

Limited Offering Memorandum

NEW ISSUES—FULL BOOK-ENTRY

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2017A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Series 2017A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel further observes that interest on the Series 2017B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Bond Counsel is also of the opinion that interest on the Bonds is exempt from present State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

§[2017A Principal Amount]

**CALIFORNIA SCHOOL FINANCE AUTHORITY
CHARTER SCHOOL REVENUE BONDS
(MAGNOLIA PUBLIC SCHOOLS – OBLIGATED GROUP),
DRAW DOWN SERIES 2017A**

§[2017B Principal Amount]

**CALIFORNIA SCHOOL FINANCE AUTHORITY
CHARTER SCHOOL REVENUE BONDS
(MAGNOLIA PUBLIC SCHOOLS – OBLIGATED GROUP),
SERIES 2017B (TAXABLE)**

Dated: Date of Delivery

Due: _____ 1, as shown on inside cover

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

The California School Finance Authority Charter School Revenue Bonds (Magnolia Public Schools - Obligated Group) Draw Down Series 2017A in the aggregate principal amount of **§[2017A Principal Amount]** (the "Series 2017A Bonds") and the California School Finance Authority Charter School Revenue Bonds (Magnolia Public Schools - Obligated Group) Series 2017B (Taxable) in the aggregate principal amount of **§[2017B Principal Amount]** (the "Series 2017B Bonds" and, together with the Series 2017A Bonds, the "Bonds") will be issued by the California School Finance Authority (the "Authority") pursuant to an Indenture, dated as of [April 1, 2017] (the "Bond Indenture"), by and between the Authority and UMB Bank, National Association, as trustee (the "Trustee").

The Authority will loan a portion of the proceeds of the Bonds to Magnolia Properties Management, Inc. (the "Corporation" or the "Lessor"), a California nonprofit public benefit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"), pursuant to a Loan Agreement, dated as of [April 1, 2017] (the "Loan Agreement"), by and between the Authority and the Corporation, as the Borrower. The proceeds of the Bonds will be used to (1) to finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and/or equipping of charter school educational facilities known as (a) Magnolia Science Academy 1 – Reseda ("MSA-1"), located at 18238 Sherman Way in the City of Reseda, California, with associated properties located or to be located at [18214 and 18228 Sherman Way] in the City of Reseda, California, to be owned by MPM Sherman Way LLC, a California limited liability company, (b) Magnolia Science Academy – Santa Ana ("MSA-SA"), located at 2840 W 1st Street in the City of Santa Ana, California, to be owned by MPM Santa Ana LLC, a California limited liability company, and (c) Magnolia Science Academy – San Diego ("MSA-SD"), located at 6365 Lake Atlin Avenue in the City of San Diego, California, to be owned by MPM San Diego LLC, a California limited liability company, on land owned by San Diego Unified School District pursuant to a shared use agreement (collectively, the "Project"); (2) to pay certain expenses incurred in connection with the issuance of the Bonds; (3) to pay capitalized interest on the Bonds and/or related working capital; and (4) to fund a debt service reserve fund with respect to the Bonds and a repair and replacement fund. See "THE PROJECT" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

In connection with the delivery of the Bonds, Magnolia Educational and Research Foundation ("MERF" or the "Lessee"), a California nonprofit public benefit corporation and an entity described in Section 501(c)(3) of the Code, will enter into the Amended and Restated Lease Agreement, dated as of April 1, 2017 (the "Sherman Way Lease"), by and between MERF and MPM Sherman Way, LLC to finance the portion of the Project located at the Additional MSA-1 Facility (defined herein). In addition, MERF will enter into the San Diego Lease and Equipment Agreement, dated as of April 1, 2017 (the "San Diego Lease"), by and between MERF and MPM San Diego, LLC to finance the portion of the Project located at the San Diego Facility (defined herein). Further, MERF will enter into the Santa Ana Loan Agreement, dated as of April 1, 2017 (the "Santa Ana Loan Agreement"), by and between MERF and MPM Santa Ana, LLC to finance the portion of the Project located at the Santa Ana Facility (defined herein). During the term of the Sherman Way Lease, the San Diego Lease, and the Santa Ana Loan Agreement, the Facilities will be used, occupied and operated by MERF to operate the Schools.

Principal of the Bonds and the interest thereon are payable solely out of certain revenues and income received by the Authority or the Bond Trustee pursuant to the Loan Agreement and Obligation No. 1 and Obligation No. 2 relating to the Bonds, which are issued by the Corporation in an amount equal to the aggregate principal amount of the Bonds pursuant to a Master Indenture of Trust, dated as of [April 1, 2017] (the "Master Indenture"), by and among the Corporation, as the initial Obligated Group Representative (defined herein), the Members (defined herein) of the Obligated Group (defined herein) as of the date of delivery of the Bonds, and UMB Bank, National Association, as Master Trustee (the "Master Trustee"). The obligations of the Corporation under the Loan Agreement are payable from the Payments required to be deposited with the Bond Trustee pursuant to the Bond Indenture. Notwithstanding anything to the contrary contained in the Loan Agreement, the Corporation has certified that it will instruct or cause each Member, as applicable, to cause each School to pay Base Rent, or repayment obligations under a School Loan Agreement (defined herein), as applicable, directly to the [Master Trustee for deposit in the Gross Revenue Fund and subsequent transfer to the Bond Trustee for deposit to the Revenue Fund]. See "PLAN OF FINANCE" herein.

Interest on the Bonds will be payable semiannually on each [January 1 and July 1] of each year, commencing [January 1, 2018]. The Bonds are being issued as fully registered bonds and initially will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). DTC will act as securities depository for the Bonds. The Bonds are issuable only as fully registered Bonds in initial minimum denominations of \$25,000 and any integral multiple of \$5,000 in excess thereof in excess thereof. For so long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, (i) payments of the principal of and premium, if any, and interest on such Bonds will be made directly to Cede & Co. for payment to DTC participants for subsequent disbursement to the beneficial owners, and (ii) all notices, including any notice of redemption will be mailed only to Cede & Co. See "APPENDIX F – BOOK-ENTRY SYSTEM" herein.

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

THE PURCHASE AND HOLDING OF THE BONDS INVOLVE RISKS THAT MAY NOT BE APPROPRIATE FOR CERTAIN INVESTORS. THE BONDS ARE TO BE OFFERED AND SOLD (INCLUDING IN SECONDARY MARKET TRANSACTIONS) ONLY TO "QUALIFIED INSTITUTIONAL BUYERS" AND "ACCREDITED INVESTORS" (EACH AS DEFINED HEREIN). See "NOTICE TO INVESTORS" and "TRANSFER RESTRICTIONS."

THE BONDS ARE NOT AND SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA (THE "STATE"), OR ANY POLITICAL SUBDIVISION THEREOF, AND ARE NOT AND SHALL NOT BE DEEMED TO BE A PLEDGE OF THE FAITH AND CREDIT OF THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY, WHICH SHALL ONLY BE OBLIGATED TO PAY THE BONDS SOLELY FROM THE PAYMENTS AND FUNDS PROVIDED THEREFOR IN THE BOND INDENTURE. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER FOR THE BONDS OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. NOTHING IN THE BOND INDENTURE, THE ACT OR OTHERWISE IS AN UNDERTAKING BY THE AUTHORITY OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO FUND THE TRANSFERS DESCRIBED IN THE INTERCEPT NOTICE OR TO MAKE FUNDS AVAILABLE TO MERF ON BEHALF OF THE SCHOOLS IN ANY AMOUNT OR AT ANY TIME.

The Bonds are offered when, as and if issued by the Authority and received by the Underwriter, subject to prior sale, modification or withdrawal of the offer without notice, and subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, the approval of certain matters for the Authority by the Honorable Xavier Becerra, Attorney General of the State of California, the approval of certain matters for the Underwriter by Squire Patton Boggs (US) LLP, as Underwriter's Counsel and the approval of certain matters for the Corporation and MERF relating to the School by Musick Peeler & Garrett LLP, Los Angeles, California. It is expected that the Bonds in definitive form will be available for delivery through the facilities of DTC on or about _____, 2017.

OHSUSA:766496766.2

Honorable John Chiang
Treasurer of the State of California
as Agent for Sale

Dated: _____, 2017

[D.A. Davidson Logo]

MATURITY SCHEDULE

**[\$2017A Principal Amount]*
CALIFORNIA SCHOOL FINANCE AUTHORITY
CHARTER SCHOOL REVENUE BONDS
(MAGNOLIA PUBLIC SCHOOLS - OBLIGATED GROUP)
DRAW DOWN SERIES 2017A**

| <u>Maturity Date</u> | <u>Principal Amount*</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>CUSIP Number†</u> |
|----------------------|--------------------------|----------------------|--------------|----------------------|
|----------------------|--------------------------|----------------------|--------------|----------------------|

\$ _____ % Term Bonds – Yield _____ % due _____ 1, 20 ____; Price: ____; CUSIP _____⁽¹⁾
\$ _____ % Term Bonds – Yield _____ % due _____ 1, 20 ____; Price: ____; CUSIP _____⁽¹⁾

**[\$2017B Principal Amount]*
CALIFORNIA SCHOOL FINANCE AUTHORITY
CHARTER SCHOOL REVENUE BONDS
(MAGNOLIA PUBLIC SCHOOLS - OBLIGATED GROUP)
SERIES 2017B (TAXABLE)**

| <u>Maturity Date</u> | <u>Principal Amount*</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>CUSIP Number†</u> |
|----------------------|--------------------------|----------------------|--------------|----------------------|
|----------------------|--------------------------|----------------------|--------------|----------------------|

\$ _____ % Term Bonds – Yield _____ % due _____ 1, 20 ____; Price: ____; CUSIP _____⁽¹⁾
\$ _____ % Term Bonds – Yield _____ % due _____ 1, 20 ____; Price: ____; CUSIP _____⁽¹⁾

* Preliminary; subject to change.

⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriter, the Authority, MERF, the Corporation or the School is responsible for the selection or correctness of the CUSIP numbers set forth herein.

MAGNOLIA PUBLIC SCHOOLS

[Image To Come]

CALIFORNIA SCHOOL FINANCE AUTHORITY

Members

John Chiang
Treasurer, State of California

Tom Torlakson
Superintendent of Public Instruction, State of California

Michael Cohen
Director of Finance, State of California

Officer

Katrina Johantgen
Executive Director

Counsel to the Authority

Xavier Becerra
Attorney General of the State of California

MAGNOLIA PROPERTIES MANAGEMENT, INC.

| | |
|----------------------|-------------------------|
| Caprice Young, Ph.D. | President |
| Serdar Orazov | Secretary |
| Nanie Montijo | Chief Financial Officer |

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION

| | |
|--------------------------|-----------|
| Noel Russell-Unterburger | President |
| Serdar Orazov | Treasurer |
| Umit Yapanel, Ph.D. | Secretary |
| Saken Sherkhanov, Ph.D. | Director |
| Nguyen Huynh | Director |
| Salih Dikbas, Ph.D. | Director |
| Diane Gonzalez | Member |
| Remzi Oten, Ph.D. | Member |
| Rabbi Haim Beliak | Member |

PROFESSIONAL SERVICES

Bond Counsel and Disclosure Counsel

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Underwriter's Counsel

Squire Patton Boggs (US) LLP
Los Angeles, California

Borrower's Counsel

Musick Peeler & Garrett LLP
Los Angeles, California

Trustee

UMB Bank, National Association
St. Louis, Missouri

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

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

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

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

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFERING MEMORANDUM

Certain statements included or incorporated by reference in this Limited Offering Memorandum constitute “forward-looking statements.” Such statements generally are identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or other similar words. Such forward-looking statements include but are not limited to certain statements contained in the information under the headings “CERTAIN RISK FACTORS,” “APPENDIX A – CERTAIN INFORMATION REGARDING THE PROJECT, MERF, THE CORPORATION, AND THE SCHOOLS” in this Limited Offering Memorandum. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. None of the Authority, the Corporation or MERF plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

NOTICE TO INVESTORS

The Bonds are to be offered and sold (including in secondary market transactions) only to Qualified Institutional Buyers and Accredited Investors (each as defined herein). The Bond Indenture under which the Bonds will be issued contains provisions limiting transfers of the Bonds and beneficial ownership interests in the Bonds only to Qualified Institutional Buyers and Accredited Investors. Each initial beneficial owner of the Bonds shall agree to provide an executed Investor Letter in the form attached as Appendix H hereto. In addition, the face of each Bond will contain a legend indicating that it is subject to transfer restrictions as set forth in the Bond Indenture.

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

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

2. That it is a Qualified Institutional Buyer or an Accredited Investor and that it is purchasing the Bonds for its own account and not with a view to, or for offer or sale in connection with any distribution thereof in violation of the Securities Act of 1933, as amended (the "Securities Act of 1933") or other applicable securities laws;

3. That the Bonds (a) have not been registered under the Securities Act of 1933 and are not registered or otherwise qualified for sale under the "blue sky" laws and regulations of any state, (b) will not be listed on any stock or other securities exchange, and (c) may not be readily marketable; and

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

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

6. That the Authority, the Corporation, MERF, the Bond Trustee, the Underwriter and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

See "TRANSFER RESTRICTIONS" herein.

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INTRODUCTION

General

This Limited Offering Memorandum, including the cover page, the inside front cover page, and Appendices hereto (the “Limited Offering Memorandum”), is provided to furnish information with respect to the sale and delivery of the California School Finance Authority Charter School Revenue Bonds (Magnolia Public Schools – Obligated Group), Draw Down Series 2017A, in the aggregate principal amount of §[2017A Principal Amount] (the “Series 2017A Bonds”) and the California School Finance Authority Charter School Revenue Bonds (Magnolia Public Schools – Obligated Group), Series 2017B (Taxable), in the aggregate principal amount of §[2017B Principal Amount] (the “Series 2017B Bonds” and, together with the Series 2017A Bonds, the “Bonds”) issued by the California School Finance Authority (the “Authority”).

The Bonds

The Bonds will be issued pursuant to Chapter 18 (commencing with Section 17170) of Part 10 of Division 1 of Title 1 of the Education Code of the State of California (the “Act”) and an Indenture, dated as of [April 1, 2017] (the “Bond Indenture”), by and between the Authority and UMB Bank, National Association, as trustee (the “Bond Trustee”). The Bonds will bear interest on [January 1 and July 1] of each year, commencing [January 1, 2018] (each, an “Interest Payment Date”) and will be subject to optional, mandatory and extraordinary redemption prior to maturity. See “THE BONDS – Redemption” herein.

The Authority will loan a portion of the proceeds of the Bonds to Magnolia Properties Management, Inc. (the “Corporation” or the “Lessor”), a California nonprofit public benefit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”), pursuant to a Loan Agreement, dated as of [April 1, 2017] (the “Loan Agreement”), by and between the Authority and the Corporation.

Principal of the Bonds and the interest thereon are payable solely out of certain revenues and income received by the Authority or the Bond Trustee pursuant to the Loan Agreement and Obligation No. 1 relating to the Bonds (“Obligation No. 1”) and Obligation No. 2 relating to the Bonds (“Obligation No. 2”), which are issued by the Corporation in an amount equal to the aggregate principal amount of the Bonds pursuant to a Master Indenture of Trust, dated as of [April 1, 2017] (the “Master Indenture”), by and among the Corporation, the Members (defined herein) of the Obligated Group (defined herein) as of the date of delivery of the Bonds, and UMB Bank, National Association, as Master Trustee (the “Master Trustee”). See “THE BONDS” and “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein.

The Bonds will be issued in initial minimum denominations of \$25,000 and any integral multiple of \$5,000 in excess thereof and in fully registered form only and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”) and beneficial ownership interests in the Bonds are to be sold (including secondary market transactions) only to Qualified Institutional Buyers and Accredited Investors. Pursuant to the Bond Indenture, the term (i) “Qualified

Institutional Buyer” means a “qualified institutional buyer” as defined in Rule 144A promulgated under the Securities Act of 1933, as amended (the “Securities Act of 1933”) and the term (ii) “Accredited Investor” means an “accredited investor” as defined in Regulation D promulgated under the Securities Act of 1933. The Bond Indenture and the Bonds contain provisions limiting transfers of the Bonds and beneficial ownership interests in the Bonds to Qualified Institutional Buyers and Accredited Investors. The face of each Bond contains a legend indicating that such Bond is subject to the transfer restrictions set forth in the Bond Indenture. See “TRANSFER RESTRICTIONS” and “CERTAIN RISK FACTORS – Purchases and Transfers of Bonds Restricted to Qualified Institutional Buyers and Accredited Investors.”

