$37,465 in comparison with the prior year.
- Enrollment has expanded. In 2011-2012 the State Funded Average Daily Membership (ADM) was 314 and in 2012-2013 it was 316. In 2013-2014 it more than doubled to 656.
- Phoenix Academy had long-term debt totaling \$20,697 as of June 30, 2014. The debt includes a note for the purchase of a vehicle.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Phoenix Academy's basic financial statements. The School's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two distinct financial perspectives of the School through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of Phoenix Academy.

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the School's financial standing.

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual segments of the School's government. These statements are more detailed than the government-wide financial statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the proprietary fund statements.

Immediately following the fund financial statements are the **Notes to the Financial Statements** (i.e. "Notes"). The Notes offer a detailed explanation of the data contained in those statements. Next, **supplemental information** is provided to show details about

Management's Discussion and Analysis
Phoenix Academy
June 30, 2014

the School's funds. Budgetary information for the School can also be found in this section of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the School's finances, similar in format to the financial statements of a private-sector business. The government-wide statements provide short and long-term information about the School's financial status, as a whole.

The two government-wide statements report the School's net position and how they have changed. Net position is the difference between the School's total assets and total liabilities and deferred inflows of resources. Measuring net assets is one way to gauge the School's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the School's basic functions such as instructional services and business services. These functions are funded almost entirely through state, county, and federal educational funds. The business-type activities are those services that the School charges its students and other customers. These include the School Food Service and Child Care services carried out by Phoenix Academy.

The government-wide financial statements are enumerated in Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the School's most significant activities. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Phoenix Academy, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related statutory requirements, such as the North Carolina General Statutes or the School's budget ordinance, where and when applicable. All of the funds of Phoenix Academy can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for functions reported as governmental activities in the government-wide financial statements. Most of the School's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and monies remaining at year-end that will be available for spending in the next fiscal year. Governmental funds are reported using the modified accrual accounting method, which provides a short-term spending focus. The governmental fund financial statements assist the reader in determining whether there has been an increase or a decrease in the financial resources available to finance the School's programs. The relationship between government

Management's Discussion and Analysis
Phoenix Academy
June 30, 2014

activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is an integral part of the fund financial statements.

Although not compelled or required to do so by federal, state, or local law, Phoenix Academy has elected to adopt an annual budget. Since the budget is not required by law, the budgetary comparison statements are not included in the basic financial statements, but are part of the supplemental statements and schedules following the notes. The budget incorporates input from the faculty, management, and the Board of Directors of the School and specifies which activities will be pursued and which services the School will provide during the year. It also authorizes the School to obtain funds from identified sources to finance current period activities. The budgetary statement demonstrates how well the School has complied with the budget ordinance and whether or not the School has succeeded in providing the services as originally planned.

Proprietary Funds – Phoenix Academy has two proprietary funds, which are enterprise funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Phoenix Academy uses enterprise funds to account for its School Food Service and Childcare functions.

Notes to the Financial Statements – The notes provide additional information essential to facilitating a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 20 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as one useful indicator of a school's financial condition. The assets of Phoenix Academy exceeded liabilities by \$1,170,902 as of June 30, 2014. As of June 30, 2013, the net assets of Phoenix Academy stood at \$1,128,210. The School's net position increased by \$42,692 for the fiscal year ended June 30, 2014, compared to a decrease of \$331,016 in 2013. The amount of \$259,483 reflects the School's investment in capital assets (e.g. leasehold improvements, school equipment, and electronic equipment), less any related debt still outstanding that was issued to acquire those items. Phoenix Academy uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although Phoenix Academy's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. The remaining balance of \$911,419 is unrestricted. In 2013, the amount of net investment in capital assets was \$214,210, with unrestricted net position standing at \$841,148.

Management's Discussion and Analysis
Phoenix Academy
June 30, 2014

Figure 2
Phoenix Academy's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 991,376	\$ 852,459	\$ 32,836	\$ 72,852	\$ 1,024,212	\$ 925,311
Capital assets, net of depreciation	<u>280,180</u>	<u>242,497</u>	<u>-</u>	<u>-</u>	<u>280,180</u>	<u>242,497</u>
Total assets	<u>1,271,556</u>	<u>1,094,956</u>	<u>32,836</u>	<u>72,852</u>	<u>1,304,392</u>	<u>1,167,808</u>
Other liabilities	112,763	11,311	30	-	112,793	11,311
Long-term liabilities outstanding	<u>20,697</u>	<u>28,287</u>	<u>-</u>	<u>-</u>	<u>20,697</u>	<u>28,287</u>
Total liabilities	<u>133,460</u>	<u>39,598</u>	<u>30</u>	<u>-</u>	<u>133,490</u>	<u>39,598</u>
Net Position:						
Net Investment in capital assets	259,483	214,210	-	-	259,483	214,210
Unrestricted	<u>878,613</u>	<u>841,148</u>	<u>32,806</u>	<u>72,852</u>	<u>911,419</u>	<u>914,000</u>
Total Net Position	<u>\$ 1,138,096</u>	<u>\$ 1,055,358</u>	<u>\$ 32,806</u>	<u>\$ 72,852</u>	<u>\$ 1,170,902</u>	<u>\$ 1,128,210</u>

Several aspects of the School's financial operations positively influenced the total unrestricted governmental net position:

- The School adopted an annual budget. The School's performance was measured using this budget on a monthly basis, allowing changes to be made as needed to remain within the confines of the budget.
- The School applied for and was awarded federal grants to assist with meeting the educational needs of the student population.
- Funding adjusts proportionately to any change in the student population.

Management's Discussion and Analysis
Phoenix Academy
June 30, 2014

Figure 3
Phoenix Academy's Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Donations and Other Revenues	\$ 167,640	\$ 114,809	\$ -	\$ -	\$ 167,640	\$ 114,809
Charges for Services	-	-	4,941	7,460	4,941	7,460
Operating Grants and Contributions	78,187	41,802	6,400	3,853	84,587	45,655
County, State, and Federal Funds	4,605,796	2,261,300	-	-	4,605,796	2,261,300
Total revenues	4,851,623	2,417,911	11,341	11,313	4,862,964	2,429,224
Instructional Programs	3,152,360	2,052,525	-	-	3,152,360	2,052,525
Support services	1,656,298	700,025	-	-	1,656,298	700,025
School food service	-	-	11,614	5,570	11,614	5,570
School childcare service	-	-	-	1,731	-	1,731
Community Services	-	389	-	-	-	389
Total expenses	4,808,658	2,752,939	11,614	7,301	4,820,272	2,760,240
Increase (Decrease) in net position before transfers	42,965	(335,028)	(273)	4,012	42,692	(331,016)
Transfers	39,773	-	(39,773)	-	-	-
Increase (Decrease) in net position	82,738	(335,028)	(40,046)	4,012	42,692	(331,016)
Net position, July 1	1,055,358	1,390,386	72,852	68,840	1,128,210	1,459,226
Net position, June 30	\$ 1,138,096	\$ 1,055,358	\$ 32,806	\$ 72,852	\$ 1,170,902	\$ 1,128,210

Governmental activities. Governmental activities increased the School's net position by \$82,738.

Business-type activities. Business-type activities decreased Phoenix Academy's net position by \$40,046.

Financial Analysis of the School's Funds

As noted earlier, Phoenix Academy uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Management’s Discussion and Analysis
Phoenix Academy
June 30, 2014

Governmental Funds. The focus of Phoenix Academy’s governmental funds is to provide information on near-term inflows, outflows, and balances of usable financial resources. Such information is useful in assessing Phoenix Academy’s financing requirements. Specifically, unreserved fund balance can be a useful measure of a government’s net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of Phoenix Academy. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$826,611, while total fund balance reached \$878,613.

Proprietary Funds. The School’s proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the School Proprietary Fund at the end of the fiscal year amounted to \$32,806. The total growth in net position for the School Proprietary Fund was (\$40,046). Other factors concerning the finances of this fund have already been addressed in the discussion of the School’s business-type activities.

Capital Asset and Debt Administration

Capital assets. Phoenix Academy’s investment in capital assets for its governmental activities as of June 30, 2014, totals \$280,180 (net of accumulated depreciation). Capital assets include leasehold improvements, school furnishings, school equipment, and electronic equipment.

Figure 4
Charter School Name’s Capital Assets
 (net of depreciation)

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Construction In Progress	\$ 99,920	\$ 69,886
Leasehold improvements	62,979	67,230
School furnishings	65,356	2,278
Vehicles	19,552	27,931
School equipment	5,777	7,869
Electronic equipment	26,596	67,303
Total	<u>\$ 280,180</u>	<u>\$ 242,497</u>

Additional information about the School’s capital assets can be found in Note II.A.2. of the Basic Financial Statements.

Management's Discussion and Analysis
Phoenix Academy
June 30, 2014

Long-term Debt. As of June 30, 2014, Phoenix Academy had outstanding debt totaling \$20,697. This consisted solely of a note payable for the purchase of a vehicle.

Economic Factors

The following key economic indicators reflect the growth and prosperity of the School:

- The main LEA that feeds the school continues to have excellent growth thereby providing a large base of students to constantly maintain student headcount.
- State per pupil funding increased \$28.29 which equated to .62% more in FY 2014 when compared with 2013.
- The School is now a permanent part of the community as evidenced by its massive expansion of ADM and grade levels.

Requests for Information

This report is designed to provide an overview of the School's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Kim Norcross, Phoenix Academy, 4020 Meeting Way, High Point, NC 27265, telephone (336) 869-0079.

PHOENIX ACADEMY, INC.
Statement of Net Position
June 30, 2014

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 28,723	\$ 32,836	\$ 61,559
Due from other governments	10,237	-	10,237
Note receivable	900,414	-	900,414
Prepaid items	6,752	-	6,752
Security deposit	45,250	-	45,250
	991,376	32,836	1,024,212
Capital assets (Note II.A) 2.:			
Construction in progress	99,920	-	99,920
Other capital assets, net of depreciation	180,260	-	180,260
Total capital assets	280,180	-	280,180
Total assets	1,271,556	32,836	1,304,392
LIABILITIES			
Accounts payable and accrued expenses	62,763	30	62,793
Note payable	50,000	-	50,000
Long-term liabilities:			
Due within one year	8,279	-	8,279
Due in more than one year	12,418	-	12,418
Total liabilities	133,460	30	133,490
NET POSITION			
Net investment in capital assets	259,483	-	259,483
Unrestricted	878,613	32,806	911,419
Total net position	\$ 1,138,096	\$ 32,806	\$ 1,170,902

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

PHOENIX ACADEMY, INC.
Statement of Activities
For the Year Ended June 30, 2014

Exhibit 2

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental activities:			
Instructional services	\$ 3,152,360	\$ -	\$ 78,187
System-wide support services	1,656,298	-	-
Community services	-	-	-
Total governmental activities	4,808,658	-	78,187
Business-type activities:			
School food service	11,614	4,941	6,400
Total business-type activities	11,614	4,941	6,400
Total primary government	\$4,820,272	\$ 4,941	\$ 84,587

General revenues:

Unrestricted county appropriations

Unrestricted State appropriations

Donations- general

Fines and forfeitures

Investment earnings, unrestricted

Miscellaneous, unrestricted

Transfers

Total general revenues, special items, and transfers

Change in net position

Net position - beginning

Net position - ending

Net (Expense) Revenue and Changes in Net Position
Primary Government

Governmental Activities	Business-type Activities	Total
\$ (3,074,173)	\$ -	\$ (3,074,173)
(1,656,298)	-	(1,656,298)
-	-	-
<u>(4,730,471)</u>	<u>-</u>	<u>(4,730,471)</u>
-	(273)	(273)
<u>-</u>	<u>(273)</u>	<u>(273)</u>
 <u>(4,730,471)</u>	 <u>(273)</u>	 <u>(4,730,744)</u>
1,430,058	-	1,430,058
3,161,139	-	3,161,139
940	-	940
14,599	-	14,599
1,644	-	1,644
165,056	-	165,056
39,773	(39,773)	-
<u>4,813,209</u>	<u>(39,773)</u>	<u>4,773,436</u>
82,738	(40,046)	42,692
<u>1,055,358</u>	<u>72,852</u>	<u>1,128,210</u>
<u>\$ 1,138,096</u>	<u>\$ 32,806</u>	<u>\$ 1,170,902</u>

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

PHOENIX ACADEMY, INC.

Exhibit 3

Balance Sheet
Governmental Funds
June 30, 2014

	Major Funds		Non-Major Fund	Total Governmental Funds
	General	State Public School	Federal Grants	
ASSETS				
Cash and cash equivalents	\$ 28,723	\$ -	\$ -	\$ 28,723
Due from other governments	10,237	-	-	10,237
Receivables (net)	900,414	-	-	900,414
Prepaid items	6,752	-	-	6,752
Security deposit	45,250	-	-	45,250
Total assets	<u>\$ 991,376</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 991,376</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 62,763	\$ -	\$ -	\$ 62,763
Note payable	50,000	-	-	50,000
Total liabilities	<u>112,763</u>	<u>-</u>	<u>-</u>	<u>112,763</u>
DEFERRED INFLOWS OF RESOURCES				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Nonspendable:				
Prepaid items	6,752	-	-	6,752
Security deposit	45,250	-	-	45,250
Unassigned	826,611	-	-	826,611
Total fund balances	<u>878,613</u>	<u>-</u>	<u>-</u>	<u>878,613</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 991,376</u>	<u>\$ -</u>	<u>\$ -</u>	

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	280,180
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds (Note II. B) 3. b).	<u>(20,697)</u>
Net position of governmental activities	<u>\$ 1,138,096</u>

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

PHOENIX ACADEMY, INC.
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014

Exhibit 4

	<u>Major Funds</u>		<u>Non-major Fund</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>State Public School</u>	<u>Federal Grants</u>	
REVENUES				
State of North Carolina	\$ -	\$ 3,161,139	\$ -	\$ 3,161,139
Boards of Education	1,433,793	-	-	1,433,793
U.S. Government	-	-	78,187	78,187
Contributions and donations	940	-	-	940
Fines and forfeitures	10,864	-	-	10,864
Interest income	1,644	-	-	1,644
Other	165,056	-	-	165,056
Total revenues	<u>1,612,297</u>	<u>3,161,139</u>	<u>78,187</u>	<u>4,851,623</u>
EXPENDITURES				
Current:				
Instructional services	948,393	2,080,944	78,187	3,107,524
System-wide support services	620,455	1,011,700	-	1,632,155
Community services	-	-	-	-
Capital outlay	42,307	64,355	-	106,662
Debt service:				
Principal	3,450	4,140	-	7,590
Interest and other charges	-	-	-	-
Total expenditures	<u>1,614,605</u>	<u>3,161,139</u>	<u>78,187</u>	<u>4,853,931</u>
Excess of revenues over expenditures	<u>(2,308)</u>	<u>-</u>	<u>-</u>	<u>(2,308)</u>
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	39,773	-	-	39,773
Total other financings sources (uses)	<u>39,773</u>	<u>-</u>	<u>-</u>	<u>39,773</u>
Net change in fund balance	37,465	-	-	37,465
Beginning fund balance	841,148	-	-	841,148
Ending fund balance	<u>\$ 878,613</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 878,613</u>

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

PHOENIX ACADEMY, INC.
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014

Exhibit 5

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances- total governmental funds	\$ 37,465
--	-----------

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	37,683
---	--------

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts and prepaid insurance when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>7,590</u>
--	--------------

Total changes in net position of governmental activities	<u><u>\$ 82,738</u></u>
--	-------------------------

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

PHOENIX ACADEMY, INC.
Statement of Net Position
Proprietary Funds
June 30, 2014

Exhibit 6

	Enterprise Funds		
	Non-major Funds		
	School Food		Total
	Service	Child Care	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 32,836	\$ -	\$ 32,836
Total current assets	\$ 32,836	\$ -	\$ 32,836
 LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	\$ 30	\$ -	\$ 30
Total liabilities	30	-	30
 NET POSITION			
Unrestricted	32,806	-	32,806
Total net position	\$ 32,806	\$ -	32,806

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

PHOENIX ACADEMY, INC.
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2014

Exhibit 7

	Enterprise Funds		
	Non-major Funds		
	School Food Service	Child Care	Total
OPERATING REVENUES			
Food sales	\$ 4,941	\$ -	\$ 4,941
Child care fees	-	-	-
Total operating revenues	4,941	-	4,941
OPERATING EXPENSES			
Food cost:			
Purchase of food	9,524	-	9,524
Materials and supplies	2,090	-	2,090
Total operating expenses	11,614	-	11,614
Operating income (loss)	(6,673)	-	(6,673)
NONOPERATING REVENUES (EXPENSES)			
USDA reimbursements	6,400	-	6,400
Transfers (to) from other funds	-	(39,773)	(39,773)
Change in net position	(273)	(39,773)	(40,046)
Total net position - beginning	33,079	39,773	72,852
Total net position - ending	\$ 32,806	\$ -	\$ 32,806

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

PHOENIX ACADEMY, INC.
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2014

Exhibit 8

	Enterprise Funds		
	Non-major Funds		
	School Food		
	Service	Child Care	Total
CASH FLOWS FROM OPERATING ACTIVITES			
Cash received from customers	\$ 4,941	\$ -	\$ 4,941
Cash paid to employees for services	(2,090)	-	(2,090)
Cash paid for goods and services	(9,494)	-	(9,494)
Net cash provided (used) by operating activities	(6,643)	-	(6,643)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITES			
USDA reimbursements	6,400	-	6,400
Transfers in (out)	-	(39,773)	(39,773)
Net increase (decrease) in cash and cash equivalents	(243)	(39,773)	(40,016)
Balances - beginning of year	33,079	39,773	72,852
Balances - end of year	\$ 32,836	\$ -	\$ 32,836
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (6,673)	\$ -	\$ (6,673)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Increase in accounts payable	30	-	30
Net cash provided (used) by operating activities	\$ (6,643)	\$ -	(6,643)

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

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Phoenix Academy, Inc. (the School) conform to generally accepted accounting principles (GAAP) as applicable to governments. Charter schools are established by non-profit entities. Because of the authority of the State Board of Education (SBE) to unilaterally abolish a school with all the assets reverting to a local education agency, the charter schools in North Carolina follow the governmental reporting model, as used by local education agencies. The following is a summary of the more significant accounting policies:

A) Reporting Entity

The School is a public school operated by a non-profit corporation, serving approximately 656 students. The School operates under an approved charter received from the SBE, and applied for under the provisions of General Statute (G.S.) 115C-238.29B. G.S. 115C-238.29F(f)(1) states that a charter school shall be subject to the audit requirements adopted by the SBE, which includes the audit requirements established by G.S. 115C-447 of the School Budget and Fiscal Control Act (SBFCA). G.S. 115C-447 also requires financial statements to be prepared in accordance with GAAP.

B) Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the School. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the School. Governmental activities generally are financed through intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the School and for each function of the School's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the School's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principle activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) Basis of Presentation (Continued)

The School reports the following major governmental funds:

General Fund: The General Fund is the general operating fund of the School. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund.

State Public School Fund: The State Public School Fund includes appropriations from the Department of Public Instruction for current operating needs of the School and is reported as a special revenue fund.

The School reports no major enterprise funds.

C) Measurement Focus and Basis of Accounting

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the School gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. These could include federal, State, and county grants, and some charges for services. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the School funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the School's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D) Budgetary Data

Annual budgets are adopted for all funds, on a school wide basis. All budgets are prepared using the modified accrual basis of accounting.

The governing board has voluntarily established the policy, as a sound business practice, that expenditures may not exceed appropriations, for all of the School's funds, based on the adopted budget and subsequent amendments. During the year, several amendments to the original budget were necessary. The budgets presented in the supplemental information represents the budgets of the School at June 30, 2014. All appropriations lapse at year end.

E) Assets, Liabilities, Deferred Outflows and Inflows of Resources and Fund Equity

1. Deposits and Investments

All deposits of the School are made in a local bank, whose accounts are FDIC insured. Also, the School may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

2. Cash and Cash Equivalents

The School pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Capital Assets

The School's capital assets are recorded at original cost. Donated assets are listed at their estimated fair value at the date of donation. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

It is the policy of the School to capitalize all capital assets costing more than \$500 with an estimated useful life of two or more years. All depreciable assets are depreciated using the straight-line method of depreciation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E) Assets, Liabilities, Deferred Outflows and Inflows of Resources and Fund Equity (Continued)

4. Capital Assets (Continued)

Capital assets are depreciated over the following estimated useful lives:

	<u>Years</u>
Vehicles	5 – 7
Leasehold improvements	7 – 39
School furnishings and equipment	5 – 7
Electronic equipment	3 – 7

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The School has no items that meet this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The School has no items that meet the criterion for this category.

6. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position.

In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

7. Compensated Absences

Employees who work for the entire school year earn 1.5 sick days per month and 10 personal days for the year. Employees who are hired for less than the entire school year earn 1.5 sick days per month and 2.5 personal hours per month. Employees' sick and personal days do not accrue at year end and are not carried forward to the next school year. Employees do not receive compensation for unused sick and personal days after the termination of employment.

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E) Assets, Liabilities, Deferred Outflows and Inflows of Resources and Fund Equity (Continued)

8. Net Position/Fund Balances

Net Position

Net position in the government-wide fund financial statements are classified as net investment in capital assets, net of related debt; restricted; and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute.

Fund Balance

In the governmental fund financial statements, fund balance is composed of two classifications (out of five possible classifications) designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balance as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Security Deposit – Portion of fund balance that is not an available resource because it represents the year-end balance of a security deposit on the school facility, which is not a spendable resource.

Prepaid Items – Portion of fund balance that is not an available resource because it represents the year-end balance of prepaid utilities and rent on the school facility which is not a spendable resource.

Unassigned Fund Balance – the portion of fund balance that has not been assigned to another fund or restricted, committed, or assigned to specific purposes within the General Fund.

The School has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Board will use resources in the following hierarchy: federal funds, State funds, local non-board of education funds, board of education funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance, and lastly unassigned fund balance. The Board has the authority to deviate from this policy if it is in the best interest of the School.

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E) Assets, Liabilities, Deferred Outflows and Inflows of Resources and Fund Equity (Continued)

9. Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between for governmental funds' total fund balance and governmental activities' net position as reported in the government-wide statement of net position. The net adjustment of \$259,483 consists of several elements as follows:

<u>DESCRIPTION</u>	<u>AMOUNT</u>
Capital assets used in governmental activities are not financial resources are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column).	\$ 618,961
Less accumulated depreciation	(338,781)
Liabilities that, because they are not due and payable in the current period do not require current resources to pay and are therefore not reported in the fund statements:	
Notes payable	<u>(20,697)</u>
Total adjustment	<u>\$ 259,483</u>

F) Revenues, Expenditures, and Expenses

1. Funding

Phoenix Academy, Inc. is funded by the State Board of Education, receiving (i) an amount equal to the average per pupil allocation for the average daily membership (ADM) from the local school administrative unit allotments in which the School is located (i.e. Guilford County Board of Education) for each child attending the School except for the allocation for children with special needs and (ii) an additional amount for each child attending the School who is a child with special needs [G.S. 115C-238.29H(a)]. Additionally, the appropriate local school administrative unit(s) transfers to the School, for each student who resides in the local administrative unit and attends the charter school, an amount equal to the per pupil local current expense appropriation to the respective local school administrative unit for the fiscal year. [G.S. 115C-238.29H(b)]. For the fiscal year ended June 30, 2014, Phoenix Academy, Inc. received funding from the Boards of Education for Guilford County, Forsyth County, Randolph County, Davidson County, Thomasville City Schools, and Lexington City Schools.

Furthermore, Phoenix Academy, Inc. has received donations of cash and/or equipment from private organizations. The cash is available to be used throughout the year for the School's various programs and activities.

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F) Revenues, Expenditures, and Expenses (Continued)

2. Reconciliation of Government-wide and Fund Financial Statements

The governmental fund statement of revenues, expenditures, and changes in fund balance is followed by reconciliation between the change in governmental funds' fund balance and the change in governmental activities' net position as reported on the government-wide statement of activities. The net difference of \$45,273 between the two amounts consists of the following elements:

<u>DESCRIPTION</u>	<u>AMOUNT</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets on the statement of activities.	\$ 106,662
Depreciation expense that is recorded on the statement of activities but not in the fund statements.	(68,979)
Principle payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net position in the government-wide statements.	<u>7,590</u>
Total	<u>\$ 45,273</u>

G) Use of Estimates and Assumption

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenditures.

II. DETAIL NOTES ON ALL FUNDS

A) Assets

1. Deposits

At June 30, 2014, the School had deposits with banks and savings and loans with a carrying amount of \$61,459. The bank balance with the financial institution was \$118,924 all of which was covered by federal depository insurance. The School does not have a deposit policy for custodial credit risk.

Cash on hand at the School totaled \$100 as of June 30, 2014.

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2014

II. DETAIL NOTES ON ALL FUNDS (Continued)

A) Assets (Continued)

2. Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 69,886	\$ 30,034	\$ -	\$ 99,920
Capital assets being depreciated:				
Leasehold improvements	106,565	-	-	106,565
School furnishings	17,391	76,628	-	94,019
Vehicles	41,896	-	-	41,896
School equipment	14,865	-	-	14,865
Electronic equipment	261,696	-	-	261,696
Total assets	<u>442,413</u>	<u>76,628</u>	<u>-</u>	<u>519,041</u>
Less accumulated depreciation:				
Leasehold improvements	39,335	4,251	-	43,586
School furnishings	15,113	13,551	-	28,664
Vehicles	13,965	8,379	-	22,344
School equipment	6,996	2,091	-	9,087
Electronic equipment	194,393	40,707	-	235,100
Total accumulated depreciation	<u>269,802</u>	<u>\$ 68,979</u>	<u>\$ -</u>	<u>338,781</u>
Net assets depreciated	<u>\$ 242,497</u>			<u>\$ 280,180</u>

Depreciation expense was charged to governmental functions as follows:

Instructional programs	\$ 44,836
Supporting services	<u>24,143</u>
	<u>\$ 68,979</u>

3. Notes Receivable

The School has several notes receivable from a related party which were originally signed throughout 2013 and 2014. The notes are due on demand with no final payment dates and have various stated interest rates which are to be accrued and added to the principal. At June 30, 2014, the School was due \$900,414 related to these promissory notes.

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2014

II. DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities

1. Pension Plan and Other Postemployment Obligations

a. Retirement Plan

Phoenix Academy, Inc. offers a non-matching 403(b) qualified retirement plan to eligible employees (employees who work 20 or more hours per week). The plan has a discretionary profit sharing option. There were no retirement benefits paid for the year ended June 30, 2014.

b. Postemployment Benefits

Phoenix Academy, Inc. does not offer any postemployment benefits.

2. Risk Management

The School is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School maintains general liability and errors and omissions insurance coverage of \$1 million per occurrence with a commercial carrier.

The School carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and claims have not exceeded coverage in any of the past two fiscal years.

The School has elected not to carry flood insurance because the School is not in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake, or stream) by the Federal Emergency Management Agency.

The School carries fidelity bond coverage in the amount of \$250,000 for all its employees. The Company that performs all the School's outsourced accounting carries fidelity bond coverage in the amount of \$500,000.

3. Long-Term Obligations

a) Building Lease

The School rents space under the terms of two operating leases. Lease payments include minimum lease payments and operating expenses through June of 2029. Operating expense payments under this agreement were \$649,000 for the year ended June 30, 2014, but are subject to adjustment in future years. Future minimum lease payments, including operating expenses are:

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2014

II. DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

3. Long-Term Obligations (Continued)

a) Building Lease (Continued)

<u>Year ending</u>	
June 30, 2015	\$ 641,843
June 30, 2016	654,370
June 30, 2017	358,662
June 30, 2018	369,961
June 30, 2019	380,895
Thereafter	<u>3,770,536</u>
	<u>\$ 6,176,267</u>

b) Note Payable

On June 24, 2014 a short term note payable in the amount of \$50,000 was obtained from a related party to help make June payroll obligations. The loan was made at a 0% interest rate and was subsequently paid back on July 11, 2014.

On November 10, 2011, a note was obtained from a finance company for \$41,396 to purchase a vehicle. The outstanding balance was \$20,697 as of June 30, 2014. Principal only payments of \$690 are payable monthly through maturity at November 2016. Annual debt service requirements to maturity for notes payable are:

<u>Year ending</u>	
June 30, 2015	\$ 8,279
June 30, 2016	8,279
June 30, 2017	<u>4,139</u>
	<u>\$ 20,697</u>

c) Changes in General Long-Term Obligations

The following is a summary of changes in the School's long-term obligations for the fiscal year ended June 30, 2014:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Note payable	<u>\$ 28,287</u>	<u>\$ -</u>	<u>\$ (7,590)</u>	<u>\$ 20,697</u>	<u>\$ 8,279</u>

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2014

II. DETAIL NOTES ON ALL FUNDS (Continued)

C) Fund Balance

The School has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Board will use resources in the following hierarchy: federal funds, State funds, local non-School funds, Phoenix Academy, Inc. funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance, and lastly unassigned fund balance. The Board has the authority to deviate from this policy if it is in the best interest of the School.

The following schedule provides management and citizens with information on the portion of General fund balance that is available for appropriation.

Total fund balance	\$ 878,613
Less:	
Prepaid items	(6,752)
Security Deposit	<u>(45,250)</u>
Remaining fund balance	<u>\$ 826,611</u>

II. RELATED PARTIES

The School had several related party transactions during the year. 7 Degrees of Change Foundation (7 Degrees) is the management company that handles all management, operational and educational decisions of the School. As a base fee, 7 Degrees is paid 16% of the annual gross revenue of the School and is also reimbursed for any expenses related to the management of the School. 7 Degrees is run by the former principal of the School, as well as the former board treasurer and board chairman of the School. Phoenix Academy Foundation, Inc. (the Foundation) acts as a foundation for the School. It holds the School's assets and leases space to the School. The Foundation's board chairman is the former board treasurer and former chairman of the School. Amounts paid to 7 Degrees and the Foundation for the year ended June 30, 2014 were \$640,050 and \$1,537,150, respectively.

IV. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

The School has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

V. SUBSEQUENT EVENTS

Management has evaluated subsequent events to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through November 25, 2014 which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

[THIS PAGE INTENTIONALLY LEFT BLANK]

PHOENIX ACADEMY, INC. **Schedule 1**
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Government Fund Types
For the Year Ended June 30, 2014

	Final Budget	Actual	Variance Positive (Negative)
REVENUES			
State of North Carolina	\$ 3,161,139	\$ 3,161,139	\$ -
Boards of Education:			
Guilford County	1,342,924	1,342,924	-
Forsyth County	21,656	17,769	(3,887)
Davidson County	39,123	42,858	3,735
Randolph County	24,171	24,171	-
Rockingham County	1,162	1,162	-
Stokes County	1,531	1,531	-
Thomasville City	3,378	3,378	-
U.S. Government	79,275	78,187	(1,088)
Fines and forfeitures	10,865	10,864	(1)
Donations	1,000	940	(60)
Others	167,661	166,700	(961)
Total revenues	<u>4,853,885</u>	<u>4,851,623</u>	<u>(2,263)</u>
EXPENDITURES			
Salaries and bonuses	2,027,483	2,027,104	379
Employee benefits	456,888	454,844	2,044
Books and supplies	176,000	171,467	4,533
Technology	70,960	70,302	658
Non-capitalized equipment and leases	27,880	27,813	67
Contracted student services	284,500	284,283	217
Staff development	28,153	27,050	1,103
Administrative services	845,410	844,705	705
Insurance	31,935	31,919	16
Rent	649,000	649,000	-
Facilities	122,700	122,565	135
Utilities	27,325	26,431	894
Nutrition and food	1,225	1,202	23
Transportation and travel	1,026	994	32
Total	<u>4,750,485</u>	<u>4,739,679</u>	<u>10,806</u>
Capital outlay	108,100	106,662	1,438
Debt service:			
Principal	7,600	7,590	10
Total expenditures	<u>4,866,185</u>	<u>4,853,931</u>	<u>12,254</u>
Other financing sources (uses):			
Fund balance appropriated	14,000	-	(14,000)
Total other financing sources (uses)	<u>14,000</u>	<u>-</u>	<u>(14,000)</u>
Excess of revenue over expenditures	<u>\$ 1,700</u>	<u>\$ (2,308)</u>	<u>\$ (4,008)</u>

PHOENIX ACADEMY, INC.

Schedule 2

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Proprietary Fund Types

For the Year Ended June 30, 2014

	Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Food sales	\$ 5,000	\$ 4,941	\$ (59)
After school care	-	-	-
Total revenues	<u>5,000</u>	<u>4,941</u>	<u>(59)</u>
EXPENDITURES			
Food service expenditures:			
Food purchases	11,000	9,524	1,476
Total food service	<u>11,000</u>	<u>9,524</u>	<u>1,476</u>
After school care expenditures:			
Supplies	2,100	2,090	10
Total after school care	<u>2,100</u>	<u>2,090</u>	<u>10</u>
Total expenditures	<u>13,100</u>	<u>11,614</u>	<u>1,486</u>
Revenues over (under) expenditures	(8,100)	(6,673)	1,427
Other financing sources (uses):			
Federal reimbursements	6,400	6,400	-
Fund balance appropriated	-	-	-
Revenues and other sources over (under) expenditures	<u>\$ (1,700)</u>	<u>\$ (273)</u>	<u>\$ 1,427</u>

COMPLIANCE SECTION

[THIS PAGE INTENTIONALLY LEFT BLANK]



Rives & Associates, LLP
Certified Public Accountants

Member:
American Institute of
Certified Public Accountants

Member:
North Carolina Association of
Certified Public Accountants

www.rivescpa.com

**Independent Auditors' Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With *Government Auditing Standards***

To the Board of Directors
Phoenix Academy, Inc.
High Point, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities each major fund, and the aggregate remaining fund information of Phoenix Academy, Inc., as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Phoenix Academy, Inc.'s basic financial statements, and have issued our report thereon dated November 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Phoenix Academy, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Phoenix Academy, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Phoenix Academy, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charge with governance.

Our consideration of the internal control was for 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.

Compliance and Other Matters

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

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.

Rives & Associates LLP

Raleigh, North Carolina
November 25, 2014



Member:
American Institute of
Certified Public Accountants

Rives & Associates, LLP
Certified Public Accountants

Member:
North Carolina Association of
Certified Public Accountants

www.rivescpa.com

**Independent Auditors' Report On Compliance For Each Major State Program;
Report on Internal Control Over Compliance In Accordance With OMB Circular A-133
And The State Single Audit Implementation Act**

To the Board of Directors
Phoenix Academy, Inc.
High Point, North Carolina

Report on Compliance for Each Major State Program

We have audited the Phoenix Academy, Inc., with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Phoenix Academy, Inc.'s major State programs for the year ended June 30, 2014. The Phoenix Academy, Inc.'s major State program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Phoenix Academy, Inc.'s major State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the Phoenix Academy, Inc.'s compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major State program. However, our audit does not provide a legal determination of the Phoenix Academy, Inc.'s compliance.

Opinion on Each Major State Program

In our opinion, the Phoenix Academy, Inc. complied, in all material respects, with the types of compliance requirements referred to that could have a direct and material effect on its major State program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Phoenix Academy, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to. In planning and performing our audit of compliance, we considered Phoenix Academy, Inc.'s internal control over compliance with the types of requirements that are appropriate in the circumstances that could have a direct and material effect on a major State program to determine the auditing procedures for the purpose of expressing our opinion on compliance for each major State program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Phoenix Academy, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a State program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a State program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charge with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

River & Associates LLP

Raleigh, North Carolina
November 25, 2014

PHOENIX ACADEMY, INC.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified		
Internal control over financial reporting:			
Material weaknesses identified?	_____ yes	_____ <input checked="" type="checkbox"/> no	
Significant deficiency(s) identified that are not considered to be material weaknesses?	_____ yes	_____ <input checked="" type="checkbox"/> none reported	
Noncompliance material to financial statements noted	_____ yes	_____ <input checked="" type="checkbox"/> no	

State Awards

Internal control over major State programs:			
Material weaknesses identified?	_____ yes	_____ <input checked="" type="checkbox"/> no	
Significant deficiency(s) identified that are not considered to be material weakness(es)?	_____ yes	_____ <input checked="" type="checkbox"/> none reported	
Type of auditors' report issued on compliance for major State programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act	_____ yes	_____ <input checked="" type="checkbox"/> no	

Identification of major State programs:

Program Name

State Public School Fund - Charter Schools

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

None reported.

PHOENIX ACADEMY, INC.
Summary Schedule of Prior Year Audit Finding
For the Year Ended June 30, 2014

No findings disclosed in the prior year

PHOENIX ACADEMY, INC.
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2014

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/Pass- Through Grantor's Number</u>	<u>Expenditures</u>
FEDERAL GRANTS			
<u>U.S. Department of Education</u>			
Cash Assistance:			
Passed-through the N.C. Department of Public Instruction			
Special Education Cluster:			
Special Education - Grants to States (IDEA, Part B)			
Education of the Handicapped	84.027	PRC 060	\$ 76,722
Special Education - Special Needs			
Targeted Assistance	84.027	PRC 118	<u>1,465</u>
Total U.S. Department of Education			78,187
<u>U.S. Department of Agriculture</u>			
Passed-through the N.C. Department of Public Instruction			
Child Nutrition Program	10.579	XXX	<u>6,400</u>
Total federal assistance			<u>84,587</u>
STATE GRANTS			
Cash Assistance:			
<u>N.C. Department of Public Instruction:</u>			
State Public School Fund - Charter Schools		PRC 036	3,160,852
State Public School Fund - Indian Gaming Funds		PRC 025	<u>287</u>
Total State assistance			<u>3,161,139</u>
Total federal and State assistance			<u>\$ 3,245,726</u>

Note to the Schedule of Expenditures of Federal and State Financial Awards:

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of Phoenix Academy, Inc. and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

[THIS PAGE INTENTIONALLY LEFT BLANK]

PHOENIX ACADEMY, INC.
HIGH POINT, NORTH CAROLINA

Financial Statements and
Supplementary Information

Year Ended June 30, 2015

PHOENIX ACADEMY, INC.

Table of Contents

June 30, 2015

<u>Exhibit</u>		<u>Page</u>
Financial Section		
	Independent Auditors' Report.....	1
	Management's Discussion and Analysis.....	3
	Basic Financial Statements:	
	Government-wide Financial Statements:	
1	Statement of Net Position.....	11
2	Statement of Activities.....	12
	Fund Financial Statements:	
3	Balance Sheet – Governmental Funds.....	14
3	Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position.....	14
4	Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	15
5	Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities.....	16
6	Statement of Net Position – Proprietary Funds.....	17
7	Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds.....	18
8	Statement of Cash Flows – Proprietary Funds.....	19
	Notes to the Financial Statements.....	20
 Schedule		
	Supplementary Information:	
1	Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Government Fund Types.....	31
2	Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Proprietary Fund Types.....	32
	Compliance Section:	
	Independent Auditors' Report On Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit Of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	33
	Independent Auditors' Report On Compliance For Each Major State Program; Report On Internal Control Over Compliance; In Accordance with OMB Circular A-133 and the State Single Audit Implementation Act.....	35
	Schedule of Findings and Questioned Costs.....	37
	Summary Schedule of Prior Year Audit Findings.....	38
	Schedule of Expenditures of Federal and State Awards.....	39

FINANCIAL SECTION

[THIS PAGE INTENTIONALLY LEFT BLANK]



Rives & Associates, LLP
Certified Public Accountants

Member:
American Institute of
Certified Public Accountants

Member:
North Carolina Association of
Certified Public Accountants

www.rivescpa.com

Independent Auditors' Report

To the Board of Directors
Phoenix Academy, Inc.
High Point, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Phoenix Academy, Inc., as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Phoenix Academy Inc.'s basic financial statements as listed in the table of contents.

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.

Auditors' 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 from 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 auditors' 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.

Opinion

In our opinion, the financial statements referred to present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Phoenix Academy, Inc. as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Phoenix Academy, Inc.'s basic financial statements. The budgetary schedules, as well as the accompanying schedule of expenditures of federal and State awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary schedules, as well as the accompanying schedule of expenditures of federal and State awards is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary schedules and the accompanying schedule of expenditures of federal and State awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 17, 2015 on our consideration of Phoenix Academy, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Phoenix Academy, Inc.'s internal control over financial reporting and compliance.

Rives & Associates LLP

Raleigh, North Carolina
November 17, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

[THIS PAGE INTENTIONALLY LEFT BLANK]

Management's Discussion and Analysis

Phoenix Academy

June 30, 2015

As management of Phoenix Academy, we offer readers of Phoenix Academy's audited financial statements this narrative overview and analysis of the financial activities of Phoenix Academy for the fiscal year ended June 30, 2015. We encourage readers to read the information presented herein in conjunction with additional information that we have furnished in the School's financial statements, which follow this narrative.

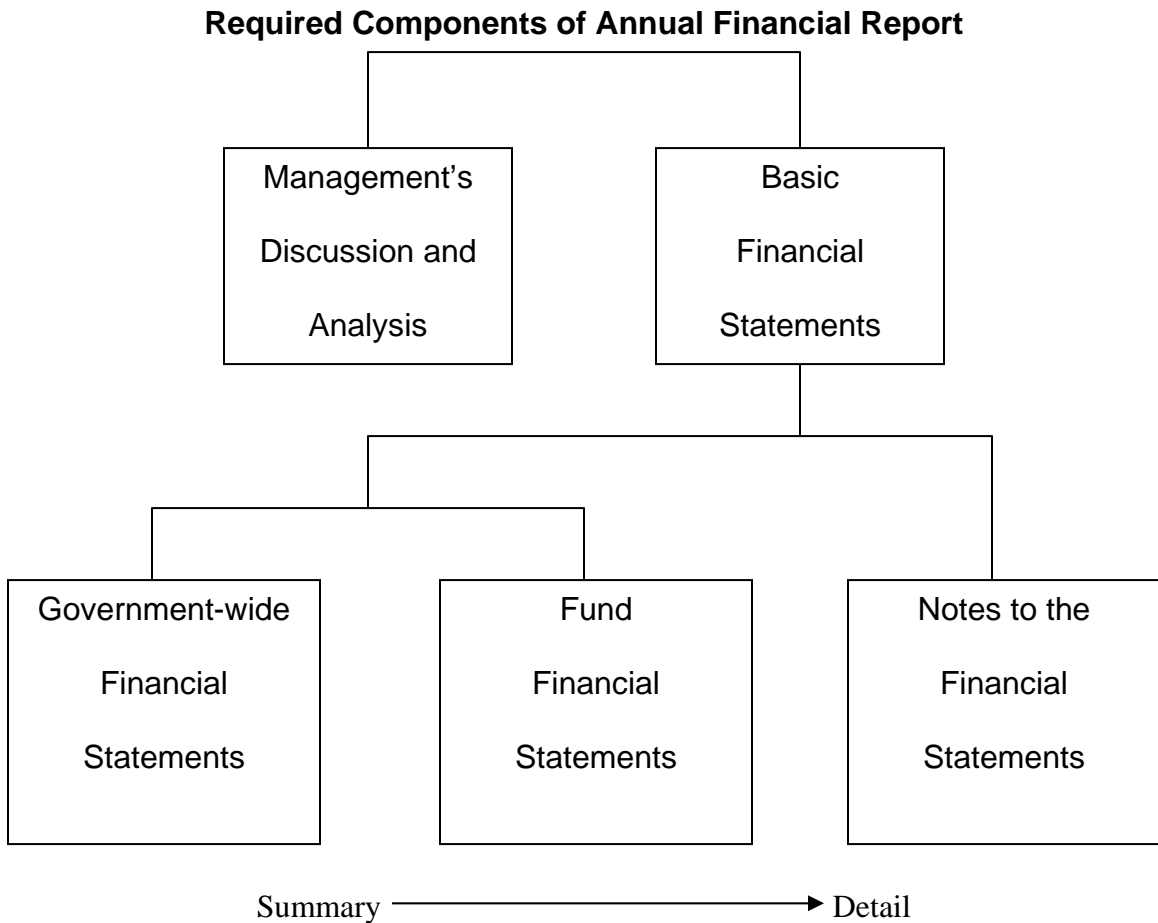
Financial Highlights

- The assets of Phoenix Academy exceeded its liabilities and deferred inflows at the close of the fiscal year by \$1,430,508 (*net position*).
- The school's total net position increased by \$359,527, before restatement, primarily due to increases in the governmental activities net position.
- As of the close of the current fiscal year, Phoenix Academy's governmental funds reported combined ending fund balances of \$1,125,328, an increase of \$246,715 in comparison with the prior year.
- Enrollment has expanded. In 2012-2013 the State Funded Average Daily Membership (ADM) was 316. In 2013-2014 it more than doubled to 656, and in 2014-2015 it grew to 891.
- Phoenix Academy had no long-term debt totaling \$11,729 as of June 30, 2015.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Phoenix Academy's basic financial statements. The School's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two distinct financial perspectives of the School through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of Phoenix Academy.

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the School's financial standing.

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual segments of the School's government. These statements are more detailed than the government-wide financial statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the proprietary fund statements.

Immediately following the fund financial statements are the **Notes to the Financial Statements** (i.e. "Notes"). The Notes offer a detailed explanation of the data contained in those statements. Next, **supplemental information** is provided to show details about the School's funds. Budgetary information for the School can also be found in this section of the statements.

Management's Discussion and Analysis
Phoenix Academy
June 30, 2015

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the School's finances, similar in format to the financial statements of a private-sector business. The government-wide statements provide short and long-term information about the School's financial status, as a whole.

The two government-wide statements report the School's net position and how they have changed. Net position is the difference between the School's total assets and total liabilities and deferred inflows of resources. Measuring net assets is one way to gauge the School's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the School's basic functions such as instructional services and business services. These functions are funded almost entirely through state, county, and federal educational funds. The business-type activities are those services that the School charges its students and other customers. These include the School Food Service and Child Care services carried out by Phoenix Academy.

The government-wide financial statements are enumerated in Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the School's most significant activities. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Phoenix Academy, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related statutory requirements, such as the North Carolina General Statutes or the School's budget ordinance, where and when applicable. All of the funds of Phoenix Academy can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for functions reported as governmental activities in the government-wide financial statements. Most of the School's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and monies remaining at year-end that will be available for spending in the next fiscal year. Governmental funds are reported using the modified accrual accounting method, which provides a short-term spending focus. The governmental fund financial statements assist the reader in determining whether there has been an increase or a decrease in the financial resources available to finance the School's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and

Management's Discussion and Analysis
Phoenix Academy
June 30, 2015

governmental funds is described in a reconciliation that is an integral part of the fund financial statements.

Although not compelled or required to do so by federal, state, or local law, Phoenix Academy has elected to adopt an annual budget. Since the budget is not required by law, the budgetary comparison statements are not included in the basic financial statements, but are part of the supplemental statements and schedules following the notes. The budget incorporates input from the faculty, management, and the Board of Directors of the School and specifies which activities will be pursued and which services the School will provide during the year. It also authorizes the School to obtain funds from identified sources to finance current period activities. The budgetary statement demonstrates how well the School has complied with the budget ordinance and whether or not the School has succeeded in providing the services as originally planned.

Proprietary Funds – Phoenix Academy has two proprietary funds, which are enterprise funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Phoenix Academy uses enterprise funds to account for its School Food Service and Childcare functions.

Notes to the Financial Statements – The notes provide additional information essential to facilitating a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 20 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as one useful indicator of a school's financial condition. The assets of Phoenix Academy exceeded liabilities by \$1,430,508 as of June 30, 2015. As of June 30, 2014, the net assets of Phoenix Academy stood at \$1,170,902. The School's net position increased by \$359,527, before restatement, for the fiscal year ended June 30, 2015, compared to a decrease of \$42,692 in 2014. The amount of \$377,047 reflects the School's investment in capital assets (e.g. leasehold improvements, school equipment, and electronic equipment), less any related debt still outstanding that was issued to acquire those items. Phoenix Academy uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although Phoenix Academy's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. The remaining balance of \$1,053,461 is unrestricted. In 2014, the amount of net investment in capital assets was \$259,483 with unrestricted net position standing at \$911,419.

**Management's Discussion and Analysis
Phoenix Academy
June 30, 2015**

**Figure 2
Phoenix Academy's Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 1,168,789	\$ 991,376	\$ -	\$ 32,836	\$ 1,168,789	\$ 1,024,212
Capital assets, net of depreciation	377,047	280,180	-	-	377,047	280,180
Total assets	<u>1,545,836</u>	<u>1,271,556</u>	<u>-</u>	<u>32,836</u>	<u>1,545,836</u>	<u>1,304,392</u>
Other liabilities	115,328	112,763	-	30	115,328	112,793
Long-term liabilities outstanding	-	20,697	-	-	-	20,697
Total liabilities	<u>115,328</u>	<u>133,460</u>	<u>-</u>	<u>30</u>	<u>115,328</u>	<u>133,490</u>
Net Position:						
Net Investment in capital assets	377,047	259,483	-	-	377,047	259,483
Unrestricted	1,053,461	878,613	-	32,806	1,053,461	911,419
Total Net Position	<u>\$ 1,430,508</u>	<u>\$ 1,138,096</u>	<u>\$ -</u>	<u>\$ 32,806</u>	<u>\$ 1,430,508</u>	<u>\$ 1,170,902</u>

Several aspects of the School's financial operations positively influenced the total unrestricted governmental net position:

- The School adopted an annual budget. The School's performance was measured using this budget on a monthly basis, allowing changes to be made as needed to remain within the confines of the budget.
- The School applied for and was awarded federal grants to assist with meeting the educational needs of the student population.
- Funding adjusts proportionately to any change in the student population.

Management's Discussion and Analysis
Phoenix Academy
June 30, 2015

Figure 3
Phoenix Academy's Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Donations and Other Revenues	\$ 229,990	\$ 167,640	\$ -	\$ -	\$ 229,990	\$ 167,640
Charges for Services	-	-	-	4,941	-	4,941
Operating Grants and Contributions	146,618	78,187	5,343	6,400	151,961	84,587
County, State, and Federal Funds	6,511,970	4,605,796	-	-	6,511,970	4,605,796
Total revenues	6,888,578	4,851,623	5,343	11,341	6,893,921	4,862,964
Instructional Programs	3,951,284	3,152,360	-	-	3,951,284	3,152,360
Support services	2,533,194	1,656,298	-	-	2,533,194	1,656,298
School food service	-	-	49,916	11,614	49,916	11,614
School childcare service	-	-	-	-	-	-
Community Services	-	-	-	-	-	-
Total expenses	6,484,478	4,808,658	49,916	11,614	6,534,394	4,820,272
Increase (Decrease) in net position before transfers	404,100	42,965	(44,573)	(273)	359,527	42,692
Transfers	(11,767)	39,773	11,767	(39,773)	-	-
Increase (Decrease) in net position	392,333	82,738	(32,806)	(40,046)	359,527	42,692
Net position, July 1	1,138,096	1,055,358	32,806	72,852	1,170,902	1,128,210
Restatement	(99,921)	-	-	-	(99,921)	-
Net position, June 30	\$ 1,430,508	\$ 1,138,096	\$ -	\$ 32,806	\$ 1,430,508	\$ 1,170,902

Governmental activities. Governmental activities increased the School's net position by \$392,333, before restatement.

Business-type activities. Business-type activities decreased Phoenix Academy's net position by \$32,806.

Financial Analysis of the School's Funds

As noted earlier, Phoenix Academy uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of Phoenix Academy's governmental funds is to provide information on near-term inflows, outflows, and balances of usable financial resources. Such information is useful in assessing Phoenix Academy's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

Management’s Discussion and Analysis
Phoenix Academy
June 30, 2015

The general fund is the chief operating fund of Phoenix Academy. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$950,275, while total fund balance reached \$1,053,461.

Proprietary Funds. The School’s proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the School Proprietary Fund at the end of the fiscal year amounted to \$0. The total growth in net position for the School Proprietary Fund was (\$32,806). Other factors concerning the finances of this fund have already been addressed in the discussion of the School’s business-type activities.

Capital Asset and Debt Administration

Capital assets. Phoenix Academy’s investment in capital assets for its governmental activities as of June 30, 2015, totals \$377,047 (net of accumulated depreciation). Capital assets include leasehold improvements, school furnishings, school equipment, and electronic equipment.

Figure 4
Charter School Name’s Capital Assets
 (net of depreciation)

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
Leasehold improvements	\$ 173,814	\$ 134,846
School furnishings	156,170	65,355
Vehicles	11,173	19,552
School equipment	3,687	5,778
Electronic equipment	32,203	26,596
Total	<u>\$ 377,047</u>	<u>\$ 252,127</u>

Additional information about the School’s capital assets can be found in Note II.A.2. of the Basic Financial Statements.

Long-term Debt. As of June 30, 2015, Phoenix Academy had no outstanding debt.

Management's Discussion and Analysis
Phoenix Academy
June 30, 2015

Economic Factors

The following key economic indicators reflect the growth and prosperity of the School:

- The main LEA that feeds the school continues to have excellent growth thereby providing a large base of students to constantly maintain student headcount.
- State per pupil funding increased \$175.07 which equated to 3.82% more in FY 2015 when compared with 2014.
- The School is now a permanent part of the community as evidenced by its massive expansion of ADM and grade levels.

Requests for Information

This report is designed to provide an overview of the School's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Kim Norcross, Phoenix Academy, 4020 Meeting Way, High Point, NC 27265, telephone (336) 869-0079.

PHOENIX ACADEMY, INC.
Statement of Net Position
June 30, 2015

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 744,814	\$ -	\$ 744,814
Due from other governments	320,090	-	320,090
Accounts receivable (net)	699	-	699
Prepaid items	103,186	-	103,186
	1,168,789	-	1,168,789
Capital assets (Note II.A) 2.:			
Construction in progress	-	-	-
Other capital assets, net of depreciation	377,047	-	377,047
Total capital assets	377,047	-	377,047
Total assets	1,545,836	-	1,545,836
LIABILITIES			
Accounts payable and accrued expenses	115,328	-	115,328
Note payable	-	-	-
Long-term liabilities:			
Due within one year	-	-	-
Due in more than one year	-	-	-
Total liabilities	115,328	-	115,328
NET POSITION			
Net investment in capital assets	377,047	-	377,047
Unrestricted	1,053,461	-	1,053,461
Total net position	\$ 1,430,508	\$ -	\$ 1,430,508

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

PHOENIX ACADEMY, INC.
Statement of Activities
For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental activities:			
Instructional services	\$ 3,951,284	\$ -	\$ 146,618
System-wide support services	2,533,194	-	-
Community services	-	-	-
Total governmental activities	6,484,478	-	146,618
Business-type activities:			
School food service	49,916	-	5,343
Total business-type activities	49,916	-	5,343
Total primary government	\$ 6,534,394	\$ -	\$ 151,961

General revenues:

Unrestricted county appropriations

Unrestricted State appropriations

Donations- general

Fines and forfeitures

Miscellaneous, unrestricted

Transfers

Total general revenues, special items, and transfers

Change in net position

Net position, beginning, previously reported

Restatement

Net position, beginning, restated

Net position, ending

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (3,804,666)	\$ -	\$ (3,804,666)
(2,533,194)	-	(2,533,194)
-	-	-
<u>(6,337,860)</u>	<u>-</u>	<u>(6,337,860)</u>
-	(44,573)	(44,573)
-	(44,573)	(44,573)
<u>(6,337,860)</u>	<u>(44,573)</u>	<u>(6,382,433)</u>
1,949,686	-	1,949,686
4,513,898	-	4,513,898
12,429	-	12,429
48,386	-	48,386
217,561	-	217,561
(11,767)	11,767	-
<u>6,730,193</u>	<u>11,767</u>	<u>6,741,960</u>
392,333	(32,806)	359,527
1,138,096	32,806	1,170,902
(99,921)	-	(99,921)
<u>1,038,175</u>	<u>32,806</u>	<u>1,070,981</u>
<u>\$ 1,430,508</u>	<u>\$ -</u>	<u>\$ 1,430,508</u>

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

PHOENIX ACADEMY, INC.

Exhibit 3

Balance Sheet
Governmental Funds
June 30, 2015

	Major Funds		Non-Major Fund	Total Governmental Funds
	General	State Public School	Federal Grants	
ASSETS				
Cash and cash equivalents	\$ 744,814	\$ -	\$ -	\$ 744,814
Due from other governments	320,090	-	-	320,090
Receivables (net)	699	-	-	699
Prepaid items	103,186	-	-	103,186
Total assets	<u>\$ 1,168,789</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,168,789</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 115,328	\$ -	\$ -	\$ 115,328
Total liabilities	<u>115,328</u>	<u>-</u>	<u>-</u>	<u>115,328</u>
DEFERRED INFLOWS OF RESOURCES				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Nonspendable:				
Prepaid items	103,186	-	-	103,186
Unassigned	950,275	-	-	950,275
Total fund balances	<u>1,053,461</u>	<u>-</u>	<u>-</u>	<u>1,053,461</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,168,789</u>	<u>\$ -</u>	<u>\$ -</u>	

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

377,047

Net position of governmental activities

\$ 1,430,508

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

PHOENIX ACADEMY, INC.
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

Exhibit 4

	<u>Major Funds</u>		<u>Non-major Fund</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>State Public School</u>	<u>Federal Grants</u>	
REVENUES				
State of North Carolina	\$ -	\$ 4,537,798	\$ -	\$ 4,537,798
Boards of Education	1,949,686	-	-	1,949,686
U.S. Government	-	-	122,718	122,718
Contributions and donations	12,429	-	-	12,429
Fines and forfeitures	48,386	-	-	48,386
Interest income	-	-	-	-
Other	217,561	-	-	217,561
Total revenues	<u>2,228,062</u>	<u>4,537,798</u>	<u>122,718</u>	<u>6,888,578</u>
EXPENDITURES				
Current:				
Instructional services	1,102,766	2,676,278	122,718	3,901,762
System-wide support services	784,905	1,716,627	-	2,501,532
Community services	-	-	-	-
Capital outlay	63,971	142,133	-	206,104
Debt service:				
Principal	17,938	2,760	-	20,698
Interest and other charges	-	-	-	-
Total expenditures	<u>1,969,580</u>	<u>4,537,798</u>	<u>122,718</u>	<u>6,630,096</u>
Excess of revenues over expenditures	<u>258,482</u>	<u>-</u>	<u>-</u>	<u>258,482</u>
OTHER FINANCING SOURCES (USES)				
Transfers to other funds	(11,767)	-	-	(11,767)
Total other financings sources (uses)	<u>(11,767)</u>	<u>-</u>	<u>-</u>	<u>(11,767)</u>
Net change in fund balance	246,715	-	-	246,715
Beginning fund balance, previously reported	878,613	-	-	878,613
Restatement	(71,867)	-	-	(71,867)
Beginning fund balance, restated	<u>806,746</u>	<u>-</u>	<u>-</u>	<u>806,746</u>
Ending fund balance	<u>\$ 1,053,461</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,125,328</u>

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

PHOENIX ACADEMY, INC.

Exhibit 5

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2015**

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances- total governmental funds \$ 246,715

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 124,920

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts and prepaid insurance when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 20,698

Total changes in net position of governmental activities \$ 392,333

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

PHOENIX ACADEMY, INC.
Statement of Net Position
Proprietary Funds
June 30, 2015

Exhibit 6

	Enterprise Funds	
	Non-major Funds	
	School Food	Total
	Service	Total
ASSETS		
Current assets:		
Cash and cash equivalents	\$ -	\$ -
Total current assets	\$ -	\$ -
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	\$ -	\$ -
Total liabilities	-	-
NET POSITION		
Unrestricted	-	-
Total net position	\$ -	\$ -

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

PHOENIX ACADEMY, INC.
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2015

	Enterprise Funds	
	Non-major Funds	
	School Food Service	Total
OPERATING REVENUES		
Food sales	\$ -	\$ -
Child care fees	-	-
Total operating revenues	-	-
OPERATING EXPENSES		
Food cost:		
Purchase of food	7,327	7,327
Contracted services	42,589	42,589
Total operating expenses	49,916	49,916
Operating income (loss)	(49,916)	(49,916)
NONOPERATING REVENUES (EXPENSES)		
USDA reimbursements	5,343	5,343
Transfers from other funds	11,767	11,767
Change in net position	(32,806)	(32,806)
Total net position - beginning	32,806	32,806
Total net position - ending	\$ -	\$ -

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

PHOENIX ACADEMY, INC.
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2015

Exhibit 8

	Enterprise Funds	
	Non-major Funds	
	School Food	
	Service	Total
CASH FLOWS FROM OPERATING ACTIVITES		
Cash received from customers	\$ -	\$ -
Cash paid to employees for services	-	-
Cash paid for goods and services	(49,946)	(49,946)
Net cash provided (used) by operating activities	(49,946)	(49,946)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITES		
USDA reimbursements	5,343	5,343
Transfers in (out)	11,767	11,767
Net cash provided by noncapital financing activities	17,110	17,110
Net increase (decrease) in cash and cash equivalents	(32,836)	(32,836)
Balances - beginning of year	32,836	32,836
Balances - end of year	\$ -	\$ -
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (49,916)	\$ (49,916)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Decrease in accounts payable	\$ (30)	\$ (30)
Net cash provided (used) by operating activities	\$ (49,946)	(49,946)

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

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Phoenix Academy, Inc. (the School) conform to generally accepted accounting principles (GAAP) as applicable to governments. Charter schools are established by non-profit entities. Because of the authority of the State Board of Education (SBE) to unilaterally abolish a school with all the assets reverting to a local education agency, the charter schools in North Carolina follow the governmental reporting model, as used by local education agencies. The following is a summary of the more significant accounting policies:

A) Reporting Entity

The School is a public school operated by a non-profit corporation, serving approximately 891 students. The School operates under an approved charter received from the SBE, and applied for under the provisions of General Statute (G.S.) 115C-238.29B. G.S. 115C-238.29F(f)(1) states that a charter school shall be subject to the audit requirements adopted by the SBE, which includes the audit requirements established by G.S. 115C-447 of the School Budget and Fiscal Control Act (SBFCA). G.S. 115C-447 also requires financial statements to be prepared in accordance with GAAP.

B) Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities display information about the School. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the School. Governmental activities generally are financed through intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the School and for each function of the School's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the School's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principle activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) Basis of Presentation (Continued)

The School reports the following major governmental funds:

General Fund: The General Fund is the general operating fund of the School. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund.

State Public School Fund: The State Public School Fund includes appropriations from the Department of Public Instruction for current operating needs of the School and is reported as a special revenue fund.

The School reports no major enterprise funds.

C) Measurement Focus and Basis of Accounting

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the School gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. These could include federal, State, and county grants, and some charges for services. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the School funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the School's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D) Budgetary Data

Annual budgets are adopted for all funds, on a school wide basis. All budgets are prepared using the modified accrual basis of accounting.

The governing board has voluntarily established the policy, as a sound business practice, that expenditures may not exceed appropriations, for all of the School's funds, based on the adopted budget and subsequent amendments. During the year, several amendments to the original budget were necessary. The budgets presented in the supplementary information represent the budgets of the School at June 30, 2015. All appropriations lapse at year end.

E) Assets, Liabilities, Deferred Outflows and Inflows of Resources and Fund Equity

1. Deposits and Investments

All deposits of the School are made in a local bank, whose accounts are FDIC insured. Also, the School may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

2. Cash and Cash Equivalents

The School pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Capital Assets

The School's capital assets are recorded at original cost. Donated assets are listed at their estimated fair value at the date of donation. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

It is the policy of the School to capitalize all capital assets costing more than \$500 with an estimated useful life of two or more years. All depreciable assets are depreciated using the straight-line method of depreciation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E) Assets, Liabilities, Deferred Outflows and Inflows of Resources and Fund Equity (Continued)

4. Capital Assets (Continued)

Capital assets are depreciated over the following estimated useful lives:

	<u>Years</u>
Vehicles	5 – 7
Leasehold improvements	7 – 39
School furnishings and equipment	5 – 7
Electronic equipment	3 – 7

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The School has no items that meet this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The School has no items that meet the criterion for this category.

6. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position.

In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

7. Compensated Absences

Employees who work for the entire school year earn 1.5 sick days per month and 10 personal days for the year. Employees who are hired for less than the entire school year earn 1.5 sick days per month and 2.5 personal hours per month. Employees' sick and personal days do not accrue at year end and are not carried forward to the next school year. Employees do not receive compensation for unused sick and personal days after the termination of employment.

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E) Assets, Liabilities, Deferred Outflows and Inflows of Resources and Fund Equity (Continued)

8. Net Position/Fund Balances

Net Position

Net position in the government-wide fund financial statements are classified as net investment in capital assets, net of related debt; restricted; and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute.

Fund Balance

In the governmental fund financial statements, fund balance is composed of two classifications (out of five possible classifications) designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balance as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Prepaid Items – Portion of fund balance that is not an available resource because it represents the year-end balance of prepaid utilities and rent on the school facility which is not a spendable resource.

Unassigned Fund Balance – The portion of fund balance that has not been assigned to another fund or restricted, committed, or assigned to specific purposes within the General Fund.

The School has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Board will use resources in the following hierarchy: federal funds, State funds, local non-board of education funds, board of education funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance, and lastly unassigned fund balance. The Board has the authority to deviate from this policy if it is in the best interest of the School.

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E) Assets, Liabilities, Deferred Outflows and Inflows of Resources and Fund Equity (Continued)

9. Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between for governmental funds' total fund balance and governmental activities' net position as reported in the government-wide statement of net position. The net adjustment of \$377,047 consists of several elements as follows:

<u>DESCRIPTION</u>	<u>AMOUNT</u>
Capital assets used in governmental activities are not financial resources are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column).	\$ 797,012
Less accumulated depreciation	<u>(419,965)</u>
Total adjustment	<u>\$ 377,047</u>

F) Revenues, Expenditures, and Expenses

1. Funding

Phoenix Academy, Inc. is funded by the State Board of Education, receiving (i) an amount equal to the average per pupil allocation for the average daily membership (ADM) from the local school administrative unit allotments in which the School is located (i.e. Guilford County Board of Education) for each child attending the School except for the allocation for children with special needs and (ii) an additional amount for each child attending the School who is a child with special needs [G.S. 115C-238.29H(a)]. Additionally, the appropriate local school administrative unit(s) transfers to the School, for each student who resides in the local administrative unit and attends the charter school, an amount equal to the per pupil local current expense appropriation to the respective local school administrative unit for the fiscal year. [G.S. 115C-238.29H(b)]. For the fiscal year ended June 30, 2015, Phoenix Academy, Inc. received funding from the Boards of Education for Guilford County, Forsyth County, Randolph County, Davidson County, Wake County, Rockingham County, Stokes County, Thomasville City Schools, and Asheboro City Schools.

Furthermore, Phoenix Academy, Inc. has received donations of cash and/or equipment from private organizations. The cash is available to be used throughout the year for the School's various programs and activities.

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F) Revenues, Expenditures, and Expenses (Continued)

2. Reconciliation of Government-wide and Fund Financial Statements

The governmental fund statement of revenues, expenditures, and changes in fund balance is followed by a reconciliation between the change in governmental funds' fund balance and the change in governmental activities' net position as reported on the government-wide statement of activities. The net difference of \$145,618 between the two amounts consists of the following elements:

<u>DESCRIPTION</u>	<u>AMOUNT</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets on the statement of activities.	\$ 206,104
Depreciation expense that is recorded on the statement of activities but not in the fund statements.	(81,184)
Principle payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net position in the government-wide statements.	20,698
Total	<u>\$ 145,618</u>

G) Use of Estimates and Assumption

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenditures.

II. DETAIL NOTES ON ALL FUNDS

A) Assets

1. Deposits

At June 30, 2015, the School had deposits with banks and savings and loans with a carrying amount of \$744,714. The bank balance with the financial institution was \$923,878 of which \$673,878 was not covered by federal depository insurance. The School does not have a deposit policy for custodial credit risk.

Cash on hand at the School totaled \$100 as of June 30, 2015.

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2015

II. DETAIL NOTES ON ALL FUNDS (Continued)

A) Assets (Continued)

2. Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balances <u>(As Restated)</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Capital assets being depreciated:				
Leasehold improvements	178,432	59,577	-	238,009
School furnishings	94,019	118,826	-	212,845
Vehicle	41,896	-	-	41,896
School equipment	14,865	-	-	14,865
Electronic equipment	<u>261,696</u>	<u>27,701</u>	<u>-</u>	<u>289,397</u>
Total assets	<u>590,908</u>	<u>206,104</u>	<u>-</u>	<u>797,012</u>
Less accumulated depreciation:				
Leasehold improvements	43,586	20,609	-	64,195
School furnishings	28,664	28,011	-	56,675
Vehicle	22,344	8,379	-	30,723
School equipment	9,087	2,091	-	11,178
Electronic equipment	<u>235,100</u>	<u>22,094</u>	<u>-</u>	<u>257,194</u>
Total accumulated depreciation	<u>338,781</u>	<u>\$ 81,184</u>	<u>\$ -</u>	<u>419,965</u>
Net assets depreciated	<u>\$ 252,127</u>			<u>\$ 377,047</u>

Depreciation expense was charged to governmental functions as follows:

Instructional programs	\$ 49,522
Supporting services	<u>31,662</u>
	<u>\$ 81,184</u>

B) Liabilities

1. Pension Plan and Other Postemployment Obligations

a. Retirement Plan

Phoenix Academy, Inc. offers a non-matching 403(b) qualified retirement plan to eligible employees (employees who work 20 or more hours per week). The plan has a discretionary profit sharing option. There were no retirement benefits paid for the year ended June 30, 2015.

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2015

II. DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

b. Postemployment Benefits

Phoenix Academy, Inc. does not offer any postemployment benefits.

2. Risk Management

The School is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School maintains general liability and errors and omissions insurance coverage of \$1 million per occurrence with a commercial carrier.

The School carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and claims have not exceeded coverage in any of the past two fiscal years.

The School has elected not to carry flood insurance because the School is not in an area of the State that has been mapped and designated an “A” area (an area close to a river, lake, or stream) by the Federal Emergency Management Agency.

The School carries fidelity bond coverage in the amount of \$250,000 for all its employees. The Company that performs all the School’s outsourced accounting carries fidelity bond coverage in the amount of \$500,000.

3. Long-Term Obligations

a) Building Lease

The School rents space under the terms of two operating leases. Lease payments include minimum lease payments through June of 2035. Both leases begin in June 2015 and are for a term of twenty years and contain three options of five years each at the end of the term. Future minimum lease payments, including operating expenses are:

<u>Year ending</u>	
June 30, 2016	\$ 1,825,906
June 30, 2017	1,876,452
June 30, 2018	1,928,408
June 30, 2019	1,981,815
June 30, 2020	2,036,713
Thereafter	<u>38,291,576</u>
	<u>\$ 47,940,870</u>

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2015

II. DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

3. Long-Term Obligations (Continued)

b) Note Payable

On June 24, 2014 a short term note payable in the amount of \$50,000 was obtained from a related party to help make June payroll obligations. The loan was made at a 0% interest rate and was subsequently paid back on July 11, 2014.

On November 10, 2011, a note was obtained from a finance company for \$41,396 to purchase a vehicle. Outstanding principal and interest was paid in full during the year ended June 30, 2015.

c) Changes in General Long-Term Obligations

The following is a summary of changes in the School's long-term obligations for the fiscal year ended June 30, 2015:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Note payable	\$ 20,698	\$ -	\$ (20,698)	\$ -	\$ -

C) Fund Balance

The School has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Board will use resources in the following hierarchy: federal funds, State funds, local non-School funds, Phoenix Academy, Inc. funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance, and lastly unassigned fund balance. The Board has the authority to deviate from this policy if it is in the best interest of the School.

The following schedule provides management and citizens with information on the portion of General Fund balance that is available for appropriation.

Total fund balance	\$ 1,053,461
Less:	
Prepaid items	<u>(103,186)</u>
Remaining fund balance	<u>\$ 950,275</u>

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2015

III. RELATED PARTIES

7 Degrees of Change Foundation (7 Degrees) is a 501(c)(3) whose mission is to build successes in the areas of education and literacy. The School has signed an education service provider agreement with 7 Degrees in which it has contracted to handle all management, operational and educational decisions of the School. As a base fee, 7 Degrees is paid 16% of the annual gross revenue of the School and is also reimbursed for any expenses related to the management of the School. 7 Degrees is run by the former principal of the School, as well as the former board treasurer and board chairman of the School. 7 Degrees provides all administrative support staff to the School. 7 Degrees was paid \$1,270,580 by the School during the year ended June 30, 2015.

Phoenix Academy Foundation, Inc. (the Foundation) is a 501(c)(3) whose mission is to support the activities of Phoenix Academy, Inc. by providing school facilities through lease arrangements. The Foundation leases the buildings from a third party which the School currently occupies. The Foundation's board chairman is the former board treasurer and former board chairman of the School. The amount paid to the Foundation for the year ended June 30, 2015 was \$687,922 for the rental of school facilities. See the building lease note on page 28 for additional details.

IV. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

The School has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

V. PRIOR PERIOD ADJUSTMENT

During 2015, management discovered reporting errors that caused the financial statements for the year ended June 30, 2014 to be misstated. The capital assets and capital outlay expense were misstated at, and for the year ended, June 30, 2014. A prior period adjustment has been made to correct these misstatements. The results of the prior period adjustment increased capital assets and decreased notes receivable in the government-wide statements and decreased both notes receivable and fund balance in the fund statements at June 30, 2014.

VI. SUBSEQUENT EVENTS

Management has evaluated subsequent events to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through November 17, 2015 which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

[THIS PAGE INTENTIONALLY LEFT BLANK]

PHOENIX ACADEMY, INC. **Schedule 1**
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Government Fund Types
For the Year Ended June 30, 2015

	Final Budget	Actual	Variance Positive (Negative)
REVENUES			
State of North Carolina	\$ 4,538,069	\$ 4,537,798	\$ (271)
Boards of Education:			
Guilford County	1,822,819	1,816,763	(6,056)
Forsyth County	40,204	50,510	10,306
Davidson County	38,611	57,464	18,853
Randolph County	21,967	16,088	(5,879)
Rockingham County	878	878	-
Stokes County	1,000	1,573	573
Thomasville City	3,378	2,288	(1,090)
Asheboro City	2,000	2,006	6
Wake County	2,050	2,116	66
U.S. Government	122,718	122,718	-
Fines and forfeitures	50,410	48,386	(2,024)
Donations	700	12,429	11,729
Others	235,940	217,561	(18,379)
Total revenues	<u>6,880,744</u>	<u>6,888,578</u>	<u>7,833</u>
EXPENDITURES			
Salaries and bonuses	2,695,593	2,579,750	115,843
Employee benefits	576,366	544,627	31,739
Books and supplies	280,025	111,081	168,944
Technology	160,645	160,206	439
Non-capitalized equipment and leases	45,250	41,572	3,678
Contracted student services	410,921	392,980	17,941
Staff development	52,388	11,370	41,018
Administrative services	1,412,412	1,521,825	(109,413)
Insurance	70,600	28,885	41,715
Rent	672,940	773,508	(100,568)
Facilities	182,500	201,387	(18,887)
Utilities	36,500	33,302	3,198
Nutrition and food	7,400	2,370	5,030
Transportation and travel	5,000	431	4,569
Total	<u>6,608,540</u>	<u>6,403,294</u>	<u>205,246</u>
Capital outlay	209,000	206,104	2,896
Debt service:			
Principal	8,579	20,698	(12,119)
Total expenditures	<u>6,826,119</u>	<u>6,630,096</u>	<u>196,023</u>
Other financing sources (uses):			
Transfers to ther funds	-	(11,767)	(11,767)
Fund balance appropriated	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>(11,767)</u>	<u>(11,767)</u>
Excess of revenue over expenditures	<u>\$ 54,625</u>	<u>\$ 246,715</u>	<u>\$ 192,090</u>

PHOENIX ACADEMY, INC.

Schedule 2

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Proprietary Fund Types

For the Year Ended June 30, 2015

	Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Food sales	\$ -	\$ -	\$ -
After school care	-	-	-
Total revenues	-	-	-
EXPENDITURES			
Food service expenditures:			
Food purchases	7,000	7,327	(327)
Contracted services	48,159	42,589	5,570
Total food service	55,159	49,916	5,243
After school care expenditures:			
Supplies	-	-	-
Total after school care	-	-	-
Total expenditures	55,159	49,916	5,243
Revenues over (under) expenditures	(55,159)	(49,916)	(5,243)
Other financing sources (uses):			
Federal reimbursements	534	5,343	(4,809)
Transfer from other funds	-	11,767	(11,767)
Fund balance appropriated	-	-	-
Revenues and other sources over (under) expenditures	\$ (54,625)	\$ (32,806)	\$ (21,819)

COMPLIANCE SECTION

[THIS PAGE INTENTIONALLY LEFT BLANK]



Member:
American Institute of
Certified Public Accountants

Rives & Associates, LLP
Certified Public Accountants

Member:
North Carolina Association of
Certified Public Accountants

www.rivescpa.com

Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

To the Board of Directors
Phoenix Academy, Inc.
High Point, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities each major fund, and the aggregate remaining fund information of Phoenix Academy, Inc., as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Phoenix Academy, Inc.'s basic financial statements, and have issued our report thereon dated November 17, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Phoenix Academy, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Phoenix Academy, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Phoenix Academy, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charge with governance.

Our consideration of the internal control was for 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.

Compliance and Other Matters

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

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.

Rivers & Associates LLP

Raleigh, North Carolina
November 17, 2015



Member:
American Institute of
Certified Public Accountants

Rives & Associates, LLP
Certified Public Accountants

Member:
North Carolina Association of
Certified Public Accountants

www.rivescpa.com

Independent Auditors' Report On Compliance For Each Major State Program; Report on Internal Control Over Compliance In Accordance With OMB Circular A-133 And The State Single Audit Implementation Act

To the Board of Directors
Phoenix Academy, Inc.
High Point, North Carolina

Report on Compliance for Each Major State Program

We have audited the Phoenix Academy, Inc., with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Phoenix Academy, Inc.'s major State programs for the year ended June 30, 2015. The Phoenix Academy, Inc.'s major State program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Phoenix Academy, Inc.'s major State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the Phoenix Academy, Inc.'s compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major State program. However, our audit does not provide a legal determination of the Phoenix Academy, Inc.'s compliance.

Opinion on Each Major State Program

In our opinion, the Phoenix Academy, Inc. complied, in all material respects, with the types of compliance requirements referred to that could have a direct and material effect on its major State program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of Phoenix Academy, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to. In planning and performing our audit of compliance, we considered Phoenix Academy, Inc.'s internal control over compliance with the types of requirements that are appropriate in the circumstances that could have a direct and material effect on a major State program to determine the auditing procedures for the purpose of expressing our opinion on compliance for each major State program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Phoenix Academy, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a State program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a State program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charge with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Rives & Associates LLP

Raleigh, North Carolina
November 17, 2015

PHOENIX ACADEMY, INC.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified		
Internal control over financial reporting:			
Material weaknesses identified?	_____ yes	_____ <input checked="" type="checkbox"/> no	
Significant deficiency(s) identified that are not considered to be material weaknesses?	_____ yes	_____ <input checked="" type="checkbox"/> none reported	
Noncompliance material to financial statements noted	_____ yes	_____ <input checked="" type="checkbox"/> no	

State Awards

Internal control over major State programs:			
Material weaknesses identified?	_____ yes	_____ <input checked="" type="checkbox"/> no	
Significant deficiency(s) identified that are not considered to be material weakness(es)?	_____ yes	_____ <input checked="" type="checkbox"/> none reported	
Type of auditors' report issued on compliance for major State programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act	_____ yes	_____ <input checked="" type="checkbox"/> no	

Identification of major State programs:

Program Name

State Public School Fund - Charter Schools

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

None reported.

PHOENIX ACADEMY, INC.
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2015

No findings disclosed in the prior year

PHOENIX ACADEMY, INC.
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2015

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/Pass- Through Grantor's Number</u>	<u>Expenditures</u>
FEDERAL GRANTS			
<u>U.S. Department of Education</u>			
Cash Assistance:			
Passed-through the N.C. Department of Public Instruction			
Special Education Cluster:			
Special Education - Grants to States (IDEA, Part B)			
Education of the Handicapped	84.027	PRC 060	\$ 120,330
Special Education - Special Needs			
Targeted Assistance	84.027	PRC 118	<u>2,388</u>
Total U.S. Department of Education			122,718
<u>U.S. Department of Agriculture</u>			
Passed-through the N.C. Department of Public Instruction			
Child Nutrition Program	10.579	XXX	<u>5,343</u>
Total federal assistance			<u>128,061</u>
STATE GRANTS			
Cash Assistance:			
<u>N.C. Department of Public Instruction:</u>			
State Public School Fund - Charter Schools		PRC 036	4,513,898
State Public School Fund - Behavioral support		PRC 029	<u>23,900</u>
Total State assistance			<u>4,537,798</u>
Total federal and State assistance			<u>\$ 4,665,859</u>

Note to the Schedule of Expenditures of Federal and State Financial Awards:

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of Phoenix Academy, Inc. and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

[THIS PAGE INTENTIONALLY LEFT BLANK]

PHOENIX ACADEMY, INC.
HIGH POINT, NORTH CAROLINA

Financial Statements and
Supplementary Information

Year Ended June 30, 2016

PHOENIX ACADEMY, INC.

Table of Contents

June 30, 2016

<u>Exhibit</u>		<u>Page</u>
	Financial Section	
	Independent Auditors' Report.....	1
	Management's Discussion and Analysis.....	3
	Basic Financial Statements:	
	Government-wide Financial Statements:	
1	Statement of Net Position.....	11
2	Statement of Activities.....	12
	Fund Financial Statements:	
3	Balance Sheet – Governmental Funds.....	13
3	Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position.....	13
4	Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	14
5	Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities.....	15
6	Statement of Net Position – Proprietary Fund	16
7	Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund.....	17
8	Statement of Cash Flows – Proprietary Fund.....	18
	Notes to the Financial Statements.....	19
	Schedule	
	Supplementary Information:	
1	Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Government Fund Types.....	30
2	Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Proprietary Fund Types.....	31
	Compliance Section:	
	Independent Auditors' Report On Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	32
	Independent Auditors' Report On Compliance For Each Major State Program and On Internal Control Over Compliance Required by the OMB Uniform Guidance and the State Single Audit Implementation Act.....	34
	Schedule of Findings and Questioned Costs.....	36
	Summary Schedule of Prior Year Audit Findings	37
	Schedule of Expenditures of Federal and State Awards.....	38

FINANCIAL SECTION

[THIS PAGE INTENTIONALLY LEFT BLANK]



Rives & Associates, LLP
Certified Public Accountants

www.rivescpa.com

Member:
American Institute of
Certified Public Accountants

Member:
North Carolina Association of
Certified Public Accountants

Independent Auditors' Report

To the Board of Directors
Phoenix Academy, Inc.
High Point, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Phoenix Academy, Inc., North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Phoenix Academy Inc.'s basic financial statements as listed in the table of contents.

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.

Auditors' 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 from 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate, each major fund, and the aggregate remaining fund information of the Phoenix Academy, Inc. as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Phoenix Academy Inc.'s basic financial statements. The budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The budgetary schedule, other schedules, as well as the accompanying Schedule of Expenditures of Federal and State Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary schedule, other schedules, and the accompanying Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 20, 2016 on our consideration of Phoenix Academy Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Phoenix Academy, Inc.'s internal control over financial reporting and compliance.

Rivers & Associates LLP

Raleigh, North Carolina
November 20, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

[THIS PAGE INTENTIONALLY LEFT BLANK]

Management's Discussion and Analysis
Phoenix Academy, Inc.
June 30, 2016

As management of Phoenix Academy, Inc., we offer readers of Phoenix Academy, Inc.'s audited financial statements this narrative overview and analysis of the financial activities of Phoenix Academy, Inc. for the fiscal year ended June 30, 2016. We encourage readers to read the information presented herein in conjunction with additional information that we have furnished in the School's financial statements, which follow this narrative.

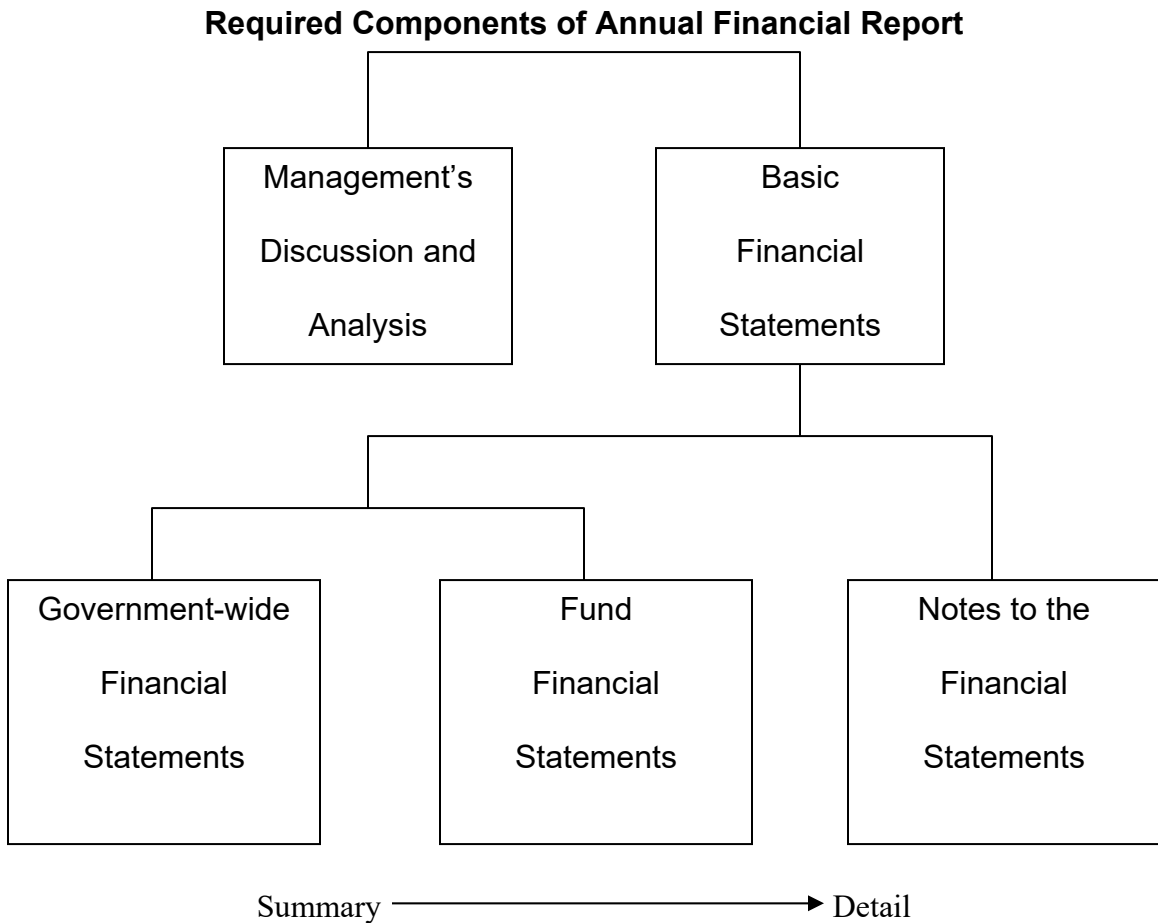
Financial Highlights

- The assets of Phoenix Academy, Inc. exceeded its liabilities and deferred inflows at the close of the fiscal year by \$974,533 (*net position*).
- The school's total net position decreased by \$455,975, primarily due to decreases in the governmental activities net position.
- As of the close of the current fiscal year, Phoenix Academy, Inc.'s governmental funds reported combined ending fund balances of \$640,969, a decrease of \$461,384 in comparison with the prior year.
- Enrollment has expanded. In 2013-2014 the State Funded Average Daily Membership (ADM) was 656. In 2014-2015 it was 891, and in 2015-2016 it grew to 1044.
- Phoenix Academy, Inc. had no long-term debt as of June 30, 2016.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Phoenix Academy, Inc.'s basic financial statements. The School's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two distinct financial perspectives of the School through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of Phoenix Academy, Inc.