Authority for Issuance

The Bonds will be issued by the Authority pursuant to the Act, a resolution of the Authority, and the Bond Indenture. See “THE AUTHORITY.”

Use of Proceeds

The proceeds of the Bonds will be used to (1) to finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and/or equipping of charter school educational facilities known as (a) Magnolia Science Academy 1 – Reseda (“MSA-1”), located at 18238 Sherman Way in the City of Reseda, California, with associated properties located or to be located at [18214 and 18228 Sherman Way] in the City of Reseda, California, to be owned by MPM Sherman Way LLC, a California limited liability company, (b) Magnolia Science Academy – Santa Ana (“MSA-SA”), located at 2840 W 1st Street in the City of Santa Ana, California, to be owned by MPM Santa Ana LLC, a California limited liability company, and (c) Magnolia Science Academy – San Diego (“MSA-SD”), located at 6365 Lake Atlin Avenue in the City of San Diego, California, to be owned by MPM San Diego LLC, a California limited liability company, on land owned by San Diego Unified School District pursuant to a shared use agreement (collectively, the “Project”); (2) to pay certain expenses incurred in connection with the issuance of the Bonds; (3) to pay capitalized interest on the Bonds and/or related working capital; and (4) to fund a debt service reserve fund with respect to the Bonds and a repair and replacement fund. See “THE PROJECT” and “ESTIMATED SOURCES AND USES OF FUNDS” herein

In connection with the delivery of the Bonds, Magnolia Educational and Research Foundation (“MERF” or the “Lessee”), a California nonprofit public benefit corporation and an entity described in Section 501(c)(3) of the Code, will enter into the Amended and Restated Lease Agreement, dated as of April 1, 2017 (the “Sherman Way Lease”), by and between MERF and MPM Sherman Way, LLC to finance the portion of the Project located at the Additional MSA-1 Facility (defined herein). In addition, MERF will enter into the San Diego Lease and Equipment Agreement, dated as of April 1, 2017 (the “San Diego Lease”), by and between MERF and MPM San Diego, LLC to finance the portion of the Project located at the San Diego Facility (defined herein). Further, MERF will enter into the Santa Ana Loan Agreement, dated as of April 1, 2017 (the “Santa Ana Loan Agreement”), by and between MERF and MPM Santa Ana, LLC to finance the portion of the Project located at the Santa Ana Facility (defined herein). During the term of the Sherman Way Lease, the San Diego Lease and Equipment Agreement, and the Santa Ana Loan Agreement, the Facilities will be used, occupied and operated by MERF to operate MSA-1, MSA-SD, and MSA-SA, respectively.

Security for the Bonds

The Bonds and the interest thereon are payable solely from (i) all moneys (except any money received to be used for the payment of Administrative Fees and Expenses) received by the Bond Trustee

with respect to the Intercept, (ii) all moneys, if any, received by the Bond Trustee directly from, or on behalf of, the Borrower, pursuant to the Loan Agreement (excluding Additional Payments not directed to be deposited into any fund or account created and held under the Bond Indenture) and (iii) all income derived from the investment of any money in any fund or account established pursuant to the Bond Indenture.

The Corporation

The Corporation is a California nonprofit benefit corporation formed to support the Foundation. The Corporation has received a determination letter from the Internal Revenue Service recognizing it as an organization described in Section 501(c)(3) of the Code. MERF designates the members of the board of directors of the Corporation. See “APPENDIX A – CERTAIN INFORMATION REGARDING THE PROJECT, MERF, THE CORPORATION, AND THE SCHOOLS – GENERAL INFORMATION – Magnolia Properties Management, Inc.”

Magnolia Educational and Research Foundation

MERF is a California nonprofit public benefit corporation formed in August 1997, and headquartered in Los Angeles, California. MERF has received a determination letter from the Internal Revenue Service recognizing it as an organization described in Section 501(c)(3) of the Code. MERF operates under the name Magnolia Public Schools.

The vision of MERF is to inspire students to choose career paths in science and technology. In the fall of 2002, MERF established MSA-1 as its first charter school. Since then, MERF has established ten additional charter schools, including MSA-SD in 2006 and MSA-SA in 2009, with the goal of providing innovative and high-quality education to their respective communities in Southern California. MERF operates ten charter schools in California, including eight in Los Angeles County, one in the City of Santa Ana, and one school in the City of San Diego. The total enrollment for MERF’s schools in the 2016-17 school year is _____. MERF expects to establish additional charter schools throughout California.

For additional information on MERF and the Schools, see “APPENDIX A – CERTAIN INFORMATION REGARDING THE PROJECT, MERF, THE CORPORATION, AND THE SCHOOLS” herein.

The Authorizers

MSA-1. MSA-1 opened in September 2002 pursuant to a charter approved by the Los Angeles Unified School District. MSA-1 received renewal charter authorizations in _____ 2006 and _____ 2011. In December 2016, the Board of Education of LAUSD declined to renew MERF’s charter renewal petition for MSA-1, Magnolia Science Academy-2 (“MSA-2”), and Magnolia Science Academy-3 (“MSA-3”). MERF submitted an appeal of this decision to the Los Angeles County Board of Education. Upon review of MERF’s petition, the Los Angeles County Board of Education approved the charter renewal petitions for MSA-1, Magnolia Science Academy-2, and Magnolia Science Academy-3. The term of the current charter for MSA-1 is scheduled to end on June 30, 2022. See “APPENDIX A – CERTAIN INFORMATION REGARDING THE PROJECT, MERF, THE CORPORATION, AND THE SCHOOLS” herein.

MSA-SA. The school presently known as MSA-SA was original operated by Magnolia Public Schools as Pacific Technology School-Santa Ana (“PTS-Santa Ana”) pursuant to a charter approved by the California Department of Education in 2009. In 2013, MERF submitted a charter petition to the Santa Ana Unified School District in May 2014. Upon its approval, the team at MSA-SA consisted of, among

others, the majority of the PTS-Santa Ana staff and parents, and other professionals and volunteers from different backgrounds including educators, scientists, engineers and businessmen. Upon review of MERF's petition, the State Board of Education approved the charter renewal petition for MSA-SA. The term of the current charter for MSA-SA is scheduled to end on June 30, 2019. See "APPENDIX A – CERTAIN INFORMATION REGARDING THE PROJECT, MERF, THE CORPORATION, AND THE SCHOOLS" herein.

MSA-SD. MSA-SD is a charter school serving grades six through eight with a mission to provide a college preparatory educational program emphasizing STEM in a safe environment that cultivates respect for self and others. MSA-SD is located in the City of San Diego, California pursuant to a charter approved by the San Diego Unified School District. MSA-SD opened in September 2005 and received a charter renewal in _____, 2009. In October 2014, MERF submitted a charter renewal petition on behalf of MSA-SD to the San Diego Unified School District. The term of the current charter for MSA-SD is scheduled to end on June 30, 2020. See "APPENDIX A – CERTAIN INFORMATION REGARDING THE PROJECT, MERF, THE CORPORATION, AND THE SCHOOLS" herein.

The Obligated Group

Pursuant to the Master Indenture, the Corporation will serve as the initial Obligated Group Representative. In addition, the Corporation, MPM Sherman Way LLC, a limited liability company ("MPM Sherman Way"), MPM San Diego LLC, a California limited liability company ("MPM San Diego"), and MPM Santa Ana LLC, a California limited liability company ("MPM Santa Ana") will serve as the initial Members of the Obligated Group. Pursuant to the Master Indenture, the term "Members" will include each signatory to the Master Indenture (excluding the Master Trustee) and, together with each other Person which is obligated under the Master Indenture to the extent and in accordance with the provisions of the Master Indenture, from and after the date upon which such Person joins the Obligated Group, but excluding any Member which withdraws from the Obligated Group to the extent and in accordance with the provisions of the Master Indenture, from and after the date of such withdrawal. See "THE MASTER INDENTURE – Withdrawal from the Obligated Group" herein.

Security for the Bonds

General. The Bonds and the interest thereon are payable solely out of certain revenues and income received by the Authority or the Bond Trustee pursuant to the Loan Agreement, the Intercept (as defined below), Obligation No. 1 and Obligation No. 2 each issued by the Corporation, the Bond Indenture, and the Master Indenture.

State Intercept Program. As additional security for the Bonds, in connection with the issuance of the Bonds, MERF on behalf of any School will provide instructions to the State Controller's Office (the "Controller") to make apportionments from the Controller, pursuant to the Education Code (or any successor provision) and the Intercept Notice, of amounts specified in the Intercept Notice and payable directly to the Bond Trustee (each, an "Intercept") on a monthly basis with respect to and on behalf of MERF in amounts provided in the Intercept Notice specifying a transfer schedule for the payment directly to the Bond Trustee of one or more of the following: (i) principal of the Bonds, (ii) interest on the Bonds and (iii) other costs necessary or incidental to financing pursuant to the Act relating to the Bonds, including Additional Payments, in substantially the form set forth in the applicable Lease or School Loan Agreement (defined herein), as the same may be amended, supplemented or restated from time to time. Funds subject to this Intercept by the Controller are limited to funding apportioned to MERF for purposes of the charter school block grant or the Local Control Funding Formula pursuant to Section 42238.02 of the Education Code, as implemented by Section 42238.03 of the Education Code. Pursuant to the Master Indenture, the term "School Loan Agreement" means the MSA-SA School Loan Agreement, and each

other loan agreement pursuant to which MERF borrows money from a Member of the Obligated Group for the benefit of a Facility at which a school is located.

Under the laws of the State of California (the "State"), no party, including the Authority, MERF, the Corporation or any of their respective creditors, will have any claim to the money apportioned or to be apportioned to the Bond Trustee by the Controller pursuant to the Intercept. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" and "CERTAIN RISK FACTORS – Bankruptcy" below. Pursuant to the Bond Indenture, all Payments deposited with the Bond Trustee will be held in trust for the benefit of the Holders from time to time of the Bonds but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes set forth in the Bond Indenture, including if necessary, the payment of debt service on the Bonds.

Pursuant to the Bond Indenture, the Authority assigns to the Bond Trustee certain of the Authority's rights under the Loan Agreement, including the right to receive payments thereunder, but excluding any deposits to the Rebate Fund and other Retained Rights (as defined in the Bond Indenture). See "APPENDIX C – SUMMARY OF PRINCIPAL FINANCING DOCUMENTS – Pledge and Assignment" attached hereto. Pursuant to the Loan Agreement, the Corporation covenants to cause MERF to deliver the Intercept Notices to the Controller. Notwithstanding anything to the contrary in the Loan Agreement, the Corporation covenants to instruct or cause each Member, as applicable, to cause each School to pay Base Rent, or repayment obligations under a School Loan Agreement, as applicable, directly to the [Master Trustee for deposit in the Gross Revenue Fund and subsequent transfer to the Bond Trustee for deposit to the Revenue Fund]. [In addition, pursuant to the Mortgages (as defined herein), the Lessee grants to the Master Trustee a first priority lien on the Facilities.] See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

The Leases and the Santa Ana Loan Agreement. In connection with the delivery of the Bonds, MERF will enter into that certain Amended and Restated Lease Agreement, dated as of April 1, 2017 (the "MSA-1 Lease"), by and between MPM Sherman Way, a Member of the Obligated Group, as Landlord and MERF, as lessee thereunder. In connection with the delivery of the Bonds, MERF will enter into that certain [San Diego Lease and Equipment Agreement], dated as of April 1, 2017 ("MSA-SD Lease"), by and between MPM San Diego a Member of the Obligated Group, as Landlord and MERF, as lessee thereunder. Pursuant to the Master Indenture, the term "Lease" means, each individually, and "Leases" means, collectively, the lease agreements or sublease agreements pursuant to which MERF leases a Facility at which a School is located from a Member of the Obligated Group[; provided, however, a lease agreement or sublease agreement pursuant to which MERF leases a Facility for the benefit of a School whose students in attendance at such Facility constitute 25% or fewer students of all students enrolled at such Facility subject to such lease or sublease, shall not be considered a Lease for purposes of the Master Indenture]. As of the date of execution and delivery hereof, the MSA-1 Lease and the MSA-SD Lease shall be the initial Leases. See "THE LEASES" herein.

Subject to the provisions of each Lease, MERF's obligation to pay the Rent will be a special obligation limited solely to, and not in excess of, the Gross Income of the School (defined below), and under no circumstances will MERF be required to advance any moneys derived from any source of income other than, or pay Rent which is in excess of, the Gross Income of the School, nor will any other funds or property of MERF be liable for the payment of the Rent. See "THE LEASES" herein.

[Extraordinary Monthly Rent. MERF will pay Rent under each Lease solely from revenues directly or indirectly derived by MERF's operation of the School named therein. A shortfall in payment of Base Rent when due from revenues of the School will result in additional Rent payments becoming due under such Lease. In the event that MERF receives a notice (each an "Extraordinary Monthly Rent Notice") from either the Lessor or the Master Trustee, stating the Master Trustee has not received the

payment of rent with respect to a Related Project (as defined in the Master Indenture) on or before the date that such required payment is due, then Lessee shall pay the Extraordinary Monthly Rent to the Master Trustee within three (3) business days after MERF's receipt of the Extraordinary Monthly Rent Notice. Under each Lease, the Lessor covenants to immediately provide MERF with a copy of any Extraordinary Monthly Rent Notice received by the Lessor pursuant to the terms of the Master Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" and "THE LEASES – Payment of Rent" and "APPENDIX C – SUMMARY OF PRINCIPAL FINANCING DOCUMENTS" attached hereto.

Principal of and interest on the Bonds is payable solely from Payments (defined herein). Neither the State nor the Authority shall be obligated to pay the Bonds or the interest thereon except from certain Payments set forth herein, and neither the faith and credit nor the taxing power of the State or of any political subdivision thereof shall be pledged to the payment of the principal of or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Authority will not be treated or deemed as having incurred any liability under the Master Indenture or by reason of or in connection with the Bond Indenture, the Loan Agreement or any of the transactions contemplated by any thereof except to the extent payable from certain Payments set forth herein or other amounts available therefor under and pursuant to the Bond Indenture. Nevertheless, the Authority may, but shall not be required to, advance for any of the purposes of the Bond Indenture any funds of the Authority which may be made available to it for such purposes. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

For information regarding the Corporation, MERF and the Schools, see "APPENDIX A – CERTAIN INFORMATION REGARDING THE PROJECT, MERF, THE CORPORATION, AND THE SCHOOLS."

Mortgages. Pursuant to the Master Indenture, each Member will enter into a Mortgage (defined herein) for the Facilities to secure the obligations of the Member under the Master Indenture. Each Member, respectively, agrees to supplement such deed of trust or mortgage or to execute and deliver each other deeds of trust or mortgages as may be necessary from time to time to grant to the Master Trustee a first priority Lien on any Property, Plant and Equipment of the Member, subject to certain Permitted Liens. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Mortgages" herein.

Pursuant to each Lease, MERF acknowledges and consents to the assignment by the Lessor of such Lessor's rights under such Lease to the Master Trustee under the Master Indenture and covenants and agrees to deposit all Base Rent and Additional Rent with the Master Trustee under the Master Indenture. See "THE LEASES" herein. The Mortgaged Property generally consists of all real property and personal property that constitute the Facilities at which MERF operates the School. Pursuant to the Master Indenture and in connection with the execution and delivery of the Mortgages, the Corporation has covenanted to obtain, or to cause to be obtained, at its own cost and expense, ALTA policies of lender's title insurance on its respective Facilities, in an aggregate amount not less than the aggregate principal amount of the Related Bonds, insuring the Master Trustee, insuring the leasehold or fee title interests, as applicable, of the respective Members to the Facilities, subject only to Permitted Liens, issued by a title insurance company qualified to do business in the State. See "APPENDIX C – SUMMARY OF PRINCIPAL FINANCING DOCUMENTS" attached hereto.