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the School's financial standing.

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual segments of the School's government. These statements are more detailed than the government-wide financial statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the proprietary fund statements.

Immediately following the fund financial statements are the **Notes to the Financial Statements** (i.e. "Notes"). The Notes offer a detailed explanation of the data contained in those statements. Next, **supplemental information** is provided to show details about

Management's Discussion and Analysis
Phoenix Academy, Inc.
June 30, 2016

the School's funds. Budgetary information for the School can also be found in this section of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the School's finances, similar in format to the financial statements of a private-sector business. The government-wide statements provide short and long-term information about the School's financial status, as a whole.

The two government-wide statements report the School's net position and how they have changed. Net position is the difference between the School's total assets and total liabilities and deferred inflows of resources. Measuring net assets is one way to gauge the School's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the School's basic functions such as instructional services and business services. These functions are funded almost entirely through state, county, and federal educational funds. The business-type activities are those services that the School charges its students and other customers. These include the School Food Service and Child Care services carried out by Phoenix Academy, Inc.

The government-wide financial statements are enumerated in Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the School's most significant activities. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Phoenix Academy, Inc., like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related statutory requirements, such as the North Carolina General Statutes or the School's budget ordinance, where and when applicable. All of the funds of Phoenix Academy, Inc. can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for functions reported as governmental activities in the government-wide financial statements. Most of the School's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and monies remaining at year-end that will be available for spending in the next fiscal year. Governmental funds are reported using the modified accrual accounting method, which provides a short-term spending focus. The governmental fund financial statements assist the reader in determining whether there has been an increase or a decrease in the financial resources available to finance the School's programs. The relationship between government

Management's Discussion and Analysis
Phoenix Academy, Inc.
June 30, 2016

activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is an integral part of the fund financial statements.

Although not compelled or required to do so by federal, state, or local law, Phoenix Academy, Inc. has elected to adopt an annual budget. Since the budget is not required by law, the budgetary comparison statements are not included in the basic financial statements, but are part of the supplemental statements and schedules following the notes. The budget incorporates input from the faculty, management, and the Board of Directors of the School and specifies which activities will be pursued and which services the School will provide during the year. It also authorizes the School to obtain funds from identified sources to finance current period activities. The budgetary statement demonstrates how well the School has complied with the budget ordinance and whether or not the School has succeeded in providing the services as originally planned.

Proprietary Funds – Phoenix Academy, Inc. has two proprietary funds, which are enterprise funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Phoenix Academy, Inc. uses enterprise funds to account for its School Food Service and Childcare functions.

Notes to the Financial Statements – The notes provide additional information essential to facilitating a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 20 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as one useful indicator of a school's financial condition. The assets of Phoenix Academy, Inc. exceeded liabilities by \$974,533 as of June 30, 2016. As of June 30, 2015, the net assets of Phoenix Academy, Inc. stood at \$1,430,508. The School's net position decreased by \$455,975, for the fiscal year ended June 30, 2016, compared to an increase of \$359,527, before restatement, in 2015. The amount of \$333,564 reflects the School's investment in capital assets (e.g. leasehold improvements, school equipment, and electronic equipment), less any related debt still outstanding that was issued to acquire those items. Phoenix Academy, Inc. uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although Phoenix Academy, Inc.'s investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. The remaining balance of \$640,969 is unrestricted. In 2015, the amount of net investment in capital assets was \$377,047 with unrestricted net position standing at \$1,053,461.

Management's Discussion and Analysis
Phoenix Academy, Inc.
June 30, 2016

Figure 2
Phoenix Academy, Inc.'s Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 765,370	\$ 1,168,789	\$ -	\$ -	\$ 765,370	\$ 1,168,789
Capital assets, net of depreciation	328,155	377,047	5,409	-	333,564	377,047
Total assets	<u>1,093,525</u>	<u>1,545,836</u>	<u>5,409</u>	<u>-</u>	<u>1,098,934</u>	<u>1,545,836</u>
Other liabilities	124,401	115,328	-	-	124,401	115,328
Long-term liabilities outstanding	-	-	-	-	-	-
Total liabilities	<u>124,401</u>	<u>115,328</u>	<u>-</u>	<u>-</u>	<u>124,401</u>	<u>115,328</u>
Net Position:						
Net Investment in capital assets	328,155	377,047	5,409	-	333,564	377,047
Unrestricted	640,969	1,053,461	-	-	640,969	1,053,461
Total Net Position	<u>\$ 969,124</u>	<u>\$ 1,430,508</u>	<u>\$ 5,409</u>	<u>\$ -</u>	<u>\$ 974,533</u>	<u>\$ 1,430,508</u>

Several aspects of the School's financial operations positively influenced the total unrestricted governmental net position:

- The School adopted an annual budget. The School's performance was measured using this budget on a monthly basis, allowing changes to be made as needed to remain within the confines of the budget.
- The School applied for and was awarded federal grants to assist with meeting the educational needs of the student population.
- Funding adjusts proportionately to any change in the student population.

Management's Discussion and Analysis
Phoenix Academy, Inc.
June 30, 2016

Figure 3
Phoenix Academy, Inc.'s Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Donations and Other Revenues	\$ 334,310	\$ 229,990	\$ -	\$ -	\$ 334,310	\$ 229,990
Charges for Services	-	-	-	-	-	-
Operating Grants and Contributions	104,801	146,618	5,315	5,343	110,116	151,961
County, State, and Federal Funds	7,870,567	6,511,970	-	-	7,870,567	6,511,970
Total revenues	8,309,678	6,888,578	5,315	5,343	8,314,993	6,893,921
Instructional Programs	4,798,104	3,951,284	-	-	4,798,104	3,951,284
Support services	3,904,064	2,533,194	-	-	3,904,064	2,533,194
School food service	-	-	68,800	49,916	68,800	49,916
School childcare service	-	-	-	-	-	-
Community Services	-	-	-	-	-	-
Total expenses	8,702,168	6,484,478	68,800	49,916	8,770,968	6,534,394
Increase (Decrease) in net position before transfers	(392,490)	404,100	(63,485)	(44,573)	(461,384)	359,527
Transfers	(68,894)	(11,767)	68,894	11,767	-	-
Increase (Decrease) in net position	(461,384)	392,333	5,409	(32,806)	(455,975)	359,527
Net position, July 1	1,430,508	1,138,096	-	32,806	1,430,508	1,170,902
Restatement	-	(99,921)	-	-	-	(99,921)
Net position, June 30	\$ 969,124	\$ 1,430,508	\$ 5,409	\$ -	\$ 974,533	\$ 1,430,508

Governmental activities. Governmental activities decreased the School's net position by \$461,384.

Business-type activities. Business-type activities increased Phoenix Academy, Inc.'s net position by \$5,409.

Financial Analysis of the School's Funds

As noted earlier, Phoenix Academy, Inc. uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of Phoenix Academy, Inc.'s governmental funds is to provide information on near-term inflows, outflows, and balances of usable financial

Management’s Discussion and Analysis
Phoenix Academy, Inc.
June 30, 2016

resources. Such information is useful in assessing Phoenix Academy, Inc.’s financing requirements. Specifically, unreserved fund balance can be a useful measure of a government’s net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of Phoenix Academy, Inc. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$449,494, while total fund balance reached \$640,969.

Proprietary Funds. The School’s proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the School Proprietary Fund at the end of the fiscal year amounted to \$5,409. The total growth in net position for the School Proprietary Fund was \$5,409. Other factors concerning the finances of this fund have already been addressed in the discussion of the School’s business-type activities.

Capital Asset and Debt Administration

Capital assets. Phoenix Academy, Inc.’s investment in capital assets for its governmental activities as of June 30, 2016, totals \$333,564 (net of accumulated depreciation). Capital assets include leasehold improvements, school furnishings, school equipment, and electronic equipment.

Figure 4
Charter School Name’s Capital Assets
 (net of depreciation)

	Governmental Activities	
	2016	2015
Leasehold improvements	\$ 152,510	\$ 173,814
School furnishings	131,367	156,170
Vehicles	2,794	11,173
School equipment	13,567	3,687
Electronic equipment	33,326	32,203
Total	<u>\$ 333,564</u>	<u>\$ 377,047</u>

Additional information about the School’s capital assets can be found in Note II.A.2. of the Basic Financial Statements.

Long-term Debt. As of June 30, 2016, Phoenix Academy, Inc. had no outstanding debt.

**Management's Discussion and Analysis
Phoenix Academy, Inc.
June 30, 2016**

Economic Factors

The following key economic indicators reflect the growth and prosperity of the School:

- The main LEA that feeds the school continues to have excellent growth thereby providing a large base of students to constantly maintain student headcount.
- State per pupil funding increased \$173.52 which equated to 3.79% more in FY 2016.
- The School is now a permanent part of the community as evidenced by its massive expansion of ADM and grade levels.

Requests for Information

This report is designed to provide an overview of the School's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Kim Norcross, Phoenix Academy, Inc., 4020 Meeting Way, High Point, NC 27265, telephone (336) 869-0079.

PHOENIX ACADEMY, INC.
Statement of Net Position
June 30, 2016

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 560,131	\$ -	\$ 560,131
Due from other governments	9,628	-	9,628
Accounts receivable (net)	4,136	-	4,136
Prepaid items	191,475	-	191,475
	765,370	-	765,370
Capital assets (Note II.A) 2.:			
Other capital assets, net of depreciation	328,155	5,409	333,564
Total capital assets	328,155	5,409	333,564
 Total assets	 1,093,525	 5,409	 1,098,934
LIABILITIES			
Accounts payable and accrued expenses	124,401	-	124,401
Total liabilities	124,401	-	124,401
NET POSITION			
Net investment in capital assets	328,155	5,409	333,564
Unrestricted	640,969	-	640,969
Total net position	\$ 969,124	\$ 5,409	\$ 974,533

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

PHOENIX ACADEMY, INC.
Statement of Activities
For the Year Ended June 30, 2016

Exhibit 2

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary Government</u>		
				<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Primary government:						
Governmental activities:						
Instructional services	\$ 4,798,104	\$ -	\$ 104,801	\$ (4,693,303)	\$ -	\$ (4,693,303)
System-wide support services	3,904,064	-	-	(3,904,064)	-	(3,904,064)
Total governmental activities	<u>8,702,168</u>	<u>-</u>	<u>104,801</u>	<u>(8,597,367)</u>	<u>-</u>	<u>(8,597,367)</u>
Business-type activities:						
School food service	68,800	-	5,315	-	(63,485)	(63,485)
Total business-type activities	<u>68,800</u>	<u>-</u>	<u>5,315</u>	<u>-</u>	<u>(63,485)</u>	<u>(63,485)</u>
 Total primary government	 <u>\$ 8,770,968</u>	 <u>\$ -</u>	 <u>\$ 110,116</u>	 <u>(8,597,367)</u>	 <u>(63,485)</u>	 <u>(8,660,852)</u>
General revenues:						
Unrestricted county appropriations				2,363,811	-	2,363,811
Unrestricted State appropriations				5,506,756	-	5,506,756
Donations- general				1,255	-	1,255
Fines and forfeitures				40,872	-	40,872
Miscellaneous, unrestricted				292,183	-	292,183
Transfers				(68,894)	68,894	-
Total general revenues and transfers				<u>8,135,983</u>	<u>68,894</u>	<u>8,204,877</u>
Change in net position				(461,384)	5,409	(455,975)
Net position, beginning				<u>1,430,508</u>	<u>-</u>	<u>1,430,508</u>
Net position, ending				<u>\$ 969,124</u>	<u>\$ 5,409</u>	<u>\$ 974,533</u>

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

PHOENIX ACADEMY, INC.

Exhibit 3

Balance Sheet
Governmental Funds
June 30, 2016

	Major Funds		Non-Major Fund	Total Governmental Funds
	General	State Public School	Federal Grants	
ASSETS				
Cash and cash equivalents	\$ 560,131	\$ -	\$ -	\$ 560,131
Due from other governments	9,628	-	-	9,628
Receivables (net)	4,136	-	-	4,136
Prepaid items	191,475	-	-	191,475
Total assets	<u>\$ 765,370</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 765,370</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 124,401	\$ -	\$ -	\$ 124,401
Total liabilities	<u>124,401</u>	<u>-</u>	<u>-</u>	<u>124,401</u>
Fund balances:				
Nonspendable:				
Prepaid items	191,475	-	-	191,475
Unassigned	449,494	-	-	449,494
Total fund balances	<u>640,969</u>	<u>-</u>	<u>-</u>	<u>640,969</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 765,370</u>	<u>\$ -</u>	<u>\$ -</u>	

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Net position of governmental activities

328,155

\$ 969,124

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

PHOENIX ACADEMY, INC.
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

Exhibit 4

	<u>Major Funds</u>		<u>Non-major Fund</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>State Public School</u>	<u>Federal Grants</u>	
REVENUES				
State of North Carolina	\$ -	\$ 5,529,507	\$ -	\$ 5,529,507
Boards of Education	2,363,811	-	-	2,363,811
U.S. Government	-	-	82,050	82,050
Contributions and donations	1,255	-	-	1,255
Fines and forfeitures	40,872	-	-	40,872
Other	292,183	-	-	292,183
Total revenues	<u>2,698,121</u>	<u>5,529,507</u>	<u>82,050</u>	<u>8,309,678</u>
EXPENDITURES				
Current:				
Instructional services	1,774,524	2,892,685	82,050	4,749,259
System-wide support services	1,265,369	2,598,729	-	3,864,098
Capital outlay	1,826	38,093	-	39,919
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	<u>3,041,719</u>	<u>5,529,507</u>	<u>82,050</u>	<u>8,653,276</u>
Excess of revenues over (under) expenditures	<u>(343,598)</u>	<u>-</u>	<u>-</u>	<u>(343,598)</u>
OTHER FINANCING SOURCES (USES)				
Transfers to other funds	(68,894)	-	-	(68,894)
Total other financings sources (uses)	<u>(68,894)</u>	<u>-</u>	<u>-</u>	<u>(68,894)</u>
Net change in fund balance	(412,492)	-	-	(412,492)
Beginning fund balance	<u>1,053,461</u>	<u>-</u>	<u>-</u>	<u>1,053,461</u>
Ending fund balance	<u>\$ 640,969</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 640,969</u>

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

PHOENIX ACADEMY, INC.

Exhibit 5

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2016**

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances- total governmental funds \$ (412,492)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

(48,892)

Total changes in net position of governmental activities \$ (461,384)

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

PHOENIX ACADEMY, INC.

Exhibit 6

Statement of Net Position

Proprietary Fund

June 30, 2016

	Enterprise Fund	
	Non-major Fund	Total
	School Food Service	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ -	\$ -
Total current assets	-	-
Noncurrent assets:		
Equipment, net	5,409	\$ 5,409
Total assets	<u>\$ 5,409</u>	<u>\$ 5,409</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	\$ -	\$ -
Total liabilities	-	-
NET POSITION		
Unrestricted	5,409	5,409
Total net position	<u>\$ 5,409</u>	<u>\$ 5,409</u>

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

PHOENIX ACADEMY, INC.
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2016

Exhibit 7

	Enterprise Fund	
	Non-major Fund	
	School Food Service	Total
OPERATING REVENUES		
Food sales	\$ -	\$ -
Total operating revenues	-	-
OPERATING EXPENSES		
Food cost:		
Purchase of food	15,332	15,332
Depreciation expense	1,082	1,082
Contracted services	52,386	52,386
Total operating expenses	68,800	68,800
Operating income (loss)	(68,800)	(68,800)
NONOPERATING REVENUES (EXPENSES)		
USDA reimbursements	5,315	5,315
Transfers from other funds	68,894	68,894
Total nonoperating expenses	74,209	74,209
Change in net position	5,409	5,409
Total net position - beginning	-	-
Total net position - ending	\$ 5,409	\$ 5,409

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

PHOENIX ACADEMY, INC.
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2016

Exhibit 8

	Enterprise Fund	
	Non-major Fund	
	School Food	
	Service	Total
CASH FLOWS FROM OPERATING ACTIVITES		
Cash received from customers	\$ -	\$ -
Cash paid to employees for services	-	-
Cash paid for goods and services	(67,718)	(67,718)
Net cash provided (used) by operating activities	(67,718)	(67,718)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITES		
USDA reimbursements	5,315	5,315
Transfers in (out)	68,894	68,894
Net cash provided by noncapital financing activities	74,209	74,209
CASH FLOWS FROM CAPITAL ACTIVITIES		
Acquisition of capital assets	(6,491)	(6,491)
Net cash provided (used) by capital activities	(6,491)	(6,491)
Net increase (decrease) in cash and cash equivalents	-	-
Balances - beginning of year	-	-
Balances - end of year	\$ -	\$ -
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (68,800)	\$ (68,800)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,082	1,082
Net cash provided (used) by operating activities	\$ (67,718)	(67,718)

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

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Phoenix Academy, Inc. (the School) conform to generally accepted accounting principles (GAAP) as applicable to governments. Charter schools are established by non-profit entities. Because of the authority of the State Board of Education (SBE) to unilaterally abolish a school with all the assets reverting to a local education agency, the charter schools in North Carolina follow the governmental reporting model, as used by local education agencies. The following is a summary of the more significant accounting policies:

A) Reporting Entity

The School is a public school operated by a non-profit corporation, serving approximately 1,044 students. The School operates under an approved charter received from the SBE, and applied for under the provisions of General Statute (G.S.) 115C-238.29B. G.S. 115C-238.29F(f)(1) states that a charter school shall be subject to the audit requirements adopted by the SBE, which includes the audit requirements established by G.S. 115C-447 of the School Budget and Fiscal Control Act (SBFCA). G.S. 115C-447 also requires financial statements to be prepared in accordance with GAAP.

B) Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities display information about the School. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the School. Governmental activities generally are financed through intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the School and for each function of the School's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the School's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principle activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) Basis of Presentation (Continued)

The School reports the following major governmental funds:

General Fund: The General Fund is the general operating fund of the School. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund.

State Public School Fund: The State Public School Fund includes appropriations from the Department of Public Instruction for current operating needs of the School and is reported as a special revenue fund.

The School reports no major enterprise funds.

C) Measurement Focus and Basis of Accounting

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the School gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. These could include federal, State, and county grants, and some charges for services. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the School funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the School's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D) Budgetary Data

Annual budgets are adopted for all funds, on a school wide basis. All budgets are prepared using the modified accrual basis of accounting.

The governing board has voluntarily established the policy, as a sound business practice, that expenditures may not exceed appropriations, for all of the School's funds, based on the adopted budget and subsequent amendments. During the year, several amendments to the original budget were necessary. The budgets presented in the supplementary information represent the budgets of the School at June 30, 2016. All appropriations lapse at year end.

E) Assets, Liabilities, Deferred Outflows and Inflows of Resources and Fund Equity

1. Deposits and Investments

All deposits of the School are made in a local bank, whose accounts are FDIC insured. Also, the School may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

2. Cash and Cash Equivalents

The School pools money from several funds to facilitate disbursement and investment and to maximize investment income. All cash and investments with original maturities of three months or less are considered cash and cash equivalents.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Capital Assets

The School's donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other capital assets are recorded at original cost. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

It is the policy of the School to capitalize all capital assets costing more than \$500 with an estimated useful life of two or more years. All depreciable assets are depreciated using the straight-line method of depreciation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E) Assets, Liabilities, Deferred Outflows and Inflows of Resources and Fund Equity (Continued)

4. Capital Assets (Continued)

Capital assets are depreciated over the following estimated useful lives:

	<u>Years</u>
Vehicles	5 – 7
Leasehold improvements	7 – 39
School furnishings and equipment	5 – 7
Electronic equipment	3 – 7

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The School has no items that meet this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The School has no items that meet the criterion for this category.

6. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position.

In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

7. Compensated Absences

Employees who work for the entire school year earn 1.5 sick days per month and 10 personal days for the year. Employees who are hired for less than the entire school year earn 1.5 sick days per month and 2.5 personal hours per month. Employees' sick and personal days do not accrue at year end and are not carried forward to the next school year. Employees do not receive compensation for unused sick and personal days after the termination of employment.

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E) Assets, Liabilities, Deferred Outflows and Inflows of Resources and Fund Equity (Continued)

8. Net Position/Fund Balances

Net Position

Net position in the government-wide fund financial statements are classified as net investment in capital assets, net of related debt; restricted; and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute.

Fund Balance

In the governmental fund financial statements, fund balance is composed of two classifications (out of five possible classifications) designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balance as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Prepaid Items – Portion of fund balance that is not an available resource because it represents the year-end balance of prepaid operating expenses and rent on the school facility which is not a spendable resource.

Unassigned Fund Balance – The portion of fund balance that has not been assigned to another fund or restricted, committed, or assigned to specific purposes within the General Fund.

The School has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Board will use resources in the following hierarchy: federal funds, State funds, local non-board of education funds, board of education funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance, and lastly unassigned fund balance. The Board has the authority to deviate from this policy if it is in the best interest of the School.

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E) Assets, Liabilities, Deferred Outflows and Inflows of Resources and Fund Equity (Continued)

9. Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between for governmental funds' total fund balance and governmental activities' net position as reported in the government-wide statement of net position. The net adjustment of \$328,155 consists of several elements as follows:

<u>DESCRIPTION</u>	<u>AMOUNT</u>
Capital assets used in governmental activities are not financial resources are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column).	\$ 836,931
Less accumulated depreciation	<u>(508,776)</u>
Total adjustment	<u>\$ 328,155</u>

F) Revenues, Expenditures, and Expenses

1. Funding

Phoenix Academy, Inc. is funded by the State Board of Education, receiving (i) an amount equal to the average per pupil allocation for the average daily membership (ADM) from the local school administrative unit allotments in which the School is located (i.e. Guilford County Board of Education) for each child attending the School except for the allocation for children with special needs and (ii) an additional amount for each child attending the School who is a child with special needs [G.S. 115C-238.29H(a)]. Additionally, the appropriate local school administrative unit(s) transfers to the School, for each student who resides in the local administrative unit and attends the charter school, an amount equal to the per pupil local current expense appropriation to the respective local school administrative unit for the fiscal year. [G.S. 115C-238.29H(b)]. For the fiscal year ended June 30, 2016, Phoenix Academy, Inc. received funding from the Boards of Education for Guilford County, Forsyth County, Randolph County, Davidson County, Lexington City, Stokes County, and Thomasville City Schools.

Furthermore, Phoenix Academy, Inc. has received donations of cash and/or equipment from private organizations. The cash is available to be used throughout the year for the School's various programs and activities.

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F) Revenues, Expenditures, and Expenses (Continued)

2. Reconciliation of Government-wide and Fund Financial Statements

The governmental fund statement of revenues, expenditures, and changes in fund balances is followed by a reconciliation between the change in governmental funds' fund balance and the change in governmental activities' net position as reported on the government-wide statement of activities. The net difference of \$(48,892) between the two amounts consists of the following elements:

<u>DESCRIPTION</u>	<u>AMOUNT</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets on the statement of activities.	\$ 39,919
Depreciation expense that is recorded on the statement of activities but not in the fund statements.	(88,811)
Principle payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net position in the government-wide statements.	-
Total	<u>\$ (48,892)</u>

G) Use of Estimates and Assumption

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenditures.

II. DETAIL NOTES ON ALL FUNDS

A) Assets

1. Deposits

At June 30, 2016, the School had deposits with banks and savings and loans with a carrying amount of \$560,031. The bank balance with the financial institution was \$565,118 of which \$315,118 was not covered by federal depository insurance. The School does not have a deposit policy for custodial credit risk.

Cash on hand at the School totaled \$100 as of June 30, 2016.

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2016

II. DETAIL NOTES ON ALL FUNDS (Continued)

A) Assets (Continued)

2. Capital Assets

Capital asset activity for the year ended June 30, 2016, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets being depreciated:				
Leasehold improvements	\$ 238,009	\$ 2,388	\$ -	\$ 240,397
School furnishings	212,845	16,730	-	229,575
Vehicle	41,896	-	-	41,896
School equipment	14,865	7,495	-	22,360
Electronic equipment	<u>289,397</u>	<u>13,306</u>	<u>-</u>	<u>302,703</u>
Total assets	<u>797,012</u>	<u>39,919</u>	<u>-</u>	<u>836,931</u>
Less accumulated depreciation:				
Leasehold improvements	64,195	23,692	-	87,887
School furnishings	56,675	41,533	-	98,208
Vehicle	30,723	8,379	-	39,102
School equipment	11,178	3,024	-	14,202
Electronic equipment	<u>257,194</u>	<u>12,183</u>	<u>-</u>	<u>269,377</u>
Total accumulated depreciation	<u>419,965</u>	<u>\$ 88,811</u>	<u>\$ -</u>	<u>508,776</u>
Net assets depreciated	<u>\$ 377,047</u>			<u>\$ 328,155</u>

Depreciation expense was charged to governmental functions as follows:

Instructional programs	\$ 48,846
Supporting services	<u>39,965</u>
	<u>\$ 88,811</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
Capital assets being depreciated:				
School food service equipment	\$ -	\$ 6,491	\$ -	\$ 6,491
Total assets	<u>-</u>	<u>6,491</u>	<u>-</u>	<u>6,491</u>
Less accumulated depreciation:				
School food service equipment	-	1,082	-	1,082
Total accumulated depreciation	<u>-</u>	<u>\$ 1,082</u>	<u>\$ -</u>	<u>1,082</u>
Net assets depreciated	<u>\$ -</u>			<u>\$ 5,409</u>

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2016

II. DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities

1. Pension Plan and Other Postemployment Obligations

a. Retirement Plan

Phoenix Academy, Inc. offers a non-matching 403(b) qualified retirement plan to eligible employees (employees who work 20 or more hours per week). The plan has a discretionary profit sharing option. There were no retirement benefits paid for the year ended June 30, 2016.

b. Postemployment Benefits

Phoenix Academy, Inc. does not offer any postemployment benefits.

2. Risk Management

The School is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School maintains general liability and errors and omissions insurance coverage of \$1 million per occurrence with a commercial carrier. The School carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and claims have not exceeded coverage in any of the past two fiscal years.

The School has elected not to carry flood insurance because the School is not in an area of the State that has been mapped and designated an “A” area (an area close to a river, lake, or stream) by the Federal Emergency Management Agency.

The School carries fidelity bond coverage in the amount of \$250,000 for all its employees. The Company that performs all the School’s outsourced accounting carries fidelity bond coverage in the amount of \$500,000.

3. Long-Term Obligations

a) Building Lease

The School rents space under the terms of two operating leases. Lease payments include minimum lease payments through June of 2035. Both leases begin in June 2015 and are for a term of twenty years and contain three options of five years each at the end of the term. Future minimum lease payments, including operating expenses are:

<u>Year ending</u>	
June 30, 2017	\$ 1,876,452
June 30, 2018	1,928,408
June 30, 2019	1,981,815
June 30, 2020	2,036,713
June 30, 2021	2,093,144
Thereafter	<u>36,198,433</u>
	<u>\$ 46,114,964</u>

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2016

II. DETAIL NOTES ON ALL FUNDS (Continued)

C) Fund Balance

The School has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Board will use resources in the following hierarchy: federal funds, State funds, local non-School funds, Phoenix Academy, Inc. funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance, and lastly unassigned fund balance. The Board has the authority to deviate from this policy if it is in the best interest of the School.

The following schedule provides management and citizens with information on the portion of General Fund balance that is available for appropriation.

Total fund balance	\$ 640,969
Less:	
Prepaid items	<u>(191,475)</u>
Remaining fund balance	<u>\$ 449,494</u>

III. RELATED PARTIES

7 Degrees of Change Foundation (7 Degrees) is a 501(c)(3) whose mission is to build successes in the areas of education and literacy. The School has signed an education service provider agreement with 7 Degrees in which it has contracted to handle all management, operational and educational decisions of the School. As a base fee, 7 Degrees is paid 16% of the annual gross revenue of the School and is also reimbursed for any expenses related to the management of the School. 7 Degrees is run by the former principal of the School, as well as the former board treasurer and board chairman of the School. 7 Degrees provides all administrative support staff to the School. 7 Degrees was paid \$1,421,610 by the School during the year ended June 30, 2016.

Phoenix Academy Foundation, Inc. (the Foundation) is a 501(c)(3) whose mission is to support the activities of Phoenix Academy, Inc. by providing school facilities through lease arrangements. The Foundation leases the buildings from a third party which the School currently occupies. The Foundation's board chairman is the former board treasurer and former board chairman of the School. The amount paid to the Foundation for the year ended June 30, 2016 was \$1,576,424 for the rental of school facilities. See the building lease note on page 27 for additional details.

PHOENIX ACADEMY, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2016

IV. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

The School has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

VI. SUBSEQUENT EVENTS

Management has evaluated subsequent events to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through November 20, 2016 which is the date the financial statements were available to be issued.

[THIS PAGE INTENTIONALLY LEFT BLANK]

SUPPLEMENTARY INFORMATION

PHOENIX ACADEMY, INC. **Schedule 1**
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Government Fund Types
For the Year Ended June 30, 2016

	Final Budget	Actual	Variance Positive (Negative)
REVENUES			
State of North Carolina	\$ 5,529,507	\$ 5,529,507	\$ -
Boards of Education:			
Guilford County	2,212,495	2,212,494	(1)
Forsyth County	66,580	66,579	(1)
Davidson County	57,746	57,745	(1)
Randolph County	15,993	15,992	(1)
Lexington City	1,148	1,148	-
Stokes County	1,681	1,680	(1)
Thomasville City	8,173	8,173	-
U.S. Government	133,659	82,050	(51,609)
Fines and forfeitures	40,873	40,872	(1)
Donations	1,300	1,255	(45)
Others	293,020	292,183	(837)
Total revenues	<u>8,362,175</u>	<u>8,309,678</u>	<u>(52,497)</u>
EXPENDITURES			
Salaries and bonuses	3,154,859	3,103,648	51,211
Employee benefits	669,915	668,537	1,378
Books and supplies	327,251	333,669	(6,418)
Technology	175,800	175,072	728
Non-capitalized equipment and leases	54,850	64,158	(9,308)
Contracted student services	333,300	332,734	566
Staff development	13,900	12,765	1,135
Administrative services	1,715,125	1,714,169	956
Insurance	63,700	62,676	1,024
Rent	1,578,900	1,578,796	104
Facilities	403,250	402,627	623
Utilities	158,800	158,083	717
Nutrition and food	4,825	4,740	85
Transportation and travel	1,900	1,683	217
Total	<u>8,656,375</u>	<u>8,613,357</u>	<u>43,018</u>
Capital outlay	<u>56,950</u>	<u>39,919</u>	<u>17,031</u>
Debt service:			
Principal	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>8,713,325</u>	<u>8,653,276</u>	<u>60,049</u>
Other financing sources (uses):			
Transfers to other funds	-	(68,894)	(68,894)
Fund balance appropriated	351,150	-	(351,150)
Total other financing sources (uses)	<u>351,150</u>	<u>(68,894)</u>	<u>(420,044)</u>
Revenue under expenditures	<u>\$ -</u>	<u>\$ (412,492)</u>	<u>\$ (412,492)</u>

PHOENIX ACADEMY, INC.

Schedule 2

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Proprietary Fund Types

For the Year Ended June 30, 2016

	Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Food sales	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES			
Food service expenditures:			
Food purchases	15,400	15,332	68
Contracted services	52,400	52,386	14
Depreciation	-	1,082	(1,082)
Total food service	<u>67,800</u>	<u>68,800</u>	<u>(1,000)</u>
Total expenditures	<u>67,800</u>	<u>68,800</u>	<u>(1,000)</u>
Revenues over (under) expenditures	(67,800)	(68,800)	(1,000)
Other financing sources (uses):			
Federal reimbursements	5,450	5,315	(135)
Transfer from other funds	-	68,894	68,894
Fund balance appropriated	62,350	-	(62,350)
Total other financing sources (uses)	<u>67,800</u>	<u>74,209</u>	<u>6,409</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 5,409</u>	<u>\$ 5,409</u>

[THIS PAGE INTENTIONALLY LEFT BLANK]

COMPLIANCE SECTION



Rives & Associates, LLP
Certified Public Accountants

Member:
American Institute of
Certified Public Accountants

Member:
North Carolina Association of
Certified Public Accountants

www.rivescpa.com

Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

To the Board of Directors
Phoenix Academy, Inc.
High Point, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, , each major fund, and the aggregate remaining fund information of Phoenix Academy, Inc., as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Phoenix Academy, Inc.'s basic financial statements, and have issued our report thereon dated November 20, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Phoenix Academy'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Phoenix Academy, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Phoenix Academy, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charge with governance.

Our consideration of the internal control was for limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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.

Rivers & Associates LLP

Raleigh, North Carolina
November 20, 2016



Member:
American Institute of
Certified Public Accountants

Rives & Associates, LLP
Certified Public Accountants

Member:
North Carolina Association of
Certified Public Accountants

www.rivescpa.com

Independent Auditors' Report On Compliance For Each Major State Program and on Internal Control Over Compliance Required By the Uniform Guidance and the State Single Audit Implementation Act

To the Board of Directors
Phoenix Academy, Inc.
High Point, North Carolina

Report on Compliance for Each Major State Program

We have audited Phoenix Academy, Inc., North Carolina, with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of Phoenix Academy, Inc.'s major State programs for the year ended June 30, 2016. The Phoenix Academy, Inc.'s major State program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Phoenix Academy, Inc.'s major State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the Phoenix Academy, Inc.'s compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major State program. However, our audit does not provide a legal determination of Phoenix Academy, Inc.'s compliance.

Opinion on Each Major State Program

In our opinion, the Phoenix Academy, Inc. complied, in all material respects, with the types of compliance requirements referred to that could have a direct and material effect on its major State program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Phoenix Academy, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Phoenix Academy, Inc.'s internal control over compliance with the types of requirements that are appropriate in the circumstances that could have a direct and material effect on a major State program to determine the auditing procedures for the purpose of expressing our opinion on compliance for each major State program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Phoenix Academy, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a State program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a State program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Rivers & Associates LLP

Raleigh, North Carolina
November 20, 2016

PHOENIX ACADEMY, INC.
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2016

No findings disclosed in the prior year

PHOENIX ACADEMY, INC.
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2016

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/Pass- Through Grantor's Number</u>	<u>Expenditures</u>
FEDERAL GRANTS			
<u>U.S. Department of Education</u>			
Cash Assistance:			
Passed-through the N.C. Department of Public Instruction			
Special Education Cluster:			
Special Education - Grants to States (IDEA, Part B)			
Education of the Handicapped	84.027	PRC 060	\$ 82,050
Total U.S. Department of Education			82,050
<u>U.S. Department of Agriculture</u>			
Passed-through the N.C. Department of Public Instruction			
Child Nutrition Program	10.579	XXX	5,315
Total federal assistance			87,365
STATE GRANTS			
Cash Assistance:			
<u>N.C. Department of Public Instruction:</u>			
State Public School Fund - Charter Schools		PRC 036	5,506,756
State Public School Fund - Summer Reading Camps		PRC 016	22,751
Total State assistance			5,529,507
Total federal and State assistance			\$ 5,616,872

PHOENIX ACADEMY, INC.
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2016

Notes to the Schedule of Expenditures of Federal and State Financial Awards:

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of Phoenix Academy, Inc. under the programs of the federal government and the State of North Carolina for the year ended June 30, 2016. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School.

Note 2: Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

[THIS PAGE INTENTIONALLY LEFT BLANK]



Phoenix Academy Foundation, Inc.

Financial Statements
Year Ended June 30, 2016

[THIS PAGE INTENTIONALLY LEFT BLANK]



Phoenix Academy Foundation, Inc.

Financial Statements
Year Ended June 30, 2016

Phoenix Academy Foundation, Inc.

Contents

Independent Auditors' Report	3
Financial Statements	
Statement of financial position	4
Statement of activities	5
Statement of cash flows	6
Notes to financial statements	7-10



Rives & Associates, LLP
Certified Public Accountants

Member:
American Institute of
Certified Public Accountants

Member:
North Carolina Association of
Certified Public Accountants

www.rivescpa.com

Independent Auditors' Report

To the Board of Directors
Phoenix Academy Foundation, Inc.
High Point, North Carolina

We have audited the accompanying financial statements of Phoenix Academy Foundation, Inc., a nonprofit Foundation (the "Foundation"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows 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.

Auditors' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Foundation'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 Foundation'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Phoenix Academy Foundation, Inc. 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.

Rives & Associates LLP

Raleigh, North Carolina
May 15, 2017

4515 Falls of Neuse Road, Suite 450
Raleigh, NC 27609
Phone: 919-832-6848
Fax: 919-832-7288

212 West Center Street
P.O. Box 1991
Lexington, NC 27293
Phone: 336-248-8281
Fax: 336-248-2335

1023 W. Morehead Street, Suite 100
Charlotte, NC 28208
Phone: 704-372-0960
Fax: 704-372-1458

Phoenix Academy Foundation, Inc.

Statement of Financial Position As of June 30, 2016

	2016
Assets	
Current	
Cash and cash equivalents	\$ 371,755
Total current assets	371,755
Property and equipment, net	148,704
Total assets	\$ 520,459
Liabilities and Net Assets	
Current liabilities	
Current portion of capital lease obligations	\$ 88,267
Total current liabilities	88,267
Capital lease obligations, net of current portion	53,999
Total liabilities	142,266
Net assets	
Unrestricted	378,193
Total net assets	378,193
Total liabilities and net assets	\$ 520,459

See accompanying notes to financial statements.

Phoenix Academy Foundation, Inc.

Statement of Activities Year Ended June 30, 2016

	2016
Revenue and support	
Rent revenue - debt property	\$ 41,150
Contribution income	87,600
Total revenue and support	128,750
Operating expenses	
Accounting fees	9,159
Legal fees	3,285
Depreciation	95,013
Settlement expense	52,000
Bank service charges	60
Consulting	10,170
Donations	52,216
Amortization of loan fees	1,797
Miscellaneous	2,278
Total operating expenses	225,978
Change in net assets from operations	(97,228)
Non-operating activities	
Interest expense	(7,933)
Gain on sale of property and equipment	366,856
Total non-operating activities	358,923
Change in net assets	261,696
Net assets, beginning of year	116,497
Net assets, end of year	\$ 378,193

See accompanying notes to financial statements.

Phoenix Academy Foundation, Inc.

Statement of Cash Flows Year Ended June 30, 2016

	2016
Operating activities	
Change in net assets	\$ 261,696
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	95,013
Gain on disposal of property and equipment	(366,856)
Change in operating assets and liabilities:	
Decrease in:	
Prepaid expenses and other current assets	1,568
Net cash provided by operating activities	(8,579)
Investing activities	
Proceeds from sale of property and equipment	650,000
Net cash provided by investing activities	650,000
Financing activities	
Principal payments on capital lease obligations	(323,726)
Net cash used in financing activities	(323,726)
Change in cash and cash equivalents	317,695
Cash and cash equivalents, beginning of year	54,060
Cash and cash equivalents, end of year	\$ 371,755

See accompanying notes to financial statements.

Phoenix Academy Foundation, Inc.

Notes to Financial Statements

1. Organization Phoenix Academy Foundation, Inc. (the “Foundation”) is a not-for-profit organization founded in 1964 for the purpose of fostering and promoting the growth, progress and general welfare of Phoenix Academy (the “School”).

2. Summary of Significant Accounting Policies **Basis of Presentation** – Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

- Unrestricted net assets – net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or passage of time.
- Permanently restricted net assets – net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all of or part of the income (which includes realized and unrealized gains on investments) earned on related investments for general or specified purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions (i.e., the donor-imposed stipulation has been fulfilled and/or the stipulation time period has elapsed) are reported as net assets released from restrictions on the statement of activities.

Use of Estimates – The preparation of financial statements in accordance with generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Phoenix Academy Foundation, Inc.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Contributions – The Foundation recognizes contributions, including unconditional promises to give, as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at a risk-adjusted rate, which could have been obtained at the date of the gift, adjusted based on an analysis of market data for comparable assets. Amortization of the discount is recorded as additional contribution revenue.

The ability of the Foundation’s contributors to continue giving amounts comparable with prior years is dependent, amongst other factors, upon current and future economic conditions and the continued deductibility for income tax purposes of contributions to the Foundation. While the Foundation’s Board of Directors (“Board”) believes the Foundation has the resources to continue to support the School’s programs, its ability to do so and the extent to which it continues, may be dependent on the above factors.

No amounts have been reflected in the financial statements for donated services as the Foundation generally pays for specific expertise. Individuals volunteer their time and perform a variety of tasks that assist the Foundation, but these services do not meet the criteria for recognition as contributed services.

Cash and Cash Equivalents – The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash balances are maintained with various banks, the amounts of which may at times exceed federally insured limits.

Concentrations of Credit Risk – Risks associated with cash balances are mitigated by banking with credit worthy institutions.

Depreciation Expense – Depreciation expense for the year ended June 30, 2016 was approximately \$95,000.

Income Taxes – The Foundation is exempt from income taxes on related income under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code. No material unrelated business taxable income has been identified by management. Accordingly, no provision for income taxes is made in the financial statements.

Phoenix Academy Foundation, Inc.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (Concluded)

It is the Foundation's policy to evaluate all tax positions and to identify any that may be considered uncertain. All identified material tax positions are assessed and measured by a "more-likely-than-not" threshold to determine if the tax position is uncertain and what, if any, the effect of the uncertain tax position may have on the financial statements. Any changes in the amount of a tax position will be recognized in the period the change occurs. Currently, the statute of limitations remains open subsequent to and including fiscal year 2013; however, no examinations are in process.

Subsequent Events – All fixed assets and related debt were transferred to the School effective July 1, 2016.

3. Related Party Transactions

Rent received from the School amounted to approximately \$41,000 in 2016. Contributions to the School amounted to approximately \$46,000 in 2016. These two organizations are commonly controlled. Commissions paid to the Chairman/Director during 2016 totaled \$25,000.

4. Property and Equipment

Property and equipment consist of the following at:

<i>June 30,</i>	2016
Furniture and equipment	\$ 48,253
Computers	334,351
Total property and equipment	382,604
Less accumulated depreciation and amortization	(233,900)
Property and equipment, net	\$ 148,704

Depreciation and amortization expense, including amortization of assets under capital leases, for the year ended June 30, 2016 was \$95,013. Accumulated amortization on assets leased under capital leases was \$166,081 as of June 30, 2016.