Reserve Account. Under the Bond Indenture, the Bond Trustee will establish the Reserve Account within the Revenue Fund. All amounts in the Reserve Account are required to be used and withdrawn by the Bond Trustee solely for the purpose of making up any deficiency in the Interest Account or Principal Account that exists on the date when monies on deposit in the Interest Account or

the Principal Account are required to be applied, as provided in the Bond Indenture, or (together with any other moneys available therefor) for the payment or redemption of all Bonds then Outstanding. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – BOND INDENTURE – Reserve Account” herein.

Outstanding Obligations. [On June 24, 2014, the Authority issued its California School Finance Authority School Facility Revenue Bonds (Magnolia Science Academy-1, Reseda Project) Series 2014A, in the aggregate principal amount of \$5,675,000 (the “2014A Bonds”) and its California School Finance Authority School Facility Revenue Bonds (Magnolia Science Academy-1, Reseda Project) Series 2014B (Taxable), in the aggregate principal amount of \$345,000 (the “2014B Bonds” and, together with the 2014A Bonds, the “2014 Bonds”). Pursuant to a Loan Agreement, dated as of June 1, 2014, the Authority loaned the proceeds of the 2014 Bonds to MPM Sherman Way, as borrower to (i) finance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and equipping of the land and facilities located at 18238 Sherman Way, Reseda, California, to be owned by the Corporation and leased to MERF, for use and occupancy by MSA-1, (ii) to fund a deposit to a repair and replacement fund, and (iii) to pay the cost of certain expenses incurred in connection with the issuance of the 2014 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” and “CERTAIN RISK FACTORS – Additional Indebtedness and Additional School Indebtedness.”]

See “APPENDIX A – CERTAIN INFORMATION REGARDING THE PROJECT, MERF, THE CORPORATION, AND THE SCHOOLS – Debt Summary” and “APPENDIX B – CONSOLIDATED AUDITED FINANCIAL STATEMENTS OF MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION FOR THE FISCAL YEAR ENDED JUNE 30, 2016” attached hereto.

The Corporation does not currently have any outstanding obligations with a lien on the Payments or the assets pledged under the Bond Indenture prior to or on a parity with the lien of the Bond Indenture. Pursuant to the Master Indenture, additional Obligations (defined below) may be issued from time to time on parity with Obligation No. 1 and Obligation No. 2. The See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” and “CERTAIN RISK FACTORS – Additional Indebtedness and Additional School Indebtedness.”

Pursuant to the Master Indenture, the term “Obligations” means any obligation of the Obligated Group issued under the Master Indenture, which shall be in the form set forth in a Related Supplement, including, but not limited to, bonds, obligations, debentures, reimbursement agreements, Financial Products Agreements, loan agreements or leases. Reference to a Series of Obligations or to Obligations of a Series means Obligations or Series of Obligations issued pursuant to a single Related Supplement, unless otherwise specified in the Related Supplement. See “APPENDIX C – SUMMARY OF PRINCIPAL FINANCING DOCUMENTS – DEFINITIONS” attached hereto.

Redemption

The Bonds will be subject to extraordinary optional redemption, optional redemption, and mandatory sinking fund redemption as described below under “THE BONDS – Redemption.”

Certain Risk Factors

The Bonds may not be a suitable investment for all investors. Prospective purchasers of the Bonds must read this entire Limited Offering Memorandum, including the appendices and the information under the section “CERTAIN RISK FACTORS,” to obtain information essential to making an informed investment decision in the Bonds.

Miscellaneous

This Limited Offering Memorandum contains brief descriptions of, among other things, the Bonds, the Master Indenture, the Mortgage, the Deed of Trust, the Bond Indenture, the Loan Agreement, the Leases, the Santa Ana Loan Agreement, the Authority, MERF, the Corporation, the Schools and the Obligated Group. All references in this Limited Offering Memorandum to documents are qualified in their entirety by reference to such documents, and references to the Bonds are qualified in their entirety by reference to the form of the Bonds included in the Bond Indenture. MERF maintains a website providing additional information about itself and the operation of the Schools. The information on such website is not included as part of, or incorporated by any reference in, this Limited Offering Memorandum. Any capitalized terms in this Limited Offering Memorandum that are not defined herein will have such meaning as given to them in the Master Indenture or Bond Indenture, as applicable. See “APPENDIX C – SUMMARY OF PRINCIPAL FINANCING DOCUMENTS” attached hereto.

THE AUTHORITY

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

THE BONDS

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

General

The Bonds are being issued pursuant to the Bond Indenture in the aggregate principal amount set forth on the cover of this Limited Offering Memorandum. The Bonds will initially be delivered as registered Bonds in minimum denominations of \$25,000 and any integral multiple of \$5,000 in excess thereof (“Authorized Denominations”), and will be transferable and exchangeable only as set forth in the Bond Indenture and as described herein; provided that, at such time as the Corporation provides to the Authority and the Bond Trustee written evidence to the effect that if any of Fitch Ratings, Inc. (“Fitch”), Standard & Poor’s Global Ratings (“S&P”), or Moody’s Investors Service (“Moody’s”) has rated the Bonds “BBB-” or “Baa3” or higher, then “Authorized Denominations” will mean \$5,000 and any integral multiple thereof. The Bonds will be dated the date of issuance and will bear interest at the rates set forth on the inside front cover page hereof from their dated date. Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable in arrears on each Interest Payment Date. The Bonds will mature in the amounts and in each of the years as set forth on the inside front cover page hereof.

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

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

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

Book-Entry Only System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities without coupons in Authorized Denominations. The Bonds will be 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 a Series of Bonds set forth on the inside front cover page of this Limited Offering Memorandum, and will be deposited with DTC. For additional information regarding DTC and its book-entry only system, see "APPENDIX F – BOOK-ENTRY SYSTEM" attached hereto.

Transfer of Bonds

So long as the Bonds are subject to a system of book-entry only transfers, beneficial ownership interests in the Bonds may not be purchased by, or transferred to, any person except a Qualified Institutional Buyer or an Accredited Investor. During any period of time when the Bonds are not subject to a system of book-entry only transfers, the registration of any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of the Bond Indenture, by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Bond Trustee, duly executed. The Bond Trustee will conclusively rely upon such written instrument of transfer as evidence that the transferee is a Qualified Institutional Buyer or an Accredited Investor, each as defined in the Bond Indenture.

Whenever any Bond or Bonds is required to be surrendered for transfer, the Authority will execute and the Bond Trustee will authenticate and deliver a new Bond or Bonds, of the same series and maturity and for a like aggregate principal amount of Authorized Denominations. The Bond Trustee will require the payment by the Holder requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer, and there shall be no other charge to any Holder for any such transfer. The Bond Trustee will not be required to register the transfer of any Bond which has been

selected for redemption in whole or in part, from and after the day of mailing of a notice of redemption of such Bond selected for redemption in whole or in part as provided in in the Bond Indenture or during the period established by the Bond Trustee for selection of Bonds for redemption. The Bonds are subject to certain transfer restrictions under the Bond Indenture, as described herein under “TRANSFER RESTRICTIONS.”

Exchange of Bonds

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

Redemption

Redemption Fund. Pursuant to the Bond Indenture, the Bond Trustee will establish and maintain a special fund designated as the Redemption Fund. Within the Redemption Fund, the Bond Trustee will establish separate accounts designated as the Optional Redemption Account and the Special Redemption Account. The Bond Trustee is required to accept all moneys deposited for redemption and deposit such moneys into the Optional Redemption Account or the Special Redemption Account, as applicable. All amounts deposited in the Optional Redemption Account and in the Special Redemption Account are required to be accepted and used and withdrawn by the Bond Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in the Bond Indenture, at the next succeeding date of redemption for which notice has been given and at the redemption prices then applicable to redemptions from the Optional Redemption Account and the Special Redemption Account, respectively; provided that, at any time prior to giving such notice of redemption, the Bond Trustee will, upon written direction of the Borrower, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Borrower may direct, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to such Bonds (or, if such Bonds are not then subject to redemption, the par value of such Bonds); and provided further that in the case of the Optional Redemption Account in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may be transferred to the Revenue Fund and credited against Loan Repayments in order of their due date as set forth in a Request of the Borrower.

Optional Redemption. The Bonds are subject to redemption prior to their respective stated maturities, at the option of the Borrower, from any amounts in the Redemption Fund, in whole or in part on any date on or after [July 1, 2024], at a redemption price equal to 100% of the principal amount of Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

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

Extraordinary Optional Construction Related Redemption. The Bonds are subject to redemption in part prior to their stated maturity, on any date, at the option of the Borrower, from amounts transferred from the Project Fund following Completion of the Project as provided in Section 5.08(b) hereof at a redemption price equal to the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

Extraordinary Mandatory Redemption from Unspent Project Proceeds. The Bonds are subject to redemption, as a whole or in part, prior to their stated maturity, on any date, from unspent proceeds of the Bonds transferred to the Redemption Fund from the Project Fund in accordance with the Bond Indenture, at a redemption price equal to 100% of the principal amount of the Bonds called for redemption plus interest accrued thereon to the date fixed for redemption, on the earliest date for which notice of redemption can reasonably be given in accordance with the Bond Indenture.

Extraordinary Mandatory Redemption Due to Change of Use. The Bonds are subject to redemption prior to their stated maturity, as a whole or in part, on any date from Loan prepayments made by the Borrower in connection with the cessation of operation of a charter school at any of the Facilities, at a redemption price equal to the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium. See “CERTAIN RISK FACTORS – Default Under the Leases; No Assurance Regarding Subsequent Tenant” and “ – No Assurance of Lease Renewal” herein.

Extraordinary Redemption upon Event of Taxability. The Series 2017A Bonds are subject to redemption prior to their respective stated maturities from any amounts in the Redemption Fund, in whole, or in part on any date upon an Event of Taxability (defined herein) at a redemption price equal to 103% of the principal amount of such Series 2017A Bonds called for redemption, plus accrued interest to the date fixed for redemption.

[The term “Event of Taxability” as defined in the Bond Indenture means the entry of any decree or judgment by a court of competent jurisdiction, or the taking of any official action by the Internal Revenue Service or the Department of the Treasury, which decree, judgment or action shall be final under applicable procedural law, which has the effect of a determination that the interest on any of the Series 2017A Bonds is includable in the gross income of the recipients thereof for federal income tax purposes.]

Mandatory Sinking Account Redemption. The Term Series 2017A Bonds maturing July 1, 20__ are subject to redemption prior to their stated maturities in part, by lot, from Mandatory Sinking Account Payments established pursuant to the Bond Indenture on July 1, 20__ and on each July 1 thereafter, to and including July 1, 20__, at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date, in the years and amounts as follows:

| Term Series 2017A Bonds Maturing July 1, 20__ | |
|--|-------------------------|
| Mandatory Sinking Account Payment Date | Principal Amount |
| (July 1) | |
| 20__ | \$ |
| 20__ | |
| 20__ | |
| 20__ | |
| 20__† | |

† Maturity Date.

The Term Series 2017A Bonds maturing July 1, 20__ are subject to redemption prior to their stated maturities in part, by lot, from Mandatory Sinking Account Payments established pursuant to the Bond Indenture on July 1, 20__ and on each July 1 thereafter, to and including July 1, 20__, at a

redemption price equal to the principal amount thereof, plus accrued interest to the redemption date, in the years and amounts as follows:

Term Series 2017A Bonds Maturing July 1, 20__

| Mandatory Sinking Account Payment Date | | <u>Principal Amount</u> |
|---|----|--------------------------------|
| (July 1) | | |
| 20__ | \$ | |
| 20__ | | |
| 20__ | | |
| 20__ | | |
| 20__† | | |

† Maturity Date.

The Term Series 2017A Bonds maturing July 1, 20__ are subject to redemption prior to their stated maturities in part, by lot, from Mandatory Sinking Account Payments established pursuant to the Bond Indenture on July 1, 20__ and on each July 1 thereafter, to and including July 1, 20__, at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date, in the years and amounts as follows:

Term Series 2017A Bonds Maturing July 1, 20__

| Mandatory Sinking Account Payment Date | | <u>Principal Amount</u> |
|---|----|--------------------------------|
| (July 1) | | |
| 20__ | \$ | |
| 20__ | | |
| 20__ | | |
| 20__ | | |
| 20__† | | |

† Maturity Date.

The Term Series 2017A Bonds maturing _____ 1, 20__ are subject to redemption prior to their stated maturities in part, by lot, from Mandatory Sinking Account Payments established pursuant to the Bond Indenture on _____ 1, 20__ and on each _____ 1 thereafter, to and including _____ 1, 20__, at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date, in the years and amounts as follows:

Term Series 2017A Bonds Maturing _____ 1, 20__

| Mandatory Sinking Account Payment Date | | <u>Principal Amount</u> |
|---|----|--------------------------------|
| (_____ 1) | | |
| 20__ | \$ | |
| 20__ | | |
| 20__ | | |
| 20__ | | |
| 20__† | | |

† Maturity Date.

The Term Series 2017B Bonds maturing July 1, 20__ are subject to redemption prior to their stated maturities in part, by lot, from Mandatory Sinking Account Payments established pursuant to the Bond Indenture on July 1, 20__ and on each July 1 thereafter, to and including July 1, 20__, at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date, in the years and amounts as follows:

| Term Series 2017B Bonds Maturing July 1, 20__ | |
|--|--------------------------------|
| Mandatory Sinking Account Payment Date | |
| (July 1) | <u>Principal Amount</u> |
| 20__ | \$ |
| 20__ | |
| 20__ | |
| 20__ | |
| 20__† | |

† Maturity Date.

Notice of Redemption. In connection with the redemption of the Bonds pursuant to the Bond Indenture, the Corporation shall give notice of redemption to the Bond Trustee (with a copy to the Authority) not less than thirty five (35) days prior to the redemption date (or such shorter notice as the Bond Trustee may approve). Notice of redemption of any Bonds is required to be given by the Bond Trustee upon such written request of the Corporation. Notice of any redemption of Bonds is required to be mailed postage prepaid by the Bond Trustee, not less than thirty (30) days nor more than sixty (60) days prior to the redemption date by first-class mail to the respective Holders thereof at the addresses appearing on the bond registration books described in the Bond Indenture. Each notice of redemption is required to contain all of the following information: (a) the date of such notice; (b) the name of the Bonds and the date of issue of the Bonds; (c) the redemption date; (d) the redemption price; (e) the dates of maturity of the Bonds to be redeemed; (f) if less than all of the Bonds of any maturity are to be redeemed, the distinctive numbers of the Bonds of each maturity to be redeemed; (g) in the case of Bonds redeemed in part only, the respective portions of the principal amount of the Bonds of each maturity to be redeemed; (h) the CUSIP number, if any, of each maturity of Bonds to be redeemed; (i) a statement that such Bonds must be surrendered by the Holders at the Principal Corporate Trust Office of the Bond Trustee, or at such other place or places designated by the Trustee; (j) a statement that such redemption is conditioned upon the receipt by the Bond Trustee, on or prior to the redemption date, of moneys sufficient to pay the redemption price or upon the happening of such other event as shall be specified in the Bond Indenture, and if such moneys shall not have been so received, said notice is required to be rescinded and the redemption is required to be cancelled; (k) a statement that any such redemption notice can be rescinded as provided in the Bond Indenture; and (l) notice that further interest on such Bonds, if any, will not accrue from and after the designated redemption date.

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

Conditional Notice of Redemption. Any notice of optional redemption may state that such redemption is conditioned (“Conditional Notice”) upon the receipt by the Bond Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such Bonds to be redeemed or upon the occurrence of such other event or condition as is set forth in

such Conditional Notice, and that, if such moneys are not so received, or if such other event or condition has occurred or failed to occur (as the case may be), said notice will be of no force and effect and the redemption of the Bonds specified in the notice will no longer be required. The Bond Trustee will within a reasonable time thereafter give notice, in the manner in which the original Conditional Notice was given, of the cancellation of such redemption.

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

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

Right to Rescind Notice. Upon written notice from the Corporation that the Corporation [has cured] the conditions that caused the Bonds to be subject to extraordinary redemption, the Corporation may rescind any extraordinary redemption and notice thereof on any date prior to the date fixed for redemption by causing the Bond Trustee to send written notice of the rescission to the Holders of the Bonds so called for redemption. Notice of rescission of redemption is required to be given in the same manner in which notice of redemption was originally given. The actual receipt by the Holder of any Bond of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission. See “THE BONDS – Redemption – Extraordinary Optional Redemption from Insurance and Condemnation Proceeds,” “ – Extraordinary Mandatory Redemption Due to Change of Use,” and “ – Extraordinary Redemption upon Event of Taxability” herein.

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

Corporation, said monies will be transferred to the fund created for the payment of principal of and interest on such Bonds. If no such refunding Bonds of the Corporation are at such time outstanding, said monies are required to be transferred to the general fund of the Corporation as provided and permitted by law.

Selection of Bonds for Redemption. When any redemption is made pursuant to any of the provisions of the Bond Indenture and less than all of the Outstanding Bonds are to be redeemed, the Bond Trustee shall select the Bonds to be redeemed from the Outstanding Bonds not previously called for redemption, by lot within a maturity and, if from more than one maturity, in inverse order of maturity or in such other order of maturity as shall be specified in a Request of the Corporation.

In no event shall Bonds be redeemed in amounts other than whole multiples of Authorized Denominations. For purposes of redeeming Bonds in denominations greater than minimum Authorized Denominations, the Bond Trustee shall assign to such Bonds a distinctive number for each such principal amount and, in selecting Bonds for redemption by lot, shall treat such amounts as separate Bonds. The Bond Trustee shall promptly notify the Authority and the Corporation in writing of the numbers of the Bonds selected for redemption.

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

Defeasance

Discharge of the Bond Indenture. Bonds may be paid or caused to be paid in any of the following ways, provided any other sums payable under the Bond Indenture have also been paid or caused to be paid: (i) by paying or causing to be paid the principal of and interest on the Bonds Outstanding as and when the same become due and payable; (ii) by depositing with the Bond Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Bond Indenture) to pay or redeem Bonds Outstanding; or (iii) by delivering to the Bond Trustee, for cancellation by it, all Bonds Outstanding.

If all Bonds then Outstanding are paid or caused to be paid as provided above and all other sums payable under the Bond Indenture shall also be paid or caused to be paid, then and in that case, at the election of the Corporation (evidenced by a Certificate of the Corporation, filed with the Bond Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Bond Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Bond Indenture and the pledge of Payments made under the Bond Indenture and all covenants, agreements and other obligations of the Authority under the Bond Indenture shall cease, terminate, become void and be completely discharged and satisfied, except only as provided in the Bond Indenture. In such event, upon request of the Corporation, the Bond Trustee shall cause an accounting for such period or periods as may be requested by the Corporation to be prepared and filed with the Corporation and shall execute and deliver to the Corporation all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Bond Trustee is required to pay over, transfer, assign or deliver to the Corporation all moneys or securities or other property held by it pursuant to the Bond Indenture which are not required for the payment of Bonds not theretofore surrendered for such payment and which are not required for the payment of fees and expenses of the Bond Trustee.

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

The Bonds may at any time be surrendered to the Bond Trustee for cancellation by the Authority or the Corporation, which may have been acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Deposit of Money or Securities with Trustee. Whenever in the Bond Indenture it is provided or permitted that there be deposited with or held in trust by the Bond Trustee money or securities in the amount necessary to pay any Bonds, such amount (which may include money or securities held by the Bond Trustee in the funds established pursuant to the Bond Indenture) shall be equal (taking into account income which will accrue from the investment thereof on the date of deposit of such funds but without taking into account any income from the subsequent reinvestment thereof) to the principal amount of such Bonds and all unpaid interest thereon to maturity, and shall be: (a) lawful money of the United States of America; or (b) noncallable bonds, bills and bonds issued by the Department of the Treasury (including without limitation (1) obligations issued or held in book-entry form on the books of the Department of the Treasury and (2) the interest component of Resolution Funding Corporation strips for which separation of principal and interest is made by request to the Federal Reserve Bank of New York in book-entry form), United States Treasury Obligations State and Local Government Series and Zero Coupon United States Treasury Bonds; (c) provided, in each case, that the Bond Trustee shall have been irrevocably instructed (by the terms of the Bond Indenture or by Request of the Corporation or the Authority) to apply such money to the payment of such principal of and interest on such Bonds and provided, further, that the Bond Trustee shall have received (i) an Opinion of Bond Counsel to the effect that such deposit shall not cause interest on the Tax-Exempt Bonds to be included in the gross income of the Holder thereof for federal income tax purposes and that the Bonds to be discharged are no longer Outstanding; and (ii) a verification report of a firm of certified public accountants or other financial services firm acceptable to the Bond Trustee verifying that the money or securities so deposited or held together with earnings thereon will be sufficient to make all payments of principal of and interest on the Bonds to be discharged to and including their maturity date.

Payment of Bonds after Discharge of Bond Indenture. Notwithstanding any provision of the Bond Indenture, and subject to applicable escheat laws, any moneys held by the Bond Trustee in trust for the payment of the principal of or interest on any Bonds and remaining unclaimed for one year after the principal of all the Outstanding Bonds has become due and payable (whether at maturity or by declaration as provided in the Bond Indenture), if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the Corporation free from the trusts created by the Bond Indenture, and all liability of the Bond Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Corporation as aforesaid, the Bond Trustee may (at the cost of the Corporation) first mail to the Holders of Bonds which have not yet been paid, at the addresses shown on the registration books maintained by the Bond Trustee, a notice, in such form as may be deemed appropriate by the Bond Trustee, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Corporation of the moneys held for the payment thereof.

TRANSFER RESTRICTIONS

The purchase and holding of the Bonds involve risks that may not be appropriate for certain investors. The Bonds are to be offered and sold (including in secondary market transactions) only to “Qualified Institutional Buyers” and “Accredited Investors” (each as defined herein). Pursuant to the Bond Indenture, the Bonds may not be registered in the name of, or transferred to, and the Beneficial Owner cannot be, any person except an Accredited Investor or Qualified Institutional Buyer; provided however, that Bonds registered in the name of the Depository or its nominee shall be deemed to comply with the Bond Indenture so long as each beneficial owner of the Bonds is an Accredited Investor or a Qualified Institutional Buyer. Each initial beneficial owner of the Bonds shall provide an executed Investor Letter in the form attached as Appendix H hereto.

In addition, the face of each Bond will contain a legend indicating that such Bond is subject to transfer restrictions as set forth in the Bond Indenture. See “CERTAIN RISK FACTORS – Purchases and Transfers of Bonds Restricted to Qualified Institutional Buyers and Accredited Investors” herein.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses related to the Bonds.

| | |
|---------------------------------------|-----------|
| Sources: | |
| Bond Principal | \$ |
| Net Original Issue Premium/Discount | |
| Other Available Funds | |
| Total Sources: | <u>\$</u> |
| Uses: | |
| Deposit to Project Fund | \$ |
| Deposit to Interest Account | |
| Deposit to Reserve Account | |
| Costs of Issuance Fund ⁽¹⁾ | |
| Total Uses: | <u>\$</u> |

Source: Magnolia Educational & Research Foundation.

⁽¹⁾ Includes legal, rating, printing, title insurance, underwriting discount and other professional fees and other miscellaneous costs of issuance.

DEBT SERVICE

Outstanding Indebtedness. [On June 24, 2014, the Authority issued its 2014A Bonds in the principal amount of \$5,675,000 and its 2014B Bonds in the principal amount of \$345,000. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” and “CERTAIN RISK FACTORS – Additional Indebtedness and Additional School Indebtedness.”].

The Corporation does not currently have any outstanding obligations with a lien on the Payments or the assets pledged under the Bond Indenture prior to or on a parity with the lien of the Bond Indenture. Pursuant to the Master Indenture, additional Obligations (defined below) may be issued from time to time on parity with Obligation No. 1 and Obligation No. 2. The See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” and “CERTAIN RISK FACTORS – Additional Indebtedness and Additional School Indebtedness.”

The Bonds. The following table sets forth the annual debt service payment requirements of the Bonds (assuming no optional redemptions or extraordinary optional redemptions prior to the stated date of maturity).

| <u>Period Ending</u> <u>June 30</u> | <u>The Series 2017A Bonds</u> | | <u>The Series 2017B Bonds</u> | | <u>Total</u> <u>Debt Service</u> |
|--|-------------------------------|-----------------|-------------------------------|-----------------|-------------------------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | |
| Totals | | | | | |

THE PROJECT

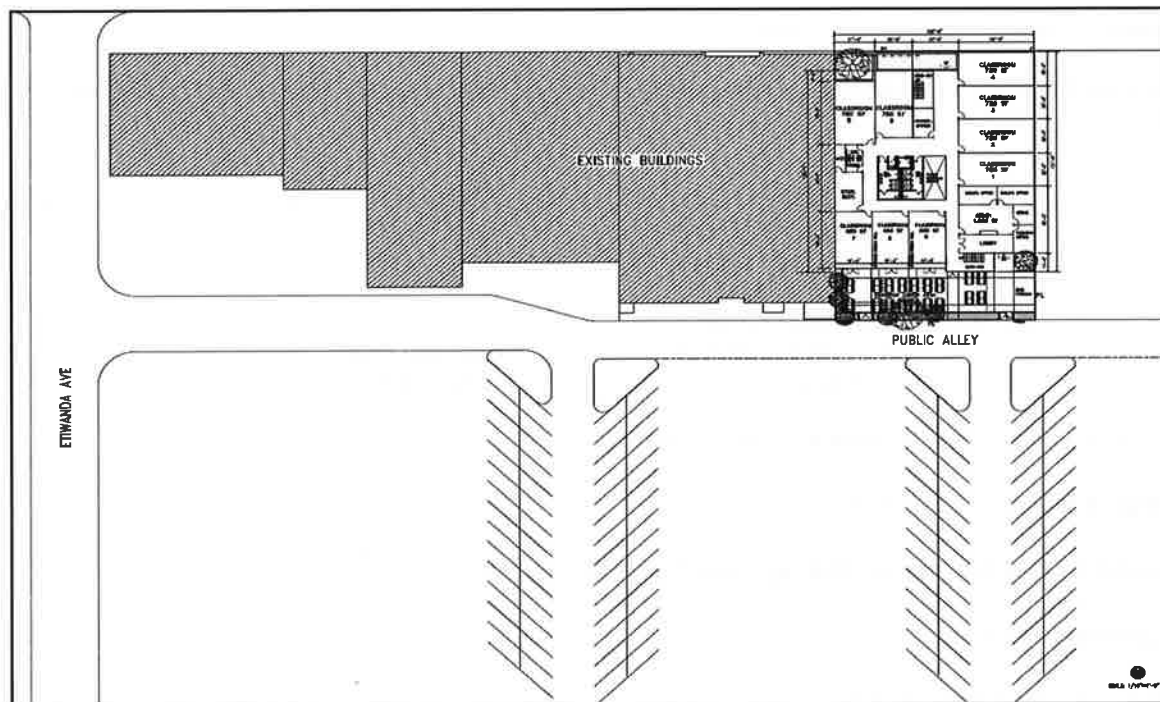
General

The Corporation will use the proceeds of the Bonds to fund the loan to the Corporation under the Loan Agreement to (1) to finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and/or equipping of the Additional MSA-1 Facility (“MSA 1 Phase 2”), the San Diego Facility, and the Santa Ana Facility (“MSA Santa Ana Phase 2), (2) to pay certain expenses incurred in connection with the issuance of the Bonds, (3) to pay capitalized interest on the Bonds and/or related working capital and (4) to fund a debt service reserve fund with respect to the Bonds and a repair and replacement fund.

Additional MSA-1 Facility

General. MSA-1 operates at a school facility located at 18328 in the City of Reseda. In connection with the Project, MERF expects to increase enrollment at MSA-1 through the development of a new two-story educational facility at 18216-18220 Sherman Way in the City of Reseda (the “Additional MSA-1 Facility”). MERF expects that the new building, upon its completion, will provide capacity to increase enrollment from 525 students to approximately 925 students. The Additional MSA-1 Facility will be constructed in an area immediately adjacent to the existing school. MERF projects that, upon completion, the Additional MSA-1 Facility will be 25,224 square feet with twenty classrooms, science labs, offices, a rooftop playground and landscaping. MERF expects construction of the Additional MSA-1 Facility to begin in July 2017 and occupancy of the Additional MSA-1 Facility in July 2018. The portion of the Project at MSA-1 includes the refinancing of the \$3.8 million purchase of the site and building.

Site Plan. The following diagram sets forth the site plan for the Additional MSA-1 Facility.



Source: Magnolia Educational & Research Foundation.

The rectangular lot/parcel area is approximately 38,840 square feet, with community commercial and parking zoning. The property was acquired by MERF in October 2015. MERF expects to construct the new building immediately adjacent to the existing school. The current Project includes a 25,224 square foot building with 20 classrooms, science labs, offices, a rooftop playground and landscaping throughout. The following diagram sets forth the floor plans for the Additional MSA 1 Facility.



Source: Magnolia Educational & Research Foundation.

Project Schedule. The following table sets forth the projected schedule for the Additional MSA 1 Facility.

| Event | Projected Date |
|-------------------------------|----------------|
| Submit Construction Documents | April 15, 2017 |
| Ready To Issue Permit | June 15, 2017 |
| Demolition Start | July 5, 2017 |
| Construction NTP | July 21, 2017 |
| Construction Complete | May 21, 2018 |
| Occupancy | July 1, 2018 |

Source: Magnolia Educational & Research Foundation.

Project Budget. [To Come]

Architecture and Construction Agreements. [To Come]

Appraisal. [To Come]

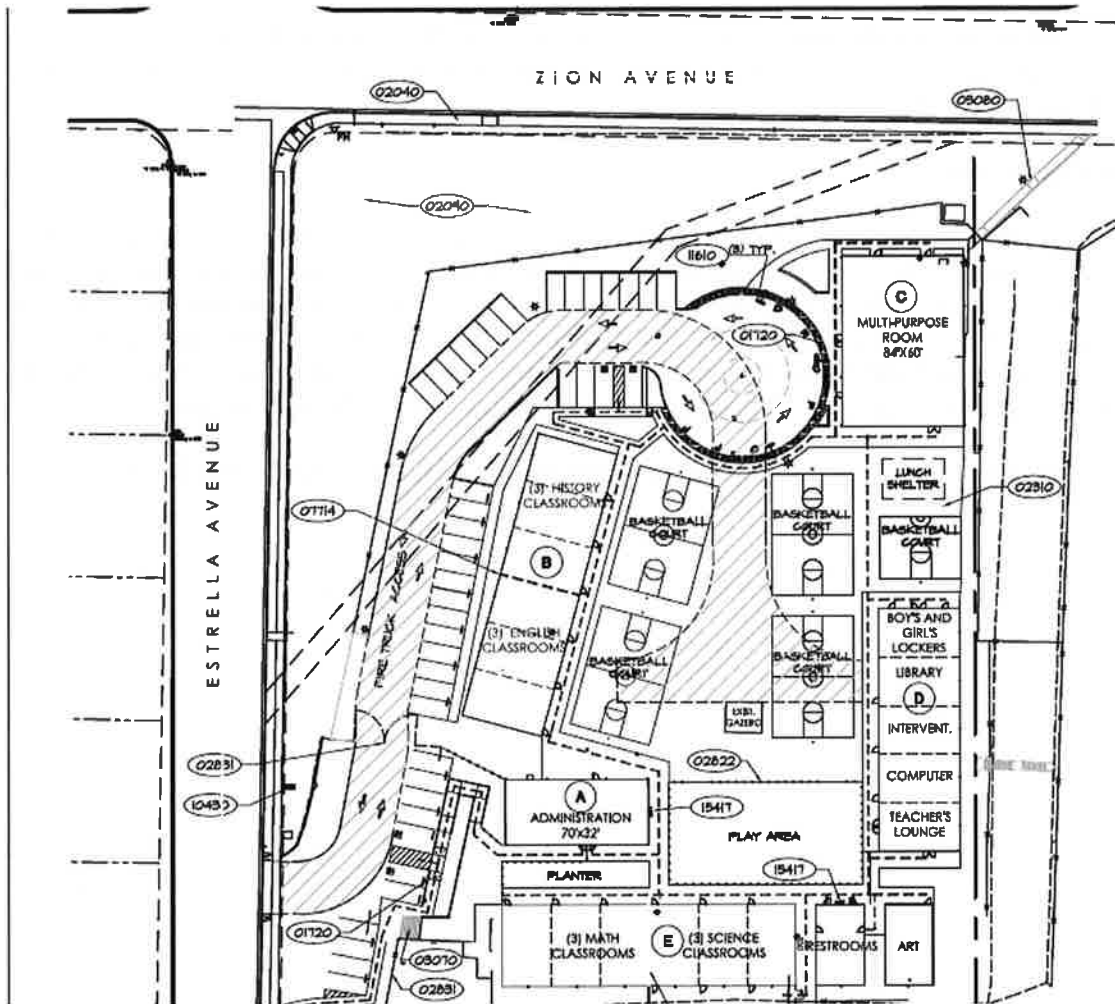
Environmental Reports. [To Come]

San Diego Facility

General. MSA-SD presently operates at a school facility located at 6365 Lake Atkin Avenue in the City of San Diego. In connection with the Project, MERF expects to relocate MSA-SD to a new school facility, the DeAnza School, which is located at 6525 Estrella Avenue in the City of San Diego, California (the “San Diego Facility”), in September 2017. The San Diego Facility is expected to have sixteen classrooms, a multipurpose room, a cafeteria, and outdoor recreation spaces. The San Diego Facility MERF expects the San Diego Facility to accommodate approximately 450 students in grades six through eight.