Phoenix Academy Foundation, Inc.

Notes to Financial Statements

5. Commitments and Contingencies

Lease Commitments

The Foundation leases computers through 2019 for School use. At June 30, 2016, aggregate future minimum rental commitments for all non-cancelable leases are as follows:

<u>Years ending June 30,</u>	<u>Capital Lease</u>
2017	\$ 94,884
2018	48,552
2019	3,695
	<u>147,131</u>
Less amount representing interest	<u>(4,865)</u>
Present value of minimum lease payments	<u>\$ 142,266</u>

6. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*, which provides guidance on the recognition of revenue. The ASU is effective for periods beginning after December 15, 2018. Management is currently assessing the impact this guidance may have on the Foundation’s future financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which significantly amends guidance on the presentation of financial statements. The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, with early application permitted. Management is currently assessing the impact this guidance will have on the Foundation’s future financial statements.

APPENDIX B-2

**CERTAIN INTERIM FINANCIAL INFORMATION OF PHOENIX ACADEMY, INC.
DISCLOSED TO THE DEPARTMENT OF PUBLIC INSTRUCTION**

[THIS PAGE INTENTIONALLY LEFT BLANK]

Date: 05/04/2017
 Time: 8:58 am

PHOENIX ACADEMY
BUDGET REPORT (CONDENSED)
 From 4/1/2017 to 4/30/2017

	CURRENT BUDGET	MTD ACTIVITY	YTD ACTIVITY	BUDGET BALANCE	PERCENT REMAINING	NOTES
REVENUE						
STATE REVENUE						
Rev - Summer Reading - 016	\$56,164.00	\$0.00	\$0.00	\$56,164.00	100.00%	
Rev - Charter Schools	\$6,505,343.00	\$113,962.08	\$6,500,343.00	\$5,000.00	0.08%	
TOTAL STATE REVENUE	\$6,561,507.00	\$113,962.08	\$6,500,343.00	\$61,164.00	0.93%	
LOCAL REVENUE						
Rev - Sales Tax	\$15,000.00	\$0.00	\$4,992.71	\$10,007.29	66.72%	
Rev - Field Trip	\$49,330.00	\$156.60	\$38,899.15	\$10,430.85	21.15%	
Rev - Field Trips 9922	\$670.00	\$0.00	\$670.00	\$0.00	0.00%	
Rev - Contributions and Donati	\$100,000.00	\$0.00	\$1,520.00	\$98,480.00	98.48%	
Rev - Various	\$2,775.00	\$0.00	\$2,774.15	\$0.85	0.03%	
Rev - Student Supply Fees	\$230.00	\$0.00	\$225.94	\$4.06	1.77%	
Rev - Athletics	\$3,500.00	\$40.00	\$3,466.02	\$33.98	0.97%	
Rev - Clubs	\$1,650.00	\$0.00	\$1,645.49	\$4.51	0.27%	
Rev - Loan Proceeds	\$38,280.00	\$0.00	\$38,280.00	\$0.00	0.00%	
Rev - Davidson County Schools	\$78,142.00	\$0.00	\$57,327.55	\$20,814.45	26.64%	
F & F - Davidson County School	\$4,700.00	\$0.00	\$3,828.04	\$871.96	18.55%	
Rev - Forsyth County Schools	\$88,992.00	\$7,181.00	\$67,449.00	\$21,543.00	24.21%	
Rev - Guilford County Schools	\$2,482,072.00	\$0.00	\$1,678,841.17	\$803,230.83	32.36%	
F & F - Guilford County School	\$39,000.00	\$0.00	\$0.00	\$39,000.00	100.00%	
Rev - Lexington City Schools	\$2,562.00	\$0.00	\$2,561.55	\$0.45	0.02%	
F & F - Lexington City Schools	\$19.00	\$0.00	\$18.33	\$0.67	3.53%	
Rev - Randolph County Schools	\$15,739.00	\$1,573.88	\$12,591.04	\$3,147.96	20.00%	
Rev - Rockingham Co Schools	\$2,412.00	\$603.00	\$1,809.00	\$603.00	25.00%	
Rev - Stokes County Schools	\$1,695.00	\$0.00	\$750.60	\$944.40	55.72%	
Rev - Thomasville City Schools	\$6,948.00	\$718.68	\$4,791.20	\$2,156.80	31.04%	
Rev - Fundraising - 653	\$200,000.00	\$25,974.11	\$189,561.68	\$10,438.32	5.22%	
TOTAL LOCAL REVENUE	\$3,133,716.00	\$36,247.27	\$2,112,002.62	\$1,021,713.38	32.60%	
FEDERAL REVENUE						
Rev - IDEA VI-B - 060	\$199,757.71	\$65,076.50	\$141,234.68	\$58,523.03	29.30%	
TOTAL FEDERAL REVENUE	\$199,757.71	\$65,076.50	\$141,234.68	\$58,523.03	29.30%	
TOTAL REVENUE	\$9,894,980.71	\$215,285.85	\$8,753,580.30	\$1,141,400.41	11.54%	

Date: 05/04/2017
Time: 8:58 am

PHOENIX ACADEMY
BUDGET REPORT (CONDENSED)
From 4/1/2017 to 4/30/2017

	CURRENT	MTD	YTD	BUDGET	PERCENT	
	BUDGET	ACTIVITY	ACTIVITY	BALANCE	REMAINING	NOTES
EXPENSES						
1. Salaries & Bonuses	\$3,508,510.00	\$247,395.70	\$2,910,177.51	\$598,332.49	17.05%	
2. Benefits	\$859,118.00	\$75,180.22	\$681,472.79	\$177,645.21	20.68%	
3. Books & Supplies	\$242,014.00	\$3,505.84	\$160,730.33	\$81,283.67	33.59%	
4. Technology	\$218,000.00	\$15,982.28	\$204,841.42	\$13,158.58	6.04%	
5. Non-Cap Equipment & Leases	\$58,450.00	\$3,807.77	\$41,887.60	\$16,562.40	28.34%	
6. Contracted Student Services	\$375,500.00	\$19,579.58	\$232,905.86	\$142,594.14	37.97%	
7. Staff Development	\$42,000.00	\$0.00	\$39,149.97	\$2,850.03	6.79%	
8. Administrative Services	\$2,010,600.00	\$18,299.46	\$1,953,441.81	\$57,158.19	2.84%	
9. Insurances	\$66,510.00	\$0.00	\$66,465.93	\$44.07	0.07%	
10. Rents & Debt Service	\$1,403,663.00	\$245.00	\$1,403,007.74	\$655.26	0.05%	
11. Facilities	\$393,600.00	\$13,320.68	\$312,082.38	\$81,517.62	20.71%	
12. Utilities	\$180,000.00	\$14,148.18	\$134,091.05	\$45,908.95	25.50%	
13. Nutrition & Food	\$76,350.00	\$7,296.08	\$58,873.25	\$17,476.75	22.89%	
14. Transportation & Travel	\$1,000.00	\$0.00	\$482.25	\$517.75	51.78%	
15. Capital Purchases	\$51,555.00	\$0.00	\$51,551.82	\$3.18	0.01%	
80. Federal Programs	\$199,757.71	\$65,076.50	\$141,234.68	\$58,523.03	29.30%	
TOTAL EXPENSES	\$9,686,627.71	\$483,837.29	\$8,392,396.39	\$1,294,231.32	13.36%	
NET SURPLUS/(DEFICIT)	\$208,353.00	\$(268,551.44)	\$361,183.91			

APPENDIX C

CHARTER SCHOOL LAWS IN NORTH CAROLINA

This APPENDIX C briefly summarizes certain North Carolina statutes affecting charter schools in North Carolina, primarily with respect to funding and administration thereof. This APPENDIX C is not intended to be a complete statement of such law, and reference is made to the Charter School Act in its entirety, along with the North Carolina General Statutes, for a complete understanding of such provisions, charter school law generally, and other statutes in effect in North Carolina.

CHARTER SCHOOL FINANCE

General

In 1996, the North Carolina General Assembly enacted the Charter School Act, 1995 N.C. Sess. Laws 731, as a means of authorizing teachers, parents, pupils and community members to establish and maintain charter schools. The Charter School Act has since been amended on various occasions, and recodified as N.C. Gen. Stat. § 115C-218 et. seq. on August 6, 2014. Charter schools are public schools that are operated independently of existing public schools pursuant to a charter granted by the North Carolina State Board of Education (“SBE”). During the 2014-2015 school year, there were 148 charter schools in North Carolina and the total Average Daily Membership (“ADM”) for charter schools in the state was 69,477.*

State of North Carolina and Local Funds

In North Carolina, the state is primarily responsible for the supervision, administration and funding of the public school system. The general cost of operating the system of public schools is paid from the North Carolina General Fund rather than locally levied ad valorem property taxes. State of North Carolina appropriations are allotted in accordance with various formulae, primarily based upon ADM. The State of North Carolina pays a substantial portion of current operating expenses such as salaries of teachers, and other staff, instructional supplies, textbooks and transportation. These current operating expenditures are supplemented by the counties. Counties are generally responsible for capital improvements, plant maintenance, insurance and energy costs. The State of North Carolina has also assisted counties in their responsibility for capital outlay expenditures.

Charter schools receive funding based on the average per pupil allocation in the local school administrative unit from which a student comes. One hundred and fifty-eight charter schools were operating in North Carolina as of January 2016.†

The following shows expenditure figures for North Carolina public schools for the four most recent years for which data are available:

*Source: “Summary of Charter School Membership, 2014-15,” by Office of Charter Schools, North Carolina Department of Public Instruction. Average Daily Membership is the sum of days in membership for all non-violating students in individual local school administrative units and charter schools, divided by the number of school days in the month.

†Source: <http://www.dpi.state.nc.us/charterschools/schools/>. A projection of such data for the 2015-16 school year is not publicly available.

EXPENDITURES	2015-16	2014-15	2013-14	2012-13
Current Expense Expenditures				
North Carolina	\$ 8,199,959,317	\$ 8,083,147,923	\$ 7,730,383,931	\$ 7,706,801,545
Federal	1,440,865,436	1,449,542,854	1,421,857,482	1,470,124,139
Local	3,090,665,396	3,060,463,614	3,005,281,644	2,975,235,140
TOTAL	\$12,731,490,149	\$12,593,154,391	\$12,157,523,057	\$12,152,160,824
Per Pupil Expenditure in Average Daily Membership				
North Carolina	\$5,724.21	\$5,638.39	\$5,390.12	\$5,390.12
Federal	1,005.83	1,011.13	991.41	1,030.02
Local	2,157.52	2,134.82	2,095.47	2,084.55
TOTAL	\$8,887.56	\$8,784.34	\$8,477.00	\$8,514.21

The SBE allocates funds to each charter school based on the school's ADM and the dollars per ADM of the local school administrative unit in which the school is located. Except with respect to allocations for children with disabilities and children with limited English proficiency, each charter school generally receives an allocation in an amount equal to the average per pupil allocation for ADM from the local school administrative unit allotments in which the charter school is located for each child attending the charter school. Each charter school receives an additional amount for each child with disabilities and each child with limited English proficiency.*

A charter school's allotment of State of North Carolina funds, calculated based on an initial ADM estimate,[†] is received by the charter school in three installments. The first installment, equal to 34% of the State of North Carolina allotment, is received by July of each year. After the first month of school, the charter school must report actual ADM for the month. The charter school's State of North Carolina allotment will be recalculated based on the actual ADM. If the charter school's actual ADM is lower than the ADM estimate, the charter school's State of North Carolina allotments will be decreased. If the charter school's ADM is increased, within the permitted limit, after the first month, the allotments will be increased. The second installment is received after the first month ADM is reported by the charter school. If the State of North Carolina allocation is recalculated due to an increased ADM, the second installment will be in an amount so that, together with the first installment, the charter school has received 68% of the revised State of North Carolina allotment. The final 32% of the State of North Carolina allotment is received in the third installment at the end of February of each year.[‡]

The local school administrative unit in which a child resides must transfer to the charter school an amount equal to the per pupil local current expense appropriation for that local school administrative unit for the fiscal year. The amount transferred that consists of revenue derived from supplemental taxes will be transferred only to a charter school located in the tax district for which these taxes are levied and in which the student resides.[§] The charter school sends a bill to the county in which the student resides.

*N.C. Gen. Stat. § 115C-218.105

[†]The initial ADM estimate is based on the higher of the prior year's actual first two months of ADM or the current year's projected first two months of ADM. A new charter school's estimated ADM will be calculated based on projected enrollment information submitted by the charter school. The North Carolina State Board of Education will use this information to calculate a Planning Allotment (preliminary allotment for tentative allocation purposes only). Funding for existing charter schools is based on the dollars per ADM of the local school administrative unit in which the school is located. Funding for new charter schools is based on the dollars per ADM of the local school administrative unit in which the student is or would be currently enrolled. Source: North Carolina Department of Public Instruction "Financial Guide for Charter Schools" revised June 2014.

[‡]Source: North Carolina Department of Public Instruction "Financial Guide for Charter Schools" revised June 2014.

[§]Source: North Carolina Department of Public Instruction "Financial Guide for Charter Schools" revised June 2014; N.C. Gen. Stat. §115C-218.105.

Change in State Budgeting Process

In 2014, the North Carolina General Assembly adopted “The Current Operations and Capital Improvements Appropriations Act of 2014”. Among other items, this act replaced the concept of a Continuation Budget, which automatically included an enrollment adjustment for public school funding, with the concept of a Base Budget, which requires affirmative legislative action to adjust public school funding for increases or decreases in enrollment. The North Carolina General Assembly adopts a state budget on a biennial basis, with adjustments to such budgets permitted on an annual basis.

Federal Funds

The North Carolina Department of Public Instruction (“DPI”) receives funds from many federal grants from the United States Department of Education and disburses them to individual schools and districts. Many of these grants are allotted according to prescribed formulas established by law and require the charter schools to submit relevant information in order to receive funds (e.g., the number of students eligible for free lunch). Examples of such federal grants include the Child Nutrition Program, Language Acquisition, IDEA Title VI-B Handicapped and ESEA Title I. Charter schools may also apply for competitive federal grants.

KEY ELEMENTS IN THE CHARTER SCHOOL ACT

The following is intended as a summary of certain provisions of the North Carolina General Statutes. This summary is not intended to be definitive and is qualified in its entirety by reference to each of the relevant statutes.

Purpose of Charter Schools (N.C. Gen. Stat. § 115C-218)

Charter schools are public schools that operate independently of existing schools as a means to (1) improve student learning; (2) increase learning opportunities for all students, with special emphasis on expanded learning experiences for students who are identified as at risk of academic failure or academically gifted; (3) encourage the use of different and innovative teaching methods; (4) create new professional opportunities for teachers, including the opportunities to be responsible for the learning program at the school site; (5) provide parents and students with expanded choices in the types of educational opportunities that are available within the public school system; and (6) hold such schools accountable for meeting measurable student achievement results, and provide the schools with a method to change from rule-based to performance-based accountability systems.

Effective July 2013, the North Carolina Charter Schools Advisory Board was created by legislation that charged it with (1) making recommendations to the SBE on the adoption of rules regarding all aspects of charter school operation, (2) reviewing applications and making recommendations to the SBE regarding approval, (3) recommending actions to the SBE regarding charter schools, including charter renewal, nonrenewal and revocation, and (4) any other duties and responsibilities assigned by the SBE.

Establishing a Charter School (N.C. Gen. Stat. § 115C-218.1)

Any nonprofit corporation may apply to establish a charter school. If the applicant seeks to convert a public school to a charter school, the application must include a statement signed by a majority of the teachers and instructional support personnel currently employed at the school indicating that they favor the conversion and evidence that a significant number of parents of children enrolled in the school favor conversion.

A charter school application must contain at least the following information:

- A. A description of a program that implements one or more of the purposes in N.C. Gen. Stat. § 115C-218.
- B. A description of student achievement goals for the school's educational program and the method of demonstrating that students have attained the skills and knowledge specified for those student achievement goals.
- C. The governance structure of the school including the names of the proposed initial members of the board of directors of the nonprofit, tax-exempt corporation and the process to be followed by the school to ensure parental involvement.
- D. The local school administrative unit in which the school will be located.
- E. Admission policies and procedures.
- F. A proposed budget for the school and evidence that the financial plan for the school is economically sound.
- G. Requirements and procedures for program and financial audits.
- H. A description of how the school will comply with specified State of North Carolina charter school statutes.
- I. Types and amounts of insurance coverage, including bonding insurance for the principal officers of the school, to be obtained by the charter school.
- J. The term of the charter.
- K. The qualifications required for individuals employed by the school.
- L. The procedures by which students can be excluded from the charter school and returned to a public school.
- M. The number of students to be served, which number shall be at least 65, and the minimum number of teachers to be employed at the school, which number shall be at least three. However, the charter school may serve fewer than 65 students or employ fewer than three teachers if the application contains a compelling reason, such as the school would serve a geographically remote and small student population.
- N. Information regarding the facilities to be used by the school and the manner in which administrative services of the school are to be provided.

The SBE must charge a fee of \$500 to \$1,000, inclusive, for both initial and renewal charter applications.

Approval Limitations, Charter Term and Reviews (N.C. Gen. Stat. § 115C-218.5)

The SBE decides on final approval of charter school applications. The SBE may grant final approval of an application if it finds the following: (1) the application meets the requirements stated above and any additional requirements of the SBE, (2) the applicant has the ability to operate the school

and would be likely to operate the school in an educationally and economically sound manner and (3) granting the application would achieve one or more goals of the Charter School Act.

The SBE may grant initial charters for a period not to exceed 10 years. The SBE may renew the charter upon request of the chartering entity for subsequent periods of 10 years each. The renewal may be for less than 10 years if any of the following apply:

(a) The charter school has not provided financially sound audits for the prior three years.

(b) The charter school's student academic outcomes for the past three years have not been comparable to the academic outcomes of students in the local school administrative unit in which the charter school is located.

(c) The charter school is not in compliance with State of North Carolina law, federal law, the school's own bylaws, or the provisions set forth in its charter granted by the SBE.

The SBE will review the operations of each charter school at least once every five years to ensure the school is meeting its expected academic, financial and governance standards.

Material Revision of Charter Application and Enrollment Growth (N.C. Gen. Stat. § 115C-218.5)

A material revision of the provisions of a charter application shall be made only upon the approval of the SBE.

Except as otherwise provided in the Charter School Act, enrollment growth shall be considered a material revision of the charter application, and the SBE may approve such additional enrollment growth of greater than twenty percent (20%) only if the SBE finds all of the following:

(a) The actual enrollment of the charter school is within ten percent (10%) of its maximum authorized enrollment.

(b) The charter school has commitments for ninety percent (90%) of the requested maximum growth.

(c) The charter school is not currently identified as low-performing.

(d) The charter school meets generally accepted standards of fiscal management.

(e) It is otherwise appropriate to approve the enrollment growth.

It shall not be considered a material revision of a charter application and shall not require prior approval of the SBE for a charter school to do any of the following:

(a) Increase its enrollment during the charter school's second year of operation and annually thereafter by up to twenty percent (20%) of the school's previous year's enrollment.

(b) Increase its enrollment during the charter school's second year of operation and annually thereafter in accordance with planned growth as authorized in its charter.

(c) Expand to offer one grade higher than the charter school currently offers if the charter school has operated for at least three years and has not been identified as having inadequate performance as provided in the Charter School Act.

The charter school shall provide documentation of the requirements of this subdivision to the SBE. The charter school shall be permitted to expand to offer the higher or lower grade unless the SBE finds that the charter school has failed to meet the requirements of this subdivision or other exceptional circumstances exist which justify not permitting the grade expansion.

Charter School Operation (N.C. Gen. Stat. § 115C-218.15)

A charter school approved by the State of North Carolina will be a public school within the local school administrative unit in which it is located and will be accountable to the SBE for ensuring compliance with applicable laws and the provisions of its charter.

A charter school must be operated by a private nonprofit corporation that must have received federal tax-exempt status no later than 24 months following final approval of the charter application. The board of directors of a charter school will decide matters related to the operation of the school, including budgeting, curriculum and operating procedures.

A charter school must operate under the written charter signed by the SBE. The charter will incorporate the information provided in the application, as modified during the charter approval process, and any terms and conditions imposed on the charter school by the SBE. No other terms may be imposed on the charter school as a condition for receipt of local funds and the charter school is not required to enter into any other contract.

Charter School Exemptions (N.C. Gen. Stat. § 115C-218.10)

Except as otherwise provided in Article 14A of Chapter 115C of the North Carolina General Statutes, or pursuant to the terms of its charter, a charter school is exempt from statutes and rules applicable to a local board of education or local school administrative unit.

Teacher Qualifications (N.C. Gen. Stat. § 115C-218.90)

The charter school's board of directors will employ and contract with teachers. At least 50% of these teachers must hold teacher licenses. All teachers who are teaching in the core subject areas of mathematics, science, social studies and language arts must be college graduates.

Instructional Program (N.C. Gen. Stat. § 115C-218.85)

A charter school must provide instruction each year for at least 185 days or 1,025 hours over nine calendar months. The school must design its programs to at least meet the student performance standards adopted by the SBE and the student performance standards contained in the charter. The school must conduct the student assessments required for charter schools by the SBE. The school must comply with policies adopted by the SBE for charter schools relating to the education of children with disabilities specifically Article 9 of Chapter 115C of the General Statutes and The Individuals with Disabilities Education Improvements Act, 20 U.S.C. § 1400, et seq., (2004).

Student Discipline (N.C. Gen. Stat. § 115C-218.60)

A charter school is subject to and must comply with Article 27 of Chapter 115C of the North Carolina General Statutes, concerning management and placement of disruptive students, except that a

charter school may also exclude a student from the charter school and return that student to another school in the local school administrative unit in accordance with the terms of its charter.

Admission Requirements (N.C. Gen. Stat. § 115C-218.45)

Any child who is qualified under the laws of the State of North Carolina for admission to a public school is qualified for admission to a charter school. No local board of education may require any student enrolled in the local school administrative unit to attend a charter school. Admission to a charter school may not be determined according to the school attendance area in which a student resides, except that any local school administrative unit in which a public school converts to a charter school must give admission preference to students who reside within the former attendance area of that school. Admission to a charter school may not be determined according to the local school administrative unit in which the student resides. A charter school may not discriminate against any student on the basis of ethnicity, national origin, gender or disability. Except as otherwise provided by law or the mission of the school as set out in the charter, the school may not limit admission to students on the basis of intellectual ability, measures of achievement or aptitude, athletic ability, disability, race, creed, gender, national origin, religion or ancestry. Enrollment preferences may be given to siblings of currently enrolled students and the children of the school's principal, teachers and teacher assistants.

During each period of enrollment, the charter school must enroll an eligible student who submits a timely application, unless the number of applications exceeds the capacity of a program, class, grade level or building. In this case, students must be accepted by lot. Once enrolled, students are not required to reapply in subsequent enrollment periods.

Open Meetings and Public Records (N.C. Gen. Stat. § 115C-218.25)

The charter school and board of directors of the private nonprofit corporation that operates the charter school are subject to the Public Records Act, Chapter 132 of the North Carolina General Statutes, and the Open Meetings Law, Article 33C of Chapter 143 of the North Carolina General Statutes. Notwithstanding the requirements of Chapter 132 of the North Carolina General Statutes, inspection of charter school personnel records for those employees directly employed by the board of directors of the charter school shall be subject to the requirements of Article 21A of Chapter 115C of the North Carolina General Statutes, relating to school employee personnel records. The charter school and board of directors of the private nonprofit corporation that operates the charter school shall use the same schedule established by the North Carolina Department of Cultural Resources for retention and disposition of records of local school administrative units.

General Operating Requirements

A charter school must be nonsectarian in its programs, admission policies, employment practices and all other operations and may not charge tuition or fees. A charter school may not be affiliated with a nonpublic sectarian school or a religious institution. N.C. Gen. Stat. § 115C-218.50.

A charter school must meet the same health and safety requirements required of a local school administrative unit. N.C. Gen. Stat. § 115C-218.75.

The board of directors of a charter school must obtain at least the amount of and types of liability insurance required by the SBE in its charter. N.C. Gen. Stat. § 115C-218.20.

A charter school is subject to the financial audits, the audit procedures and the audit requirements adopted by the SBE for charter schools. The charter school must comply with the reporting requirements established by the SBE in the Uniform Education Reporting System. The charter school must report at

least annually to the chartering entity and the SBE the information required by the chartering entity or the SBE. N.C. Gen. Stat. § 115C-218.30.

A charter school must develop a transportation plan so that transportation is not a barrier to any student who resides in the local school administrative unit in which the school is located. N.C. Gen. Stat. § 115C-218.40.

A charter school must report annually on its website and in writing to the State of North Carolina by September 1 of each year, statistics by number and percentage of third grade students demonstrating and not demonstrating proficiency in various areas related to reading. N.C. Gen. Stat. § 115C-218.85.

If the local board of education of the local school administrative unit in which a charter school is located has adopted a policy requiring criminal history checks, the charter school shall adopt a policy mirroring that policy. N.C. Gen. Stat. § 115C-218.90.

State and local funds for a charter school (N.C. Gen. Stat. § 115C-218.105)

The SBE shall allocate to each charter school:

(a) An amount equal to the average per pupil allocation for average daily membership from the local school administrative unit allotments in which the charter school is located for each child attending the charter school except for the allocation for children with disabilities and for the allocation for children with limited English proficiency;

(b) An additional amount for each child attending the charter school who is a child with disabilities;

(c) An additional amount for children with limited English proficiency attending the charter school, based on a formula adopted by the SBE; and

Funds allocated by the SBE may be used to enter into operational and financing leases for real property or mobile classroom units for use as school facilities for charter schools and may be used for payments on loans made to charter schools for facilities, equipment, or operations. However, State of North Carolina funds shall not be used to obtain any other interest in real property or mobile classroom units. No indebtedness of any kind incurred or created by the charter school shall constitute an indebtedness of the State of North Carolina or its political subdivisions, and no indebtedness of the charter school shall involve or be secured by the faith, credit, or taxing power of the State of North Carolina or its political subdivisions. Every contract or lease into which a charter school enters shall include the previous sentence. The school also may own land and buildings it obtains through non-State of North Carolina sources.

If a student attends a charter school, the local school administrative unit in which the child resides shall transfer to the charter school an amount equal to the per pupil share of the local current expense fund of the local school administrative unit for the fiscal year. The per pupil share of the local current expense fund shall be transferred to the charter school within 30 days of the receipt of monies into the local current expense fund. The local school administrative unit and charter school may use the process for mediation of differences between the SBE and a charter school provided in the Charter School Act to resolve differences on calculation and transference of the per pupil share of the local current expense fund. The amount transferred as described in this paragraph that consists of revenue derived from supplemental taxes shall be transferred only to a charter school located in the tax district for which these taxes are levied and in which the student resides.

The local school administrative unit shall also provide each charter school to which it transfers a per pupil share of its local current expense fund with all of the following information within the 30-day time period described in the preceding paragraph:

- (a) The total amount of monies the local school administrative unit has in each of the funds listed in Section 115C-426(c) of the North Carolina General Statutes.
- (b) The student membership numbers used to calculate the per pupil share of the local current expense fund.
- (c) How the per pupil share of the local current expense fund was calculated.
- (d) Any additional records requested by a charter school from the local school administrative unit in order for the charter school to audit and verify the calculation and transfer of the per pupil share of the local current expense fund.

Dissolution of a charter school (N.C. Gen. Stat. § 115C-218.100)

A charter school shall maintain, for the purposes of ensuring payment of expenses related to closure proceedings in the event of a voluntary or involuntary dissolution of the charter school, one or more of the options set forth in this subsection. The minimum aggregate value of the options chosen by the charter school shall be fifty thousand dollars (\$50,000). The SBE shall not allocate any funds under Section 115C-218.105 of the North Carolina General Statutes to a charter school unless the charter school has provided documentation to the SBE that the charter school has met the requirements of this subsection. Permissible options to satisfy the requirements of this subsection include one or more of the following:

- (a) An escrow account.
- (b) A letter of credit.
- (c) A bond.
- (d) A deed of trust.

Upon dissolution of the charter school or upon the nonrenewal of the charter, all net assets of the charter school purchased with public funds will be deemed the property of the local school administrative unit in which the charter school is located.

Identification of low-performing and continually-low performing charter schools (N.C. Gen. Stat. § 115C-218.94)

The SBE is required to identify low-performing and continually low-performing charter schools on an annual basis. A low-performing school is one that receives a performance grade of D or F and a school growth score of “met expected growth” or “not met expected growth,” as defined by N.C. Gen. Stat. § 115C-83.15, for a given year. A continually low-performing charter school is one that has been designated by the SBE as low-performing for at least two of three consecutive years.

Causes for nonrenewal or termination (N.C. Gen. Stat. § 115C-218.95)

The SBE may terminate, not renew a charter, or seek applicants to assume a charter through a competitive bid process established by the SBE upon any of the following grounds: (1) failure to meet the requirements for student performance contained in the charter; (2) failure to meet generally accepted standards of fiscal management; (3) violations of law; (4) material violation of any of the conditions, standards or procedures set forth in the charter; (5) two-thirds of the faculty and instructional support

personnel at the school request that the charter be terminated or not renewed; or (6) other good cause identified.

If a charter school is continually low-performing, SBE may terminate, not renew the school's charter, or seek applicants to assume the school's charter through a competitive bid process established by the SBE. However, the SBE shall not terminate or not renew the charter of a continually low-performing charter school solely for its continually low-performing status if the charter school has met growth in each of the immediately preceding three school years or if the charter school has implemented a strategic improvement plan approved by the SBE and is making measurable progress toward student performance goals.

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS

The following is a summary of certain provisions of the Indenture, the Loan Agreement and the Deed of Trust. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Indenture, the Loan Agreement and the Deed of Trust, copies of which are on file with the Trustee.

DEFINITIONS

As used in the following summaries of the principal documents, the capitalized terms shall have the following meanings:

"Academy" means Phoenix Academy, Inc.

"Accountant" means any independent certified public accounting firm licensed to practice in the State of Wisconsin or in the State of North Carolina (which may be the firm of accountants that regularly prepares or audits the books and accounts of the Borrower) from time to time selected by the Borrower.

"Act" means Section 66.0301, 66.0303 and 66.0304 of the Wisconsin Statutes, as amended from time to time.

"Act of Bankruptcy" means the filing of a petition in bankruptcy under the United States Bankruptcy Code, or the institution of proceedings under state insolvency or other laws affecting creditors' rights generally, by or against the Issuer or the Borrower as debtor; provided that such filings or proceedings have not been dismissed or, if dismissed, are subject to appeal.

"Additional Bonds" means Bonds that may be issued subsequent to the issuance of the Series 2017 Bonds under the Indenture.

"Additional Payments" means payments to be made by the Borrower to the Issuer and the Trustee pursuant to the Loan Agreement.

"Additional Promissory Notes" means any nonnegotiable promissory note or notes, in addition to the Series 2017 Promissory Note, executed and delivered by the Borrower to the Trustee in connection with the issuance of Additional Bonds, as provided in the Loan Agreement.

"Authorized Denomination" means, (a) with respect to the Series 2017 Bonds, \$100,000 and integral multiples of \$5,000 in excess thereof (subject to the restrictions set forth in the Indenture); and (b) in the case of Additional Bonds, the amount specified in the Supplemental Indenture authorizing the issuance thereof.

"Authorized Representative" means in the case of the Borrower, the President of the Foundation, the Secretary of the Foundation, the President of the Academy and the Secretary of the Academy and, when used with reference to the performance of any act, the discharge of any duty or the execution of any certificate or other document, any officer, employee or other person authorized to perform such act, discharge such duty or execute such certificate or other document.

"Balloon Amount" means the largest amount maturing on any Balloon Indebtedness during any twelve consecutive months in which such Balloon Indebtedness is outstanding.

"Balloon Indebtedness" means Long-Term Indebtedness where the principal payment on such Long-Term Indebtedness due (or payable in respect of any required purchase of such Long-Term Indebtedness by such person on demand) in any fiscal year either is equal to at least 25% of the total outstanding principal on such Long-Term Indebtedness. Balloon Indebtedness does not include Indebtedness which otherwise would be classified as Put Indebtedness.

"Beneficial Owner(s)" means the person or entity for whom the Bonds were deposited with DTC in the name of its nominee, Cede & Co.

"Beneficiary" means the party named as such in the Deed of Trust.

"Bond Closing" means as to any Series of Additional Bonds, the date upon which such Series of Additional Bonds are delivered for due consideration, and, as to the Series 2017 Bonds, the date of delivery thereof.

"Bond Counsel" means Robinson, Bradshaw & Hinson, P.A., Charlotte, North Carolina, or such other firm of nationally recognized attorneys with a proven reputation in the field of municipal finance and experienced in the financing of facilities for non-exempt persons through the issuance of tax-exempt revenue bonds under the exemption provided under Section 103 of the Code, and approved by the Issuer and the Borrower.

"Bond Fund" means the fund by that name created under the Indenture.

"Bond Purchase Agreement" means as to any Series of Additional Bonds, the bond purchase agreement related to such Series of Additional Bonds and, as to the Series 2017 Bonds, means the Bond Purchase Agreement related to the Series 2017 Bonds.

"Bonds" means the Series 2017 Bonds and any Additional Bonds.

"Borrower(s)" means together or individually as the context suggests, and jointly and severally, the Foundation and the Academy, or any surviving, resulting or transferee corporation, as provided in the Loan Agreement.

"Borrower Documents" means, the Loan Agreement, the Deed of Trust, the Series 2017 Promissory Note, the Bond Purchase Agreement, the Continuing Disclosure Undertaking and each of the other agreements, certificates, contracts or instruments to be executed by the Borrower in connection with the issuance of the Series 2017 Bonds or the financing of a portion of the expenses associated with the Project.

"Building" means that certain building or buildings and all other structures and facilities now owned or hereafter acquired (including all fixtures, heating and air conditioning equipment, and all other equipment and machinery affixed to the Land or Building) which are located on the Land, as they may from time to time exist.

"Business Day" means any day other than a Saturday or Sunday or a day on which the Federal Reserve System or the Trustee is closed.

"Capital Improvements" means the acquisition of land, easements, facilities, and equipment (other than ordinary repairs and replacements), and the construction or reconstruction of improvements, betterments, and extensions which, under Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board, are properly chargeable as capital items.

"Cede & Co." means Cede & Co., the nominee of DTC, and any successor nominee of DTC.

"CERCLA" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as now or at any time hereafter in effect.

"Charter School Act" means North Carolina General Statutes Chapter 115C Article 14A, as amended.

"Code" means the Internal Revenue Code of 1986, as amended. References to the Code and sections of the Code include relevant applicable regulations thereunder, and any successor provisions to those sections or regulations and, in addition, all revenue rulings, announcements, notices, procedures and judicial determinations under the foregoing applicable to the Tax-Exempt Bonds, including the Series 2017 Bonds.

"Completion Date" means the date specified by the Borrower in a certificate delivered to the Trustee stating that the acquisition, construction, improvement and equipping of the Project are complete in accordance with the Loan Agreement.

"Commitment Indebtedness" means the obligation of any Person to repay amounts disbursed pursuant to a commitment from a financial institution, insurer, surety or similar entity to pay, refinance or purchase when due, when tendered or when required to be purchased or tendered, or to extend funds for such purpose, other Indebtedness of such Person or any other obligation of any other Person, and the obligation of any Person to pay interest payable on amounts disbursed for such purposes, plus any fees, costs or expenses payable to such financial institution, insurer, surety or similar entity for, under or in connection with such commitment, in the event of disbursement pursuant to such commitment or in connection with enforcement thereof, including without limitation any penalties payable in the event of such enforcement and any indemnification or contribution obligation related thereto.

"Completion Indebtedness" means any Long-Term Indebtedness incurred by any Person for the purpose of financing the completion of Capital Improvements, for which such Long-Term Indebtedness was incurred under the Indenture, to the extent necessary to provide for completion of the Capital Improvements in substantially the same type and scope contemplated at the time that such Long-Term Indebtedness was incurred. Completion Indebtedness may also finance interest on the Completion Indebtedness for a period up to three years from the date of issuance thereof, any reserve funds related to such Completion Indebtedness and the costs and expenses of issuing such Completion Indebtedness.

"Continuing Disclosure Undertaking" means, with respect to the Series 2017 Bonds, the Continuing Disclosure Undertaking Agreement, dated as of June 1, 2017, entered into by the Borrower and School Improvement Partnership, LLC, as dissemination agent, and, as to any Series of Additional Bonds, the Continuing Disclosure Undertaking executed by the Borrower in connection with the issuance of such Series of Additional Bonds.

"Cost of Issuance Fund" means the fund by that name created under the Indenture.

"Costs of the Project" in connection with the construction, acquisition, improvement or equipping of the Project, means any cost incurred or estimated to be incurred by the Borrower which is reasonable and necessary for carrying out all works and undertakings in providing such Project for the Borrower, including the acquisition of real property and any buildings thereon, the cost of equipment and furnishings, the construction, acquisition, improvement or equipping of the Project, the cost of necessary studies, surveys, plans and specifications, architectural, engineering, legal or other special services, development, construction and reconstruction necessary or useful in connection with such Project, the

reasonable cost of financing or refinancing incurred by the Borrower or the Issuer in connection with the execution of the Loan Agreement, or in the course of the construction, acquisition, improvement or equipping of the Project, including capitalized interest on amounts disbursed in stages, and the cost of such other items as may be reasonable and necessary for the construction, acquisition, improvement and equipping of the Project as permitted under the Act, and repayment of debt incurred for the foregoing purposes.

"Days Cash On Hand" for any Fiscal Year is equal to the quotient obtained by dividing (a) the Unrestricted Cash and Investment for the Foundation and the Academy as of the last day of such Fiscal Year by (b) the quotient obtained by dividing the total Operating Expenses, calculated solely with respect to the Academy, for such Fiscal Year by 365.

"Debt Service" means the aggregate annual principal (whether at maturity or pursuant to sinking fund redemption requirements), interest and rental payments of the Borrower on all outstanding Long-Term Indebtedness, including Balloon Indebtedness, Commitment Indebtedness, Refunding Indebtedness, Completion Indebtedness and Put Indebtedness, but excluding Non-Recourse Indebtedness and Subordinated Indebtedness, for the period of time for which calculated; provided, however, that for purposes of calculating such amount, the amount of such payments for any future period shall be calculated in accordance with the assumptions in the Indenture.

"Debt Service Coverage Ratio" means, for any Fiscal Year, the ratio obtained by dividing (a) the greater of (i) the combined Net Income Available for Debt Service for the Foundation and the Academy for such Fiscal Year and (ii) Net Income Available for Debt Service, calculated solely with respect to the Academy, by (b) the amount of Debt Service on all Long-Term Indebtedness for the Foundation and the Academy payable in such Fiscal Year.

"Debt Service Reserve Fund" means the fund by that name created under the Indenture.

"Debt Service Reserve Fund Requirement" means as of any date, the aggregate of the Series Debt Service Reserve Fund Requirement for all Series of Bonds for which any Bonds of such Series are at the time Outstanding.

"Deed of Trust" means the Deed of Trust, Assignment of Rents and Fixture Filing, among the Trustee, as beneficiary, the Borrower, as grantor, and a deed of trust trustee, executed in connection with the Bonds.

"Deed of Trust Trustee" means the party named as such in the Deed of Trust.

"Determination of Taxability" means, with respect to a Series of Tax-Exempt Bonds, (i) the enactment of legislation or the adoption of final regulations or a final decision, ruling or technical advice by any federal judicial or administrative authority which has the effect of requiring interest on a Tax-Exempt Bond to be included in the gross income of the Owner for federal income tax purposes or (ii) the receipt by the Trustee of a written opinion of nationally recognized bond counsel selected by the Borrower and approved by the Trustee to the effect that interest on a Tax-Exempt Bond must be included in the gross income of the Owner for federal income tax purposes. A Determination of Taxability will not result from the inclusion of interest on any Tax-Exempt Bond in the computation of the alternative minimum tax imposed by Section 55 of the Code, the branch profits tax on foreign corporations imposed by Section 884 of the Code or the tax imposed on the net passive income of certain S corporations under Section 1375 of the Code.

"DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

"Environmental Damages" means all judgments, losses, penalties, fines, liabilities (including strict liability), encumbrances, liens, costs, and expenses of investigation and defense of any claim, whether or not such claim is ultimately defeated, and of any good faith settlement or judgment, of whatever kind or nature, including without limitation reasonable attorneys' fees and expert consultants' fees and disbursements, any of which are incurred at any time as a result of the existence of Regulated Chemicals upon, about, beneath or migrating, or threatening to migrate, onto or from the Project, or the violation of Environmental Requirements pertaining to the Project, regardless of whether or not such Environmental Damages were caused by or within the control of the Borrower.

"Environmental Law" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980 as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. §§ 9601 et seq.; the federal Hazardous Materials Transportation Act, 49 U.S.C. §§ 5101 et seq.; the Toxic Substances Control Act, 15 U.S.C. §§ 2601 et seq.; the Resource Conservation and Recovery Act, as amended, 42 U.S.C. §§ 6901 et seq.; the Clean Water Act, 33 U.S.C. §§ 1251 et seq. and the Clean Air Act, 42 U.S.C. §§ 7401 et seq.; and any other applicable federal or state laws pertaining to the protection of the environment, as any such laws may be amended, modified or supplemented and any regulations promulgated pursuant to any of the foregoing.

"Environmental Requirements" means all applicable federal, State, regional or local laws, statutes, rules, regulations or ordinances, concerning public health, safety or the environment, including, but not limited to, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. §9601, et seq.; the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976, as amended by the Solid and Hazardous Waste Amendments of 1984, 42 U.S.C. §6901, et seq.; the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977, 33 U.S.C. §1251, et seq.; the Toxic Substances Control Act of 1976, 15 U.S.C. §2601, et seq.; the Emergency Planning and Community Right To Know Act of 1986, 42 U.S.C. §11001, et seq.; the Clean Air Act of 1966, as amended, 42 U.S.C. §7401, et seq.; the National Environmental Policy Act of 1975, 42 U.S.C. §4321, et seq.; the Rivers and Harbors Act of 1899, 33 U.S.C. §401 et. seq.; the Safe Drinking Water Act of 1974, as amended 42 U.S.C. §300(f), et seq.; and all rules, regulations, policies and guidance documents promulgated or published thereunder, and any State of North Carolina, regional, parish or local statute, law, rule, regulation or ordinance relating to public health, or the environment, including, without limitation those relating to:

- (a) releases, discharges, emissions or disposals to air, water, land or groundwater;
- (b) the withdrawal or use of groundwater;
- (c) the use, handling, or disposal of polychlorinated biphenyls ("PCBs"), asbestos or urea formaldehyde;
- (d) the transportation, treatment, storage, disposal, release or management of Hazardous Materials (including, without limitation, petroleum, its derivatives, by-products or other hydrocarbons), and any other solid, liquid, or gaseous substance, exposure to which is prohibited, limited or regulated, or may or could pose a hazard to the health and safety of the occupants of the Project or any property adjacent to or surrounding the Project;

(e) the exposure of persons to toxic, hazardous, or other controlled, prohibited or regulated substances; and

(f) any Regulated Chemical.

"Event of Default" means those defaults specified in the Loan Agreement and in the Indenture.

"Facilities" means the improvements on the Site.

"Fiscal Year" means each twelve-month period commencing on July 1 and ending on June 30.

"Fitch" means Fitch Ratings.

"Foundation" means Phoenix Academy Foundation, Inc.

"Funds" means the Funds identified in the Indenture.