The San Diego Facility portion of the Project is expected to include, among other things, the removal of eleven existing portables and three permanent structures, and the installation of eighteen portable/relocatable classroom structures. The classroom structures have received the approval of the Division of State Architect.

Site Plan. The following diagram sets forth the site plan for the San Diego Facility.



Source: Magnolia Educational & Research Foundation.

Project Schedule. The following table sets for the projected schedule for the Additional MSA 1 Facility.

| Event | Projected Completion Date |
|-------------------------------|---------------------------|
| Submit Construction Documents | April 2017 |
| Ready To Issue Permit | June 2017 |
| Construction NTP | June 2017 |
| Construction Complete | August 2017 |
| Occupancy | September 2017 |

Source: Magnolia Educational & Research Foundation.

Project Budget. [To Come]

Architecture and Construction Agreements. [To Come]

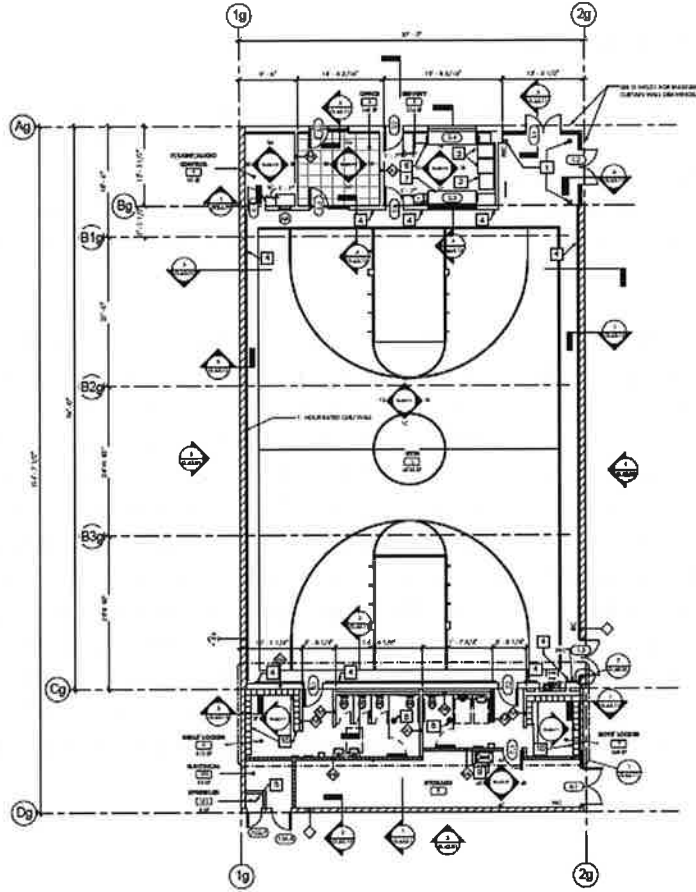
Appraisal. [To Come]

Environmental Reports. [In October 2016, the San Diego Unified School District received the “Final Initial Study for the Magnolia Science Academy Relocation Project” from BRG Consulting (the “San Diego Facility Report”).]

Santa Ana Facility

General. MSA-SA operates at a school facility located at 2840 W 1st Street in the City of Santa Ana, California. MERF expect to construct a new gymnasium with a multi-sport athletic court, restrooms, lockers, and a server (collectively, the “Santa Ana Facility”). The gymnasium has been approved by the Division of State Architect. In addition, MERF expects the Santa Ana Facility portion of the Project to include a landscaped and covered outdoor eating area. MERF expects construction of the Santa Ana Facility to begin in March 2017 and occupancy of the Santa Ana Facility in September 2017.

Site Plan. The following diagram sets forth the site plan for the Santa Ana Facility.



Source: Magnolia Educational & Research Foundation.

Project Schedule. The following table sets for the projected schedule for the Santa Ana Facility.

| Event | Projected Completion Date |
|-----------------------|---------------------------|
| Project Bid Award | March 2017 |
| Construction NTP | March 2017 |
| Construction Complete | September 2017 |
| Occupancy | September 2017 |

Source: Magnolia Educational & Research Foundation.

Project Budget. [To Come]

Architecture and Construction Agreements. [To Come]

Appraisal. [To Come]

Environmental Reports. [To Come]

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Limited Obligations of the Authority

The Bonds and interest thereon constitute special, limited obligations of the Authority and are payable solely from certain revenues received under the Bond Indenture and from certain funds and accounts established and maintained under the Bond Indenture. The Authority is not obligated to advance any moneys derived from any source other than the Payments (as defined below) and other assets pledged under the Bond Indenture, whether for the payment of the principal of or redemption price or interest on the Bonds.

THE BONDS ARE NOT AND SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, AND ARE NOT AND SHALL NOT BE DEEMED TO BE A PLEDGE OF THE FAITH AND CREDIT OF THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY, WHICH SHALL ONLY BE OBLIGATED TO PAY THE BONDS SOLELY FROM THE PAYMENTS AND FUNDS PROVIDED THEREFOR IN THE BOND INDENTURE. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER FOR THE BONDS OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. NOTHING IN THIS INDENTURE, THE ACT OR OTHERWISE IS AN UNDERTAKING BY THE AUTHORITY OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO FUND THE TRANSFERS DESCRIBED IN THE INTERCEPT NOTICE OR TO MAKE FUNDS AVAILABLE TO MERF ON BEHALF OF THE SCHOOLS IN ANY AMOUNT OR AT ANY TIME.

Bond Indenture

Pledge of Payments and Other Amounts. Pursuant to the Bond Indenture, the Authority pledges to secure the payment of the principal of and interest on the Bonds in accordance with their terms and the provisions of the Bond Indenture, all of the Payments (except Payments described in clause (i) of the definition thereof) and any other amounts (excluding proceeds of the sale of Bonds) held in any fund or account (other than the Rebate Fund) established pursuant to the Bond Indenture. Said pledge shall constitute a lien on and security interest in such assets and shall attach and be valid and binding from and after delivery of the Bonds, without any physical delivery thereof or further act.

The term "Payments," under the Bond Indenture, means ((i) all moneys (except any money received to be used for the payment of Administrative Fees and Expenses) received by the Bond Trustee with respect to the Intercept, (ii) all moneys, if any, received by the Bond Trustee directly from, or on behalf of, the Corporation, pursuant to the Loan Agreement (excluding Additional Payments not directed to be deposited into any fund or account created and held under the Bond Indenture) or Obligation No. 1 and Obligation No. 2, and (iii) all income derived from the investment of any money in any fund or account established pursuant to the Bond Indenture. See "APPENDIX C – SUMMARY OF PRINCIPAL FINANCING DOCUMENTS – BOND INDENTURE" attached hereto.

State Intercept Program. As additional security for the Bonds, in connection with the issuance of the Bonds, MERF will provide instructions to the Controller to make Intercepts to the Bond Trustee with respect to and on behalf of MERF in amounts and on dates provided in the Intercept Notices sufficient in the aggregate to repay the Bonds and pay necessary and incidental costs. Funds received by the Bond Trustee pursuant to each Intercept will be held in trust and will be disbursed, allocated and applied solely for the uses and purposes set forth in the Bond Indenture, including if necessary, the payment of Debt

Service on the Bonds. Under the laws of the State, no party, including the Authority, MERF, the Corporation or any of their respective creditors will have any claim to the money apportioned or to be apportioned to the Bond Trustee by the Controller pursuant to the Intercepts. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Bond Indenture – Assignment of Payments and Other Amounts, Loan Agreement, Lease, and Mortgages” herein.

In addition, pursuant to the Loan Agreement, the Corporation certifies that it will instruct or cause MERF to pay Base Rent directly to the Bond Trustee for deposit in the Revenue Fund. See “APPENDIX C – SUMMARY OF PRINCIPAL FINANCING DOCUMENTS – LOAN AGREEMENT” attached hereto.

Assignment of Payments and Other Amounts, Loan Agreement, Lease, and Mortgages. The Authority assigns to the Bond Trustee, for the benefit of the Holders from time to time of the Bonds, all of the Payments (except Payments described in clause (i) of the definition thereof) and other amounts pledged in paragraph (a) of this section and all of the right, title and interest of the Authority in, to and under the Loan Agreement (except for the Retained Rights). The Bond Trustee will be entitled to and is required to receive all of such assigned Payments, and any such Payments collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Bond Trustee and shall forthwith be paid by the Authority to the Bond Trustee.

The Bond Trustee also will be entitled to and shall (subject to the provisions of the Bond Indenture) take all steps, actions and proceedings following any event of default under the Loan Agreement reasonably necessary in its judgment, or as directed in writing by the Holder, to enforce, either jointly with the Authority or separately, all of the rights of the Authority assigned to the Bond Trustee and all of the obligations of the Corporation under the Loan Agreement.

The Corporation is required to take all actions necessary for the Bond Trustee to collect directly from the Controller the amounts set forth in the Intercept Notice on the dates set forth in the Intercept Notice. The Payments described in clause (i) of the definition thereof are assigned to the Bond Trustee, for the benefit of the Holders of the Bonds, by virtue of the filing of the Intercept Notice with the Controller. The Bond Trustee will be entitled to and is required to receive all of such assigned Payments.

All Payments are required to be promptly deposited by the Bond Trustee upon receipt thereof in a special fund designated as the “Revenue Fund” which the Bond Trustee is directed under the Bond Indenture to establish, maintain and hold in trust. All Payments are required to be held in trust for the benefit of the Holders from time to time of the Bonds but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes set forth in the Bond Indenture.

The Bonds are not and shall not be deemed to constitute a debt or liability of the State, or any political subdivision thereof, and are not and shall not be deemed to be a pledge of the faith and credit of the State, or any political subdivision thereof, other than the Authority, which shall only be obligated to pay the Bonds solely from the Payments and funds provided therefor in the Bond Indenture. The issuance of the Bonds shall not directly or indirectly or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation whatever for the Bonds or to make any appropriation for their payment. Nothing in the Bond Indenture, the Act or otherwise is an undertaking by the Authority or the State or any political subdivision thereof to fund the transfers described in the Intercept Notice or to make funds available to MERF on behalf of the Schools in any amount or at any time.

Revenue Fund. The Bond Trustee will establish, maintain and hold in trust a special fund designated as the “Revenue Fund.” All Payments are required to be promptly deposited by the Bond Trustee upon receipt thereof in the Revenue Fund. All Payments shall be held in trust for the benefit of

the Holders from time to time of the Bonds but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes set forth in the Bond Indenture. The Bond Trustee will establish within the Revenue Fund an Interest Account, a Principal Account, and a Reserve Account for the payment of Debt Service on the Bonds.

Interest Account. All amounts in the Interest Account are required to be used and withdrawn by the Bond Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Bond Indenture).

Principal Account. All amounts in the Principal Account are required to be used and withdrawn by the Bond Trustee solely for the purpose of paying the principal or Mandatory Sinking Account Payments of the Bonds, as provided in the Bond Indenture with respect to Bonds.

The Bond Trustee is required to establish and maintain within the Principal Account a separate subaccount for the Bonds, designated as the “_____ Sinking Account,” inserting therein the Series and maturity (if more than one such account established) for each Term Bond. On or before [July 1] in each year, the Bond Trustee shall transfer the amount deposited in the Principal Account on that date pursuant to the Bond Indenture, as described in “ – Allocation of Revenues” below, from the Principal Account to the Sinking Account for the purpose of making a Mandatory Sinking Account Payment (if such deposit is required in such month). With respect to the Sinking Account, on each Mandatory Sinking Account Payment date established for the Sinking Account, the Bond Trustee shall transfer the amount deposited in the Principal Account pursuant to the Bond Indenture for the purpose of applying the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Bonds, upon the notice and in the manner provided in the Bond Indenture; provided that, at any time prior to giving such notice of such redemption, the Bond Trustee shall apply such moneys to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Borrower may direct, in writing, except that the purchase price (excluding accrued interest) shall not exceed the par amount of such Bonds. If, during the twelve-month period immediately preceding said Mandatory Sinking Account Payment date, the Bond Trustee has purchased Bonds with moneys in the Sinking Account, or, during said period and prior to giving said notice of redemption, the Borrower has deposited Bonds with the Bond Trustee, or Bonds were at any time purchased or redeemed by the Bond Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Bonds purchased or deposited pursuant to the applicable provisions of the Bond Indenture are required to be delivered to the Bond Trustee and cancelled. Any amounts remaining in the Sinking Account when all of the Bonds are no longer Outstanding shall be withdrawn by the Bond Trustee and transferred to the Revenue Fund. All Bonds purchased from the Sinking Account or deposited by the Borrower with the Bond Trustee shall be allocated first to the next succeeding Mandatory Sinking Account Payment, then to the remaining Mandatory Sinking Account Payments as the Borrower directs in writing along with a revised sinking fund schedule giving effect to the purchase so completed.

Subject to the terms and conditions set forth in the Bond Indenture, the Term Bonds, which are Bonds payable on or before their specified maturity dates from Mandatory Sinking Account Payments, will be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments as set forth in “THE BONDS – Redemption – Mandatory Sinking Fund Redemption.”

Reserve Account. Under the Bond Indenture, the Bond Trustee will establish the Reserve Account within the Revenue Fund. All amounts in the Reserve Account are required to be used and

withdrawn by the Bond Trustee, [with the consent of the Bondholder Representative,] solely for the purpose of making up any deficiency in the Interest Account or Principal Account that exists on the date when monies on deposit in the Interest Account or the Principal Account are required to be applied, as provided in the Bond Indenture, or (together with any other moneys available therefor) for the payment or redemption of all Bonds then Outstanding.

The Bond Trustee is required to [notify the Bondholder Representative immediately if any amounts from the Reserve Account shall be needed to make up any deficiency in the Interest Account or Principal Account, and shall obtain the consent of the Bondholder Representative before withdrawing any such amount from the Reserve Account. The Bond Trustee shall then] notify the Authority and the Borrower immediately of any withdrawal from the Reserve Account for the purpose of making up a deficiency in the Interest Account or Principal Account, which notice shall specify the amount of such withdrawal. The Bond Trustee shall notify the Authority [and Bondholder Representative] immediately of the final maturity, earlier redemption in full of the Bonds or the date on which no Bonds are Outstanding under the Bond Indenture.

Amounts on deposit in the Reserve Account shall be valued by the Bond Trustee at their fair market value, as reflected on Trustee's account statement, on [January 1 and July 1] of each year while the Bonds are Outstanding, and the Bond Trustee shall notify the Borrower of the results of each such valuation. If the amount on deposit in the Reserve Account on the first (1st) Business Day following such valuation is less than one hundred percent (100%) of the Reserve Account Requirement, the Borrower has agreed in the Loan Agreement to make the deposits to the Reserve Account required by the Bond Indenture. If the amount on deposit in the Reserve Account on the first (1st) Business Day following such valuation is greater than the Reserve Account Requirement, then any additional excess shall be withdrawn from the Reserve Account and transferred to the Revenue Fund. See "CERTAIN RISK FACTORS – Reserve Account."