"Generally Accepted Accounting Principles" means those accounting principles applicable in the preparation of financial statements of the Borrower, as promulgated by the Financial Accounting Standards Board or such other body recognized as authoritative by the American Institute of Certified Public Accountants.

"Government Obligations" means bills, certificates of indebtedness, notes, bonds or similar securities which are direct obligations of, or the principal and interest of which are unconditionally guaranteed by, the United States of America.

"Hazardous Material" means: (a) any substances defined as "hazardous substances," "pollutants," "contaminants," "hazardous materials," "hazardous wastes," or "hazardous or toxic substances" or related materials as now or hereafter defined in any Environmental Law, (b) those substances listed or otherwise identified as substances of the type referred to in the preceding subsection (a) in the regulations adopted and publications issued pursuant to any Environmental Law, as the same may be amended, modified or supplemented; (c) any friable asbestos, airborne asbestos in excess of that generally found in the atmosphere, respectively, where the Project is located, or any substance or material containing asbestos, excluding any such materials located on the Project prior to the date hereof so long as such materials are contained, maintained, abated or removed in compliance with all applicable Environmental Laws; and (d) any substance the presence of which on the Project is prohibited by any applicable Environmental Law; provided that Hazardous Material shall not include any such substances used in or resulting from the ordinary operation of the Project or for the cleaning of the Project, provided that such substances are stored, handled and disposed of in material compliance with all applicable Environmental Laws and other applicable laws and regulations.

"Indebtedness" means all obligations for payment of principal and interest with respect to money borrowed, incurred or assumed by the Borrower, and all purchase money mortgages, installment purchase contracts, guaranties, leases required to be capitalized in accordance with generally accepted accounting principles, or other similar instruments in the nature of a borrowing by which the Borrower will be unconditionally obligated to pay.

"Indenture" means the Indenture of Trust, dated as of June 1, 2017, between the Issuer and the Trustee, including any indentures supplemental thereto made in conformity therewith, pursuant to which the Bonds are authorized to be issued and secured.

"Independent Consultant" means any management consultant or certified public accountant experienced in the management and financing of charter schools.

"Insurance Consultant" means an independent insurance consultant and/or risk management firm or an insurance broker or an insurance agent (which may be a consultant, firm, broker or agent with whom the Borrower or the Issuer regularly transacts business) selected by the Borrower.

"Interest Payment Date" means, as to a Series of Additional Bonds, the Interest Payment Date established in the related Supplemental Indenture and, as to the Series 2017 Bonds, means each June 15 and December 15, commencing December 15, 2017.

"Investment" has the meaning set forth in Section 1.148-1(b) of the Regulations.

"Investment Grade Rating" means a rating by Standard & Poor's or Fitch of "BBB-" or higher, by Moody's of "Baa3" or higher, or by another Rating Agency of the equivalent rating or higher.

"Investment Obligations" means the Investment Obligations for any Series of Additional Bonds as set forth in the related Supplemental Indenture and, as to the Series 2017 Bonds, any of the following that at the time are lawful investments under the laws of the State of North Carolina (such legality to be determined by an Authorized Representative of the Borrower and not the Trustee) for the money held under the Indenture:

(a) Government Obligations;

(b) direct and general obligations of any state of the United States of America or any municipality or political subdivision of such state, or obligations of any corporations, if such obligations are rated in one of the two highest rating categories by Standard & Poor's Rating Services ("S&P") or Moody's Investors Service ("Moody's"), or upon the discontinuance of either or both of such rating services, any other nationally recognized rating service;

(c) negotiable or nonnegotiable certificates of deposit, time deposits, or other similar banking arrangements, issued by any nationally or state-chartered bank or trust company (including the Trustee) or any savings and loan association, domiciled in the State of North Carolina, if either (i) the long-term obligations of such bank or trust company are rated in one of the two highest rating categories by S&P or Moody's, or, upon the discontinuance of either or both of such rating services, any other nationally recognized rating service or (ii) the deposits are continuously secured as to principal, but only to the extent not insured by the Federal Deposit Insurance Corporation, or similar corporation chartered by the United States of America, (1) by lodging with a bank or trust company, as collateral security, obligations described in paragraph (a) or (b) above or, with the approval of the Trustee, other marketable securities eligible as security for the deposit of trust funds under applicable regulations of the Comptroller of the Currency of the United States of America or applicable state law or regulations, having a market value (exclusive of accrued interest) not less than the amount of such deposit, or (2) if the furnishing of security as provided in clause (1) of this paragraph is not permitted by applicable law, in such manner as may then be required or permitted by applicable state or federal laws and regulations regarding the security for the deposit of trust funds;

(d) repurchase agreements with respect to obligations listed in paragraph (a) or (b) above if entered into with a nationally or state-chartered bank, trust company or a "broker" or "dealer" (as defined by the Securities Exchange Act of 1934 as amended) which is a member of the Securities Investors Protection Corporation if (i) such obligations that are the subject of such

repurchase agreement are delivered to the Trustee or are supported by a safekeeping receipt issued by depository satisfactory to the Trustee, provided that such repurchase agreement must provide that the value of the underlying obligations shall be maintained at current market value, calculated no less frequently than monthly, of not less than the repurchase price, (ii) a prior perfected security interest in the obligations which are the subject of such repurchase agreement has been granted to the Trustee, and (iii) such obligations are free and clear of any adverse third-party claims;

(e) commercial paper maturing in 270 days or less rated in the highest rating category by two nationally recognized ratings services;

(f) money market mutual funds invested solely in obligations listed in paragraphs (a), (b) or (c) above;

(g) investment agreements with any nationally or state-chartered bank, financial institution, insurance company or trust company which has long-term debt obligations rated in one of the three highest categories by a nationally recognized rating agency. Should the issuer's or guarantor's credit quality be downgraded below "A," the Trustee must have withdrawal rights;

(h) certificates or receipts issued by any nationally or state-chartered bank, trust company or "broker" or "dealer" (as defined by the Securities Exchange Act of 1934, as amended) which is a member of the Securities Investors Protection Corporation, organized and existing under the laws of the United States of America or any state thereof, the outstanding unsecured long-term debt of which is rated in either of the two highest rating categories by S&P or Moody's, or, upon the discontinuance of either rating service, any other nationally recognized ratings service, in the capacity of custodian, which certificates or receipts evidence ownership or a portion of the principal of or interest on Government Obligations held (which may be in book entry form) by such bank, trust company or broker or dealer (as defined by the Securities Exchange Act of 1934, as amended) as custodian; and

(i) tax-exempt obligations (as defined in Section 150(a)(6) of the Code and which are not "investment property" as defined in Section 148(b)(2) of the Code) rated in one of the two highest rating categories by S&P or Moody's, or upon the discontinuance of such ratings service, any other nationally recognized ratings service;

provided that "Investment Obligations" shall not include a financial instrument, commonly known as a "derivative," whose performance is derived, at least in part, from the performance of any underlying asset, including, without limitations, futures, options on securities, options on future, forward contracts, swap agreements, structured notes and participations in pools of mortgages or other assets. All ratings shall be determined at the time of initial investment; the Trustee has no obligation to monitor any changes in such ratings.

"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 specified portion of the principal of, premium, if any, and/or the interest on, as the same shall become due, any Indebtedness which would otherwise be considered Outstanding. The trustee of such deposit shall have possession of any cash and securities (other than book-entry securities) and may be the Trustee or any other trustee authorized to act in such capacity.

"Issuer" means the Public Finance Authority, a joint powers commission and a unit of government and a body corporate and politic under the laws of the State of Wisconsin, and its successors and assigns.

"Issuer Authorized Signatory" means any officer, director, or other person designated by resolution of the Board of Directors of the Issuer (whether such resolution is adopted in connection with the issuance of the Bonds or otherwise) or by the Issuer's bylaws as an "Authorized Signatory" empowered to, among other things, execute and deliver on behalf of the Issuer the Indenture, the other Issuer Documents and the Bonds; provided that the Trustee has been furnished with a certified copy of any such resolution of the Issuer and a certificate of incumbency and specimen signatures for such person providing instructions or notice hereunder or under any Issuer Document.

"Issuer Documents" means, with respect to a Series of Bonds, the Loan Agreement, the Indenture, the Bond Purchase Agreement, and any other agreement, certificate, contract, or instrument to be executed by the Issuer in connection with the issuance of the Bonds or the financing of a portion of the expenses associated with the related Project.

"Issuer Annual Fee" means an annual fee calculated in the amount specified in the Loan Agreement to be paid to the Issuer for the annual administrative expenses of the Issuer, and continuing while any portion of the Bonds is outstanding; provided that payment of such lesser amount may be necessary to not adversely impact the tax status of the Bonds.

"Issuer Indemnified Party" or "Issuer Indemnified Parties" means, collectively, (i) the Sponsors, (ii) the Members and (iii) each and all of the Issuer, the Members' and the Sponsors' respective past, present, and future directors, board members, governing members, trustees, commissioners, elected or appointed officials, officers, employees, Issuer Authorized Signatories, attorneys, contractors, subcontractors, agents and advisors (including counsel and financial advisors) and each of their respective heirs, successors and assigns.

"Issuer's Unassigned Rights" means certain rights of the Issuer under the Loan Agreement and the Issuer's rights thereunder and under the Indenture and, to the extent not expressly provided in said sections (or any other sections hereof or thereof) the Issuer's rights hereunder or thereunder to (a) inspect books and records; (b) give or receive notices, approvals, consents, requests and other communications; (c) receive payment or reimbursement for expenses, including without limitation "Additional Payments" as defined in the Loan Agreement and the Issuer's Annual Fee as defined in the Loan Agreement; (d) immunity from and limitation of liability; and (e) indemnification by the Borrower or any other Person; and (f) to enforce, in its own name and on its own behalf, those provisions of the Indenture and of the Loan Agreement and any other document, instrument or agreement entered into with respect to the Bonds that provides generally for the foregoing enumerated rights or any similar rights of the Issuer or any Issuer Indemnified Party. For avoidance of doubt, the "Issuer Unassigned Rights" referenced in clauses (d), (e) and (f) above, shall be interpreted broadly to encompass (but not be limited to) the rights of the Issuer Indemnified Parties to immunity from and limitation of liability and indemnification by the Borrower as provided in the Loan Agreement and the right of any such Issuer Indemnified Party to enforce such rights in his, her or its own name.

"Joint Exercise Agreement" means that certain Amended and Restated Joint Exercise of Power Agreement Relating to the Public Finance Authority, dated as of September 28, 2010 by and among Marathon County, Wisconsin, Waupaca County, Wisconsin, Bayfield County, Wisconsin Adams County, Wisconsin and the City of Lancaster, Wisconsin, as may be amended from time to time.

"Land" means, collectively, the real estate, interests in real estate, and other real property rights described in Exhibit A to the Deed of Trust, together with all real estate, interests in real estate and other real property rights made a part of the Land in connection with the substitution of such real estate and other real property rights pursuant to the Loan Agreement or as the result of replacement of property taken in condemnation, or otherwise, less such real estate, interests in real estate and other real property rights released under the provisions of the Loan Agreement or taken by the exercise of the power of eminent domain.

"Letter of Representations" means the Letter of Representations from the Issuer to DTC.

"Liabilities" means any causes of action (whether in contract, tort or otherwise), claims, fees, costs, charges, damages, demands (including Environmental Damages), judgments, liabilities, losses, suits and expenses (including, without limitation, reasonable costs of investigation, and fees and expenses of attorneys, accountants, consultants and other experts, litigation and court costs, amounts paid in settlement and amounts paid to discharge judgments) of every kind, character and nature whatsoever.

"Lien" means any mortgage or pledge of, security interest in, or lien or encumbrance on, any property of the Borrower which secures any Indebtedness or other obligation of the Borrower excluding liens applicable to property in which the Borrower has only a leasehold interest unless the lien secures Indebtedness.

"Limited Offering Memorandum" means this Limited Offering Memorandum prepared in connection with the sale of the Series 2017 Bonds, and, with respect to a Series of Additional Bonds, the Limited Offering Memorandum prepared in connection with the sale of that Series of Bonds.

"Loan" means the loan by the Issuer to the Borrower of the proceeds from the sale of the Series 2017 Bonds pursuant to the Loan Agreement.

"Loan Agreement" means the Loan Agreement dated as of June 1, 2017 between the Borrower and the Issuer and any amendments and supplements thereto made in conformity with the requirements thereto and hereto.

"Loan Payments" means those payments required to be paid by the Borrower pursuant to the Loan Agreement.

"Long-Term Indebtedness" means all Indebtedness, the final maturity of which (taking into account any extensions available at the sole option of the Borrower) is greater than one year after the initial incurrence thereof.

"Material Adverse Effect" or "Material Adverse Change" means a material adverse effect upon, or a material adverse change in, any of (a) the financial condition, operations, business, properties or prospects of the Borrower taken as a whole; (b) the ability of the Borrower to perform under the Loan Agreement or any Borrower Document in any material respect or any other material contract to which any one or more of them is a party in any material respect; (c) the legality, validity or enforceability of the Loan Agreement, any Borrower Document or the Indenture; (d) the perfection or priority of any Liens of granted under the Loan Agreement or any Borrower Document; (d) the status of the Borrower as an organization described in Section 501(c)(3) of the Code or the tax-exempt status of the interest on the Bonds; or (e) the status or effectiveness of the Academy's charter from the State of North Carolina to operate a charter school.

"Maximum Annual Debt Service" means, with respect to any Bonds, as of any date of calculation, the highest principal and interest payment requirements with respect to such Bonds Outstanding for any succeeding Fiscal Year.

"Maximum Annual Debt Service on Indebtedness" means, as of any date of calculation, the highest amount of Debt-Service (net of (i) amounts in a capitalized interest account, so designated and held by the Trustee, with respect to such Long-Term Indebtedness and (ii) amounts in the Debt Service Reserve Fund available and required to be applied in the year of final maturity of such Long-Term Indebtedness) with respect to all Long-Term Indebtedness outstanding for any succeeding Fiscal Year.

"Maximum Debt Service Coverage Ratio" means the ratio obtained by dividing the Net Income Available for Debt Service for any Fiscal year by the Maximum Annual Debt Service on all Indebtedness outstanding in such Fiscal Year

"Moody's" means Moody's Investors Service.

"Net Income Available for Debt Service" means, for any period of determination thereof, the Pledged Revenues of the Borrower for such period, plus the interest earnings on moneys held in the Debt Service Reserve Fund established under the Indenture (but only to the extent that such interest earnings are transferred to the Bond Fund), minus the total Operating Expenses of the Borrower for such period but excluding from Operating Expenses (i) Debt Service paid on Indebtedness, (ii) any profits or losses which would be regarded as extraordinary items under Generally Accepted Accounting Principles, and (iii) gain(s) or loss(es) in the extinguishment of Indebtedness of the Borrower.

"Non-Recourse Indebtedness" means Long-Term Indebtedness incurred for the purpose of financing Capital Improvements or tangible personal property secured by a lien on, or security interest in, the property being financed and evidenced by an instrument which expressly provides that such Long-Term Indebtedness is not on a parity with the Bonds under the Indenture and upon default in the payment of the principal thereof or interest thereon the obligee thereof may look only to the property securing the same and not to the credit of the Borrower nor to any other assets of the Borrower.

"Operating Expenses" means fees and expenses of the Borrower, including maintenance, repair expenses, utility expenses, administrative and legal expenses, miscellaneous operating expenses, debt service, advertising costs, payroll expenses (including taxes), the cost of materials and supplies used for current operations of the Borrower, the cost of vehicles, equipment leases and service contracts, taxes upon the operations of the Borrower, transfers or other payments by a Borrower to the other Borrower, charges for the accumulation of appropriate reserves for current expenses not annually recurrent, but which are such as may reasonably be expected to be incurred in accordance with Generally Accepted Accounting Principles, all in such amounts as reasonably determined by the Borrower; provided, however, "Operating Expenses" shall not include depreciation, amortization or other non-cash expenses nor those expenses which are actually paid from any revenues of the Borrower which are not Pledged Revenues, nor payment for improvements which are capitalized for accounting purposes.

"Opinion of Counsel" means an opinion in writing of legal counsel, who may be counsel to the Issuer, the Trustee or the Borrower.

"Outstanding" or "outstanding" means when used with respect to the Bonds, as of any particular time, all Bonds which have been duly authenticated and delivered by the Trustee under the Indenture, except:

(a) Bonds theretofore cancelled by the Trustee or delivered to the Trustee for cancellation after purchase in the open market or because of payment at, or redemption prior to, maturity;

(b) Bonds for the payment or redemption of which cash funds (or securities to the extent permitted in the Indenture) shall have been theretofore deposited with the Trustee (whether upon or prior to the maturity or redemption date of any such Bonds); provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Trustee, shall have been filed with the Trustee;

(c) Bonds in lieu of which other Bonds have been authenticated under the Indenture;

(d) Bonds, subsequent to the redemption date thereof, for which the conditions enumerated in the Indenture have been met; and

(e) Bonds owned by the Borrower.

"Participant" means a broker-dealer, bank and other financial institution from time to time for which DTC holds Bonds as a securities depository.

"Permitted Encumbrance" means, as of any particular time, those items described in Schedule B of the Title Policy and any of the following affecting the Project:

(a) Liens for taxes, assessments and other governmental charges due but not yet payable or being actively contested in good faith by appropriate proceedings effectively staying any action or proceeding to foreclose any such Lien, provided that all such Liens in the aggregate have no reasonable likelihood of causing a Material Adverse Effect;

(b) the Liens created by the Loan Agreement, the Deed of Trust, the other Borrower Documents or the Indenture;

(c) purchase money security interests with respect to any item of equipment related to the Project;

(d) utility, access, and other easements and rights-of-way, mineral rights and reservations, restrictions and exceptions which would not in the aggregate (i) materially interfere with or impair any present use of the Project or any reasonably probable future use of the Project, or (ii) materially reduce the value which would be reasonably expected to be received for the Project upon any sale (including any foreclosure of the mortgage granted by the Deed of Trust);

(e) landlord's, warehouseman's, carrier's, worker's, vendor's, mechanic's and materialmen's Liens and similar Liens incurred in the ordinary course of business remaining undischarged for not longer than 60 days from the filing thereof or being contested in good faith by appropriate proceedings effectively staying any action or proceeding to foreclose any such Lien;

(f) judgment Liens against the Borrower so long as such judgment is being contested and execution thereon is stayed or while the period for responsive pleading has not lapsed;

(g) Liens in respect of judgments or awards that have become final and unappealable and remain undischarged for not longer than 60 days from the making thereof, to the extent that any such Lien does not constitute an Event of Default under the Indenture;

(h) Liens in respect of pledges or deposits under worker's compensation laws, unemployment insurance or similar legislation and in respect of pledges or deposits to secure bids, tenders, contracts (other than contracts for the payment of money), leases or statutory obligations, or in connection with surety, appeal and similar bonds incidental to the conduct of litigation;

(i) rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license or permit, or provision of law, affecting the Project, to (A) terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not materially impair the use of the Project or materially and adversely affect the value thereof, or (B) purchase, condemn, appropriate, or recapture, or designate a purchaser of, the Project;

(j) rights reserved to or vested in any municipality or public authority to control or regulate the Project or to use the Project in any manner, which rights do not materially impair the use of the Project or materially and adversely affect the value thereof;

(k) Liens and any other restrictions, exceptions, leases, easements or encumbrances which are existing on the date of initial issuance and delivery of the Series 2017 Bonds, provided that no such Lien (or the amount of Indebtedness secured thereby), restriction, exception, lease, easement or encumbrance may be increased, extended, renewed or modified to apply to the Project not subject to such Lien on such date, unless such Lien as so extended, renewed or modified or otherwise qualified as a Permitted Encumbrance under the Indenture or is otherwise permitted pursuant to the Loan Agreement;

(l) Liens allowed to secure other Additional Indebtedness pursuant to the Loan Agreement;

(m) restrictions imposed by donors to the Borrower upon the uses of gifts provided by such donors;

(n) Liens arising by reason of an Irrevocable Deposit; and

(o) Liens on the Project and the Pledged Revenues (subordinate to the Deed of Trust) to secure payment of Indebtedness subordinate to the obligations of the Borrower under the Loan Agreement.

"Person" includes an individual, association, corporation, partnership, limited liability company, joint venture or a government or an agency or a political subdivision thereof.

"Phase I Report" means the Phase I Environmental Site Assessment Report prepared by ECS Carolinas, LLP, dated June 26, 2014.

"Pledged Revenues" means, to the extent permitted by law, all revenues, rentals, fees, third-party payments, receipts, accounts, or other income of the Borrower, including the rights to receive such revenues (each subject to Permitted Encumbrances), all as calculated in accordance with Generally Accepted Accounting Principles, including, without limitation, proceeds derived from insurance,

condemnation proceeds, accounts, contract rights and other rights and assets, whether now or hereafter owned, held or possessed by the Borrower; and all gifts, grants, bequests, donations and contributions (including income and profits therefrom) to the extent permitted by the terms thereof and by law.

"Principal Payment Date" or "sinking fund payment date" means, as to a Series of Additional Bonds, the Principal Payment Date or sinking fund payment date established for that Series of Bonds in the related Supplemental Indenture and, as to the Series 2017 Bonds, means each June 15, commencing June 15, 2021.

"Private Person" means any person other than a "governmental unit" within the meaning of Section 150(a)(2) of the Code.

"Project" means (a) with respect to the Series 2017 Bonds, financing the acquisition, construction, improving and equipping of certain charter school facilities, located in High Point, North Carolina including (i) an approximately 20,000 square foot Primary School building located at or near 4000 Meeting Way and 4020 Meeting Way, (ii) an approximately 45,000 square foot Elementary School building located at or near 4193 Mendenhall Oaks Parkway and 4191 Mendenhall Oaks Parkway and (iii) an approximately 65,000 square foot Middle School building located at or near 7847 Clinard Farms Road, and (b) as to any Series of Additional Bonds, the Project described in the related amendment to the Loan Agreement.

"Project Fund" means the fund by that name created under the Indenture and includes the subaccounts contained therein.

"Projected Rate" means either (a) the interest rate on any Interest Rate Swap or (b) the projected yield at par of an obligation, as set forth in the report of an Independent Consultant that states in determining the Projected Rate such Independent Consultant reviewed the yield evaluations at par of not less than three obligations selected by such Independent Consultant, the interest on which is excludable from gross income for federal income tax purposes (or, if it is not expected that it would be possible to issue such tax-exempt obligations to refinance the Indebtedness with respect to which debt service is being estimated or if it is not intended that the interest on the obligation for which the Projected Rate is being determined be excludable from gross income for federal income tax purposes, the obligations the interest on which is subject to federal income tax), which obligations such Independent Consultant states in its opinion are reasonable comparators to be utilized in developing such Projected Rate, and which obligations:

"Promissory Note(s)" or "Note(s)" means the Series 2017 Promissory Note and any Additional Promissory Notes.

"Put Date" means (i) any date on which an owner of Put Indebtedness may elect to have such Put Indebtedness paid, purchased or redeemed by or on behalf of the underlying obligor prior to its stated maturity date; or (ii) any date on which Put Indebtedness is required to be paid, purchased or redeemed from the owner by or on behalf of the underlying obligor (other than at the option of the owner) prior to its stated maturity date, other than pursuant to any mandatory sinking fund or other similar fund or other than by reason of acceleration upon the occurrence of an event of default.

"Put Indebtedness" means Indebtedness which is (a) payable or required to be purchased or redeemed by or on behalf of the underlying obligor, at the option of the owner thereof, prior to its stated maturity date; or (b) payable or required to be purchased or redeemed from the owner by or on behalf of the underlying obligor (other than at the option of the owner) prior to its stated maturity date, other than

pursuant to any mandatory sinking fund or other similar fund or other than by reason of acceleration or required purchase upon the occurrence of an event of default.

"Rating Agency" means Fitch, Moody's, Standard & Poor's, or any other nationally recognized rating agency.

"Refunding Indebtedness" means any Indebtedness issued for the purpose of refunding any outstanding Indebtedness and financing the funding of related reserve funds, costs of issuance and other costs related to such refunding.

"Registered Owner" or "Owner" means the Person or Persons in whose name or names a particular Bond is registered on the registration records maintained for that purpose pursuant to the Indenture.

"Regular Record Date" means first day of the month of each Interest Payment Date (whether or not a Business Day).

"Regulated Chemicals" means any substance, including Hazardous Material, the presence of which requires investigation, permitting, control or remediation under Environmental Laws. Regulated Chemicals shall not include any such substances used in or resulting from the ordinary operation of the Project or for the cleaning of the Project, provided that such substances are stored, handled and disposed of in substantial compliance with all applicable Environmental Laws and other applicable laws and regulations.

"Regulations" means the temporary or final Income Tax Regulations applicable to the Bonds issued pursuant to sections 141 through 150 of the Code or section 103 of the Internal Revenue Code of 1954. Any reference to a section of the Regulations shall also refer to any successor provision to such section hereafter promulgated by the Internal Revenue Service pursuant to sections 141 through 150 of the Code and applicable to the Tax-Exempt Bonds, including the Series 2017 Bonds.

"Repair and Replacement Fund" means the Fund by that name created pursuant to the Indenture.

"Responsible Officer" means, when used with respect to the Trustee, any officer within the corporate trust department of the Trustee, including any Vice President, assistant Vice President, assistant secretary, assistant treasurer, trust officer or any other officer of the Trustee who customarily performs functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of such person's knowledge of and familiarity with the particular subject and who shall have direct responsibility for the administration of the Indenture.

"Revenues" means, to the extent permitted by law, all payments received by the Trustee for the account of the Issuer pursuant to the Loan Agreement and the Indenture.

"Series" means a Series of Bonds issued pursuant to the Indenture.

"Series 2017 Bonds" means the Public Finance Authority Education Revenue Bonds (Phoenix Academy Project) Series 2017, issued pursuant to the Indenture.

"Series 2017 Promissory Note" means the Series 2017 Promissory Note, executed by the Borrower and made payable to the order of the Issuer, a form of which is attached as an exhibit to the Loan Agreement.

"Series Debt Service Reserve Fund Requirement" means, (a) for the Series 2017 Bonds, an amount specified in the Loan Agreement, (b) for any Series of Additional Bonds, an amount, determined at the time of issuance of such Additional Bonds, not to exceed the least of (1) 10% of the original principal amount of such Additional Bonds, (2) 125% of the average annual debt service payment on such Additional Bonds, or (3) 100% of the Maximum Annual Debt Service payable on such Additional Bonds; provided the Series Debt Service Reserve Fund Requirement for any Series of Additional Bonds may be revised to a lesser amount in accordance with requirements of Regulations specifying the maximum amount in a reserve fund permitted to be invested without regard to investment yield.

"Special Record Date" means a special record date, which shall be a Business Day, fixed to determine the names and addresses of owners for purposes of paying interest on a special Interest Payment Date for the payment of defaulted interest, all as further provided in the Indenture.

"Sponsor" means the National League of Cities, the National Association of Counties, the Wisconsin Counties Association, the League of Wisconsin Municipalities, and any other Person that holds itself out, or is identified by the Issuer, as an organization sponsoring the Issuer.

"Standard & Poor's" means S&P Global Ratings, a division of Standard & Poor's Financial Services LLC, a limited liability company organized and existing under the laws of the state of Delaware, its successors and assigns.

"Subordinated Indebtedness" means Indebtedness which, with respect to any issue thereof, is evidenced by instruments, or issued under an indenture or other document, containing provisions for the subordination of such Indebtedness to the Bonds or any other Indebtedness issued following the date thereof (to which appropriate reference shall be made in the instrument evidencing such Indebtedness).

"Supplemental Indenture" means any indenture supplemental to the Indenture entered into between the Issuer and the Trustee in accordance with the Indenture.

"Tax Agreement" means the Tax Certificate and Agreement between the Issuer and the Borrower, dated as of June 1, 2017.

"Tax-Exempt Bonds" means those Bonds the interest on which, in the opinion of Bond Counsel delivered at the time of issuance thereof, is excludable from gross income of the Beneficial Owner thereof for federal income tax purposes, including the Series 2017 Bonds.

"Title Policy" means an ALTA extended coverage lender's policy of title insurance in a form acceptable to the Underwriter.

"Trust Estate" means the property pledged, assigned and mortgaged to the Trustee pursuant to the granting clauses of the Indenture.

"Trustee" means U.S. Bank National Association, a national banking association, and its successors and assigns.

"Trustee's Annual Fees" means the annual fee of the Trustee payable to the Trustee as Trustee, Registrar and Paying Agent under the Indenture, provided that such fee does not include amounts due, if any, for extraordinary services and expenses of the Trustee.

"Trustee's Expenses" means the reasonable expenses incurred by the Trustee under the Indenture, including reasonable counsel fees and expenses (including fees and expenses at trial or appellate proceedings), including amounts due, if any, for extraordinary services and expenses of the Trustee.

"Trustee Indemnified Parties" means the Trustee, its officers, directors, employees and agents.

"Underwriter" means George K. Baum & Company.

"Unrestricted Cash and Investments" means the sum of unrestricted cash, cash equivalents, marketable securities, including without limitation board-designated assets, but excluding any trustee-held or similar funds held under the Indenture or similar debt documents. For the purposes of calculations of the liquidity requirements of the Loan Agreement, an unrestricted contribution from a third party or affiliate shall be treated as being made during the period of such calculation so long as the unrestricted contribution is made prior to the date the applicable certificate is required to be delivered with respect to such calculation.

THE INDENTURE

The following is a brief summary of certain provisions of the Indenture pursuant to which the Bonds will be issued. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Indenture, copies of which are on file with the Issuer and the Trustee.

Security for the Bonds

Under the Indenture, the Issuer grants to U.S. Bank National Association, as Trustee, a security interest in the following:

- (a) The rights and interests of the Issuer under the Loan Agreement, as amended from time to time, between the Issuer and the Borrower, except the Issuer's Unassigned Rights;
- (b) The rights, title and interests, if any, of the Issuer in the Project, subject to Permitted Encumbrances, except the Issuer's Unassigned Rights;
- (c) The Revenues and all rights and interests of the Issuer in the Pledged Revenues, subject to Permitted Encumbrances, except the Issuer's Unassigned Rights;
- (d) The rights and interests of the Issuer under the Promissory Notes;
- (e) All Funds created in the Indenture (other than the Cost of Issuance Fund), except for (i) moneys or obligations deposited with or paid to the Trustee for the payment or redemption of Bonds that are no longer deemed to be Outstanding under the Indenture, (ii) all trust accounts containing all insurance and condemnation proceeds, and (iii) all Revenues payable to the Trustee by or for the account of the Issuer pursuant to the Loan Agreement and 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;
- (f) Any and all other interests in real or personal property of every name and nature from time to time hereafter by delivery or by writing of any kind specifically mortgaged, pledged or hypothecated, as and for additional security under the Indenture by the Issuer or by anyone in its behalf or with its written consent in favor of the Trustee (including the Deed of Trust and

proceeds of related title insurance), which is authorized to receive any and all such property at any and all times and to hold and apply the same, subject to the terms in the Indenture.

Additional Bonds

The Issuer may, but shall have no obligation to, issue Additional Bonds from time to time pursuant to the terms and conditions of the Indenture.

Any Additional Bonds shall, except as otherwise provided in the Indenture, be on a parity with the Series 2017 Bonds and any Additional Bonds theretofore or thereafter issued and outstanding as to the assignment to the Trustee of the Issuer's right, title and interest in the Trust Estate for the payment of debt service on the Bonds.

Before the Trustee shall authenticate and deliver any Additional Bonds, the Trustee shall receive the following items:

(a) Duly executed counterparts of (i) the amendment to the Loan Agreement relating to the Project to be financed or refinanced from the proceeds of the Additional Bonds then to be issued and which amendment provides for payments sufficient to pay the debt service charges on the related Additional Bonds, and (ii) the supplement to the Indenture providing for the issuance of and the terms and conditions of the Additional Bonds.

(b) One or more Additional Promissory Notes in an aggregate principal amount equal to the aggregate principal amount of the related Additional Bonds and duly endorsed by the Issuer to the order of the Trustee without recourse or warranty.

(c) A written order of the Issuer as to the delivery of the Additional Bonds, signed by an Authorized Representative of the Issuer.

(d) A copy of the resolution duly adopted by the Issuer authorizing (i) the execution and delivery of the Bond Purchase Agreement (if any) with the underwriter (if any) and the supplement to the Indenture, each relating to the Additional Bonds and (ii) the issuance of the Additional Bonds.

(e) An opinion of Bond Counsel: (i) to the effect that the Additional Bonds to be delivered will be valid and legal special obligations of the Issuer in accordance with their terms and will be secured under the Indenture equally and on a parity (except as otherwise permitted therein) with all other Bonds at the time outstanding as to the assignment to the Trustee of the Trust Estate; and (ii) the issuance of the Additional Bonds will not result in the interest of any Outstanding Bonds that are Tax-Exempt Bonds becoming included in gross income for federal income tax purposes and that the issuance of the Additional Bonds will not result in the loss of exemption from the registration requirements under the Securities Act of 1933, as amended, of the Tax-Exempt Bonds and the Indenture.

(f) A written opinion of counsel to the Borrower, to the effect that the Loan Agreement or the amendment to the Loan Agreement, the Deed of Trust, or the amendment to the Deed of Trust, and Additional Promissory Notes have been duly authorized, executed and delivered by the Borrower, and that the Loan Agreement or the amendment to the Loan Agreement, the Deed of Trust, or the amendment to the Deed of Trust and Additional Promissory Notes constitute legal, valid and binding obligations of the Borrower, enforceable in accordance

with their respective terms, subject to exceptions reasonably satisfactory to the Issuer and the Trustee for bankruptcy, insolvency and similar laws and the application of equitable principles.

(g) Evidence satisfactory to the Trustee that on delivery of the Additional Bonds then to be delivered there will be or has been paid into or provided for the Debt Service Reserve Fund any amounts required by the Indenture or the supplement to the Indenture relating to such Additional Bonds.

(h) Evidence that the issuance of such Additional Bonds complies with the requirements of the Loan Agreement.

(i) (i) A modification or amendment to the Deed of Trust, in form and substance satisfactory to the Trustee, describing the terms of issuance of such Additional Bonds and increasing the present amount of Bonds secured by such Deed of Trust, and such amendment shall be recorded with the appropriate governmental authority and (ii) an endorsement, meeting the requirements of the Indenture, to the mortgagee title insurance policy issued to the Trustee insuring such modified Deed of Trust (or if more than one mortgagee title insurance policy, together with tie-in endorsements, has been issued to the Trustee insuring such Deed of Trust, an endorsement to each such policy) that (A) amends the effective date and time of such policy to be the date and time of the recording of the amendment to such Deed of Trust, (B) increases the amount of such policy (if there is only one such policy) or increases the amount of all such policies in the aggregate (if there is more than one such policy) to an amount equal to the principal amount of all Bonds then Outstanding (less any amount deposited or to be deposited initially into the Debt Service Reserve Fund or any other debt service reserve fund for such Bonds), and (C) continues to insure that such Deed of Trust, as amended, is a first priority Lien on the Project described therein, subject to Permitted Encumbrances.

(j) Such other documents, certificates (including certificates issued by public officials) and opinions of counsel as the Issuer, the Underwriter, the Trustee or Bond Counsel may reasonably request.

When (i) the documents listed above have been received by the Trustee, and (ii) the Additional Bonds have been executed and authenticated, the Trustee shall deliver the Additional Bonds to or on the order of the Underwriter, but only upon payment to the Trustee of the specified amount (including, without limitation, any accrued interest) set forth in the order to which reference is made in paragraph 3 above.

Establishment of Funds

The following funds shall be established and maintained by the Trustee under the Indenture for the benefit of the Bonds:

- (a) Bond Fund;
- (b) Debt Service Reserve Fund, including a Series 2017 Bonds Account therein;
- (c) Project Fund;
- (d) Cost of Issuance Fund; and
- (e) Repair and Replacement Fund.

Bond Fund

With respect to each Series of Additional Bonds, there shall be deposited into the Bond Fund on the date of the Bond Closing of a Series of Additional Bonds, accrued interest on such Series of Additional Bonds and an amount to pay capitalized interest, if any, all as specified in the Supplemental Indenture related to such Series of Additional Bonds. There shall be deposited into the Bond Fund as and when received (a) all monies received from the Borrower pursuant to the Loan Agreement, (b) all moneys transferred to the Bond Fund pursuant to the Indenture, (c) all other moneys deposited into the Bond Fund pursuant to the Loan Agreement or the Indenture, and (d) all other moneys received by the Trustee when accompanied by directions from an Authorized Representative of the Borrower, not inconsistent with the Loan Agreement or the Indenture, that such moneys are to be paid into the Bond Fund. There also will be retained in the Bond Fund, interest and other income received on investment of moneys in the Bond Fund as provided in the Indenture.

Except as otherwise provided in the Indenture, moneys on deposit in the Bond Fund shall be used to pay solely for the payment of the principal of, premium, if any, and interest on the Bonds on each Principal Payment Date and on each Interest Payment Date.

The Bond Fund shall be in the custody of the Trustee, and the Issuer authorizes and directs the Trustee to withdraw sufficient funds from the Bond Fund to pay the principal of and premium, if any, on the Bonds as the same become due and payable, to withdraw sufficient funds from subaccounts of the Bond Fund to pay the interest on the Bonds as the same becomes due and payable and to withdraw sufficient funds from the Bond Fund for other purposes authorized in the Indenture.

Amounts on deposit in the Bond Fund will (a) be held solely for the benefit of the Registered Owners and the Beneficial Owners of Bonds, (b) be applied only in accordance with the Indenture; and (c) the Borrower shall have no legal, equitable or reversionary interest in, or right to, such amounts. In the event of any Act of Bankruptcy by the Borrower, the Borrower has, in the Loan Agreement, waived any right it might otherwise have to assert, claim or contend that any portion of either the Bond Fund is property of its bankruptcy estate as defined by 11 U.S.C. Section 541.

Debt Service Reserve Fund

With respect to each Series of Bonds, there shall be established in the Debt Service Reserve Fund an account related to such Series of Bonds. The amounts in such accounts shall secure only the Series of Bonds related to such account. With respect to the Series 2017 Bonds, there shall be deposited in the account of the Debt Service Reserve Fund related to the Series 2017 Bonds an amount equal to the Series Debt Service Reserve Fund Requirement for the Series 2017 Bonds. Upon the issuance of each Series of Additional Bonds, there shall be deposited into the respective account of the Debt Service Reserve Fund, an amount specified in the related Supplemental Indenture equal to the related Series Debt Service Reserve Fund Requirement. There shall also be deposited into the Debt Service Reserve Fund (a) all moneys transferred to the Debt Service Reserve Fund from the Bond Fund, (b) all other moneys required to be deposited therein pursuant to the Loan Agreement or the Indenture and (c) all other moneys received by the Trustee when accompanied by directions from an Authorized Representative of the Borrower not inconsistent with the Loan Agreement or the Indenture that such moneys are to be paid into the Debt Service Reserve Fund.

In the event amounts on deposit in any account of the Debt Service Reserve Fund are less than the applicable Series Debt Service Reserve Fund Requirement, the Trustee shall notify, by written notice within 5 Business Days of when a Responsible Officer of the Trustee has knowledge of such deficiency, the Issuer and the Borrower of such deficiency, and that such deficiency must be replenished in

accordance with the Loan Agreement and the Indenture. Interest and other income received on investments of moneys in the Debt Service Reserve Fund shall be transferred to the Bond Fund so long as the Debt Service Reserve Fund is funded to an amount equal to the Debt Service Reserve Fund Requirement for the Series 2017 Bonds.

Except as otherwise provided in the Indenture, moneys in the accounts of the Debt Service Reserve Fund shall be used solely for the payment of the principal of, premium, if any, and interest on the Series of Bonds related to such accounts in the event moneys in the Bond Fund are insufficient to make such payments when due, whether on an Interest Payment Date, sinking fund redemption date, maturity date or otherwise. Upon the occurrence of an Event of Default under the Indenture and the exercise by the Trustee of the acceleration remedies specified in the Indenture and the Loan Agreement, any moneys in the Debt Service Reserve Fund shall be transferred by the Trustee to the Bond Fund. On the final maturity date of a Series of Bonds, any moneys in the account of the Debt Service Reserve Fund related to such Series of Bonds shall be used to pay the principal of and interest on such Bonds on such final maturity date. In the event of the redemption of a Series of Bonds in whole, any moneys in the account of the Debt Service Reserve Fund related to such Series of Bonds shall be transferred to the Bond Fund and applied to the payment of the principal of and premium, if any, on such Bonds. In the event of a prepayment in whole of amounts due under a Loan and the defeasance pursuant to the Indenture of all of the Outstanding Bonds of the related Series, any moneys in the account of the Debt Service Reserve Fund related to such Series of Bonds shall be applied to the defeasance of such Series of Bonds.

The Trustee shall value the Investment Obligations in the accounts of the Debt Service Reserve Fund semiannually on June 15 and December 15 of each year at the lesser of their market value or cost. If on any valuation date the amount in an account of the Debt Service Reserve Fund (determined pursuant to the Indenture) is greater than the related Series Debt Service Reserve Fund Requirement, such excess shall be transferred by the Trustee to the Bond Fund in accordance with the Indenture.

If on any valuation date the amount in an account of Debt Service Reserve Fund (determined pursuant to the Indenture) is less than the related Series Debt Service Reserve Fund Requirement and the deficiency is caused solely by a decreased value of the Investment Obligations therein and not due to a transfer to cure a shortfall in the Bond Fund, the Borrower has agreed pursuant to the Loan Agreement that it shall pay to the Trustee for deposit into the Series Debt Service Reserve Fund an amount equal to the amount by which the account of Debt Service Reserve Fund amount is less than the Series Debt Service Reserve Fund Requirement with the next monthly deposit following that valuation date. If the amount in the account of the Debt Service Reserve Fund is less than the Series Debt Service Reserve Fund Requirement and the deficiency is caused by a transfer to cure a shortfall in the Bond Fund resulting from the failure of the Borrower to make the payments due on its Promissory Note(s), the Borrower has agreed pursuant to the Loan Agreement to pay to the Trustee all amounts transferred to the Bond Fund to make up for any amounts not paid on the Promissory Note(s) in not more than six substantially equal monthly installments beginning in the month following such deficiency, and provided that no such installment shall be less than \$5,000.

Amounts on deposit in accounts of the Debt Service Reserve Fund shall be: (i) held in trust solely for the benefit of the Registered Owners and the Beneficial Owners of the related Series of Bonds, and (ii) applied only in accordance with the provisions of the Indenture. The Borrower has no legal, equitable or reversionary interest in, or right to, such amounts. In the event of any Act of Bankruptcy, the Borrower in no event shall assert, claim or contend that any portion of the Debt Service Reserve Fund is property of its bankruptcy estate as defined by 11 U.S.C. § 541.

The Debt Service Reserve Fund shall be in the custody of the Trustee but in the name of the Issuer, and the Issuer authorizes and directs the Trustee to withdraw sufficient funds from the applicable

accounts of the Debt Service Reserve Fund to pay the principal of, premium, if any, and interest on the Bonds and for the purposes described in the Indenture. In the event there shall be a deficiency in the Bond Fund on any payment date for the Bonds because of a default by a Borrower under the Loan Agreement, the Trustee shall promptly make up such deficiency from the Debt Service Reserve Fund.