[The term "Reserve Account Requirement" means as of any date of calculation, an amount which shall be equal to the [least of (a) ten percent (10%) of the original principal amount of the Bonds;] (b) maximum annual Debt Service with respect to the Bonds Outstanding[, (c) one hundred twenty-five percent (125%) of average annual Debt Service with respect to the Bonds or (d) for the last Bond Year only, the total Debt Service with respect to the Bonds Outstanding.] Annual Debt Service [and average annual Debt Service,] for purposes of the Bond Indenture, shall be calculated on the basis of twelve-month periods ending on [July 1] of any year in which Bonds are Outstanding.]

See "APPENDIX C – SUMMARY OF PRINCIPAL FINANCING DOCUMENTS – BOND INDENTURE."

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

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

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

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

(4) To the Repair and Replacement Fund, (a) \$_____ until the balance therein is at least equal to the Repair and Replacement Fund Requirement, and thereafter the greater of (i) such amount as shall be set forth in the written request of the Corporation and (ii) [one-thirty-sixth] of the aggregate amount of each prior withdrawal from the Repair and Replacement Fund, provided that no deposit need be made into the Repair and Replacement Fund if the balance in said account is at least equal to the Repair and Replacement Fund Requirement, and (b) in the event the balance in said account shall be less than the Repair and Replacement Fund Requirement due to valuation of the Eligible Securities deposited therein in accordance with the Bond Indenture, the amount necessary to increase the balance in said account to an amount at least equal to the Repair and Replacement Fund Requirement (until deposits on account of such valuation deficiency are sufficient to increase the balance in said account to said amount); and

(5) To the Rebate Fund, such amounts as are required to be deposited therein by instruction from the Corporation given in accordance with the Bond Indenture (including the Tax Certificate).

Moneys remaining in the Revenue Fund after the foregoing transfers shall be transferred on _____ 1 and _____ 1 of each year, commencing _____ 1, 20__ by the Bond Trustee to the Corporation free and clear of the lien of the Bond Indenture.

See "APPENDIX C – SUMMARY OF PRINCIPAL FINANCING DOCUMENTS – BOND INDENTURE" and "APPENDIX C – SUMMARY OF PRINCIPAL FINANCING DOCUMENTS – LOAN AGREEMENT" attached hereto.

For more information on the Corporation, MERF and the School, see "APPENDIX A – CERTAIN INFORMATION REGARDING THE PROJECT, MERF, THE CORPORATION, AND THE SCHOOLS" attached hereto.

[Repair and Replacement Fund. Pursuant to the Bond Indenture, the Bond Trustee will establish, maintain and hold in trust a separate fund designated as the "Repair and Replacement Fund," which shall

be used solely for the purposes set forth in the Bond Indenture. The Bond Trustee will withdraw funds from the Repair and Replacement Fund to pay for capital items not budgeted as ordinary maintenance and repair costs related to the Facilities. Moneys in the Repair and Replacement Fund are required to be disbursed upon receipt of a requisition of the Corporation and the Bond Trustee is authorized and directed to issue payments.

Amounts on deposit in the Repair and Replacement Fund will be valued by the Bond Trustee at their fair market value each January 1 and July 1, and the Bond Trustee is required to notify the Corporation of the results of such valuation. If the amount on deposit in the Repair and Replacement Fund on the first (1st) Business Day following such valuation is less than one hundred percent (100%) of the Repair and Replacement Fund Requirement, the Corporation has agreed in the Loan Agreement to make the deposits to the Repair and Replacement Fund required by the Bond Indenture. If the amount on deposit in the Repair and Replacement Fund on the first (1st) Business Day following such valuation is greater than the Repair and Replacement Fund Requirement, then any additional excess will be withdrawn from Repair and Replacement Fund and transferred to the Revenue Fund.

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

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

Capital Needs Assessment. Pursuant to the Master Indenture, the Obligated Group is required to pay or cause to be paid to the Related Bond Trustee on the twentieth day of each month, commencing [_____, 20, 20], for deposit into the Repair and Replacement Fund established under each Related Bond Indenture, the Repair and Replacement Fund Contribution or the Modified Repair and Replacement Fund Contribution, as applicable (each as defined below). On or before [September 1, 20], and every fifth anniversary thereafter as long as the Bonds issued under each Related Bond Indenture are Outstanding, the Obligated Group shall select an Independent Consultant to complete a capital needs assessment of the Obligated Group projecting the Obligated Group's capital needs and the total cost thereof over the five year period commencing on the following [September 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 Obligated Group 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”).

The Loan Agreement

The Authority and the Corporation will execute the Loan Agreement to provide for the loan by the Authority to the Corporation of proceeds from the sale of the Bonds.

Pursuant to the Bond Indenture, the Authority will assign its right to receive Administrative Fees and Expenses and any Additional Payments, any right to be indemnified, held harmless or defended and rights to inspection and to receive notices, certificates and opinions, express rights to give approvals, consents or waivers, and the obligation of the Corporation to make deposits pursuant to the Tax Certificate.

Pursuant to the Loan Agreement, the Corporation will be required to make loan repayments sufficient to pay the principal, premium, if any, and interest on the Bonds when due. See “APPENDIX C – SUMMARY OF PRINCIPAL FINANCING DOCUMENTS – LOAN AGREEMENT” attached hereto.

Pursuant to the Loan Agreement, simultaneously with the execution and delivery of the Bonds, the Corporation covenants to cause MERF to deliver an Intercept Notice to the Controller with respect to each School. Pursuant to the Loan Agreement, the Corporation certifies that it will instruct or cause each Member, as applicable, to cause each School to pay Base Rent, or repayment obligations under a School Loan Agreement, as applicable, directly to the [Master Trustee for deposit in the Gross Revenue Fund and subsequent transfer to the Bond Trustee for deposit to the Revenue Fund]. See “APPENDIX C – SUMMARY OF PRINCIPAL FINANCING DOCUMENTS – LOAN AGREEMENT” attached hereto. Rent under each Lease is payable solely by MERF from the revenues of MERF. The Corporation is not liable for payment of Rent under the Leases.

MERF is not a party to, and is not liable under, the Loan Agreement. Subject to the limitations of the Bond Indenture regarding Loan Agreement amendments, the Corporation may amend Exhibit A of the Loan Agreement, which is a description of the Project, from time to time in connection with the prepayment of a portion of the loan pursuant to the loan prepayment provisions; provided that (x) the sum total of allocable amounts in Exhibit A to the Loan Agreement shall not be less than the principal amount of Bonds Outstanding at any time and (y) such amendment shall not provide an allocable amount for the Facilities greater than the allocable amount stated on Exhibit A to the Loan Agreement on the date of delivery of the Bonds. See “APPENDIX C – SUMMARY OF PRINCIPAL FINANCING DOCUMENTS – LOAN AGREEMENT” attached hereto.

The Master Indenture

Joint and Several Obligations of the Obligated Group but not the Corporation. Under the Master Indenture, the Obligated Group Representative may authorize the issuance, on behalf of the Members of the Obligated Group, of Obligations to evidence or secure Indebtedness or other obligations. As of the date hereof, the Corporation, MPM Sherman Way, MPM Santa Ana, and MPM San Diego are the only Member of the Obligated Group.

Each Member of the Obligated Group is jointly and severally liable with respect to the payments due in respect of each Obligation issued under the Master Indenture, including Obligation No. 1 and Obligation No. 2. The Members of the Obligated Group are required to make payment on Obligation

No. 1 and Obligation No. 2 and all subsequent Obligations issued under the Master Indenture in amounts sufficient to pay when due the principal of and premium, if any, and interest on the Bonds.

For a more detailed discussion of entry to or withdrawal from the Obligated Group, see “APPENDIX C – SUMMARY OF PRINCIPAL FINANCING DOCUMENTS – MASTER INDENTURE – Membership in Obligated Group” and “ – Withdrawal from Obligated Group.” All capitalized terms used and not defined in this section have the meanings listed in “APPENDIX C – SUMMARY OF PRINCIPAL FINANCING DOCUMENTS – DEFINITIONS.” However, each Lessee is liable only under the related Lease and is not responsible or otherwise obligated under the Loan Agreement, the Bond Indenture, the Master Indenture, the Obligations, including Obligation No. 1 and Obligation No. 2, the Santa Ana Loan Agreement, or the Bonds.

Pursuant to the Master Indenture, each Member jointly and severally covenants and agrees (a) to pay or cause to be paid promptly all Required Payments at the place, on the dates and in the manner provided herein, in any Related Supplement and in said Obligations and (b) to faithfully observe and perform all of the conditions, covenants and requirements of the Master Indenture, any Related Supplement and any Obligation. Pursuant to the Master Indenture, each Member acknowledges and agrees that the time of such payment and performance is of the essence of the obligations thereunder. See “INTRODUCTION – Security for the Bonds – Extraordinary Monthly Rent” herein.

Subject to the provisions of the Master Indenture permitting withdrawal from the Obligated Group, the obligation of each Member to make Required Payments is a continuing one and is to remain in effect until all Required Payments have been paid in full in accordance with the Master Indenture. All moneys from time to time received by the Obligated Group Representative or the Master Trustee to reduce liability on Obligations, whether from or on account of the Members or otherwise, shall be regarded as payments in gross without any right on the part of any one or more of the Members to claim the benefit of any moneys so received until the whole of the amounts owing on Obligations has been paid or satisfied and so that in the event of any such Member’s filing bankruptcy, the Obligated Group Representative or the Master Trustee shall be entitled to prove up the total indebtedness or other liability on Obligations Outstanding as to which the liability of such Member has become fixed.

Each such Obligation shall be a primary obligation and shall not be treated as ancillary to or collateral with any other obligation and shall be independent of any other security so that the covenants and agreements of each Member under the Master Indenture shall be enforceable without first having recourse to any such security or source of payment and without first taking any steps or proceedings against any other Person. The Obligated Group Representative and the Master Trustee are each empowered to enforce each covenant and agreement, as provided in the Master Indenture, and to enforce the making of Required Payments. Each Member will authorize the Obligated Group Representative and the Master Trustee to enforce or refrain from enforcing any covenant and agreement of the Members under the Master Indenture and to make any arrangement or compromise with any particular Member or Members as the Obligated Group Representative or the Master Trustee may deem appropriate, consistent with the Master Indenture and any Related Supplement. Each Member will waive in favor of the Obligated Group Representative and the Master Trustee all rights against the Obligated Group Representative, the Master Trustee and any other Member, insofar as is necessary to give effect to any of the provisions of the Master Indenture.

Notwithstanding anything in the Master Indenture to the contrary, the Master Trustee covenants that it will not take recourse against the Obligated Group Representative or any of the Members with respect to the failure by the Obligated Group Representative or any of the Members to make any Required Payment under the Master Indenture and any Related Supplement except recourse to the Gross Revenues and the amounts held in the funds and accounts created under the Related Bond Indenture (except the

Rebate Fund) or under the Master Indenture, or to such other security as may from time to time be given for the payment of obligations arising out of the Master Indenture, any Related Supplement or any other agreement securing the obligations of the Members with respect to the Related Bonds.

Gross Revenue Fund. The Members of the Obligated Group agree in the Master Indenture that, unless otherwise provided in a Related Supplement or if such Related Bonds are payable in full from funds that are subject to the Intercept, each Member covenants and agrees that, so long as any of the Obligations remain Outstanding, on or before the twenty-fifth (25th) day of each month, commencing [April 25, 2017], the Members shall cause all Base Rent and School Loan Repayments to be transferred directly to the Master Trustee, which shall be deposited in the Gross Revenue Fund, which the Master Trustee is hereby directed to establish, maintain and hold in trust. The Obligated Group Representative shall furnish to the Master Trustee all related and relevant Base Rent payment schedules and School Loan Repayment schedules designating the required deposits and payment amounts and the Master Trustee shall be under no obligation to independently determine such amounts. Upon receipt, such amounts shall immediately be transferred by the Master Trustee into the following respective accounts (each of which the Master Trustee is required to establish and maintain) in the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of moneys sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account or fund subsequent in priority:

FIRST, to the Related Bonds Account, the amount necessary to pay all Required Payments as designated in any Obligation issued hereunder on the next date upon which such payments become due; and

SECOND, to the Additional Payments Account, the amount necessary to pay all Additional Payments as defined in and pursuant to any Related Loan Agreement, or for costs necessary or incidental to the issuance of any Obligation, or any Required Payments not described in clause (i) above on the next date upon which such payments become due

Subject to the applicable provisions of the Master Indenture regarding the creation of subaccounts within the Gross Revenue Fund, the Master Trustee shall apply the moneys deposited in the foregoing accounts of the Gross Revenue Fund as follows:

FIRST, amounts deposited in the Related Bonds Account shall, upon receipt, be paid directly to each Related Bond Trustee for deposit in the revenue fund for such Related Bonds to pay amounts due and payable under each Related Bonds Indenture, and to such other payee of Required Payments as designated in any Obligation issued hereunder; and

SECOND, amounts deposited in the Additional Payments Account shall be paid directly to the respective payees of Additional Payments pursuant to (and as defined in) each Related Loan Agreement, and to such other payee as designated by the Obligated Group Representative for costs necessary or incidental to the issuance of any Obligation.

Pursuant to the Master Indenture, the Master Trustee is required to promptly transfer any remaining moneys held in the Gross Revenue Fund to the Obligated Group Representative [for deposit to the Obligated Group Operating Account maintained pursuant to the Master Indenture in the form and manner designated on a written request of the Obligated Group Representative.

If the Base Rent amount and [the School Loan Repayment amount] are not received by the Master Trustee when due as set forth above in the Master Indenture, the Master Trustee shall, on the following Business Day, notify the Obligated Group Representative (with copy to each tenant of each

Facility) of such delinquency (an “Extraordinary Monthly Rent Notice”). Upon receipt of such Extraordinary Monthly Rent Notice, the Obligated Group Representative shall cause each Member to collect Extraordinary Monthly Rent (as defined in each respective Lease) for transfer within three (3) Business Days to the Master Trustee for deposit to the Gross Revenue Fund.

As it deems necessary or appropriate, the Master Trustee may create subaccounts within the Gross Revenue Fund.

THE BONDS ARE PAYABLE IN FULL FROM FUNDS SUBJECT TO AN INTERCEPT. ACCORDINGLY, NO GROSS REVENUE FUND WILL INITIALLY BE CREATED IN CONNECTION WITH THE ISSUANCE OF THE BONDS. SEE “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – BOND INDENTURE – STATE INTERCEPT PROGRAM,” “– ASSIGNMENT OF PAYMENTS AND OTHER AMOUNTS, LOAN AGREEMENT, LEASE, AND MORTGAGES” AND “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – THE LOAN AGREEMENT” HEREIN.

Debt Service Coverage Ratio. Pursuant to the Master Indenture, each Member covenants and agrees to fix, charge and collect, or cause to be fixed, charged and collected, rental rates, fees and charges for the use of its Facilities and for the services furnished or to be furnished by the Members so that the Debt Service Coverage Ratio of the Obligated Group as a whole at the end of each Fiscal Year is not less than 1.0:1.0. If the Debt Service Coverage Ratio of the Obligated Group falls below 1.0:1.0, it shall constitute an Event of Default under the Master Indenture.

See “APPENDIX C – SUMMARY OF PRINCIPAL FINANCING DOCUMENTS – MASTER INDENTURE – Additional Covenants” and related definitions.

Required Financial Covenants. Pursuant to the Master Indenture, each Member further covenants and agrees that each related Lease [or School Loan Agreement, as applicable] will contain the following provisions in substantially the following form:

Extraordinary Monthly Rent Notice. In the event that MERF under such Lease receives a notice (each an “Extraordinary Monthly Rent Notice”) from either the lessor under such Lease (the “Lessor”) or the Master Trustee stating the Master Trustee has not received the payment of Rent with respect to a Related Project on or before the date that such required payment is due, then MERF shall pay the Extraordinary Monthly Rent to the Master Trustee within three (3) Business Days after MERF’s receipt of such Extraordinary Monthly Rent Notice. The Lessor shall covenant in such Lease to immediately provide MERF with a copy of any Extraordinary Monthly Rent Notice received by Lessor pursuant to the terms of the Master Indenture.

The term “*Extraordinary Monthly Rent*” shall mean the amount set forth in an Extraordinary Monthly Rent Notice, which shall be MERF’s Proportionate Share of the Extraordinary Monthly Rent.

The term “*Proportionate Share*” shall mean the amount required to be paid by MERF to ensure that all of the required Base Rent payments and School Loan Repayments with respect to all of the Related Projects have been timely made.

The term “*Base Rent*” set forth under each related Lease shall include, as one component, the “Extraordinary Monthly Rent.”

Base Rent Coverage Ratio. MERF shall budget for and maintain a Base Rent Coverage Ratio of not less than 1.10:1.00 for each Fiscal Year, commencing with the Fiscal Year ended June 30, 2017.

Lessee shall require its auditor to provide the Bond Trustee by no later than December 31 of each year, commencing December 31, 2017, with a certification of the Base Rent Coverage Ratio as of the end of the preceding Fiscal Year.

(i) Definitions to be included in such covenant are as follows:

(1) The term “*Base Rent*” means an amount not less than the debt service due and payable with respect to the related Facility plus any ground rent on a related Facility or the amounts provided in the rent schedule attached to each Lease. The term “*Base Rent*” set forth under each related Lease shall include, as one component, the “*Extraordinary Monthly Rent*.”

(2) The term “*Base Rent Coverage Ratio*” means, for the indicated period, the ratio obtained by dividing the budgeted amounts for (A) Lessee Revenue Available for Base Rent by (B) Base Rent payable under the Bond Indenture.

(3) The term “*Excess Unrestricted Revenues*” means, for any fiscal year, the amount equal to Unrestricted Cash less five percent (5%) of Total Operating Revenues

(4) The term “*Extraordinary Monthly Rent*” means the amount set forth in an Extraordinary Monthly Rent Notice, which shall be MERF’s Proportionate Share of the Extraordinary Monthly Rent.

(5) The term “*Lessee Gross Revenues*” means all revenues, income, receipts and moneys received by MERF or on behalf of MERF solely relating to the operations of the School, including from any applicable district or county or from the State pursuant to the Charter School Law from any categorical block grant, general purpose entitlement or revenue limit; but excluding gifts, grants, bequests, donations and contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for Rent payments or operating expenses.

(6) The term “*Lessee Operating Expenses*” means fees and expenses of MERF relating solely to the School, including maintenance, repair expenses, utility expenses, administrative and legal expenses, miscellaneous operating expenses, advertising costs, payroll expenses (including taxes), the cost of materials and supplies used for current operations of MERF, the cost of vehicles, equipment leases and service contracts, taxes upon the operations of MERF, 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 MERF; provided, however, “*Lessee Operating Expenses*” shall not include rent payable under the Lease, subordinated management fees, depreciation, amortization or other non-cash expenses, payment for subordinated management fees or improvements to MERF facility which are capitalized for accounting purposes, nor expenses paid from or allocable to any gifts, grants, bequests, donations and contributions excluded from the calculation of Lessee Gross Revenues as restricted by the donor.

(7) The term “*Lessee Revenue Available for Base Rent*” means (A) for the indicated period, an amount equal to Lessee Gross Revenues less Lessee Operating Expenses or (B) in the event that, for the indicated period, the Base Rent Coverage Ratio would be less than 1.10:1.00 based on the formula set forth in clause (A), at the option of MERF exercised for not more than any three fiscal years within a period of any five consecutive fiscal years, an amount equal to Lessee Gross Revenues plus an amount of Excess Unrestricted Revenues (as set forth in a written

notice) less Lessee Operating Expenses; provided, however, that the formula set forth in clause (B) shall not be applicable for purposes of calculating whether Additional Indebtedness may be incurred under the Indenture; provided, further, that any such amount of Excess Unrestricted Revenues added to Lessee Gross Revenues pursuant to this paragraph may not be used to satisfy the same requirement under any other Lease.

(8) The term “*Proportionate Share*” means the amount required to be paid by MERF to ensure that all of the required Rent payments with respect to all of the Related Projects (as that term is defined in the Master Indenture) have been timely made.

(9) The term “*Total Operating Revenue*” means, for any fiscal year, the dollar amount identified as “Total support and revenue” on the consolidated statement of activities and changes in net assets in the consolidated financial statements of MERF as prepared by an independent auditor.

(10) The term “*Unrestricted Cash*” means, for any fiscal year, the dollar amount identified as “cash and cash equivalents” on the consolidated statement of financial position or balance sheet of the consolidated financial statements of MERF as prepared by an independent auditor.

(ii) For any period of measurement, if the Base Rent Coverage Ratio shall be less than 1.10:1.00 but greater or equal to 1.00:1.00, then Bondholders holding a majority of the Outstanding Bonds shall have the right to direct the Bond Trustee in writing to require MERF to engage, at MERF’s expense, an Independent Consultant acceptable to the Bondholders. Notwithstanding the foregoing, (x) the Holders of a majority of the Outstanding Bonds will have the right, by written notice to MERF, to require MERF to comply with any recommendation of the Independent Consultant with respect to items set forth above in such Independent Consultant’s report and (y) the failure of Lessee to comply with the Lease shall not constitute a Default or Breach unless Lessee fails to comply with the written direction of the Holders of a majority of the Outstanding Bonds as provided in the Lease.

(iii) For any period of measurement, if the Base Rent Coverage Ratio falls below 1.00:1.00, it shall constitute an Event of Default under the Lease.

Liquidity Covenant. [MERF shall maintain Days Cash on Hand equal to at least [25 days] as measured on June 30, 2017. MERF shall maintain Days Cash on Hand equal to at least [35 days] as measured on June 30, 2018. MERF shall maintain Days Cash on Hand equal to at least [45 days] as measured on each June 30, commencing on June 30, 2019.]

The covenant described in the first paragraph of “ – Liquidity Covenant” is to be evidenced by a certificate of MERF setting forth the calculation of such amount based on the results of the annual audit of MERF for such Fiscal Year upon release of such audit. If on any testing date MERF’s minimum Unrestricted Cash and Investments is below that required as described above, MERF 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 Underwriter and the Bond Trustee) with respect to increasing income of MERF, decreasing Operating Expenses of MERF or other financial matters of MERF which are relevant to increasing MERF’s Unrestricted Cash and Investments to at least the required level. MERF 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 MERF 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 of the applicable section of the Lease.

(1) The term “*Days Cash on Hand*” shall mean, as of any date of determination with respect to MERF, the product of 365 times a fraction, (a) the numerator of which is Unrestricted Cash and Investments; and (b) the denominator of which is total Operating Expenses, in each case, for the period of four consecutive fiscal quarters ended on the date of determination, and determined in accordance with generally accepted accounting principles.

(2) The term “*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 Bond Indenture or similar debt documents. For the purposes of calculations of the liquidity requirements of such Lease, 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 Officer's Certificate is required to be delivered with respect to such calculation.

(3) The term “*Operating Expenses*” means fees and expenses of MERF, 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 MERF, the cost of vehicles, equipment leases and service contracts, taxes upon the operations of MERF, 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 MERF; 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 MERF which are not Pledged Revenues, nor payment for improvements which are capitalized for accounting purposes.

(4) The term “*Pledged Revenues*” means, to the extent permitted by law, all revenues, rentals, fees, third-party payments, receipts, accounts, or other income of MERF, 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 MERF; and all gifts, grants, bequests, donations and contributions (including income and profits therefrom) to the extent permitted by the terms thereof and by law.

MERF shall deliver to the [Bondholder Representative,] Borrower and the Bond Trustee an officer's certificate executed by the [Executive Director or Chief Financial Officer] of MERF, no later than six months after the close of each Fiscal Year based upon audited results, commencing for the quarter ended [March 31, 2017], setting forth a computation of the Days Cash on Hand as of such date.

If the certification referred to in the applicable Lease or School Loan Agreement discloses that MERF's Days Cash on Hand to be less than what is required above, Bondholders holding a majority of the Outstanding Bonds shall have the right to direct the Bond Trustee in writing to require MERF to engage, at MERF's expense, an Independent Consultant acceptable to

the Bondholders. Notwithstanding the foregoing, (a) the Holders of a majority of the Outstanding Bonds will have the right, by written notice to MERF, to require MERF to comply with any recommendation of the Independent Consultant with respect to items set forth above in such Independent Consultant's report and (b) the failure of MERF to comply with the respective Lease or School Loan Agreement shall not constitute a Default or Breach unless MERF fails to comply with the written direction of the Holders of a majority of the Outstanding Bonds as provided in the applicable Lease or School Loan Agreement.

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

Coverage Ratio Covenant. MERF shall deliver annually, upon completion of MERF's annual audit, to the Issuer, the Bond Trustee[, the Bondholder Representative] and the Underwriter 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, 2017. The Debt Service Coverage Ratio is required to be at or above 1.10 to 1 for each applicable School for each Fiscal Year, commencing with the Fiscal Year ending June 30, 2017; provided, however, that if MERF has Unrestricted Cash and Investments in an amount at least equal to [75] Days Cash on Hand on June 30 of any Fiscal Year, the Debt Service Coverage Ratio is required to be at or above 1.00 to 1 for such Fiscal Year. If, for any Fiscal Year ending June 30, 2017, or after, such Debt Service Coverage Ratio is below 1.10 to 1 or 1.00 to 1, as applicable, MERF 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 Underwriter and the Bond Trustee) with respect to increasing income of MERF, decreasing Operating Expenses or other financial matters of MERF which are relevant to increasing the Debt Service Coverage Ratio to at least the required level. MERF 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 pursuant to the Lease, the Bond Trustee is required to notify Registered Owners of the Obligations Outstanding 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 MERF 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 of the applicable section of the Lease. Notwithstanding the foregoing provisions in the Master Indenture, the failure of MERF to have a Debt Service Coverage Ratio of at least 1.00 to 1 for any Fiscal Year ending June 30, 2017 or after shall be an Event of Default hereunder.

For the purpose of the Coverage Ratio Covenant subsection, the following terms shall be prescribed the following meanings:

(1) The term "*Debt Service Coverage Ratio*" means, for any Fiscal Year, the ratio obtained by dividing the Net Income Available for Debt Service for such Fiscal Year by the

Maximum Annual Debt Service on Indebtedness, as such ratio is certified to by an Accountant of MERF.

(2) The term “*Maximum Annual Debt Service on Indebtedness*” means, as of any date of calculation, the highest amount of Debt Service (net of (i) amounts in the Capitalized Interest Account 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.

(3) The term “*Net Income Available for Debt Service*” means, for any period of determination thereof, the Pledged Revenues of MERF for such period, plus the interest earnings on moneys held in the Debt Service Reserve Fund established under the Related Bond Indenture (but only to the extent that such interest earnings are transferred to the Bond Fund under the Related Bond Indenture), plus required payments from the Capitalized Interest Account, minus the total Operating Expenses of MERF 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, (iii) gain or loss in the extinguishment of Indebtedness of MERF, (iv) proceeds of the Bonds and any other Indebtedness permitted by the Master Indenture and (v) proceeds of insurance policies, other than policies for business interruption insurance, maintained by or for the benefit of MERF, the proceeds of any sale, transfer or other disposition of the Facilities or any other of MERF's assets by MERF, and any condemnation or any other damage award received by or owing to MERF.

(4) The term “Indebtedness” means all obligations for borrowed money, installment sales and all lease obligations, *incurred* or assumed by MERF, including Guaranties, Long-Term Indebtedness, Short-Term Indebtedness or any other obligation for payments of principal and interest with respect to money borrowed.

(5) The term “*Guaranty*” means all loan commitments and all obligations of MERF guaranteeing in any manner whatever, whether directly or indirectly, any obligation of any other Person that would, if such other Person were MERF, constitute Indebtedness.

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

(7) The term “*Short-Term Indebtedness*” means all Indebtedness of MERF not considered Long-Term Indebtedness or a Guaranty.

Additional Indebtedness and Leases. Pursuant to the Master Indenture, each Member shall covenant and agree in the related lease agreement that such Member will not incur any Additional Indebtedness except for the following purposes as described below:

Long-Term Indebtedness. MERF may incur additional Long-Term 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 [1.10 to 1] (taking into account the proposed additional Long-Term Indebtedness and any Long-Term Indebtedness to be refinanced thereby); or

(2) an Independent Consultant reports that the (a) the Debt Service Coverage Ratio for the most recent Fiscal Year for which an audit has been completed was at least [1.10 to 1] and (b) the Debt Service Coverage Ratio for each 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 [1.10 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); or

(3) an Independent Consultant reports that the Debt Service Coverage Ratio for each 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 [1.35 to 1.00] (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).

Completion Indebtedness. MERF 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) MERF certifies, in writing, to the Bond Trustee that at the time the original Indebtedness issued for the purpose of financing certain Capital Improvements was incurred, MERF 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 Bond Trustee with a written statement specifying the amount necessary to complete such Capital Improvements; and (iii) MERF certifies, in writing, to the Bond Trustee that the proceeds of the proposed Completion Indebtedness, together with other legally available moneys of MERF, will be in an amount equal to the amount set forth in clause (ii) of this subsection.

Refunding Indebtedness. MERF may issue Refunding Indebtedness, provided that MERF certifies, in writing, to the Bond Trustee that the Maximum Annual Debt Service on Indebtedness will not be increased by more than 10% by such refunding.

Balloon Indebtedness. MERF 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.

Put Indebtedness. MERF may issue [Put Indebtedness – NEED DEFINITION] 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.

Short-Term Indebtedness. Short Term Indebtedness (other than Indebtedness consisting of accounts payable incurred in the ordinary course of business or other Indebtedness not incurred or assumed primarily to assure the repayment of money borrowed or credit extended which Indebtedness is incurred in the ordinary course of business, which may be incurred without limitation) in a total principal amount which at the time incurred does not, together with the principal amount of all other such Short Term Indebtedness of MERF then outstanding but excluding the principal payable on all Funded Indebtedness during the next succeeding 12 months and also excluding such principal to the extent that amounts are on deposit in an irrevocable escrow and such amounts (including, where appropriate, the earnings or other increments to accrue thereon) are required to be applied to pay such principal and such amounts so required to be applied are sufficient to pay such principal, exceed 10% of the Gross Revenues of MERF for the most recent Fiscal Year for which financial statements reported upon by independent certified public accountants are available; provided, however, that for a period of 20 consecutive calendar days in each Fiscal Year the total amount of such Short Term Indebtedness of MERF outstanding shall not be more than 5% of the Gross Revenues of MERF during the preceding Fiscal Year. For the purposes of this subsection, Short Term Indebtedness shall not include overdrafts to banks to the extent there are immediately available funds of MERF sufficient to pay such overdrafts and such overdrafts are incurred and corrected in the normal course of business.

Other Indebtedness. Indebtedness the principal amount of which at the time incurred, together with the aggregate principal amount of all other Indebtedness then outstanding which was issued pursuant to the provisions of this subsection and which has not been subsequently reclassified as having been issued under another subsection of the Master Indenture as described in “ – Additional Indebtedness” does not exceed 5% of the Gross Revenues of MERF for the latest preceding Fiscal Year for which audited financial statements have been delivered to the Bond Trustee in accordance herewith.

Non-Recourse Indebtedness, Commitment Indebtedness and Subordinated Indebtedness. MERF may issue Non-Recourse Indebtedness, Commitment Indebtedness and Subordinated Indebtedness without limitation.

Selection of Independent Consultant Covenant. Within 15 days of any event requiring MERF to retain an Independent Consultant under this Lease, MERF 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 Obligations 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 Bond Trustee) to the Bond 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 Bond Trustee shall notify MERF of the aggregate principal amount of Obligations Outstanding held by the holders submitting objections. If the holders of more than 50% of the aggregate principal amount of the Obligations Outstanding have been deemed to have consented to the selection of the Independent Consultant or have not responded to the request for consent, MERF shall engage the Independent Consultant within two Business Days. If the holders of at least 50% of the aggregate principal amount of the Obligations Outstanding have objected to the Independent Consultant selected, MERF shall select another Independent Consultant.