Project Fund

With respect to the Series 2017 Bonds, the balance of the proceeds of the issuance and delivery of the Series 2017 Bonds remaining after the other deposits of such proceeds required by the Indenture shall be deposited in the Project Fund. With respect to each Series of Additional Bonds, the amount of proceeds to be deposited in the related subaccount of the Project Fund shall be provided for in the related Supplemental Indenture. The Trustee is authorized and directed to make each disbursement required by the Loan Agreement and the related Supplemental Indenture and to issue its checks or wire transfers therefor against the related subaccount of the Project Fund. The Trustee shall keep and maintain adequate records pertaining to the Project Fund and all disbursements therefrom and shall provide monthly statements to the Borrower. The Trustee shall have no duty to confirm that the use of any disbursed funds by the Borrower complies with the provisions of the Indenture or the Loan Agreement.

Any balance remaining in the related subaccount of the Project Fund on the date a certificate of completion is received by the Trustee will be deposited by the Trustee in accordance with the related Agreement.

The Project Fund will be in the custody of the Trustee but in the name of the Issuer, and the Issuer has authorized and directed the Trustee to withdraw sufficient funds from the appropriate subaccount of the Project Fund for Costs of the Project as requisitioned by the Borrower.

Cost of Issuance Fund

With respect to the Series 2017 Bonds, there shall be deposited into the Cost of Issuance Fund on the Bond Closing for the Series 2017 Bonds the amounts set forth in the Indenture. With respect to each Series of Additional Bonds, there shall be deposited into the Cost of Issuance Fund that amount as provided in the related Supplemental Indenture. Such moneys shall be expended to pay issuance expenses as directed in writing by the Borrower.

Repair and Replacement Fund

The Trustee shall deposit into the Repair and Replacement Fund as and when received (i) all moneys required to be deposited therein pursuant to the Loan Agreement or the Indenture and (ii) all other moneys received by the Trustee when accompanied by directions from an Authorized Representative of the Borrower not inconsistent with the Loan Agreement or the Indenture that such moneys are to be paid into the Repair and Replacement Fund.

Amounts on deposit in the Repair and Replacement Fund may be disbursed by the Trustee from time to time to the Borrower upon receipt of a signed requisition therefor to pay for the repair and/or replacement of capital items or to fund capital improvements to the Project.

Investment of Moneys; Allocation and Transfer of Investment Income

Moneys in all Funds under the Indenture shall be invested and reinvested by the Trustee in Investment Obligations, at the written direction of the Authorized Representative of the Borrower. If no such direction is received, the Trustee shall hold such amounts in cash. At no time shall any funds

constituting gross proceeds of the Tax-Exempt Bonds be used in any manner to cause or result in a prohibited payment under applicable regulations pertaining to, or in any other fashion as would constitute failure of compliance with, Section 148 of the Code. Investments of moneys in the Bond Fund shall mature or be redeemable without penalty at the option of the Trustee at the times and in the amounts necessary to provide moneys to pay the principal of, premium and interest on the Bonds as they become due at stated maturity or by redemption. Each investment of moneys in funds other than the Bond Fund shall mature or be redeemable without penalty at such time as may be necessary to make payments from such fund.

Upon receipt of written directions from the Authorized Representative of the Borrower, with respect thereto, the Trustee shall sell those investments and reinvest the proceeds therefrom in Investment Obligations maturing or redeemable as aforesaid. Any of those investments may be purchased from or sold to the Trustee or any bank, trust company or savings and loan association affiliated with the Trustee. The Trustee shall sell or redeem investments credited to the Bond Fund to produce sufficient moneys applicable under the Indenture to and at the times required for the purposes of paying the principal of, premium and interest on the Bonds when due as aforesaid, and shall do so without necessity for any order on behalf of the Issuer and without restriction by reason of any order. An investment made from moneys credited to the Project Fund, Bond Fund, Cost of Issuance Fund or the Repair and Replacement Fund shall constitute part of that respective fund. The funds shall be credited with all proceeds of sale and income from investment of moneys credited thereto. For purposes of the Indenture, the Investment Obligations shall be valued by the Trustee on each June 15 and December 15 at face amount or market value, whichever is less, except as otherwise provided in the Indenture.

Events of Default

Each of the following is defined as and deemed an "Event of Default" under the Indenture:

(a) Failure in the payment by the Issuer of the principal of or premium, if any, on any Bond, when the same shall become due and payable, whether at the stated maturity thereof, on a sinking fund payment date or upon proceedings for redemption.

(b) Failure in the payment by the Issuer of any installment of interest on any Bond when the same shall become due and payable.

(c) Failure by the Issuer to observe or perform of any other covenant, agreement, contract or other provision of the Bonds or the Indenture (other than as referred to in (a) or (b) above) and such default shall continue for a period of 30 days after written notice to the Issuer and the Borrower by the Trustee specifying such default and requiring the same to be remedied, provided, with respect to any such failure described by this paragraph (c), no Event of Default will be deemed to have occurred so long as a course of action adequate to remedy such failure shall have been commenced within such 30-day period and shall thereafter be diligently prosecuted to completion and the failure shall be remedied thereby within 90 days of such notification. The Borrower shall deliver a written report to the Trustee at least once every thirty days setting forth the status of all attempts to cure such default.

(d) The occurrence of an "Event of Default" under any Loan Agreement or any Deed of Trust.

Upon the occurrence of an Event of Default under the Indenture, the Trustee will promptly notify the Issuer and the Borrower by electronic mail, confirmed by overnight mail or courier, of such occurrence, setting forth the specific nature of the Event of Default or Defaults.

The time periods for cure set forth in (c) above shall not be applicable to any events or actions which cause or might cause a Determination of Taxability.

Remedies for Events of Default

Upon the occurrence of an Event of Default, the Trustee will have the following rights and remedies:

(a) **Acceleration.** The Trustee (i) may by notice in writing given to the Issuer and the Borrower or (ii) shall, upon the written request of the Beneficial 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 will thereupon become immediately due and payable. Upon any declaration of acceleration, the Issuer and the Trustee will immediately declare all Loan Payments under the Loan Agreement to be immediately due and payable, together with an acceleration premium, as provided in the Loan Agreement.

(b) **Receivership.** Upon the filing of a bill in equity or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Registered Owners, the Trustee shall be entitled as a matter of right to the appointment of a receiver or receivers, with respect to the Borrower, of the rents, revenues, income, products and profits related to the Borrower and the Project, pending such proceedings, but, notwithstanding the appointment of any receiver, trustee or other custodian, the Trustee shall be entitled to the possession and control of any cash, securities or other instruments at the time held by, or payable or deliverable under the provisions of the Indenture to, the Trustee.

(c) **Foreclosure.** The Trustee shall have the right of foreclosure on all or any portion of any Project or any interest of the Issuer, the Borrower therein including pursuant to the power of sale under the Deed of Trust and may realize upon the security interest in the Pledged Revenues and exercise all of the rights and remedies of a secured party under the Uniform Commercial Code of the State of North Carolina with respect thereto.

(d) **Suit for Judgment on the Bonds.** The Trustee will be entitled to sue for and recover judgment, either before or after or during the pendency of any proceedings for the enforcement of the lien of the Indenture, for the enforcement of any of its rights, or the rights of the Beneficial Owners, but any such judgment against the Issuer will be enforceable only against the Trust Estate. No recovery of any judgment by the Trustee shall in any manner or to any extent affect the lien of the Indenture or any rights, powers or remedies of the Trustee thereunder, or any lien, rights, powers or remedies of the Beneficial Owners of the Bonds, but such lien, right, powers or remedies of the Trustee and of the Beneficial Owners shall continue unimpaired as before.

No right or remedy specified in the Indenture is intended to be exclusive of any other right or remedy, but each and every such right or remedy shall be cumulative and in addition to any other right or remedy given under the Indenture or now or hereafter existing at law or in equity or by statute.

If any Event of Default under the Indenture shall have occurred, the Beneficial Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, shall direct the Trustee as to the preferred remedy of such Beneficial Owners. The Trustee, after being indemnified or receiving other assurances as provided in the Indenture, shall be obligated to exercise such one or more of the rights and powers conferred by the Indenture as directed by the Beneficial Owners of such Bonds.

Direction of Remedies

Anything in the Indenture to the contrary notwithstanding, the Beneficial Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, at any time, to the extent permitted by law, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, method, and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver, or any other proceedings or remedies under the Indenture, provided that such direction shall not be otherwise than in accordance with the provisions of the Indenture and applicable law; provided, however, that the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such directions. The Trustee shall not be required to act on any direction given to it pursuant to the Indenture unless indemnified or receiving other assurances as provided in the Indenture.

Rights and Remedies of Beneficial Owners

No Beneficial Owner of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust created by the Indenture or for the appointment of a receiver or any other remedy under the Indenture, unless a default has occurred of which the Trustee has been notified as provided in the Indenture, or of which by the Indenture it is deemed to have notice, nor unless such default shall have become an Event of Default and the Beneficial Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request to the Trustee and shall have offered reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name, and they shall have also offered to the Trustee indemnity or other assurances as provided in the Indenture, nor unless the Trustee shall thereafter fail or refuse to exercise within a reasonable period of time (not to exceed 30 days) the powers granted, or to institute such action, suit or proceeding in its own name; and such notification, request, and offer of indemnity or other assurances are declared in every case at the option of the Trustee to be conditions precedent to the execution of the powers and trusts of the Indenture, and to any action or cause of action for the enforcement of the Indenture, or for the appointment of a receiver or for any other remedy under the Indenture; it being understood and intended that no one or more Beneficial Owners of the Bonds shall have the right in any manner whatsoever to affect, disturb or prejudice the lien of the Indenture by his, her or their action or to enforce any right under the Indenture except in the manner provided in the Indenture and that all proceedings at law or in equity shall be instituted, had, and maintained in the manner provided in the Indenture and for the equal benefit of the Beneficial Owners of the Bonds then Outstanding. Nothing contained in the Indenture shall, however, affect or impair the right of any Beneficial Owner of Bonds to enforce the payment, by the institution of any suit, action or proceeding in equity or at law, of the principal of, premium, if any or interest on any Bond at and after the maturity thereof, or the obligation of the Issuer to pay the principal of, premium, if any, and interest on each of the Bonds to the respective Beneficial Owners of the Bonds at the time and place, from the Trust Estate and in the manner in the Indenture and in the Bonds expressed.

Waivers of Events of Default

The Trustee may in its discretion waive any Event of Default under the Indenture and its consequences and rescind any declaration of acceleration of maturity of principal of and interest on the Bonds, and shall be required to do so upon the written request of the Beneficial Owners of a majority in aggregate principal amount of the Bonds then Outstanding; provided, however, that there shall not be waived (i) any Event of Default in the payment of the principal of or premium on any Outstanding Bonds at the date of maturity or redemption thereof or any default in the payment when due of the interest on any such Bonds, unless prior to such waiver or rescission, all arrears of interest or all arrears of payments of the principal and premium, if any, and all expenses of the Trustee and the Issuer, and all amounts to be

paid to the Issuer and the Trustee under the Indenture and under the Loan Agreement, in connection with such default shall have been paid or provided for, (ii) any default in the payment of amounts related to deposits to the Rebate Fund, or (iii) any default or Event of Default in respect of the Issuer's Unassigned Rights, which may only be waived with the Issuer's written consent. In case of any such waiver or rescission, or in case any proceedings taken by the Trustee on account of any such default shall have been discontinued or abandoned or determined adversely to the Trustee, then and in every such case the Issuer, the Trustee and the Beneficial Owners shall be restored to their former positions and rights under the Indenture respectively, but no such waiver or rescission shall extend to or affect any subsequent or other default, or impair any rights or remedies consequent thereon.

No Obligation to Enforce Assigned Rights

Notwithstanding anything to the contrary in the Indenture or the Loan Agreement, the Issuer shall have no obligation to and instead the Trustee, in accordance with the Indenture or the Loan Agreement, shall have the right, without direction from or action by the Issuer, take any and all steps, actions and proceedings, to enforce any or all rights of the Issuer under the Indenture and the Loan Agreement (other than the Issuer's Unassigned Rights), 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.

No Impairment of Ability to Enforce Issuer's Unassigned Rights

No provision of the Indenture or the Loan Agreement shall be deemed or construed as limiting, affecting or impairing in any way the Issuer's or any Issuer Indemnified Party's right to enforce the Issuer's Unassigned Rights, notwithstanding the existence or continuance of a default or Event of Default (including, without limitation, a payment default), or any action based thereon or occasioned by an Event of Default or an alleged Event of Default, and notwithstanding any waiver or forbearance by the Trustee, the Registered Owners or the Beneficial Owners of any default or Event of Default under the Indenture or the Loan Agreement. Any default or Event of Default in respect of the Issuer's Unassigned Rights may only be waived with the Issuer's written consent.

Application of Moneys

All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture shall, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys, including the costs and expenses of the Registered Owners and the expenses, liabilities and advances incurred or made by the Trustee, and after payment of all sums due to the Trustee and to the Issuer and the Issuer Indemnified Parties (including any other payments due in respect of the Issuer's Unassigned Rights, including, without limitation, indemnification payments) under the Indenture and under the Loan Agreement, as applicable; provided that the payment of amounts due to the Issuer or to the Issuer Indemnified Parties as described in this paragraph shall not absolve the Borrower from liability therefore except to the extent of the amounts received from the Trustee, be held or deposited into the Bond Fund during the continuance of an Event of Default and shall be applied as follows:

(a) Unless the principal of all the Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

FIRST, to the payment to the Persons entitled thereto of all of the interest then due on the Bonds, in the order of the maturity of such interest and, if the amount available shall not be

sufficient to pay in full all interest due, then to the payment ratably, according to the amounts due on such installment to the Persons entitled thereto, without any discrimination or privilege; and

SECOND, to the payment to the Persons entitled thereto of the unpaid principal of and premium, if any, on any of the Bonds which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal due on such date, to the persons entitled thereto, without any discrimination or privilege.

(b) If the principal of all the Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied first to the payment of the principal and interest then due and unpaid upon all of the Bonds, and then to the principal then due and payable on the Bonds without preference or priority of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or privilege.

(c) If the principal of all the Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Indenture then, subject to the provisions of paragraph (b) above in the event that the principal of all the Bonds shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a) above.

Whenever moneys are to be applied pursuant to the provisions described above, 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 an Interest Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Registered Owner of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Whenever all of the Bonds, the premium, if any, and interest thereon have been paid under the provisions described above and all expenses and fees of the Trustee and the Issuer Annual Fee and all other amounts to be paid to the Issuer or the Trustee under the Indenture or under the Loan Agreement have been paid, or provisions made for the payment thereof in accordance with the Indenture, any balance remaining in the Funds shall be applied to the Borrower in accordance with the provisions of the Indenture.

The Trustee

The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Indenture. In case an Event of Default has occurred (which has not been cured or waived), the Trustee will exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent corporate indenture trustee would exercise or use under similar circumstances.

The Trustee may execute any of the trusts under the Indenture or powers under the Indenture and perform any of its duties by or through attorneys, agents, receivers or employees but will be answerable for the conduct of the same in accordance with the standards specified above and will be entitled to act upon an opinion of counsel concerning all matters of the trust and its duties under the Indenture, and may in all cases pay such reasonable compensation to all such attorneys, agents, receivers and employees as may reasonably be employed in connection therewith. The Trustee may act upon an opinion of counsel and will not be responsible for any loss or damage resulting from any action or nonaction taken by or omitted to be taken in good faith in reliance upon such opinion of counsel.

The present or any future Trustee may resign by giving to the Issuer, the Borrower and the Registered Owners 60 days' notice of such resignation. Such resignation shall take effect immediately on the appointment of a successor. The present or any future Trustee may be removed at any time by an instrument or concurrent instruments in writing signed by the Issuer or by the Registered Owners of a majority in aggregate principal amount of the Bonds and such removal shall take effect immediately on the appointment of a successor. The Trustee may also be removed at any time for any breach of the trust set forth in the Indenture.

In case the present or any future Trustee shall at any time resign or be removed or otherwise become incapable of acting, a successor may be appointed by the Registered Owners of a majority in aggregate principal amount of the Bonds Outstanding by an instrument or concurrent instruments signed by such Registered Owners, or their attorneys-in-fact duly appointed; provided that the Borrower, if not then in default under the Loan Agreement) with the consent of the Issuer may appoint a successor until a new successor shall be appointed by the Registered Owners as authorized in the Indenture. The Borrower upon making such appointment shall forthwith give notice thereof to the Registered Owners and the Issuer, which notice may be given concurrently with the notice of resignation given by any resigning Trustee. Any successor so appointed by the Borrower shall immediately and without further act be superseded by a successor appointed in the manner above provided by the Registered Owners of a majority in aggregate principal amount of the Bonds then Outstanding. In the event that the Borrower or the Registered Owners fail to appoint a successor (within 60 days, in the case of a resignation), the Trustee may petition a court of competent jurisdiction for appointment of a successor trustee.

Every successor trustee shall always be a bank or trust company in good standing, be qualified to act under the Indenture, be subject to examination by a federal or state authority and have capital and surplus of not less than \$75,000,000. Any successor appointed under the Indenture shall execute, acknowledge and deliver to the Issuer an instrument accepting such appointment, and thereupon such successor shall, without any further act, deed or conveyance, become vested with all the estates, properties, rights, powers and trusts of its predecessor in the trust thereunder with like effect as if originally named as Trustee in the Indenture; but the Trustee retiring shall, nevertheless, on the written demand of its successor, execute and deliver an instrument conveying and transferring to such successor, upon the trusts expressed in the Indenture, all the estates, properties, rights, powers and trusts of the predecessor (subject, however, to the terms and conditions set forth in the Indenture, including, without limitation, the right of the predecessor Trustee to be paid and reimbursed in full for its fees and expenses pursuant to the Indenture and to be indemnified pursuant provisions contained in the Loan Agreement), who shall duly assign, transfer and deliver to the successor all properties and moneys held by it under the Indenture.

Nonpresentment of Bonds

In the event any Bonds, or portions thereof, shall not be presented for payment when the principal thereof becomes due, either at maturity, the date fixed for redemption thereof or otherwise, if funds sufficient for the payment thereof, including accrued interest thereon, shall have been deposited into the

Bond Fund or otherwise made available to the Trustee for deposit therein, then on and after the date said principal becomes due, all interest thereon shall cease to accrue and all liability of the Issuer to the Registered Owner or Registered Owners thereof for the payment of such Bonds, shall forthwith cease, terminate and be completely discharged, and thereupon it shall be the duty of the Trustee to hold such fund or funds in a separate trust account for the benefit of the Registered Owner or Registered Owners of such Bonds who shall thereafter be restricted exclusively to such fund or funds for any claim of whatever nature on his, her or their part under the Indenture with respect to said Bond. Such moneys shall not be required to be invested during such period by the Trustee. If any Bond shall not be presented for payment within the period of four years following the date when such Bond becomes due, whether by maturity or otherwise, the Trustee shall return to the Issuer such funds theretofore held by it for payment of such Bonds. Thereafter, the Registered Owner of that bond shall look only to the Issuer for payment and then only to amounts so received by the Issuer. The obligations of the Trustee under the Indenture shall be subject, however, to any law applicable to the unclaimed funds or the Trustee providing other requirements for the disposition of unclaimed property.

Supplemental Indentures Not Requiring Consent of Registered Owners

At the request of the Borrower, the Trustee or the Issuer may (but shall not be obligated to) without the consent of, or notice to, the Registered Owners, enter into such indentures supplemental hereto (which supplemental indentures shall thereafter form a part of the Indenture) for any one or more or all of the following purposes:

- (a) To add to the covenants and agreements of the Issuer contained in the Indenture for the protection or benefit of the Registered Owners, other covenants and agreements thereafter to be observed for the protection or benefit of the Registered Owners, or to surrender or limit any right or power therein reserved or conferred upon the Issuer;
- (b) To cure any ambiguity, or to cure, correct or supplement any defect or inconsistent provision contained in the Indenture, or to make any provisions with respect to matters arising under the Indenture or for any other purpose if such provisions are necessary or desirable and do not materially adversely affect the interests of the Registered Owners or Beneficial Owners of the Bonds;
- (c) To subject to the lien of the Indenture additional revenues, properties or collateral;
- (d) To modify, alter, amend or supplement the Indenture in such a manner as shall permit the qualification thereof under the Trust Indenture Act of 1939, as from time to time amended; or
- (e) To provide for the issuance of Additional Bonds subject to the limitations of the Indenture.

Supplemental Indentures Requiring Consent of Registered Owners

Exclusive of supplemental indentures described above, the Registered Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding will have the right, from time to time, to consent to and approve the execution by the Issuer and the Trustee of such supplemental indenture or indentures as deemed necessary or desirable by the Issuer for the purpose of modifying, altering, amending, adding to, or rescinding, in any particular, any of the terms or provisions contained in the Indenture.

If at any time the Issuer requests the Trustee to enter into such supplemental indenture, the Trustee will, after being reasonably indemnified by the Borrower (to the extent reasonably required by the Trustee) with respect to expenses, mail by first-class mail notice of the proposed execution of such supplemental indenture to the Registered Owners of the Bonds at their addresses as the same shall last appear upon the registration records, setting forth the nature of the proposed supplemental indenture and stating that copies thereof are on file at the designated corporate trust office of the Trustee for inspection by all Registered Owners. The Borrower shall be responsible for such expenses. If, within 60 days after the mailing of such notice, the Registered Owners of the requisite principal amount of the Bonds Outstanding at the time of the execution of any such supplemental indenture will have consented to and approved the execution thereof, no Registered Owner of any Bond will have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Issuer from executing the same or from taking any action pursuant to the provisions thereof.

Execution of Supplemental Indentures

The Trustee is authorized to join with the Issuer in the execution of any such supplemental indenture and to make further agreements and stipulations which may be contained therein, but the Trustee shall not be obligated to enter into any such supplemental indenture which materially adversely affects its rights, duties, or immunities under the existing Indenture. The Trustee shall require delivery of an opinion of Bond Counsel acceptable to the Trustee to the effect that each such supplemental indenture (i) has been validly authorized and duly executed by the Issuer and is enforceable against the Issuer in accordance with its terms, (ii) will not adversely affect the qualification of the Bonds as obligations which may be issued pursuant to the Act, (iii) will not adversely affect the exclusion from gross income of interest on the Tax-Exempt Bonds for federal income tax purposes and (iv) is permitted pursuant to the terms of the Indenture. Any supplemental indenture executed in accordance with the provisions of the Indenture shall thereafter form a part of the existing Indenture and all the terms and conditions contained in any such supplemental indenture as to any provision authorized to be contained therein shall be deemed to be part of the Indenture for any and all purposes. In case of the execution and delivery of any supplemental indenture, express reference may be made thereto in the text of the Bonds issued thereafter, if any.

Discharge of Indenture

If the Bonds are paid in accordance with their terms (or payment of the Bonds has been provided for in the manner set forth in the following paragraph), together with all other sums payable under the Indenture, all amounts payable to the Issuer and the Trustee under the Loan Agreement and all amounts payable to the United States pursuant to Section 148 of Code, then the Indenture and the Trust Estate and all rights granted shall thereupon cease, terminate and become void and be discharged and satisfied (except for those provisions which expressly provide for their survival). Also, if all Outstanding Bonds secured by the Indenture are purchased by the Borrower and delivered to the Trustee for cancellation, and all other sums payable under the Indenture, all amounts payable to the Issuer and the Trustee under the Loan Agreement, and all amounts payable to the United States pursuant to Section 148 of the Code paid, or provision made for the payment of the same, then the Indenture and the Trust Estate and all rights granted under the Indenture will thereupon cease, terminate and become void and be discharged and satisfied (except for those provisions which expressly provide for their survival). In such events, upon the request of the Borrower, the Trustee shall assign and transfer to such Borrower all property then held by the Trustee under the Indenture with respect to the Borrower and shall execute such documents as may be reasonably required by the Borrower and shall turn over to the Borrower the appropriate amount of any surplus in any Fund pursuant to the Indenture.

Payment of any Outstanding Bond shall, prior to the maturity or redemption date thereof, be deemed to have been provided for if (i) in case said Bond is to be redeemed on any date prior to its maturity, the Borrower shall have given to the Trustee in form satisfactory to it irrevocable instructions to give, on a date in accordance with the provisions of the Indenture, notice of redemption of such Bond on said redemption date, such notice to be given in accordance with the provisions of the Indenture; (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Government Obligations which shall not contain provisions permitting the redemption thereof at the option of the Issuer, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee at the same time, shall be sufficient to pay when due the principal of and premium, if any, and interest due and to become due on said Bond on and prior to the redemption date or maturity date thereof, as the case may be; (iii) there shall have been delivered to the Trustee a certificate from a firm of certified public accountants certifying as to the sufficiency of the deposit made pursuant to the preceding clause (ii); (iv) there shall have been delivered to the Trustee an opinion of Bond Counsel satisfactory to the Trustee and the Issuer that such payment does not adversely affect the exclusion from gross income of interest on the Tax-Exempt Bonds; and (v) in the event said Bond is not by its terms subject to redemption within the next 45 days, the Borrower shall have given the Trustee in form satisfactory to it irrevocable instructions to give, as soon as practicable in the same manner as the notice of redemption is given pursuant to the Indenture, a notice to Registered Owner of such Bond that the deposit required by (ii) above has been made with the Trustee and that payment of said Bond has been provided for in accordance with the Indenture and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal of and premium, if any, and interest on said Bond. Neither such securities nor moneys deposited with the Trustee pursuant to the provisions described in this paragraph or principal or interest payments on any such securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of and premium, if any, and interest on said Bond; provided any cash received from such principal or interest payments on such securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in securities of the type described in clause (ii) of this paragraph maturing at times and in amounts sufficient to pay when due the principal of and premium, if any, and interest to become due on said Bond on or prior to such redemption date or maturity date thereof, as the case may be. At such time as payment of a Bond has been provided for as aforesaid, such Bond shall no longer be secured by or entitled to the benefits of the Indenture, except for the purpose of any payment from such moneys or securities deposited with the Trustee.

Notwithstanding anything contained in the Indenture to the contrary, provision shall not be made for the payment of any Bonds if such provision would constitute an advance refunding under the Code, unless simultaneously with such provision for payment, the Borrower delivers to the Issuer and the Trustee an opinion of nationally recognized bond counsel acceptable to the Issuer and the Trustee to the effect that such provision will not adversely affect the exclusion from gross income of the interest on the Tax-Exempt Bonds.

Notwithstanding the payment in full or defeasance of the Bonds, the discharge of the Indenture as described above, and the termination or expiration of the Loan Agreement and the Deed of Trust, all provisions in the Indenture concerning (i) the tax-exempt status of the Tax-Exempt Bonds, (ii) the interpretation of the Indenture, (iii) the governing law, (iv) jurisdiction and the forum for resolving disputes, (v) the Issuer's right to rely on written representations of others contained in the Indenture or any other document or instrument entered into in respect of the Bonds, regardless of whether the Issuer is a party thereto, (vi) the indemnity of the Issuer and the Issuer Indemnified Parties from liability, (vii) the Issuer's lack of pecuniary liability; (viii) the indemnity of the Trustee Indemnified Parties; and (ix) the rights, powers and duties of the Trustee as may be necessary and convenient for the payment of amounts

due or to become due on the Bonds and the registration, transfer, exchange and replacement of Bonds, shall survive and remain in full force and effect.

THE LOAN AGREEMENT

The following briefly summarizes certain of the terms and provisions of the Loan Agreement. Such summary is not to be considered a complete statement of the terms and provisions of the Loan Agreement. Reference is made to the Loan Agreement for a complete statement of the terms, provisions and conditions thereof.

The Loan

The Issuer has agreed, upon the terms and conditions in the Loan Agreement to lend to the Borrower, pursuant to the Loan Agreement, the proceeds received by the Issuer from the sale of the Bonds.

Pledge by Borrower

In fulfillment of its obligations under the Loan Agreement, the Borrower pledges and grants to the Trustee a security interest in, and pledges to the payment of the Loans and the Series 2017 Promissory Note securing such Loans, the following:

- (a) all of the Borrower's right, title and interest in and to the Project, including all related additions, replacements, substitutions and proceeds for the purposes of securing such Loans;
- (b) all Pledged Revenues; and
- (c) any and all other interests in real or personal property of every name and nature from time to time hereafter 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.

Term

The Loan Agreement will remain in full force and effect from the date of delivery until such time as all of the payments on the Series 2017 Promissory Note have been fully paid or provision is made for such payment pursuant to the Indenture and all reasonable and necessary fees and expenses of the Trustee and the Issuer accrued and to accrue through final payment of the Series 2017 Promissory Note, and all other liabilities of the Borrower accrued and to accrue through final payment of the Series 2017 Promissory Note under the Loan Agreement and the Indenture have been paid or provision is made for such payments pursuant to the Indenture; provided, however, notwithstanding anything to the contrary (i) the indemnification provisions of the Loan Agreement and any other agreements contained in the Loan Agreement which expressly provide for their survival will survive after the termination of the Loan Agreement; (ii) all agreements, representations and certifications by the Borrower as to the exclusion from gross income of interest on the Series 2017 Bonds shall survive termination of the term thereof until the expiration of statutes of limitation applicable to the liability of the Registered Owners of the Series 2017 Bonds for federal and state income taxes with respect to interest on the Series 2017 Bonds; and (iii) upon the defeasance of the Indenture, all such indemnification provisions will be enforceable by the Issuer, the Issuer Indemnified Parties and the Trustee Indemnified Parties, and all such agreements, representations and certifications regarding the exclusion from gross income of the interest on the Series

2017 Bonds will be enforceable by the Registered Owners of the Series 2017 Bonds directly against the Borrower.

Loan Payments and Other Amounts Payable

The Borrower shall pay as repayment of the Loans, until the principal of, premium, if any, and interest on the Series 2017 Promissory Note have been paid or provision for the payment thereof otherwise made in accordance with the Loan Agreement, into the Bond Fund, on the first day of each month commencing July 1, 2020, one-twelfth (1/12) of the principal due on each subsequent Principal Payment Date; and commencing July 1, 2017, one-sixth (1/6) of the interest due on the Series 2017 Bonds on each subsequent Interest Payment Date; provided, however, that the Borrower shall receive a credit against such payments of interest to the extent funds are on deposit in the Bond Fund in addition to funds deposited pursuant to the Loan Agreement and available to pay interest on the Series 2017 Bonds on the next Interest Payment Date or principal on the Series 2017 Bonds on the next Principal Payment Date, as applicable.

The Borrower shall pay or provide for the payment of the required amount into the accounts of the Debt Service Reserve Fund upon notice of any deficiency therein in accordance with the Indenture. If the Trustee determines on any valuation date permitted by the Indenture that the amount in an account of the Debt Service Reserve Fund is less than the related Series Debt Service Reserve Fund Requirement and the deficiency is caused solely by a decreased value of the Investment Obligations therein and not due to a transfer to cure a shortfall in the Bond Fund, the Borrower agrees to pay to Trustee for deposit into the account of the Debt Service Reserve Fund an amount equal to the amount by which the amount in the account of the Debt Service Reserve Fund is less than the related Series Debt Service Fund Requirement in the next month following that valuation date. If the amount in the account of the Debt Service Reserve Fund is less than the related Series Debt Service Reserve Fund Requirement and the deficiency is caused by a transfer to cure a shortfall in the Bond Fund resulting from the failure of the Borrower to make the payments due under the Loan Agreement, the Borrower agrees to pay such deficiency to the Trustee for deposit into the Debt Service Reserve Fund in not more than six substantially equal monthly installments beginning in the month following the occurrence of such deficiency; provided that no such installment shall be less than \$5,000.

The Borrower shall pay or cause to be paid to the Trustee on the first day of each month, commencing July 1, 2020, for deposit into the Repair and Replacement Fund, the Repair and Replacement Fund Contribution or the Modified Repair and Replacement Fund Contribution, as applicable (each as defined below). On or before April 1, 2020, and every fifth anniversary thereafter as long as the Bonds are Outstanding, the Borrower shall select an Independent Consultant to complete a capital needs assessment of the Borrower projecting the Borrower's capital needs and the total cost thereof over the five year period commencing on the following July 1 (each a "Capital Needs Assessment").

The total cost set forth in a Capital Needs Assessment less the amount then on deposit in the Repair and Replacement Fund, divided by 60, shall be the "Repair and Replacement Fund Contribution" for such five year period; provided, however, that in the event (i) the Borrower pays all or a portion of the cost of a capital need projected in the Capital Needs Assessment from a source of funds other than the Repair and Replacement Fund, the Repair and Replacement Fund Contribution for the remainder of the applicable five year period shall be decreased by the amount of such projected cost that is paid from such other source of funds divided by the number of Repair and Replacement Fund Contribution payments remaining in the applicable five year period or (ii) a draw is made upon the Repair and Replacement Fund in excess of the cost for a capital need projected in the Capital Needs Assessment or in any amount for a capital need not projected in the Capital Needs Assessment, the Repair and Replacement Fund Contribution for the subsequent 12 month period shall be increased by the excess amount of such draw or

the total amount of such unanticipated draw, as applicable, divided by 12 (the Repair and Replacement Fund Contribution as modified by either clause (i) or clause (ii), the "Modified Repair and Replacement Fund Contribution").

During the term of the Loan Agreement, the Borrower will pay or provide for the payment of all taxes and assessments, general or special, concerning or in any way related to the Project or any part thereof, and any other governmental charges and impositions whatsoever related to the Project, and premiums for insurance policies maintained on the Project as required by the Loan Agreement.

The Borrower will pay or cause to be paid the amount required to satisfy the rebate requirement set forth in the Tax Agreement. The Borrower will also pay the fees and expenses of any rebate analyst when due.

The Borrower will pay the Issuer's Annual Fee and the reasonable fees and expenses of the Issuer or any agent or attorney selected by the Issuer to act on its behalf in connection with the Loan Agreement, the 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 Borrower Documents, the Deed of Trust, the Bonds or the Indenture or any of the other documents contemplated thereby, or in connection with the reasonable supervision or inspection of the Borrower, its properties, assets or operations or otherwise in connection with the administration of the Loan Agreement and the Borrower Documents.

In the event of a Determination of Taxability with respect to a Series of Tax-Exempt Bonds and mandatory redemption resulting therefrom as set forth in the Indenture, the Borrower agrees to prepay to the Trustee of the Series 2017 Promissory Note and pay all premiums on the Series 2017 Bonds required by such redemption in full.

In the event the Borrower should fail to make or fail to cause to be made any of the payments required by the Loan Agreement, the item or installment in default shall continue as an obligation of the Borrower until the amount in default shall have been fully paid, and the Borrower agrees to pay the same and interest at the highest rate of interest borne by any of the Series 2017 Bonds, or the maximum rate permitted by law if less than such rate. Any invoice furnished to the Borrower by the Issuer or the Trustee pursuant to the provisions described in this paragraph shall be deemed to constitute written notice under the Loan Agreement sufficient to cause the 45-day cure period specified in the Loan Agreement to commence.

The payment obligations described above shall be joint and several obligations of the Borrower.

Unconditional Obligations

Except as otherwise provided in the Loan Agreement, the obligations of the Borrower to make the required payments and to perform and observe the other agreements on its part under the Loan Agreement are absolute and unconditional, and the Borrower agrees that will make payments directly to the Trustee without defense or setoff by reason of any dispute between the Borrower and the Issuer or the Trustee. The Borrower (i) will not suspend or discontinue, or permit the suspension or discontinuance of, any payments provided for in the Loan Agreement, (ii) will perform and observe all of the other agreements contained in the Loan Agreement, the Deed of Trust and the Series 2017 Promissory Note and (iii) except as otherwise provided, will not terminate the Loan Agreement for any cause.

Insurance Required

Beginning on the date of execution of the Loan Agreement and thereafter, throughout the term of the Loan Agreement, the Borrower shall provide, maintain and keep in force, or cause to be provided, maintained and kept in force, the following insurance coverages relating to the Project, paying as the same become due and payable all premiums with respect thereto:

- (a) A lender's title insurance policy or policies in an aggregate amount as required by the Loan Agreement;
- (b) Insurance against loss or damage to the Building and all improvements therein (including, during any period of time when the Borrower is making alterations, repairs or improvements to the Building, improvements and betterments coverage), all subject to standard form exclusions with uniform standard extended coverage endorsement limited only as may be provided in the standard form of extended coverage endorsement at the time in use in the State of North Carolina, in an amount equal to the greater of the full replacement value of the Building or the aggregate principal amount of the Promissory Notes then Outstanding (unless the Insurance Consultant confirms that the latter is not available);
- (c) Commercial comprehensive general liability and automobile liability insurance against claims arising in, on or about the Project, including in, on or about the sidewalks or premises adjacent to the Project, providing coverage limits not less than \$1,000,000 per occurrence and \$2,000,000 in aggregate;
- (d) Business interruption insurance equal to 12 months' debt service on the Bonds and 6 months' Operating Expenses; and
- (e) Such other forms of insurance as are customary in the industry or as the Borrower is required by law or written agreement to provide with respect to the Project, including, without limitation, any legally required worker's compensation insurance and disability benefits insurance.

All the insurance coverage required by the Loan Agreement may be subject to deductible clauses in such amounts as are customary for facilities of similar size, type and character within the State of North Carolina. At least every three years from the date specified in the Loan Agreement, the Borrower shall employ, at the Borrower's expense, an Insurance Consultant to review the insurance coverage required by the Loan Agreement and to render to the Issue and the Trustee a report as to the adequacy of such coverage and as to its recommendations, if any, for adjustments thereto. The insurance coverage required by the Loan Agreement may be reduced or otherwise adjusted by the Borrower without the consent of the Trustee or the Issuer, provided that all coverages after such reduction or other adjustment are certified by the Insurance Consultant to be adequate and customary for facilities of like size, type and character, taking into account the availability of such insurance, the terms upon which such insurance is available, the cost of such available insurance and the effect of such terms and such cost upon the Borrower's fees, rentals and charges for the use of the Project.

The insurance coverage required by the Loan Agreement shall be increased or otherwise adjusted by the Borrower, if, as a result of such review, the Insurance Consultant finds that the existing coverage is inadequate. The insurance coverage required by the Loan Agreement, and modification thereof permitted or required by this paragraph, shall at all times be adequate and customary for facilities of like size, type and character, and the Borrower shall request that the Insurance Consultant so certify in the report

required by the Loan Agreement. The Borrower shall pay any fees charged by such Insurance Consultant and any expenses incurred by the Issuer and the Trustee.

All policies maintained (or caused to be maintained) by the Borrower pursuant to the Loan Agreement will be taken out and maintained with generally recognized, responsible insurance companies rated not less than "A" by A.M. Best (or any successor), authorized to write insurance in the State of North Carolina, which may include "captive" insurance companies or governmental insurance pools, selected by the Borrower.

Damage, Destruction and Condemnation

In the event of a casualty or condemnation with respect to the Project, and so long as no Event of Default exists and is continuing, the Net Proceeds from any insurance policy or the Net Proceeds of any condemnation award resulting from such casualty or condemnation shall be used as follows:

(a) Whenever such Net Proceeds from any insurance policy or condemnation award are less than or equal to \$125,000, such Net Proceeds shall be paid directly to the Borrower to provide for the repair, replacement or restoration of the Project to substantially the same condition as it existed prior to such damage, destruction or condemnation.

(b) Whenever such Net Proceeds from any insurance policy or condemnation award are greater than \$125,000, such Net Proceeds will be paid to the Trustee to be applied as provided in the Loan Agreement.

(c) If the Borrower directs the Trustee in writing that the proceeds held by the Trustee are to be used to repair, replace or restore the Project, the proceeds in such special trust account shall be disbursed by the Trustee for the repair, restoration or replacement of the Project upon the receipt by the Trustee from the Borrower of (i) a certificate of an Authorized Representative of the Borrower which substantially states that such repairs, replacements or restorations will restore the Project to substantially its original condition, will be completed in accordance with plans and specifications previously provided to the Trustee and that such repairs, replacements or restorations when completed in accordance with the plans and specifications previously furnished to the Trustee will comply with all applicable statutes, codes and regulations; (ii) a certificate of an Authorized Representative of the Borrower stating that sufficient moneys are available in such special trust account to pay for such repair, restoration or replacements to be completed and together with available business interruption insurance and other available Pledged Revenues, to pay debt service on the Series 2017 Bonds and Operating Expenses during the restoration, the insurance or casualty proceeds are less than the estimated costs to restore, repair or replace the Project, the Borrower shall provide the Trustee with cash or cash equivalents in an amount equal to the shortfall; (iii) disbursement requisitions from the Borrower; (iv) applicable Lien waivers; (v) a guaranteed maximum price construction contract; (vi) evidence that the Borrower has acquired all permits and licenses necessary for such construction; and (vii) an opinion of Bond Counsel to the effect that neither such repairs, replacements or restorations nor such use of such casualty or condemnation proceeds adversely affects the exclusion from gross income for federal income tax purposes of interest on the Series 2017 Bonds. If such Net Proceeds are in excess of \$250,000, in addition to those requirements listed in (i) through (v) above, the Borrower shall also deliver to the Trustee (A) evidence of the existence of performance and payment bonds therefore, and (B) an endorsement to the applicable title insurance policy insuring the continued priority of the Lien of the applicable Deed of Trust. The Trustee shall retain 10% of the requested disbursements until the repairs, replacements, restorations or improvements are 50% complete, as certified by an Authorized Representative of

the Borrower, and 5% thereafter, and until receipt of certificates of occupancy, waivers of Liens and, if such Net Proceeds are in excess of \$250,000, an endorsement to the title policy for the Project insuring the continued priority of the Deed of Trust. If at any time during the restoration, the insurance or casualty proceeds are less than the estimated costs to restore, repair or replace the Project, the Borrower will provide the Trustee with cash or cash equivalent in an amount equal to the shortfall. If after completion of any such repairs, replacements, or improvements any funds remain in said special trust fund, the remaining funds shall be transferred by the Trustee to the Debt Service Reserve Fund to the extent the balance therein is less than the Debt Service Reserve Fund Requirement, with any excess being transferred to the Bond Fund.

Extraordinary Mandatory Prepayment

The Loans and the Series 2017 Promissory Note securing the Loans are subject to mandatory prepayment as a whole or in part at the principal amount thereof plus accrued interest thereon to the date of prepayment, but without premium, from the Net Proceeds in the case of (a) or (b) below, if any of the events set forth below shall occur:

(a) If the Net Proceeds of any insurance policy or condemnation award related to the Project are equal to or in excess of \$125,000, and the Project shall have been damaged or destroyed in whole or in part to such extent that, as expressed in a certificate of an Authorized Representative of the Borrower filed with the, (i) the Project cannot reasonably be restored within a period of six consecutive months to the condition thereof immediately preceding such damage or destruction, (ii) the Borrower is prevented from carrying on its normal operations for a period of six consecutive months, or (iii) the cost of restoration thereof would exceed the Net Proceeds of insurance carried thereon pursuant to the requirements of the Loan Agreement;

(b) If the Net Proceeds of any insurance policy or condemnation award related to the Project are equal to or in excess of \$125,000, and title to, or the temporary use for a period of six months or more of, all or substantially all of the Project shall have been taken under the exercise of the power of eminent domain by any governmental authority, or person, firm or corporation acting under governmental authority or because of a defect in title; and

(c) As a result of any changes in the Constitution of the State of Wisconsin or the State of North Carolina or the Constitution of the United States of America or of legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body (whether state or federal) entered after the contest thereof by the Borrower in good faith, the Loan Agreement shall have become void or unenforceable or impossible of performance in accordance with the intent and purposes of the parties as expressed in the Loan Agreement.

Compliance with Charter School Laws

The Borrower covenants to comply fully and in all respects with the provisions of the Charter School Act so long as any Series 2017 Bonds remain Outstanding.

Maintenance and Modifications of Project by Borrower

The Borrower agrees that during the term of the Loan Agreement it will operate and maintain the Project in compliance with all governmental laws, building codes, ordinances, and regulations and zoning laws applicable to the Project, unless the same are being contested in good faith by appropriate proceedings. The Borrower agrees that it will, at its own expense, (i) keep the Project in as safe condition

as required by law and (ii) except to the extent the Borrower has determined that any portion of the Project is obsolete or not useful in its operations, keep the Project in good repair and in good operating condition, making from time to time all necessary repairs thereto (including external and structural repairs) and renewals and replacements thereof all of which will be accomplished in a workmanlike manner in accordance with all applicable laws. The Borrower may dispose of portions of the Project that the Borrower determines to be obsolete or not useful to operations of the Project. The Borrower may also, at its own expense, make from time to time any additions, modifications or improvements to the Project it may deem desirable for its purposes that do not substantially reduce its value; provided that all such additions, modifications and improvements which are affixed to the Project will become a part of the Project. The Borrower will not permit the removal of any personal property owned by the Borrower from the Project unless such personal property is obsolete, sold for fair market value or will be replaced with personal property of an equal or greater value. In the event that the Borrower will fail to pay any of the foregoing items required to be paid by the Borrower after being provided notice and opportunity to cure as provided in the Loan Agreement, the Issuer or the Trustee may (but will be under no obligation to) pay the same, and any amounts so advanced therefor by the Issuer or the Trustee will become an additional obligation of the Borrower under the Loan Agreement, which amount the Borrower agrees to pay on demand together with interest thereon at a rate which will be 3% per annum above is the highest rate of interest borne by any of the Series 2017 Bonds or the maximum rate permitted by law, if less than such rate.

Taxes, Other Governmental Charges and Utility Charges

The Borrower will pay or cause to be paid as the same become due, (i) all taxes and governmental charges of any kind whatsoever or payments in lieu of taxes that may at any time be lawfully assessed or levied against or with respect to the Project or any interest therein, or any machinery, equipment, or other property installed or brought by the Borrower therein or thereon which, if not paid, will become a Lien on the Project (other than a Permitted Encumbrance) or a charge on the Pledged Revenues prior to or on a parity with the charge thereon under the Loan Agreement, (ii) all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Project and (iii) all assessments and charges lawfully made by any governmental body for public improvements that may be secured by a Lien on the Project, provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Borrower will only be obligated to pay such installments as may have become due during the term of the Loan Agreement or that may be necessary to prevent the imposition of a Lien (other than a Lien that is a Permitted Encumbrance).

In the event that the Borrower fails to pay any of the items required to be paid or caused to be paid by the Borrower after being provided notice and opportunity to cure as provided in the Loan Agreement, the Issuer or the Trustee may (but will be under no obligation to) pay the same and any amounts so advanced therefor by the Issuer or the Trustee will become an additional obligation of the Borrower payable to the one making the advance, which amount the Borrower agrees to pay on demand together with interest thereon at a rate which will be 3% per annum above the highest rate of interest borne by the Bonds issued to fund the Loan to the Borrower or the maximum rate permitted by law if less than such rate.

Consolidation, Merger, Sale or Conveyance

The Borrower agrees that during the term of the Loan Agreement it will maintain its corporate existence, will continue to be a nonprofit corporation duly qualified to do business in the State, will not merge or consolidate with, or sell or convey, except as provided in the Loan Agreement, all or substantially all of its interest in the Project to, any Person unless (i) no Event of Default has occurred and is continuing, (ii) it first acquires the consent of the holders or Beneficial Owners of at least a majority of

the aggregate principal amount of the Bonds Outstanding to such transaction; (iii) it provides to the Trustee notice of its intent at least 90 days in advance of such consolidation, merger, sale or conveyance, and (iv) the acquirer of the interest in the Project or the corporation with which it shall be consolidated or the resulting corporation in the case of a merger:

(a) will assume in writing the performance and observance of all covenants and conditions of the Loan Agreement;

(b) will provide the Trustee with an opinion of Bond Counsel to the effect that such merger, consolidation, sale or conveyance, would not adversely affect the validity of any of the Outstanding Bonds or the exclusion from gross income for federal income tax purposes of interest on the Outstanding Tax-Exempt Bonds;

(c) will provide the Issuer and the Trustee with an Opinion of Counsel to the Borrower (which may be rendered in reliance upon the Opinion of Counsel to such other corporation), stating that none of the other corporations which are a party to such consolidation, merger or transfer has any pending litigation other than that arising in the ordinary course of business, or has any pending litigation which might reasonably result in a substantial adverse judgment. For the purposes of the preceding sentence, the term "substantial adverse judgment" shall mean a judgment in an amount which exceeds the insurance or reserves therefor by a sum which is more than 2% of the aggregate net worth of the resulting, surviving or transferee corporation immediately after the consummation of such consolidation, merger or transfer and after giving effect thereto;

(d) will deliver to the Trustee and the Issuer within 30 days of the close of such transaction, copies of all documents executed in connection therewith, one document of which will include an Opinion of Counsel that all conditions have been satisfied and that all liabilities and obligations of the Borrower under the Borrower Documents will become obligations of the new entity; provided, however, the Borrower will not be released from same; and

(e) in the case of a consolidation, merger, sale or conveyance, will provide evidence to the Trustee that (i) the entity can continue to operate the School as a charter school in accordance with the School Act and (ii) on an historical pro forma basis for the preceding Fiscal Year for which audited financial statements are available, the entity would have complied with the Debt Service Coverage Ratio requirements of the Loan Agreement and the liquidity requirements of the Loan Agreement.

Tax Covenants

The Borrower will not take any action or omit to take any action, which action or omission will adversely affect the exclusion from gross income of the interest on the Tax-Exempt Bonds 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 in the event of such action or omission, it will, promptly upon having such brought to its attention, take such reasonable actions based upon an Opinion of Bond Counsel, and in all cases at the sole expense of the Borrower, as may be necessary to rescind or otherwise negate such act or omission. The Borrower will not, directly or indirectly, use or permit the use of any proceeds of the Series 2017 or any other funds of the Borrower, or take or omit to take any action, that would cause the Tax-Exempt Bonds to be or become "arbitrage bonds" within the meaning of Section 148(a) of the Code or to fail to meet any other applicable requirement of Sections 141, 147, 148, 149 and 150 of the Code 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. To that end, the Borrower will comply with all requirements of Sections 141, 147, 148, 149 and 150 of the Code to the extent applicable to the Tax-Exempt Bonds. In the event that at any time the Borrower is of the opinion that it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee or otherwise, the Borrower shall so instruct the Trustee in writing.

Audits; Financial Statements; Annual Certificate

The Borrower agrees that it will have its books and records audited annually commencing with the Fiscal Year ending June 30, 2017, by an Accountant as soon as practicable after the close of such Fiscal Year, and shall furnish such report to the Trustee. The audit report shall be furnished to the Trustee within 180 days after the end of each Fiscal Year.

The Borrower agrees that it will maintain proper books of records and accounts with full, true and correct entries of all of its dealings substantially in accordance with practices generally used for public charter school accounting, and such other data and information as may reasonably be requested by the Issuer and the Trustee from time to time.

The Borrower will deliver to the Trustee within 90 days after the end of each of the Borrower's Fiscal Years, and within five Business Days of the occurrence of certain Events of Default under the Indenture, a certificate of the Borrower certifying, among other things, that no Event of Default exists or, if an Event of Default has occurred or does exist, listing, in detail, the nature of the condition or event, the period during which it has existed and the action which the Borrower has taken, is taking, or proposes to take with respect to each such condition or event.

Debt Service Coverage Ratio

The Borrower is required to deliver annually, upon completion of the Borrower's annual audit, to the Issuer and the Trustee a certificate stating the Debt Service Coverage Ratio for the Fiscal Year then ended and evidencing the calculation thereof, commencing with the Fiscal Year ending June 30, 2018. The Debt Service Coverage Ratio is required to be at or above 1.00 to 1 for the Fiscal Year ending June 30, 2018 and at or above 1.10 to 1 for each Fiscal Year thereafter. If, for any Fiscal Year after the Fiscal Year ending June 30, 2018, the Debt Service Coverage Ratio is below 1.10 to 1, the Borrower shall retain, at its expense, an Independent Consultant to submit a written report and make recommendations within 45 days of being retained (a copy of such report and recommendations shall be filed with the Trustee) with respect to increasing income of the Borrower, decreasing Operating Expenses or other financial matters of the Borrower which are relevant to increasing the Debt Service Coverage Ratio to at least the required level. The Borrower agrees that promptly upon the receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, it shall revise its methods of operation and take such other actions to comply with any reasonable recommendation of the Independent Consultant identified in the report of the Independent Consultant. Within 5 Business Days of receipt of the certificate to be delivered under the provisions described in this paragraph, the Trustee is required to notify Registered Owners of the Outstanding Bonds of the Debt Service Coverage Ratio if the Debt Service Coverage Ratio is below 1.00 to 1. So long as the Debt Service Coverage Ratio is not below 1.00 to 1, and so long as the Borrower shall retain an Independent Consultant and complies with such Independent Consultant's reasonable recommendations (subject to applicable requirements or restrictions imposed by law), no default or Event of Default shall be declared solely by reason of a violation of the requirements described in this paragraph.

Notwithstanding the provisions described in the preceding paragraph, the failure of the Borrower to have a Debt Service Coverage Ratio of at least 1.00 to 1 for any Fiscal Year ending June 30, 2018 or after shall be an Event of Default under the Loan Agreement.

Liquidity Requirement

Commencing with the Fiscal Year ending June 30, 2018, the Borrower covenants that it will have 45 Days Cash on Hand, as evidenced by a certificate of the Borrower, to be delivered annually upon completion of the Borrower's annual audit to the Issuer and the Trustee, setting forth the calculation of such amount based on the annual audit of the Borrower for such Fiscal Year. If on any testing date the Borrower's Days Cash on Hand is below that required as described above, and upon written request of a majority of Registered Owners of the Outstanding Bonds, the Borrower is required to retain, at its expense, an Independent Consultant to submit a written report and make recommendations within 45 days of being retained (a copy of such report and recommendations shall be filed with the Trustee) with respect to increasing income of the Borrower, decreasing Operating Expenses of the Borrower or other financial matters of the Borrower which are relevant to increasing the Borrower's Days Cash on Hand to at least the required level. The Borrower agrees that promptly upon the receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, it shall revise its methods of operation and take such other actions to comply with any reasonable recommendation of the Independent Consultant identified in the report of the Independent Consultant. So long as the Borrower shall retain an Independent Consultant and complies with such Independent Consultant's reasonable recommendations (subject to applicable requirements or restrictions imposed by law), no default or Event of Default shall be declared solely by reason of a violation of the requirements described in this paragraph.

Selection of Independent Consultants

Within 15 days of any event, except for any event requiring the Borrower to retain an Independent Consultant described under the heading "Debt Service Coverage Ratio" or the heading "Liquidity Covenant" above, requiring the Borrower to retain an Independent Consultant under the Loan Agreement, the Borrower shall select such Independent Consultant and shall cause a notice of the selection of such Independent Consultant, including the name of such Independent Consultant and a brief description of the Independent Consultant, to be filed with EMMA. Such notice shall also state that each holder of Bonds Outstanding will be deemed to have consented to the selection of the Independent Consultant named in such notice unless such holder submits an objection to the selected Independent Consultant in writing (in a manner acceptable to the Trustee) to the Trustee within 30 days of the date that the notice is filed with EMMA. No later than two Business Days after the end of the 30-day objection period, the Trustee shall notify the Borrower of the aggregate principal amount of Bonds Outstanding held by the holders submitting objections. If the holders of more than 50% of the aggregate principal amount of the Bonds Outstanding have been deemed to have consented to the selection of the Independent Consultant or have not responded to the request for consent, the Borrower shall engage the Independent Consultant within two Business Days. If the holders of at least 50% of the aggregate principal amount of the Bonds Outstanding have objected to the Independent Consultant selected, the Borrower shall select another Independent Consultant.

Within 15 days of an event requiring the Borrower to retain an Independent Consultant described under the heading "Debt Service Coverage Ratio" or the heading "Liquidity Covenant" above, the Borrower shall select such Independent Consultant and shall cause a notice of the selection of such Independent Consultant, including the name of such Independent Consultant and a brief description of the Independent Consultant, to be filed with EMMA. Such notice shall also request that each holder of Bonds Outstanding approve or reject the selection of the Independent Consultant named in such notice by submitting such approval or rejection of the selected Independent Consultant in writing (in a manner

acceptable to the Trustee) to the Trustee within 30 days of the date that the notice is filed with EMMA. No later than two Business Days after the holders of more than 50% of the aggregate principal amount of the Bonds Outstanding have so approved the selection of the Independent Consultant, the Trustee shall notify the Borrower of such approval. No later than two Business Days after the holders of at least 50% of the aggregate principal amount of the Bonds Outstanding have so rejected the selection of the Independent Consultant, the Trustee shall notify the Borrower of such rejection. If the holders of more than 50% of the aggregate principal amount of the Bonds Outstanding have approved the selection of the Independent Consultant, the Borrower shall engage the Independent Consultant within five Business Days. If the holders of at least 50% of the aggregate principal amount of the Bonds Outstanding have rejected the selection of the Independent Consultant, the Borrower shall select another Independent Consultant within 15 days, the approval or rejection of such Independent Consultant to be effected by the method described in this paragraph. The Borrower shall have no obligation to retain, or follow the recommendations of, an Independent Consultant as described under the heading "Debt Service Coverage Ratio" or the heading "Liquidity Covenant" above unless retention of such Independent Consultant has been approved by the holders of at least 50% of the aggregate principal amount of the Bonds Outstanding as described in this paragraph.

Limitations on Additional Indebtedness

The Borrower shall be precluded from incurring additional Indebtedness that does not exist on the date of issuance of the Bonds secured in whole or in part by the Project or the Pledged Revenues, except as provided in the Loan Agreement.

(a) Senior Indebtedness. The Borrower shall not incur additional Indebtedness secured by Liens on the Project or the Pledged Revenues that are senior to the lien of the Deed of Trust on the Project and the security interest in the Pledged Revenues granted by the Loan Agreement and the Deed of Trust.

(b) Parity Indebtedness. The Borrower may, with the written confirmation by the Trustee that all conditions of the Indenture regarding Additional Bonds have been met, incur additional Indebtedness, which may be evidenced by amending the Loan Agreement, secured in whole or in part by Liens on the Project and a security interest in the Pledged Revenues on a parity with amounts secured by the lien of the Deed of Trust on the Project and the security interest in the Pledged Revenues granted by the Loan Agreement in the following instances:

(A) Long-Term Indebtedness. The Borrower may issue additional Indebtedness if any of the following tests is met:

(1) the Debt Service Coverage Ratio for the most recent Fiscal Year for which an audit has been completed was at least 1.20 to 1 (taking into account the proposed additional Long-Term Indebtedness and the effects of any Long-Term Indebtedness to be refinanced thereby); or

(2) (a) the Borrower is in compliance with the Debt Service Coverage Requirements set forth in the Loan Agreement and (b) an Independent Consultant reports that the Debt Service Coverage Ratio for each of the first three consecutive Fiscal Years following the incurrence of such Long-Term Indebtedness or, if such Long-Term Indebtedness is being issued to finance improvements, equipment or new facilities, the first three consecutive Fiscal Years after such improvements, equipment or new facilities are placed in service, is projected to be at least 1.20 to 1 (taking into account the proposed additional Long-Term Indebtedness and any Long-Term Indebtedness to be refinanced

thereby and provided that, such projected Net Income Available for Debt Service shall be adjusted to provide for any projected revenues and expenses anticipated as the result of any real or personal property acquired, constructed, or completed with the proceeds of any such Long-Term Indebtedness).

(B) Completion Indebtedness. The Borrower may issue Completion Indebtedness in an amount not to exceed 10% of the original Indebtedness issued for the purpose of financing certain Capital Improvements, if the following conditions are met: (i) the Borrower certifies, in writing, to the Trustee that at the time the original Indebtedness issued for the purpose of financing certain Capital Improvements was incurred, the Borrower believed or had reason to believe that the proceeds of such Indebtedness together with other moneys then expected to be available to pay for such Capital Improvements would provide sufficient moneys for the completion thereof; (ii) a Consulting Architect provides the Trustee with a written statement specifying the amount necessary to complete such Capital Improvements; and (iii) the Borrower certifies, in writing, to the Trustee that the proceeds of the proposed Completion Indebtedness, together with other legally available moneys of the Borrower, will be in an amount equal to the amount set forth in clause (ii).

(C) Refunding Indebtedness. The Borrower may issue Refunding Indebtedness, provided that the Borrower certifies, in writing, to the Trustee that the Maximum Annual Debt Service on Indebtedness will not be increased by more than 10% by such refunding.

(D) Balloon Indebtedness. Provided the holders or Beneficial Owners of at least a majority of the aggregate principal amount of the Bonds Outstanding have provided written consent thereof, the Borrower may issue Balloon Indebtedness if the conditions set forth in clause (A)(1) or (A)(2) under this heading are met when it is assumed that: (A) the Balloon Amount is Long-Term Indebtedness maturing over a term equal to the term of the Balloon Amount or a term of 20 years from the date of issuance of the Balloon Indebtedness, whichever is greater; and (B) the Balloon Amount bears interest on the unpaid principal balance at the Projected Rate and is payable on a level debt service basis over a 20-year period.

(E) Put Indebtedness. Provided the holders or Beneficial Owners of at least a majority of the aggregate principal amount of the Bonds Outstanding have provided written consent thereof, the Borrower may issue Put Indebtedness if:

(1) (A) at the time such Put Indebtedness is incurred a Financial Institution has provided a binding commitment that provides for the amortization of Indebtedness incurred under such commitment over a term of at least 24 months commencing with the next succeeding Put Date, to provide financing sufficient to pay such Put Indebtedness on the Put Date occurring during the term of such commitment; and (B) the conditions set forth in clause (A)(1) or (A)(2) under this heading are met when it is assumed that the Put Indebtedness is Long-Term Indebtedness that bears interest at the Projected Rate and is payable on a level debt service basis over a 25-year period; or

(2) (A) the period from the date of incurrence of the proposed Put Indebtedness to the first Put Date is at least 36 months and (B) the conditions set forth in clause (A)(1) are met when it is assumed that the Put Indebtedness is

Long-Term Indebtedness that either: (i) bears interest at the fixed rate applicable to the Put Indebtedness to be incurred (within such fixed interest rate applied over the entire term of the Indebtedness, for purposes under this heading; or (ii) bears interest at the Projected Rate and is payable on a level debt service basis over a 25-year period.

(F) Non-Recourse Indebtedness, Commitment Indebtedness and Subordinated Indebtedness. The Borrower may issue Non-Recourse Indebtedness, Commitment Indebtedness and Subordinated Indebtedness so long as the aggregate total of such indebtedness does not at any time exceed \$500,000, or such greater amount as agreed upon in writing by the holders or Beneficial Owners of at least a majority of the aggregate principal amount of the Bonds Outstanding.

Indebtedness may be incurred under any of clauses (A) through (F) under this heading even though other Indebtedness is simultaneously being incurred under a different clause summarized under this heading.

Continuation of Operation in Event of Casualty

In the event of any damage to or destruction of the Project or any part thereof by fire, lightning, vandalism, malicious mischief and extended coverage perils, the Borrower shall make all diligent and reasonable efforts to continue operation of its charter school facilities in such a manner that will ensure continuation of Loan Payments applicable thereto or shall otherwise obtain or use other financing resources to continue operation of the School and ensure due and timely payment of the Loan Payments.

Transfer of Assets

The Borrower agrees that it will not transfer Pledged Revenues or other assets related to the Project without the consent of the holders or Beneficial Owners of at least a majority of the aggregate principal amount of the Bonds Outstanding, except for transfers of assets:

(a) with respect to any transfer of assets to any Person in the ordinary course of such Borrower's business and for fair market value as determined by an appraiser or other qualified professional; or

(b) to any Person if the aggregate net book value of the assets transferred pursuant to this clause in any Fiscal Year does not exceed \$10,000; or

(c) to any Person if prior to the sale, lease or other disposition there is delivered to the Trustee (i) a certificate of the Borrower's Accountant demonstrating that the liquidity requirement of the Loan Agreement would have been satisfied if the action had occurred on the first day of the then-current Fiscal Year or (ii) a report of an Independent Consultant demonstrating projected liquidity (as determined in accordance with the Loan Agreement for the following two Fiscal Years to be at least 10% of Operating Expenses.

Default by the Borrower

Any one or more of the following events will constitute an "Event of Default" under the Loan Agreement:

(a) Failure by the Borrower to pay the Loan Payments required to be paid under the Loan Agreement on the first day of each month.

(b) Failure by the Borrower to observe or perform any other covenant, condition or agreement on its part to be observed or performed in the Loan Agreement other than as referred to in this paragraph (b), for a period of 45 days after written notice specifying such failure and requesting that it be remedied, shall have been given to the Borrower by the Issuer or the Trustee; provided, with respect to any such failure covered by this paragraph (b), no Event of Default shall be deemed to have occurred so long as a course of action reasonably adequate in the judgment of the Trustee to remedy such failure shall have been commenced within such 45-day period and shall thereafter be diligently pursued to completion and the failure shall be remedied within 90 days of such notification, unless said remedy cannot reasonably be performed within 90 days and the Borrower is actively working toward a remedy.

(c) The dissolution or liquidation of the Borrower. The phrase "dissolution or liquidation of the Borrower," as used under this heading "Default by the Borrower", shall not be construed to include the cessation of the corporate existence of the Borrower resulting either from a merger or consolidation of the Borrower into or with another domestic corporation or a dissolution or liquidation of the Borrower following a transfer of all or substantially all of its assets under the conditions permitting such actions contained in the Loan Agreement.

(d) The entry of a decree or order for relief by a court having jurisdiction in the premises in respect of the Borrower in an involuntary case under the federal bankruptcy laws, as now or hereafter constituted, or any other applicable federal or state bankruptcy, insolvency or other similar law, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of the Borrower or for any substantial part of its property, or ordering the winding-up or liquidation of its affairs and the continuance of any such decree or order unstayed and in effect for a period of 60 consecutive days.

(e) The commencement by the Borrower of a voluntary case under the federal bankruptcy laws, as now or hereafter constituted, or any other applicable federal or state bankruptcy, insolvency or other similar law, or the consent by it to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of the Borrower or for any substantial part of its property, or the making by it of any assignment for the benefit of creditors, or the failure of the Borrower generally to pay its debts as such debts become due, or the taking of corporate action by the Borrower in furtherance of any of the foregoing.

(f) Subject to the notice and expiration of the opportunity to cure period contained in the Loan Agreement, failure of the Borrower to comply with any covenants contained in the Tax Agreement.

(g) Subject to the notice and expiration of the opportunity to cure period contained in the Loan Agreement, the occurrence of an Event of Default under the Indenture or any of the Borrower Documents.

(h) Any representation or warranty made by the Borrower in the Loan Agreement or made by the Borrower in any statement or certificate furnished by the Borrower either required by the Loan Agreement or in connection with the execution and delivery of the Loan Agreement and the sale and the issuance of the Series 2017 Bonds, shall prove to have been untrue in any material respect as of the date of the issuance or making thereof.

(i) Judgment for the payment of money in excess of \$50,000.00 (which is not covered by insurance) is rendered by any court or other governmental body against the Borrower, and the Borrower does not discharge same or provide for its discharge in accordance with its terms, or procure a stay of execution thereof within 60 days from the date of entry thereof, and within said 60-day period or such longer period during which execution of such judgment shall have been stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal while providing such reserves therefor as may be required under Generally Accepted Accounting Principles.

(j) A writ or warrant of attachment or any similar process shall be issued by any court against the Project, and such writ or warrant of attachment or any similar process is not released or bonded within 60 days after its entry.

(k) Any of Borrower's representations and warranties in the Borrower Documents with respect to environmental matters are false in any material respect.

(l) Subject to the notice and expiration of the opportunity to cure period contained in the Loan Agreement, the Borrower ceases to operate as a charter school (as defined in the School Act), or the Academy's charter contract is terminated, revoked, expired, or is not renewed (and any related appeals have been exhausted).

(m) The Debt Service Coverage Ratio is less than 1.00:1 in any Fiscal Year ending on or after June 30, 2018.

The foregoing provisions of paragraph (b) above are subject to the following limitations: if by reason of force majeure (as defined in the Loan Agreement) the Borrower is unable in whole or in part to carry out its agreements under the Loan Agreement, the Borrower shall not be deemed in default during the continuance of such inability.

Remedies on Default

(a) Whenever an Event of Default under the Loan Agreement shall have occurred and is continuing, the Issuer, or the Trustee where so provided in the Loan Agreement, may take any one or more of the following remedial steps:

(i) The Trustee (acting as assignee of the Issuer) or the Issuer (in the event of a failure of the Trustee to act under this paragraph (a)), as and to the extent provided in the Indenture, may declare the Loan Payments payable under the Loan Agreement for the remainder of the term of the Loan Agreement to be immediately due and payable, whereupon the same shall become due and payable.

(ii) The Trustee (acting as assignee of the Issuer) or the Issuer (in the event of a failure of the Trustee to act under this paragraph (a)), as and to the extent provided in the Indenture, may exercise the power of sale or foreclose under the Deed of Trust on the Project and may realize upon the security interest in the Pledged Revenues and may exercise all the rights and

remedies of a secured party under the North Carolina Uniform Commercial Code with respect thereto.

(iii) The Trustee (acting as assignee of the Issuer) or the Issuer (in the event of a failure of the Trustee to act under this paragraph (a) or with regard to the Issuer's Unassigned Rights), as and to the extent provided in the Indenture, may take whatever action at law or in equity as may appear necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance or observance of any obligations, agreements, or covenants of the Borrower under the Loan Agreement and the Borrower Documents.

(b) Notwithstanding the foregoing, prior to the exercise by the Issuer or the Trustee of any remedy that would prevent the application of this paragraph, the Borrower may, at any time, pay all accrued payments under the Loan Agreement (exclusive of any such payments accrued solely by virtue of declaration pursuant to paragraph (a)(i) under this heading) and fully cure all defaults, and in such event, the Borrower shall be fully reinstated to its position under the Loan Agreement as if such Event of Default had never occurred, provided, that the right to cure and extinguish such Event of Default as hereinbefore provided shall not be available if the Trustee or the Issuer exercised any such remedy at the direction of a majority in principal amount of the Bonds Outstanding, as provided in the Indenture, unless the holders of a majority in principal amount of the Bonds then Outstanding consent to such cure and extinguishment.

(c) In the event that the Borrower fails to make any payment required by the Loan Agreement, the payment so in default shall continue as an obligation of the Borrower until the amount in default shall have been fully paid.

(d) Whenever any Event of Default has occurred and is continuing under the Loan Agreement, the Trustee may, but except as otherwise provided in the Indenture shall not be obligated to, exercise any or all of the rights of the Issuer in an Event of Default (other than the Issuer's Unassigned Rights), upon notice as required to the Issuer. In addition, the Trustee shall have available to it all of the remedies prescribed in the Indenture. The Issuer may, without the consent of the Trustee, take whatever action at law or in equity may appear necessary or appropriate to enforce the Issuer's Unassigned Rights and to collect all sums then due and thereafter to become due to the Issuer under the Loan Agreement.

(e) Any amounts collected pursuant to action taken under the immediately preceding paragraph (other than sums collected for the Issuer on account of the Issuer's Unassigned Rights, which sums shall be paid directly to the Issuer), after reimbursement of any costs incurred by the Issuer or the Trustee in connection therewith shall be applied in accordance with the provisions of the Indenture.

(f) If the Issuer or the Trustee (or the Trustee on behalf of the Issuer), shall have proceeded to enforce their respective rights under the Loan Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Issuer or the Trustee, then and in every such case, the Borrower, the Issuer and the Trustee shall be restored to their respective positions and rights under the Loan Agreement, and all rights, remedies and powers of the Borrower, the Issuer and the Trustee shall continue as though no such proceedings had been taken.

(g) Notwithstanding anything to the contrary in the Loan Agreement, the Issuer shall have no obligation to and instead the Trustee, in accordance with the Indenture, shall have the right, without further direction from the Issuer, to take any and all steps, actions and proceedings, to enforce any or all rights of the Issuer (other than the Issuer's Unassigned Rights) under the Indenture or the Loan Agreement, including, without limitation, the rights to enforce the remedies upon the occurrence and continuation of an Event of Default and the obligations of the Borrower under the Loan Agreement.

(h) No provision of the Loan Agreement or the Indenture shall be deemed or construed as limiting, affecting or impairing in any way the Issuer's or any Issuer Indemnified Party's right to enforce the Issuer's Unassigned Rights, notwithstanding the existence or continuance of a default or Event of Default (including without limitation a payment default), or any action based thereon or occasioned by an Event of Default or an alleged Event of Default, and notwithstanding any waiver or forbearance by the Trustee, the Registered Owners or the Beneficial Owners of any default or Event of Default under the Loan Agreement or thereunder. Any default or Event of Default in respect of the Issuer's Unassigned Rights may only be waived with the Issuer's written consent.

Waiver

In the event any agreement contained in the Loan Agreement should be breached by any party and thereafter waived by any other party, such waiver shall be limited to the particular breach waived and shall not be deemed to waive any other breach hereunder. In view of the assignment of the Issuer's rights in and under the Loan Agreement (except for the Issuer's Unassigned Rights) to the Trustee under the Indenture, the Trustee shall have no power to waive any Event of Default under the Loan Agreement without the consent of the Issuer. Notwithstanding the foregoing, a waiver of an Event of Default under the Indenture or a rescission of a declaration of acceleration of the Bonds and a rescission and annulment of its consequences shall constitute a waiver of the corresponding Event of Default under the Loan Agreement and a rescission and annulment of its consequences; provided, that no such waiver or rescission shall extend to or affect any subsequent or other default under the Loan Agreement or impair any right consequent thereon.

Amendment

Except as otherwise provided in the Loan Agreement or in the Indenture, the Loan Agreement may not be effectively amended, changed, modified, altered or terminated without the written consent of the Issuer and the Borrower.

General Option to Prepay the Loans

So long as no Event of Default pursuant to the Loan Agreement exists, the Borrower shall have the option exercisable at any time to prepay all or any portion of the Loans by depositing with the Trustee an amount of money or securities, to the extent permitted by the Indenture, representing the principal amount, the premium, if any, and interest on the Loans to be paid at maturity, with respect to the Series 2017 Bonds, or prepaid to the date a corresponding amount of Series 2017 Bonds are redeemed. The exercise of such option shall not be cause for redemption of Series 2017 Bonds unless such redemption is permitted at that time under the provisions of the Indenture and the Borrower specifies the date for such redemption. Prior to the date the related Series 2017 Bonds are subject to redemption, the Series 2017 Promissory Note is prepayable at any time in an amount sufficient to defease a related amount of respective Series 2017 Bonds in accordance with the Indenture. In the event the Borrower prepays all of the Loans pursuant to the Loan Agreement, pays all reasonable and necessary fees and expenses of the Trustee accrued and to accrue through final payment of the Series 2017 Bonds as a result of such prepayment, and all of its liabilities accrued and to accrue under the Loan Agreement to the Issuer through final payment of the Series 2017 Bonds as a result of such prepayment, and all other amounts payable by the Borrower under the Loan Agreement, including required rebate payments, the Loan Agreement shall terminate except as otherwise provided therein.

In order to exercise the option described above, the Borrower shall give written notice to the Trustee specifying the date of making the prepayment, which date shall be not less than 45 days or more than 90 days from the date the notice is mailed. In the case of any prepayment pursuant to the Loan

Agreement, the Borrower shall make arrangements with the Trustee for giving the required notice of redemption, if any, with respect to any Series 2017 Bonds to be redeemed and shall pay to the Trustee an amount of money sufficient to redeem all of the Series 2017 Bonds to be called for redemption at the appropriate price prior to the redemption date.

THE DEED OF TRUST

The following is a summary of certain terms of the Deed of Trust. Such summary is not to be considered a complete statement of the terms and provisions of such Deed of Trust. Reference is made to the Deed of Trust for a complete statement of the terms, provisions and conditions thereof.

The Borrower has given, granted, bargained, sold and conveyed, and does give, grant, bargain, sell and convey to the Deed of Trust Trustee, its successors and assigns, in trust, with power of sale, the following real property, buildings, improvements and fixtures (collectively referred to as the "Mortgaged Property"):

(a) the tracts of land described in an exhibit to the Deed of Trust (the "Site"), together with all buildings and improvements now or hereafter located in, on or about the Site, including, but not limited to, the Facilities (such buildings and improvements being collectively referred to in the Deed of Trust as the "Improvements");

(b) all real property, buildings and improvements located on the Site hereafter acquired or constructed by the Borrower (i) as an addition to or in replacement of or substitution for the Facilities (real property, buildings and improvements being deemed to be an addition to the Facilities if they comprise facilities that are functionally related to, and operated on an integrated basis with, the Facilities), or (ii) for which Bonds are issued pursuant to the Indenture to acquire or finance such real property, buildings or improvements (herein collectively referred to as the "After-Acquired Property");

(c) all fixtures now or hereafter acquired and owned by the Borrower and attached to the Site or After-Acquired Property, including, but not limited to, all equipment, apparatus, machinery, motors, elevators, fittings, awnings, shades, screens, blinds, carpeting, and all plumbing, heating, lighting, electrical, ventilating, refrigerating, incinerating, air-conditioning, fire-protection, theft-protection and fire-sprinkler equipment, including all renewals and replacements thereof and all additions thereto, and all substitutions thereof, and all proceeds of all the foregoing in whatever form (herein collectively referred to as the "Fixtures");

(d) all leases, rents, issues, profits, royalties, income and other benefits (the "Rents") derived from the Site, the Improvements and the After-Acquired Property, subject to the right, power and authority hereinafter given to the Borrower to collect and apply such Rents, and the proceeds from any insurance or any condemnation award relating to the Site, the Improvements or the After-Acquired Property;

(e) all easements, rights-of-way and rights used in connection with the Site, the Improvements or the After-Acquired Property or as a means of access thereto, and all tenements, hereditaments and appurtenances thereof and thereto; and

(f) all proceeds, products, replacements, additions, substitutions, renewals and accessions of or to any of the foregoing.

Borrower's General Representations, Warranties, Covenants and Agreements

Title to Property. The Borrower warrants that it has good and marketable title to the Mortgaged Property and is lawfully seized and possessed of the Mortgaged Property and every part thereof and has the right to convey the same; that the Mortgaged Property is unencumbered, except for Permitted Encumbrances and such other encumbrances and matters of title, if any, set forth in the Title Policy; and that the Borrower will forever warrant and defend the title to the Mortgaged Property of the Deed of Trust Trustee against the claims of all persons whomsoever.

Payment and Performance of Obligations, Loan Agreement and Deed of Trust. The Borrower shall pay when due the principal of, redemption premium, if any, and the interest on all Obligations and all other sums required to be paid under the Deed of Trust, the Loan Agreement, and any other document or instrument pursuant to which the Loan is made or secured. The Borrower shall observe and perform all the covenants, provisions, terms and conditions of the Loan Agreement, any other document or instrument pursuant to which the Loan is made or secured and this Deed of Trust to be observed and performed by the Borrower. All of the covenants, terms, provisions, and conditions of the Loan Agreement are incorporated by reference in the Deed of Trust and are made a part of the same as if fully set forth therein.

Performance of Borrower's Obligations. If at any time the Borrower should neglect, refuse or fail to perform any of its obligations set forth in the Deed of Trust after receiving the notice and an opportunity to cure, if any required herein, and the Beneficiary performs or causes to be performed such obligations, all expenditures incurred by the Beneficiary shall be part of the indebtedness secured by the Deed of Trust. All such payments made by the Beneficiary shall constitute payments for the protection and preservation of Beneficiary's security.

Further Instruments. The Borrower agrees that it will, upon closing the acquisition of or prior to construction of After-Acquired Property, register in the office of the Register of Deeds of Guilford County, North Carolina, a notice of extension as specified in Section 47-20.5 of the General Statutes of North Carolina, as amended, containing a description of the real property covered thereby and all other information required under Section 47-20.5 of the General Statutes of North Carolina, as amended. Upon demand, the Borrower shall execute and deliver to the Beneficiary any further instrument or instruments, including, but not limited to, deeds of trust, security agreements, financing statements, assignments, notices of extension, or renewal or substitution obligations necessary to reaffirm, correct or perfect the evidence of the obligations secured by the Deed of Trust and the legal security title and lien of the Deed of Trust Trustee and the Beneficiary to all or any part of the Mortgaged Property intended to be given or conveyed by the Deed of Trust whether now given or conveyed or acquired and conveyed subsequent to the date of the Deed of Trust.

Assignment of Rents. In order to further secure (a) the prompt payment of the principal of, redemption premium, if any, and the interest on all Obligations and all other sums required to be paid under the Deed of Trust, the Loan Agreement, and any other document or instrument pursuant to which the Loan is made or secured, and (b) the performance by the Borrower of all the covenants, provisions, terms and conditions of the Loan Agreement, any other document or instrument pursuant to which the Loan is made or secured and the Deed of Trust to be observed and performed by the Borrower, the Borrower hereby absolutely and unconditionally sells, assigns, transfers and sets over to the Beneficiary all of the Rents of, from or pertaining to the Mortgaged Property. This assignment includes any and all leases or rental agreements that may now be in effect, as well as any future or additional leases or rental agreements, any renewals or extensions of any leases or rental agreements that may be entered into by the Borrower (collectively "Leases"), together with any and all rights and remedies which Borrower may have against any tenant under any of the Leases or others in possession of the Mortgaged Property or any

part thereof for the collection or recovery of Rents so assigned. The Borrower hereby agrees to execute and deliver such further assignments of said Leases or rental agreements as the Beneficiary may from time to time request.

Borrower represents and warrants that it has not assigned its interest in the Rents or any of them to any other party, there are no defaults by any party to any lease affecting the Mortgaged Property, nor any conditions that with notice, or passage of time or both would become defaults. The Borrower shall faithfully keep, observe and satisfy all the obligations on the part of the lessor to be kept, performed and satisfied under every lease from time to time in force with reference to the Mortgaged Property, and shall not alter or terminate any such lease, or any guarantee of such lease, except as provided therein, or accept any Rents for more than one (1) month in advance.

This assignment is absolute and effective immediately and without possession. Notwithstanding the foregoing, the Borrower shall have a license to receive, collect and enjoy the Rents accruing from the Mortgaged Property until an Event of Default (as defined below) shall have occurred and be continuing. Upon the occurrence of an Event of Default, this license shall cease automatically, without need of notice, possession, foreclosure or any other act or procedure, and all Rents assigned hereby shall thereafter be payable to the Beneficiary. The Borrower covenants that, if an Event of Default shall have occurred and be continuing, it shall, upon request of the Beneficiary, deliver or direct to be delivered to the Beneficiary all Rents from the Mortgaged Property thereafter received.

Borrower agrees, at Borrowers sole cost and expense, within 30 days after request of Beneficiary to obtain a Subordination, Non-Disturbance and Attornment agreement on Beneficiary's form with respect to any Lease.

Security Interest in Fixtures. The Deed of Trust is intended to be a security agreement for the Fixtures pursuant to the North Carolina Uniform Commercial Code. In order to further secure (a) the payment when due of the principal of, redemption premium, if any, and the interest on all Obligations and all other sums required to be paid under the Deed of Trust, the Loan Agreement, and any other document or instrument pursuant to which the Loan is made or secured, and (b) the performance by the Borrower of all the covenants, provisions, terms and conditions of the Loan Agreement, any other document or instrument pursuant to which the Loan is made or secured and the Deed of Trust to be observed and performed by the Borrower, the Borrower grants to the Beneficiary and the Deed of Trust Trustee a security interest in the Fixtures. The Borrower agrees that the Beneficiary may file the Deed of Trust, or a reproduction thereof, as a financing statement for the Fixtures, and the security interest in the Fixtures granted in this paragraph shall be in addition to, and not in lieu of, any lien upon and security title in the Fixtures acquired by real property law. The Borrower agrees to execute and deliver to the Beneficiary, upon request of the Beneficiary, financing statements in such form as the Beneficiary may require to perfect the security interests under the Deed of Trust. Upon the occurrence of an Event of Default, the Beneficiary or the Deed of Trust Trustee shall be entitled to exercise all rights and remedies of a secured party under the North Carolina Uniform Commercial Code and may proceed as to the Fixtures in the same manner as provided in the Deed of Trust for the real property to the extent permitted by applicable law.

Borrower and Lien Not Released. The Borrower agrees that its obligations to the Beneficiary or the Deed of Trust Trustee will not be diminished, and the responsibility and liability of the Borrower (or any successor thereto) to the Beneficiary for the complete performance of each of the Borrower's obligations under the Deed of Trust or under the Loan Agreement or any other documents submitted by the Borrower to the Beneficiary in connection with the Loan shall not be released, regardless of any (a) release by the Beneficiary of any of the Borrower's successors in title to all or any part of the Mortgaged Property from liability on any Obligations or any other liability of the Borrower to the Beneficiary, (b)

extension of time for payment of all or any part of the Loan or Obligations, (c) release by the Beneficiary of any portion of the Mortgaged Property, (d) subordination of lien, (e) forbearance on the part of the Beneficiary to collect on the Loan, Obligations, or other liability of the Borrower to the Beneficiary or any part thereof, (f) waiver of any right granted or remedy available to the Beneficiary or (g) action or omission by the Beneficiary.

Payment of Costs, Attorneys' Fees and Expenses. To the extent permitted by law, the Borrower shall pay any and all reasonable costs, attorneys' fees and other expenses of whatever kind incurred by the Beneficiary or any obligee of the Obligations, including the Trustee, in connection with (a) obtaining possession of the Mortgaged Property, (b) the protection and preservation of the Mortgaged Property, (c) the collection of any sum or sums secured by the Deed of Trust, (d) any litigation involving the Mortgaged Property, the Deed of Trust, any benefit accruing by virtue of the provisions of the Deed of Trust, or the rights of the Beneficiary, (e) the presentation of any claim under any administrative law to be filed, (f) any additional examination of the title to the Mortgaged Property that may reasonably be required by the Beneficiary, or (g) taking any steps whatsoever in enforcing the Deed of Trust, claiming any benefit accruing by virtue of the provisions of the Deed of Trust, or exercising the rights of the Beneficiary under the Deed of Trust. Nothing contained in this paragraph shall be construed to limit the Borrower's obligation to pay costs, attorneys' fees, and expenses as provided in the Loan Agreement.

Anything contained in the Deed of Trust to the contrary notwithstanding, the obligation of the Borrower to pay attorneys' fees shall mean reasonable attorney's fees. The phrase "reasonable attorney's fees" or similar language shall mean such attorney's fees based on customary hourly rates and actual time expended but in no event more than allowed under Section 6-21.2 of the North Carolina General Statutes; provided that this provision shall not apply to attorney's fees and expenses incurred by the Issuer, which shall be interpreted under the law of the State of Wisconsin.

Environmental Representations, Warranties and Covenants

The Borrower represents and warrants to the Beneficiary and the Deed of Trust Trustee that, except as disclosed in the Phase I Report, the Borrower has not at any time, and, to the Borrower's knowledge, after such inquiry by the Borrower as is reasonably prudent based upon the environmental-related information available to it at the time of the execution of the Deed of Trust (which inquiry consists solely of reviewing the Phase I Report), no other party has at any time, used, handled, buried, stored, treated, refined, transported, processed, manufactured, generated, produced, spilled, released, allowed to seep, leak, escape or leach, or pumped, poured, emitted, emptied, discharged, injected, dumped, transferred or otherwise disposed of or dealt with Hazardous Materials (as defined in the Loan Agreement) on, to or from the Mortgaged Property, and the Borrower does not intend to use nor permit any third party to use the Mortgaged Property for the purpose of using, handling, burying, storing, treating, refining, transporting, processing, manufacturing, generating, producing, spilling, releasing, leaching, pumping, pouring, emitting, emptying, discharging, injecting, dumping, transferring or otherwise disposing of or dealing with Hazardous Materials, except for use of ordinary cleaning fluids, household pesticides and other substances customarily used and medical wastes customarily generated in the operation of a school provided such use does not violate any legal requirement or give rise to liability under applicable laws or establish a basis for a lien against the Mortgaged Property. The Borrower shall immediately remediate and fully address in accordance with applicable legal requirements any Hazardous Material found in or on the Mortgaged Property.

The Borrower represents and warrants to the Beneficiary and the Deed of Trust Trustee that the Borrower has received no actual notice of, and has no actual knowledge of, any claim, suit, or liability, or occurrence or circumstance which with notice or passage of time or both would violate or give rise to a claim or liability under or pursuant to any Environmental Law (as defined in the Loan Agreement). The

Borrower agrees to notify Beneficiary immediately of any such occurrence, and agrees to comply with all applicable Environmental Laws.

In the event that there shall be filed a lien against the Mortgaged Property pursuant to any Environmental Law, the Borrower shall, within thirty (30) days from the date that the Borrower receives notice of such lien, either (a) pay the claim and remove the lien from the Mortgaged Property, or (b) furnish (i) a bond reasonably satisfactory to the Beneficiary in the amount of the claim out of which the lien arises, (ii) a cash deposit in the amount of the claim out of which the lien arises or (iii) other security reasonably satisfactory to the Beneficiary in an amount sufficient to discharge the claim out of which the lien arises.

The Borrower represents and warrants to the Beneficiary and the Deed of Trust Trustee that, to the Borrower's actual knowledge, the Mortgaged Property is not a site, included or proposed for inclusion on the National Priorities List issued pursuant to CERCLA (as defined in the Loan Agreement) by the United States Environmental Protection Agency (the "EPA") or on any other inventory of other potential "problem" sites issued by the EPA or other governmental authority, identified by the EPA as a potential CERCLA site or included or, to the best of the Borrower's actual knowledge, proposed for inclusion on, any list or inventory issued pursuant to any Environmental Law, or issued by any Governmental Authority. The Borrower represents and warrants that the Borrower will comply with any applicable Environmental Law. "Governmental Authority" means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

The Borrower agrees to indemnify the Deed of Trust Trustee and the Beneficiary for, and to defend and hold them harmless against, any losses, liabilities, costs, damages, claims and expenses, including, but not limited to, reasonable attorneys' fees, resulting from, or arising out of or in connection with (a) any violation or breach of any representation, warranty or covenant contained under this heading "Environmental Representations, Warranties and Covenants", (b) any failure on the part of the Borrower to perform any obligation to be performed by the Borrower with respect to the Mortgaged Property as described under this heading "Environmental Representations, Warranties and Covenants", (c) any failure by the Borrower to comply fully with any Environmental Law, or (d) any presence, release, generation, treatment, storage, disposal or transport of any Hazardous Material on, into, from or about the Mortgaged Property.

Events of Default; Foreclosure

Events of Default. Each of the following events shall constitute an Event of Default under the Deed of Trust: (a) an Event of Default shall occur under the Indenture or the Loan Agreement and (b) the Borrower shall fail to perform, observe or comply with any covenant or agreement on its part under the Deed of Trust for a period of forty-five (45) days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Borrower by the Beneficiary; provided, however, that if said failure be such that it cannot be corrected within forty-five (45) days after the receipt of such notice, it shall not constitute an Event of Default if corrective action is instituted within such forty-five (45) day period and diligently pursued and the failure is remedied within ninety (90) days thereof.

Power of Sale. Upon the occurrence of an Event of Default not timely cured in accordance with any applicable cure period, if any, all Obligations shall immediately become due and payable, after any notice to the Borrower as provided in the Loan Agreement, at the option of the Beneficiary, and, upon application of the Beneficiary, it shall be lawful for and the duty of the Deed of Trust Trustee to foreclose

on and exercise the power of sale with respect to all or any part or parts of the Mortgaged Property at public auction for cash after first having given such notice as to commencement of foreclosure proceedings and having obtained such findings and leave of court as may then be required by law and upon such sale and any resale to convey title to the purchaser in fee simple.

Application of Proceeds. The Deed of Trust Trustee, having retained a reasonable and customary fee, not to exceed one-half of one percent (0.5%) of the gross proceeds of such sale, as a commission for its services and having retained also all advertising and other expenses incurred by it, shall apply the residue first to the payment of any taxes or assessments that may be a lien against the Mortgaged Property superior to the Deed of Trust, unless the Deed of Trust Trustee advertised and sold the same subject to taxes or assessments; then to the sums secured by the Deed of Trust in accordance with the Loan Agreement; then the balance, if any, to the Borrower.

Foreclosure Sale. At such sale, the Beneficiary may bid for and acquire all or any part or parts of the Mortgaged Property and in lieu of paying cash therefor may make settlement for the purchase price by crediting upon the sums due and payable under and secured by the Deed of Trust, the net sales price, which shall be the proceeds of sale after deducting therefrom the expenses, taxes and assessments referred to in "Application of Proceeds" above. At any sale, the Deed of Trust Trustee may require the successful bidder (other than the Beneficiary) immediately to deposit with the Deed of Trust Trustee cash or a certified check in an amount equal to five percent (5%) of the successful bid but in no case less than the first Seven Hundred Fifty Dollars (\$750.00), and notice of such requirement shall be included in the advertisement of the notice of such sale.

Additional Rights and Remedies of Beneficiary, Deed of Trust Trustee

Upon the occurrence of an Event of Default, the Beneficiary and the Deed of Trust Trustee shall be entitled to exercise all the rights and remedies provided in the Indenture, the Loan Agreement, and the Deed of Trust, all of the rights and remedies of a secured party under the North Carolina Uniform Commercial Code and all other rights and remedies provided by law. No remedy of the Beneficiary under the Deed of Trust is intended to be exclusive of any other remedy now or hereafter existing at law or in equity, by statute, or under the Deed of Trust, the Loan Agreement, or the Indenture. No delay or omission of the Deed of Trust Trustee or the Beneficiary to exercise any right or power accruing upon any Event of Default shall impair such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein. Every power or remedy given by the Deed of Trust to the Deed of Trust Trustee or the Beneficiary may be exercised from time to time as often as may be deemed expedient by the Deed of Trust Trustee or the Beneficiary. The Borrower waives any and all rights to require marshalling of assets in connection with the exercise of any remedies provided in the Deed of Trust or as permitted by law.

During the continuance of any Event of Default, Beneficiary without in any way waiving such Event of Default may, at its option, without notice and without regard to the adequacy of the security for the said principal sum, interest, and indebtedness secured hereby, either in person or by agent, with or without bringing any action or proceeding, or by a receiver appointed by a court, take possession of the Mortgaged Property and have, hold, manage, lease and operate the Mortgaged Property on such terms and for such period of time as Beneficiary may deem proper and either with or without taking possession of the Mortgaged Property in its own name, sue for, or otherwise collect and receive all Rents and profits of the Mortgaged Property, including those past due and unpaid with full power to make from time to time all alterations, renovations, repairs and replacements thereto or thereof and to insure the Mortgaged Property as may be deemed proper by Beneficiary. Beneficiary shall not be responsible for diligence in collecting any moneys as contemplated herein, but shall be accountable only for sums actually received.

Borrower understands and agrees that Beneficiary in the exercise of the rights, interests, and powers conferred upon it by this Assignment, after the occurrence of an Event of Default and during the existence thereof, shall have full power to use and apply the Rents and profits of the Mortgaged Property to the payment of or on account of the following, in such order as Beneficiary may determine:

(i) To the payment of the operating expenses of the Mortgaged Property, including rent, the cost of management and leasing thereof (which shall include reasonable compensation to Beneficiary and its agent or agents, lease commissions, and other compensation and expenses of seeking and procuring tenants and entering into leases), and premiums of insurance on the Mortgaged Property;

(ii) To the payment of taxes and special assessments due on the date of the Bond Closing or which may thereafter become due on the Mortgaged Property;

(iii) To the payment of all repairs, decorating, renewals, replacements, alterations, additions, betterments and improvements of the Mortgaged Property, and of placing the Mortgaged Property in such condition as will, in the judgment of Beneficiary, make it readily rentable; and

(iv) To the payment of any indebtedness secured by the Deed of Trust.

Release of Land

So long as any amount under the Loan Agreement remains outstanding or sufficient funds for their payment in full are not held in trust by the Beneficiary or the Trustee, a parcel of or interest in land constituting part of the Mortgaged Property (and the Improvements and Fixtures located thereon) shall be released from the lien and security of the Deed of Trust upon the written request of the Borrower to the Deed of Trust Trustee and the Beneficiary when and if the following requirements have been fulfilled:

(i) The Borrower shall have delivered to the Deed of Trust Trustee and the Beneficiary a certified survey of the land to be released, a certified survey of the land to remain as the Mortgaged Property and a revised legal description of the land to remain as the Mortgaged Property;

(ii) The Borrower shall have delivered to the Deed of Trust Trustee and the Beneficiary an architect's or engineer's certificate to the effect that the release of the land will not cause any damage to the structural soundness of the remaining Mortgaged Property or impair ingress to or egress from the remaining Mortgaged Property;

(iii) The Borrower shall have delivered to the Deed of Trust Trustee and the Beneficiary evidence satisfactory to them that such release does not violate any applicable land use restrictions;

(iv) The Borrower shall represent in writing to the Deed of Trust Trustee and the Beneficiary that it will make no use, and will permit no use by others, of the land to be released that would create a nuisance or diminish materially, in the opinion of a consultant knowledgeable in the operation of facilities similar to the Facilities, the attractiveness of the Facilities to potential users; and

(v) The Borrower shall either (i) acquire additional land or Equipment having a fair market value equal to the fair market value of the land to be released and grant the Beneficiary a first priority Lien, subject to Permitted Encumbrances, thereon, or (ii) shall pay to the Beneficiary the fair market value of the land to be released, which value in each case shall be evidenced by an appraisal prepared by an appraiser acceptable to the Beneficiary; provided, however, if the fair market value of the Mortgaged Property remaining after such release, as evidenced by an appraisal prepared as of a date not earlier than sixty (60) days prior to the date of such proposed release by an appraiser acceptable to the Beneficiary, is

not less than 120% of the principal amount of the Loan then outstanding, the release of such land shall be permitted without restriction; provided, further, that if the cost of obtaining (x) a certified survey and a revised legal description of the land to remain as the Mortgaged Property as required by the Deed of Trust and (y) an appraisal of the portion of the Mortgaged Property to be released as required by the Deed of Trust exceeds the amount the Borrower will receive from the sale or other disposition of the portion of the Mortgaged Property the Borrower has requested to be released from the lien of this Deed of Trust and if such release will not materially adversely affect the Borrower's ability to operate the Facilities or the value of the remaining Mortgaged Property, as certified by the Borrower to the Deed of Trust Trustee and the Beneficiary, then such portion of the Mortgaged Property may be released without the Borrower's delivery of the items referenced in clauses (x) and (y) above.

The Deed of Trust Trustee shall only release property under the Deed of Trust in accordance with the provisions described in the preceding paragraph and with the consent or at the direction of the Beneficiary.

Amendments

The Deed of Trust may be amended from time to time, without the consent of or notice to any of the Owners of the Bonds, (i) to describe additional Obligations to be secured thereby and to increase the amount of the Obligations secured thereby, and (ii) if, in the opinion of the Beneficiary, who may rely upon an Opinion of Counsel, such amendment shall be consistent with the terms of the Loan Agreement and of the Deed of Trust and shall not materially and adversely affect the Owners. The Owners of not less than a majority in aggregate principal amount of Bonds then Outstanding shall have the right, from time to time, to consent to and approve the execution of any other amendment to the Deed of Trust in the manner provided in the Indenture.

APPENDIX E

FORM OF BOND COUNSEL OPINION

[THIS PAGE INTENTIONALLY LEFT BLANK]

June __, 2017

Public Finance Authority
Madison, Wisconsin

\$31,805,000
Public Finance Authority
Education Revenue Bonds
(Phoenix Academy Project), Series 2017

Ladies and Gentlemen:

We have acted as bond counsel to the Public Finance Authority (the "Issuer") in connection with the issuance by the Issuer of the above-referenced bonds (collectively, the "Series 2017 Bonds"). In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we have deemed necessary to render this opinion.

The Series 2017 Bonds are issued pursuant to an Indenture of Trust dated as of June 1, 2017 (the "Indenture") between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"). The Issuer will lend the proceeds of the Series 2017 Bonds (the "Loans") to Phoenix Academy Foundation, Inc. (the "Foundation") and Phoenix Academy Inc. (the "Academy" and together with the Foundation, the "Borrowers") under a Loan Agreement dated as of June 1, 2017 (the "Loan Agreement") between the Issuer and the Borrowers. The Loans will be evidenced by Promissory Notes dated as of the date hereof (the "Notes") issued by the Borrowers to the Issuer and assigned by the Issuer to the Trustee as security for the payment of the Series 2017 Bonds. As security for the Loans and any future loans in connection with Additional Bonds (as defined in the Indenture) issued under the Indenture, the Borrowers have granted to the Issuer a security interest in their Pledged Revenues, subject to Permitted Encumbrances (both as defined in the Indenture), and the Issuer has assigned its rights to Pledged Revenues to the Trustee as security for the payment of the Series 2017 Bonds. As additional security for the Loans and any such future loans, the Foundation has, pursuant to a Deed of Trust, Assignment of Rents and Fixture Filing dated as of June 1, 2017 (the "Deed of Trust"), granted to a trustee for the benefit of the Issuer a lien on the Mortgaged Property (as defined in the Deed of Trust) (subject to Permitted Encumbrances and encumbrances and matters of title as set forth therein), and the Issuer has assigned its rights under the Deed of Trust to the Trustee as security for the payment of the Series 2017 Bonds. The Deed of Trust has been recorded in the Office of the Register of Deeds of Guilford County, North Carolina, and financing statements with respect to the security interest in the Pledged Revenues of the Borrowers have been filed in the office of the Secretary of State of the State of North Carolina.

We have not examined title to the Mortgaged Property or any official records with respect to prior security interests in the Pledged Revenues of the Borrowers. Our conclusion that the Foundation has title to the Mortgaged Property is based exclusively upon a mortgagee title insurance policy issued to the Trustee.

As to questions of fact material to our opinion, we have relied upon representations of the Issuer and the Borrowers contained in various documents, certified proceedings and other certifications of public officials furnished to us, and certifications furnished to us by and on behalf of the Borrowers without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Series 2017 Bonds have been duly authorized and executed by the Issuer and are valid and binding limited obligations of the Issuer, payable in accordance with their terms from payments to be made by the Borrowers pursuant to the Notes and the Loan Agreement, certain funds held by the Trustee under the Indenture, and certain other sources.

2. The Indenture has been duly authorized, executed, and delivered by the Issuer and is a valid and binding obligation of the Issuer, enforceable against the Issuer. The Indenture creates a valid lien on the rights and property described in the granting clause thereof.

3. The Loan Agreement has been duly authorized, executed, and delivered by the Issuer and the Borrowers, and is a valid and binding obligation of the Issuer and the Borrowers, enforceable against the Issuer and the Borrowers.

4. The Deed of Trust has been duly authorized, executed, and delivered by the Foundation and grants to the deed of trust trustee named therein for the benefit of the Issuer a lien on the Mortgaged Property, subject to Permitted Encumbrances and encumbrances and matters of title as set forth therein.

5. The Loan Agreement is effective to create in favor of the Issuer a security interest in the Pledged Revenues of the Borrowers to the extent that a security interest in such assets may be created under North Carolina's version of Article 9 of the Uniform Commercial Code (the "UCC"), which security interest has been perfected to the extent it could be perfected by the filing of financing statements under the UCC. Continuation statements meeting the requirements of the UCC must be filed as required by law to continue the perfection of such security interest. The security interest in certain items constituting Pledged Revenues is subject to exceptions under the UCC and may be limited by the powers of the State of North Carolina and the federal government to restrict assignment of the right to payment from such entities.

6. Interest on the Series 2017 Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining adjusted current earnings. The opinion set forth in this paragraph is subject to the condition that the Issuer and the Borrowers comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the

issuance of the Series 2017 Bonds in order that interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Issuer and the Borrowers have covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Series 2017 Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2017 Bonds. In rendering the opinion set forth in the first sentence of this paragraph, we have relied on the opinion of Wyatt Early Harris Wheeler, LLP, High Point, North Carolina, counsel to the Borrowers, with respect to each Borrower's status under Section 501(c)(3) of the Code.

The rights of the holders of the Series 2017 Bonds and the enforceability of the Series 2017 Bonds, the Indenture, the Loan Agreement, the Notes and the Deed of Trust are limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium, and other similar laws affecting creditors' rights generally and by equitable principles (whether considered at law or in equity), and by the exercise of judicial discretion.

We express no opinion herein, except as stated above, regarding federal, state, or local tax consequences arising with respect to the Series 2017 Bonds.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX F

FORM OF CONTINUING DISCLOSURE UNDERTAKING AGREEMENT

[THIS PAGE INTENTIONALLY LEFT BLANK]

**CONTINUING DISCLOSURE UNDERTAKING AGREEMENT
OF PHOENIX ACADEMY, INC. AND PHOENIX ACADEMY FOUNDATION, INC.
FOR THE PURPOSE OF PROVIDING
CONTINUING DISCLOSURE INFORMATION
UNDER SECTION (B)(5) OF SEC RULE 15C2-12, AS AMENDED**

This Continuing Disclosure Undertaking Agreement (this “*Agreement*”) is entered into by Phoenix Academy, Inc. (the “*School*”) and Phoenix Academy Foundation, Inc. (the “*Foundation*”, and together with the School, the “*Borrower*”) and School Improvement Partnership, LLC, as continuing disclosure agent (the “*Continuing Disclosure Agent*”), in connection with the issuance of the Public Finance Authority’s Education Revenue Bonds (Phoenix Academy Project) Series 2017 in the aggregate principal amount of \$31,805,000 (the “*Bonds*”). The Bonds are being issued pursuant to an Indenture of Trust dated as of June 1, 2017 (the “*Indenture*”), between the Public Finance Authority (the “*Issuer*”) and U.S. Bank National Association, as Trustee (the “*Trustee*”).

In consideration of the purchase of such Bonds by the owners thereof, the Borrower hereby covenants and agrees as follows:

Section 1. Purpose of this Agreement. This Agreement is entered into by the Borrower as of the date set forth below, for the benefit of the holders and owners of the Bonds (the “*Bondholders*”) and in order to assist the Participating Underwriter (as defined below) in complying with the requirements of the Rule (as defined below). The Borrower represents that it will be the only obligated person (as defined in the Rule) with respect to the Bonds at the time the Bonds are delivered to the Participating Underwriter and that no other person is expected to become an obligated person at any time after the issuance of the Bonds.

Section 2. Definitions. The terms set forth below shall have the following meanings in this Agreement, unless the context clearly otherwise requires. Capitalized terms used but not defined herein shall have the meanings assigned thereto in the Loan Agreement.

“*Annual Information*” means (i) certain operating data for the Borrower for the most recent period for which such data is available, in the form of Exhibit I hereto, (ii) a copy of the Audited Financial Statements, and (iii) a copy of the certificate addressing compliance with all financial covenants required by Section 8.05 of the Loan Agreement.

“*Annual Information Disclosure*” means the dissemination of disclosure concerning Annual Information and the dissemination of the Audited Financial Statements as set forth in Section 4(a).

“*Audited Financial Statements*” means the audited consolidated financial statements of the Borrower, prepared in accordance with generally accepted accounting principles in the United States as in effect from time to time.

“*Commission*” means the Securities and Exchange Commission.

“*Continuing Disclosure Agent*” means, initially, School Improvement Partnership, LLC, its successors and assigns, and, thereafter, any agent designated as such in writing by the Borrower and which has filed with the Borrower a written acceptance of such designation, and such agent’s successors and assigns.

“*EMMA*” means the Electronic Municipal Market Access facility for municipal securities disclosure of the MSRB.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended.

“*Fiscal Year*” means each year ending June 30, commencing with the Fiscal Year ending June 30, 2018.

“*Loan Agreement*” means the Loan Agreement dated as of June 1, 2017 between the Issuer and the Borrower.

“*Material Event*” means the occurrence of any of the events with respect to the Bonds set forth in Exhibit II.

“*Material Events Disclosure*” means dissemination of a notice of a Material Event as set forth in Section 5.

“*MSRB*” means the Municipal Securities Rulemaking Board.

“*Other Information*” means the information as set forth in Section 4(c).

“*Other Information Disclosure*” means the dissemination of disclosure concerning the information as set forth in Section 4(c).

“*Participating Underwriter*” means each broker, dealer or municipal securities dealer acting as an underwriter in any primary offering of the Bonds.

“*Prescribed Form*” means, with regard to the filing of Annual Information, Audited Financial Statements, Other Information and notices of Material Events with the MSRB at www.emma.msrb.org (or such other address or addresses as the MSRB may from time to time specify), such electronic format, accompanied by such identifying information, as shall have been prescribed by the MSRB and which shall be in effect on the date of filing of such information.

“*Quarterly Information*” means the information as set forth in Section 4(b).

“*Quarterly Information Disclosure*” means the dissemination of disclosure concerning the information as set forth in Section 4(b).

“*Rule*” means Rule 15c2-12 adopted by the Commission under the Exchange Act, as the same may be amended from time to time.

“*State*” means the State of North Carolina.

“*State Compliance Office*” means the State Board of Education, or any other body subsequently authorized by the State to grant, revoke, suspend charters.

“*Template*” means the form document containing the Annual Information or Quarterly Information, as applicable.

“*Undertaking*” means the obligations of the Borrower pursuant to Sections 4 and 5.

Section 3. CUSIP Number/ Limited Offering Memorandum. The CUSIP Number of the final maturity of the Bonds is 74442EBT6. The Limited Offering Memorandum relating to the Bonds is dated June 23, 2017 (the “*Limited Offering Memorandum*”).

Section 4. Annual Information Disclosure; Quarterly Information Disclosure; Other Information Disclosure.

(a) **Annual Information and Audited Financial Statements.** Subject to Section 9 of this Agreement, the Borrower hereby covenants that it will, or will cause the Continuing Disclosure Agent to, disseminate the Annual Information (set forth in Exhibit I hereto) and the Audited Financial Statements by delivering such Annual Information and the Audited Financial Statements to the MSRB no case later than 180 days after the end of each Fiscal Year. It shall be sufficient if the Borrower provides to the MSRB any or all of the Annual Information Disclosure by specific reference to documents previously provided to the MSRB or the Commission and, if such document is a Limited Offering Memorandum within the meaning of the Rule, available from the MSRB.

If any part of the Annual Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the Borrower will, or will cause the Continuing Disclosure Agent to, disseminate a statement to such effect as part of its Annual Information for the year in which such event first occurs.

If any amendment is made to this Agreement, the Annual Information for the year in which such amendment is made (or in any notice or supplement provided to the MSRB) shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

(b) **Quarterly Information.** Subject to Section 9 of this Agreement, the School shall, or shall cause the Continuing Disclosure Agent to, disseminate the Quarterly Information (set forth in Exhibit I hereto) by delivering such Quarterly Information to the MSRB within 45 days after the close of each such quarter.

(c) **Other Information.** Subject to Section 9 of this Agreement, the School shall, or shall cause the Continuing Disclosure Agent to, disseminate the Other Information (set forth in Exhibit I hereto) in Prescribed Form and by the dates specified.

(d) **Disclosure in Prescribed Form.** The Borrower is required to deliver such information in Prescribed Form and by such time so that such entities receive the information by the dates specified.

Section 5. Material Events Disclosure. Subject to Section 9 of this Agreement, the Borrower hereby covenants that it will, or will cause the Continuing Disclosure Agent to, disseminate in a timely manner, not in excess of 10 business days after the occurrence of the event, Material Events Disclosure to the MSRB in Prescribed Form. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any Bonds or defeasance of any Bonds need not be given under this Agreement any earlier than the notice (if any) of such redemption or defeasance is given to the owners of the Bonds pursuant to the Indenture. From and after the Effective Date, the Borrower is required to deliver such Material Events Disclosure in the same manner as provided by Section 4 of this Agreement.

Section 6. Duty to Update EMMA/MSRB. The Borrower shall determine, in the manner it deems appropriate, whether there has occurred a change in the MSRB's e-mail address or filing procedures and requirements under EMMA each time it is required to file information with the MSRB.

Section 7. Consequences of Failure of the Borrower to Provide Information. The Borrower shall, or shall cause the Continuing Disclosure Agent to, give notice in a timely manner, not in excess of 10 business days after the occurrence of the event, to the MSRB in Prescribed Form of any failure to provide Annual Information Disclosure or Quarterly Information when the same is due hereunder.

In the event of a failure of the Borrower to comply with any provision of this Agreement, the Bondholder of any Bond may seek specific performance by court order to cause the Borrower to comply with its obligations under this Agreement. A default under this Agreement shall not be deemed an Event of Default under the Indenture or any other agreement, and the sole remedy under this Agreement in the event of any failure of the Borrower to comply with this Agreement shall be an action to compel performance.

If there exists a Continuing Disclosure Agent and such Continuing Disclosure Agent is unable to verify that any information required to be provided to the MSRB by Section 4 hereof by the date required therein, the Continuing Disclosure Agent shall send a notice to the MSRB and the Participating Underwriter in substantially the form attached hereto as Exhibit III.

Section 8. Amendments; Waiver. Notwithstanding any other provision of this Agreement, the Borrower and the Continuing Disclosure Agent, if any, may amend this Agreement, and any provision of this Agreement may be waived, if:

(i) The amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Borrower or type of business conducted;

(ii) This Agreement, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) The amendment or waiver does not materially impair the interests of the Bondholders of the Bonds, as determined either by parties unaffiliated with the Issuer or the Borrower (such as the Trustee) or by an approving vote of the Bondholders of the Bonds holding a majority of the aggregate principal amount of the Bonds (excluding Bonds held by or on behalf of the Borrower or any affiliate thereof pursuant to the terms of the Indenture at the time of the amendment; or

(iv) The amendment or waiver is otherwise permitted by the Rule.

Section 9. Termination of Undertaking. The Undertaking of the Borrower shall be terminated hereunder when the Borrower shall no longer have any legal liability for any obligation on or relating to the repayment of the Bonds. The Borrower shall, or shall cause the Continuing Disclosure Agent to, give notice to the MSRB in a timely manner and in Prescribed Form if this Section is applicable.

Section 10. Continuing Disclosure Agent.

(a) The Borrower has appointed School Improvement Partnership as its Continuing Disclosure Agent, and may, from time to time, appoint or engage a different Continuing Disclosure Agent to assist it in carrying out its obligations under this Agreement, and may discharge any such Continuing Disclosure Agent, with or without appointing a successor Continuing Disclosure Agent. The Continuing Disclosure Agent shall not be responsible in any manner for the content of any notice or report prepared by the Borrower pursuant to this Agreement. Notwithstanding anything to the contrary herein, the Continuing Disclosure Agent shall not be responsible for any determination as to the adequacy of the contents or format of any Annual Information Disclosure or Other Information Disclosure, and as to the materiality of any Material Event.

- (b) The duties of the Continuing Disclosure Agent are to
- (i) contact the Borrower at least 30 days before each Quarterly and Annual Report are due under the Continuing Disclosure Agreement;
 - (ii) send the draft Template to Borrower management, with those sections completed that can be obtained from publicly available data;
 - (iii) assist the Borrower in completing the Template by its required filing date;
 - (iv) once the completed Template and accompanying attachments are received by the Continuing Disclosure Agent, the Continuing Disclosure Agent will file such information on EMMA;
 - (v) e-mail Alert to the Borrower, the Participating Underwriter, any holder of at least 20% of the Bonds outstanding and the Trustee when any documents are filed on EMMA;
 - (vi) post notice on EMMA when a Borrower misses a Continuing Disclosure filing deadline;
 - (vii) post notice on EMMA when it receives notice of a Material Event from a Borrower; and
 - (viii) arrange investor calls in coordination with the Participating Underwriter as required under Section 16 hereof.

(c) The Continuing Disclosure Agent does not serve as an auditor, financial advisor, broker-dealer or underwriter, is not providing “advice” under Dodd-Frank Wall Street Reform and Consumer Protection Act and does not certify the completeness or accuracy of the Template or any information given by the Borrower to School Improvement Partnership for filing on EMMA.

(d) In the event of a failure of the Borrower to comply with any provision of this Agreement, the Bondholder of any Bond may seek specific performance by court order to cause the Borrower to comply with its obligations under this Agreement.

(e) The Continuing Disclosure Agent is due a one-time \$5,000 set-up fee at closing, and \$5,000 annually payable in advance on the Closing Date and on each anniversary of the Closing Date, subject to Section 9 of this Agreement.

Section 11. Indemnification. The Borrower will indemnify and save the Continuing Disclosure Agent, its officers, directors, employees and agents, harmless for, from and against any loss, expense and liabilities which the Continuing Disclosure Agent may incur arising out of or in the exercise or performance of the powers and duties of the Continuing Disclosure Agent pursuant to this Agreement and the applicable, related agency agreement, including the costs and expenses (including attorneys’ fees) of defending against any claim of liability, but excluding liabilities due to the gross negligence or willful misconduct of the Continuing Disclosure Agent. The obligations of the Borrower under this Section will survive resignation or removal of the Continuing Disclosure Agent and payment of the Bonds.

Section 12. Additional Information. Nothing in this Agreement shall be deemed to prevent the Borrower from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Information Disclosure, Quarterly Information Disclosure or notice of occurrence of a Material Event, in

addition to that which is required by this Agreement. If the Borrower chooses to include any information from any document or notice of occurrence of a Material Event in addition to that which is specifically required by this Agreement, the Borrower shall not have any obligation under this Agreement to update such information or include it in any future disclosure or notice of the occurrence of a Material Event.

Section 13. Beneficiaries. This Agreement has been executed in order to assist the Participating Underwriter in complying with the Rule; however, this Agreement shall inure solely to the benefit of the Borrower, the Continuing Disclosure Agent, if any, the Trustee and the Bondholders of the Bonds, and shall create no rights in any other person or entity.

Section 14. Recordkeeping. The Borrower shall maintain records of all Annual Information Disclosure, Quarterly Information Disclosure and Material Events Disclosure, including the content of such disclosure, the names of the entities with whom such disclosure was filed and the date of filing such disclosure.

Section 15. Past Compliance. The Borrower represents that it has complied with the requirements of each Continuing Disclosure Undertaking Agreement entered into by it pursuant to the Rule in connection with previous financings to which the Rule was applicable.

Section 16. Investor Calls. Within 15 days of the completed Annual Information Disclosure, the Continuing Disclosure Agent shall arrange a conference call with Registered Owners, Beneficial Owners, and potential purchasers of the Bonds, regarding performance of the Borrower for the period ending with the preceding June 30, and the then-current school year. The Continuing Disclosure Agent shall provide at least 14 days' notice of such calls to EMMA, and such call shall occur no later than January 31 of each year.

Section 17. Assignment. The Borrower shall not transfer its obligations under the Indenture, the Loan Agreement unless the transferee agrees to assume all obligations of the Borrower under this Agreement or to execute a Continuing Disclosure Undertaking Agreement under the Rule.

Section 18. Governing Law. This Agreement shall be governed by the laws of the State.

PHOENIX ACADEMY, INC., a North Carolina non-profit corporation

By: _____
Perry Flynn, Chairman

PHOENIX ACADEMY FOUNDATION, INC., a North Carolina non-profit corporation

By: _____
Paul J. Norcross, Chairman

Dated: as of June 30, 2017

SCHOOL IMPROVEMENT PARTNERSHIP, LLC, as Continuing Disclosure Agent

By: _____
Name:
Title:

Dated: as of June 30, 2017

[Signature Page to Continuing Disclosure Undertaking Agreement]

EXHIBIT I

Annual Information

- Audited Financial Statements.
- Calculation of Debt Service Coverage and Days Cash on Hand covenants.
- Updates to the following of Figures of Appendix A to the Limited Offering Memorandum: 7, 9, 10, 12 (including then-current nearby traditional public schools and charter schools but only for the most recent school year) and 16.
- Description of any planned or completed debt.
- Description of any union activity.
- Description of any changes to the School's key leadership.
- Description of any change of the School's management organization or any of such management organization's key leadership.
- Officer's Certificate in the form of Exhibit IV.

Quarterly Information

- Budget vs. actual, year-to-date, with a note describing any material deviations.
- Construction update, including percent complete, material deviations to project budget to date, and material changes to expected completion date.
- Enrollment by grade for the first and third quarters (on the State headcount determination date for the report for the first quarter), with a note describing any material deviation from budgeted enrollment.

Other Information

- Budget for the School, when adopted by its board--which adoption shall occur no later than 45 days after the end of the preceding Fiscal Year.
- Notice of any material litigation, when and to the extent it is made public.
- The annual "Report Card" or similar evaluation, if any, by the State Board of Education, within 30 days of public release of such information.
- Charter modification/renewal/termination, or other material written communications from Authorizer regarding the School's charter status, within 30 days of receipt of such information.

EXHIBIT II

EVENTS WITH RESPECT TO THE BONDS FOR WHICH MATERIAL EVENTS DISCLOSURE IS REQUIRED

1. Principal and interest payment delinquencies
2. Nonpayment-related defaults, if material
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Substitution of credit or liquidity providers, or their failure to perform
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security
7. Modifications to rights of security holders, if material
8. Bond calls, if material, and tender offers
9. Defeasances
10. Release, substitution or sale of property securing repayment of the securities, if material
11. Rating changes
12. Bankruptcy, insolvency, receivership or similar event of the Borrower^{**}
13. The consummation of a merger, consolidation or acquisition involving the Borrower or the sale of all or substantially all of the assets of the Borrower, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material

* This event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Borrower in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Borrower, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Borrower.

EXHIBIT III

**FORM OF
NOTICE TO THE MSRB OF FAILURE TO FILE [_____]**

Name of Issuer: Public Finance Authority

Name of Issue: Education Revenue Bonds (Phoenix Academy Project) Series 2017 in the aggregate principal amount of \$31,810,000 (the “Bonds”)

Name of Borrower: Phoenix Academy, Inc. and Phoenix Academy Foundation, Inc.

Date of Issuance: June 30, 2017

NOTICE IS HEREBY GIVEN that the Borrower has not provided [an _____] with respect to the above-named Bonds as required by the Continuing Disclosure Undertaking Agreement with respect to the Bonds. The Borrower has notified the Continuing Disclosure Agent that it anticipates [_____] will be filed by _____, 20__.

Dated: _____, 20__.

SCHOOL IMPROVEMENT PARTNERSHIP, LLC,
as Continuing Disclosure Agent

By: _____
Authorized Signatory

cc: Borrower

EXHIBIT IV

CERTIFICATE OF AUTHORIZED REPRESENTATIVE

I, _____, as the Authorized Representative for Phoenix Academy, Inc. and Phoenix Academy Foundation, Inc., hereby certifies as of the date hereof that other than as described herein:

1. The information contained in the Template prepared on the date hereof is true and correct in all material respects.
2. There have been no notices of potential adverse actions of which the school has been notified; adopted corrective plans of action, adverse actions or restrictions; charter non-renewals or revocations by the charter authorizer and status updates on appeals or actions taken by the school in response.
3. There have been no notices of investigations or actions taken by regulatory agencies (such as the SEC, for example).
4. There has been no litigation (including any matters of criminal misconduct) against the school, board members or employees to the extent such action is expected to materially affect operations and/or school finances.
5. There have been no casualty losses, to extent daily operations are disrupted for more than 7-10 days, with information about insurance coverage.
6. There have been no non-scheduled terminations by the board, or resignations of, key school administrative personnel and/or management contracts; as well as material changes in members of the board of directors (such as a mass resignation, for example).
7. There have been no building code, or other public health and safety violations in the school (or adjoining property) that disrupt operations in the school for more than 7-10 days.
8. The School is in compliance with the insurance requirements under the Bond Documents.
9. There are no material defaults which exist under the Bond Documents.

By: _____
Authorized Representative
Phoenix Academy, Inc. and Phoenix Academy
Foundation, Inc.

Dated: _____, 20__.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX G

BOOK ENTRY ONLY SYSTEM

Unless otherwise noted, the following description of the procedures and record keeping with respect to beneficial ownership interests in the Series 2017 Bonds, payment of interest and other payments on the Series 2017 Bonds to Participants or Beneficial Owners (as such terms are defined below) of the Series 2017 Bonds, confirmation and transfer of beneficial ownership interests in the Series 2017 Bonds and other Series 2017 Bond-related transactions by and between DTC, Participants and Beneficial Owners of the Series 2017 Bonds is based solely on information furnished by DTC to the Issuer for inclusion herein. Accordingly, the Issuer, the Borrowers and the Underwriter do not and cannot make any independent representations concerning these matters.

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Series 2017 Bonds, each in the aggregate principal amount of that maturity of Bonds, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Issuer, 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 Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

With regard to Bonds registered in the name of Cede & Co., as nominee of DTC, the Issuer, the Borrowers, and the Trustee will have no responsibility or obligation to any Direct Participant or to any Indirect Participant. Without limiting the preceding sentence, the Issuer, the Borrowers and the Trustee will have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co., or any Direct Participant or Indirect Participant with respect to any ownership interest in the Bonds,

(ii) the delivery to any Direct Participant or Indirect Participant or any other person, other than Cede & Co., as nominee of DTC, of any notice with respect to the Bonds, including any notice of redemption, (iii) the payment to any Direct Participant or Indirect Participant or any person, other than Cede & Co., as nominee of DTC, of any amount with respect to principal of, premium, if any, or interest on, the Bonds or (iv) any consent given by Cede & Co., as nominee of DTC, as registered owner of the Bonds.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Borrowers believes to be reliable, but neither the Issuer nor the Borrowers take responsibility for the accuracy thereof.

The Issuer, the Underwriter and the Borrowers cannot and do not give any assurances that DTC, the Participants or others will distribute payments of principal, redemption price and interest with respect to the Series 2017 Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices, notices of mandatory tender or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. None of the Issuer, the Underwriter or the Borrowers is responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Series 2017 Bonds or any error or delay relating thereto.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interests in the Series 2017 Bonds, payment of principal, redemption price and interest with respect to the Series 2017 Bonds to Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in the Series 2017 Bonds and other related transactions by and between DTC, the Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the Participants, as the case may be.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX H

FORM OF INVESTOR LETTER

[Investor's Letterhead]

June __, 2017

Public Finance Authority
22 E. Mifflin Street, Suite 900
Madison, Wisconsin 53703

U.S. Bank National Association
Jacksonville, Florida

Re: \$31,805,000 Public Finance Authority Education Revenue Bonds (Phoenix Academy Project) Series 2017

Ladies and Gentlemen:

The undersigned ("Investor") is the purchaser of the above-captioned bonds (collectively, the "Bonds") issued by the Public Finance Authority (the "Authority") pursuant to that certain Trust Indenture, dated as of June 1, 2017 (the "Indenture"), between the Authority, U.S. Bank National Association, as Trustee ("Trustee").

Capitalized terms not defined herein shall be given the meaning ascribed thereto in the Indenture.

Investor has been informed that the Authority will not sell or permit any Bonds to be sold to Investor unless Investor makes the representations, warranties and covenants herein and authorizes the Authority and the Trustee to rely thereon and such representations, warranties and covenants are made by the Investor AS AN INDUCEMENT to the sale of the Bonds to Investor.

In connection with the sale of the Bonds to Investor, Investor hereby makes the following representations upon which you are authorized to rely:

1. Investor has received and read the Limited Offering Memorandum dated June 23, 2017, and has been given access to copies of the Indenture (including the form of Bond) and the Loan Agreement, together with such other documents, agreements, certificates and instruments referenced therein or pertaining thereto or to the Bonds to which Investor is a party or deems necessary and appropriate in its evaluation of the Bonds.
2. Investor has sufficient knowledge and experience in financial and investment matters to be able to evaluate the risks and merits of an investment in the Bonds. Investor is able to bear the economic risk of, and an entire loss of, an investment in the Bonds.
3. Investor is acquiring the Bonds for its own account for investment purposes and not with a view to the resale or other distribution thereof, and Investor intends to hold the Bonds for its own account to maturity, and does not intend to dispose of all or any part of the Bonds.
4. Investor understands that it may be required to bear the risks of this investment in the Bonds for an indefinite time, since any sale prior to maturity may not be possible.

5. The Bonds are a financially suitable investment for Investor consistent with Investor's investment needs and objectives.
6. Investor is (i) an institutional "accredited investor" within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act of 1933, as amended (the "1933 Act") or (ii) a "Qualified Institutional Buyer" as defined in Rule 144A under the 1933 Act; Investor understands that the Bonds are not registered under the 1933 Act and that such registration is not legally required as of the date hereof; and further understands that the Bonds (A) are not being registered or otherwise qualified for sale under the "Blue Sky" laws and regulations of any state, (B) will not be listed in any stock or other securities exchange, (C) will not carry a rating from any rating service, and (D) will be delivered in a form which may not be readily marketable.
7. Investor acknowledges that the Bonds are not transferable except to another institutional accredited investor or a "Qualified Institutional Buyer" as provided by the Indenture, and Investor agrees to abide by the transfer restrictions set forth in the Indenture; and that Investor shall be solely and exclusively responsible for compliance with such transfer restrictions, including verifying that its transferee is an institutional accredited investor or a Qualified Institutional Buyer, as the case may be.
8. Investor acknowledges that it has either been supplied with or been given access to information, including financial statements and other financial information, to which a reasonable investor would attach significance in making investment decisions, and Investor has had the opportunity to ask questions and receive answers from knowledgeable individuals concerning Phoenix Academy, Inc. and Phoenix Academy Foundation, Inc., each a North Carolina nonprofit corporation (collectively the "Borrowers") and the Bonds and the security therefor so that, as a reasonable investor, the Investor has been able to make its decision to purchase the Bonds. Investor acknowledges that it has not relied upon the Authority for any information in connection with the Investor's purchase of the Bonds.
9. INVESTOR ACKNOWLEDGES THAT THE BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM REVENUES OF THE BORROWERS AND OTHER FUNDS PLEDGED FOR THEIR PAYMENT PURSUANT TO THE INDENTURE AND THE AUTHORITY SHALL NOT BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY FOR ALL OR ANY PORTION OF THE PRINCIPAL OF AND INTEREST ON THE BONDS.
10. Investor has made its own inquiry and analysis with respect to the Bonds and the security therefor (including, without limitation, a credit evaluation of the Borrowers and any guarantors, obligors or lessees of the Project, to the extent Investor deemed it necessary or appropriate), and other material factors affecting the security and payment of the Bonds. Investor is aware that the business of the Borrowers involves certain economic variables and risks that could adversely affect the security for the Bonds.

11. Investor agrees to indemnify and hold harmless each Issuer Indemnified Party (as defined in the Indenture) with respect to any claim asserted against any such Issuer Indemnified Party that is based upon Investor's breach of any representation, warranty or agreement made by it herein, other than any claim that is based upon the willful misconduct of the Issuer Indemnified Party seeking indemnification.

[investor]

By: _____

Name: _____

Title: _____

[THIS PAGE INTENTIONALLY LEFT BLANK]