Capital Needs Assessment/Repair and Replacement Fund. MERF, together with the Members of the Obligated Group, shall pay or cause to be paid to the Master Trustee on the twentieth day of each month, commencing [August 20, 2021], 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 [September 1, 2020], and every fifth anniversary thereafter as long as the Bonds are Outstanding, the Obligated Group shall select an Independent Consultant to complete a capital needs assessment of the Obligated Group projecting the Obligated Group's capital needs and the total cost thereof over the five year period commencing on the following [September 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 Obligated Group 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 "APPENDIX C – SUMMARY OF PRINCIPAL FINANCING DOCUMENTS – MASTER INDENTURE – Additional Covenants" and related definitions and "APPENDIX C – SUMMARY OF PRINCIPAL FINANCING DOCUMENTS – MASTER INDENTURE – Selection of Independent Consultants."

Limitations on Additional Indebtedness under the Master Indenture. Pursuant to the Master Indenture, the Member covenants and agrees and each subsequent Member shall covenant and agree that it will not incur any Additional Indebtedness after the date of the Master Indenture except as follows:

(i) Such indebtedness is supported by Payments due under one or more Leases or School Loan Agreements with MERF for the use and occupancy of Facilities, which include provisions substantially similar to those attached to the Master Indenture; and

(ii) Payments due to the Members under the applicable Lease or School Loan Agreement referred to in subsection (i) are sufficient to satisfy a Debt Service Coverage Ratio of the Corporation of not less than 1.0:1.0.

See “APPENDIX C – SUMMARY OF PRINCIPAL FINANCING DOCUMENTS – MASTER INDENTURE.”

Amendment of the Lease or School Loan Agreement. Pursuant to the Master Indenture, there shall be no amendment, modification or termination of any of the Leases or School Loan Agreements without (1) an Officer’s Certificate delivered to the Master Trustee stating that the amendment, modification or termination of the Lease or School Loan Agreement contemplated shall not have a material adverse effect on the financial position of the Obligated Group or (2) the prior written consent of the Master Trustee. The Master Trustee shall give such written consent only if:

(a) in the Opinion of Bond Counsel, such amendment is necessary to preserve the exclusion of interest on Tax-Exempt Bonds from gross income for purposes of federal income taxation or the exemption of interest on the Tax-Exempt Bonds from state income taxation; or

(b) (1)(A) the Holders of a majority in principal amount of the Tax-Exempt Bonds then Outstanding consent in writing to such amendment, modification or termination or (B) in the Opinion of Counsel, such amendment, modification or termination will not materially adversely affect the interests of the Related Bondholders or result in any material impairment of the security given for the payment of the Related Bonds and (2) the Master Trustee shall receive an Opinion of Bond Counsel substantially to the effect that such amendment, modification or termination will not, in and of itself, adversely affect any exclusion of interest on the Related Bonds from gross income for purposes of federal income taxation; or

(c) it has received a written representation from the Obligated Group Representative to the effect that such amendment or modification will not materially and adversely affect the interests of the Holders of the Related Bonds; provided that, if either of the following Events of Default under the Bond Indenture has occurred and is continuing:

(1) Failure on the part of the Obligated Group to make due and punctual payment of any Required Payment on an Obligation, or

(2) Failure on the part of the Obligated Group to observe and perform any other covenant or agreement under the Master Indenture (including covenants or agreements contained in any Related Supplement or Obligation) for a period of 60 days after the date on which written notice of such failure, specifying such default and requiring the same to be remedied, shall have been given to the Obligated Group Representative by the Master Trustee or to the Obligated Group Representative and the Master Trustee by the Holders of at least half in aggregate Principal Amount of Outstanding Obligations except that, in each case, if such failure can be remedied but not within such 60-day period, such failure shall not become an Event of Default for so long as the Obligated Group Representative shall diligently proceed to remedy same in accordance with and subject to any directions or limitations of time established by the Master Trustee,

has occurred and is continuing, the Master Trustee rather than the Obligated Group Representative shall make a determination that such an amendment or modification will not materially and adversely affect the interest of the Holders of the Related Bonds (provided that, in making such determination, the Master Trustee may conclusively rely on written representations of financial consultants or advisors or the opinion or advice of counsel).

Membership in Obligated Group. Additional Members may be added to the Obligated Group from time to time provided that prior to such addition the Master Trustee receives:

(a) a copy of a resolution of the Governing Body of the proposed new Member which authorizes the execution and delivery of a Related Supplement and compliance with the terms of the Master Indenture;

(b) a Related Supplement executed by the Obligated Group Representative, the new Member and the Master Trustee pursuant to which the proposed new Member (1) agrees to become a Member, (2) agrees to be bound by the terms and restrictions imposed by the Master Indenture and the Obligations and (3) irrevocably appoints the Obligated Group Representative as its agent and attorney-in-fact and grants to the Obligated Group Representative full power to execute Related Supplements authorizing the issuance of Obligations and to execute and deliver Obligations;

(c) an Opinion of Counsel addressed to the Master Trustee to the effect that (i) the proposed new Member has taken all necessary action to become a Member, and upon execution of the Related Supplement, such proposed new Member will be bound by the terms of the Master Indenture and (ii) the addition of such Member will not cause the Master Indenture or any Obligations to be subject to registration under the Securities Act of 1933, as amended, or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred);

(d) an Independent Consultant's or Accountant's report, or an Officer's Certificate, as appropriate, to the effect that the condition described in the Master Indenture would be met for the incurrence of one dollar of additional Long-Term Indebtedness immediately following the addition of such new Member;

(e) an Opinion of Bond Counsel to the effect that the addition of such Member will not result in the inclusion of interest on any Related Bonds that purports to be a Tax-Exempt Bond in gross income for purposes of federal income taxation, nor cause the Master Indenture nor the Obligations issued under the Master Indenture to be subject to registration under the Securities Act of 1933, as amended, or the Trust Indenture Act of 1939, as amended (or unless such registration, if required, has occurred);

(f) an Officer's Certificate to the effect that no Member, immediately after the addition of such new Member, would be in default in the performance or observance of any covenant or condition of the Master Indenture; and

(g) a duly executed and delivered Mortgage encumbering all Property, Plant and Equipment of such new Member, subject only to Permitted Liens.

Any certification or calculation made in accordance with the Master Indenture may take into account the effect of the withdrawal of another Member or Members from the Obligated Group in connection with the addition of a Member to the Obligated Group contemplated therein.

Withdrawal from Obligated Group. Any Member may withdraw from the Obligated Group, and be released from further liability or obligation under the provisions of the Master Indenture, provided that prior to such withdrawal the Master Trustee receives:

(a) an Officer's Certificate to the effect that, immediately following withdrawal of such Member, no Member would be in default in the performance or observance of any covenant or condition of the Master Indenture;

(b) an Opinion of Bond Counsel to the effect that the withdrawal of such Member is in compliance with the conditions contained in the Master Indenture, and such withdrawal will not result in the inclusion of interest on any Related Bonds that purports to be a Tax-Exempt Bond in gross income for purposes of federal income taxation, nor cause the Master Indenture nor the Obligations issued under the Master Indenture to be subject to registration under the Securities Act of 1933, as amended, or the Trust Indenture Act of 1939, as amended (or unless such registration, if required, has occurred);

(c) an Officer's Certificate to the effect that, to the best of such Officer's knowledge, the withdrawal of such Member will not cause a downgrade or withdrawal of any then-current rating on the Related Bonds outstanding under the Master Indenture by the related rating agency; and

(d) an Independent Consultant's report stating that:

(i) the Consolidated Payment Obligations Coverage Ratio for the Fiscal Year immediately preceding such withdrawal, taking such withdrawal into account, is calculated to be at least 1.00 in such Fiscal Year or would have been greater than it would otherwise have been absent such withdrawal; and

(ii) the forecast Consolidated Payment Obligations Coverage Ratio for the two consecutive Fiscal Years immediately following such withdrawal, taking such withdrawal into account, is projected to be at least 1.25 in each Fiscal Year or would be greater than it would otherwise have been absent such withdrawal.

Any certification or calculation made in accordance with the Master Indenture may take into account the effect of the addition of another Member or Members to the Obligated Group in connection with the withdrawal of a Member from the Obligated Group contemplated herein.

Upon compliance with the conditions contained in the Master Indenture as described above, the Master Trustee is required to execute any documents reasonably requested by the withdrawing Member to evidence the termination of such Member's obligations under the Master Indenture (including without limitation termination of the pledge of such Member's Gross Revenues) under any Related Supplements and under all Obligations (including, without limitation, reconveyance of the Mortgage encumbering such Member's Property, Plant and Equipment for the benefit of the Master Trustee).

Limitations on Liens. Except as otherwise provided in the Master Indenture, each Member, respectively, covenants and agrees that it will not create, assume or suffer to exist any Lien upon the Property of the Obligated Group; provided that the following Liens are permitted: (i) a Lien that is subordinate to the Obligations or (ii) a Permitted Lien. Notwithstanding the foregoing, each Member, respectively, further covenants and agrees that if such a Lien is created or assumed by any Member, it will make or cause to be made effective a provision whereby all Obligations will be secured prior to any such Indebtedness or other obligation secured by such Lien; provided, however, that notwithstanding the provisions described in this paragraph, each Member may create, assume or suffer to exist Permitted Liens. See "APPENDIX C – SUMMARY OF PRINCIPAL FINANCING DOCUMENTS – MASTER INDENTURE – Mortgages; Against Encumbrances."

Other Covenants. The Members of the Obligated Group have agreed to other covenants in the Master Indenture, including without limitation, limitations on guaranties; limitations on consolidation, merger, sale or conveyance; and limitations on sale, lease or other disposition of assets. For a description of these covenants see "APPENDIX C – SUMMARY OF PRINCIPAL FINANCING DOCUMENTS – MASTER INDENTURE –Particular Covenants of the Lessee."

Mortgages

Pursuant to the Master Indenture, each Member will enter into a mortgage, deed of trust, security agreement, assignment of rents and leases and/or financing statement as provided therein (each, a "Mortgage") for each Facility to secure the obligations of the Members under the Master Indenture. Each Member, respectively, will agree pursuant to the Master Indenture to supplement such deed of trust or mortgage or to execute and deliver such other deeds of trust or mortgages as may be necessary from time to time to grant to the Master Trustee a first priority Lien on any Property, Plant and Equipment of the Member.

The Mortgages also create a current and absolute assignment of the rents under each Lease in favor of the Master Trustee. See "THE LEASES" herein. The Mortgaged Property generally consists of all real property and personal property that constitute the "Facilities" at which MERF operates. Pursuant to the Master Indenture and in connection with the execution and delivery of the Mortgages, each Member has covenanted to obtain or cause to be maintained, ALTA title insurance policies on its Facilities in an aggregate amount not less than the aggregate principal amount of the Bonds, insuring the liens of the Mortgages held by the Master Trustee, subject only to Permitted Liens, issued by a title insurance company qualified to do business in the State. See "APPENDIX C – SUMMARY OF PRINCIPAL FINANCING DOCUMENTS" attached hereto.

Mortgages may be terminated on the facilities owned by a Member withdrawing from the Obligated Group. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – THE MASTER INDENTURE – Withdrawal from Obligated Group" and "CERTAIN RISK FACTORS – Addition and Withdrawal of Members" herein.

THE LEASES

The following section contains brief descriptions of the Leases. All references in this Limited Offering Memorandum to the Leases are qualified in their entirety by reference to the Leases, copies of which may be obtained by request to the Underwriter. See "APPENDIX D – SUMMARY OF THE LEASES AND THE SANTA ANA LOAN AGREEMENT."

General

The primary source of Gross Revenues for the Members of the Obligated Group is the payment of Rent received pursuant to each Lease. The term of each Lease will commence on _____ 2017 (the "Commencement Date") and is scheduled to end on July 1, 2037 (the "Initial Term") (or such other later date if Lessee exercises its extension option described herein) (such date, as it may be extended, the "Expiration Date"). Pursuant to each Lease, the Lessee has two (2) options to extend the Initial Term for five (5) years each and a third option to extend the Lease Term for an additional four (4) years (each such extension term, an "Extension Term" and, collectively with the Initial Term, the "Term") in accordance with each Lease with the Rent (as defined herein) during an Extension Term to be set at an amount no less than the Fair Market Rent (as defined herein) of the Premises at the date the option becomes exercisable.

Payment of Rent

Pursuant to each Lease, the Lessee will make monthly payments of Rent in advance on the 15th day of each calendar month. "Rent," as defined under the Leases, is comprised of the following: (i) the monthly payment of Base Rent (as defined in the Leases); (ii) Expenses; (iii) Additional Rent; (iv) Extraordinary Monthly Rent (as defined herein) and (v) all other monetary obligations of the Lessee to Lessor or to third parties arising under the terms of the Leases. See "APPENDIX D – SUMMARY OF THE LEASES AND THE SANTA ANA LOAN AGREEMENT" herein.

Under the Leases, in the event that the Lessee receives a notice (each an "Extraordinary Monthly Rent Notice") from either Lessor or the Master Trustee, stating the Master Trustee has not received the payment of rent with respect to a Related Project (as defined in the Master Indenture) on or before the date that such required payment is due, then Lessee shall pay the Extraordinary Monthly Rent to the Master Trustee within three (3) business days after Lessee's receipt of the Extraordinary Monthly Rent Notice. Under the Leases, the Lessor covenants to immediately provide Lessee with a copy of any Extraordinary Monthly Rent Notice received by Lessor pursuant to the terms of the Master Indenture. The term "Extraordinary Monthly Rent" means the amount set forth in such Extraordinary Monthly Rent Notice, which shall be Lessee's Proportionate Share of the Extraordinary Monthly Rent. The term "Proportionate Share" means the amount required to be paid by the Lessee to ensure that all of the required rent with respect to all of the Related Projects have been timely made.

Except as provided in the Leases, Lessee's obligation to pay the Rent shall be a special obligation limited solely to, and not in excess of, the "Gross Income of the School," as defined below, and under no circumstances shall the Lessee be required to advance any moneys derived from any source of income other than, or pay Rent which is in excess of, the Gross Income of the School, nor shall any other funds or property of the Lessee be liable for the payment of the Rent. Nothing contained in this paragraph will be construed to release the Lessor from the performance of any of the agreements on its part herein contained, and in the event the Lessor shall fail to perform any such agreements on its part, the Lessee may institute such action against the Lessor as the Lessee may deem necessary to compel performance so long as such action does not abrogate the obligations of the Lessee described in the second sentence of this paragraph. The Lessee may, however, at the Lessee's own cost and expense and in the Lessee's own name or in the name of the Lessor prosecute or defend any action or proceeding or take any other action involving third persons which the Lessee deems reasonably necessary in order to secure or protect the Lessee's right of possession, occupancy and use under the Leases, and in such event the Lessor will agree to cooperate fully with the Lessee and to take such action necessary to effect the substitution of the Lessee, as lessee, for the Lessor in such action or proceeding if the Lessee shall so request. As used herein, subject to the terms of the Leases, the term "Gross Income of the School" means all income and revenues directly or indirectly derived by the Lessee's operation of the School, including without limitation per pupil revenues and other funding received from the State of California or by virtue of the charter granted to Lessee for the School and all gifts, grants, bequests and contributions (including income and profits therefrom) specifically restricted by the donor or maker thereof to the School or the Premises, to the extent not specifically restricted by the donor or maker thereof to a particular purpose inconsistent with their use for the payments required under the Loan Agreement. Gross Income of the School also includes net insurance or condemnation proceeds received or payable to the Lessee on account of damage or destruction of the Premises or other loss incurred by Lessee with respect to its operation of the School or the Premises.

The Lessee's obligation to pay Rent will commence on the Rent Commencement Date. Subject to payments made in accordance with the Intercept Notice, Lessee has covenanted to cause all Rent payable to Lessor under each Lease to be received by Lessor in lawful money of the United States on or before the day on which it is due, without offset or deduction. Rent for any period during the Term of the Leases which is for less than one full calendar month will be prorated based upon the actual number of days of said month. Payment of Rent due to Lessor will be made to Lessor at its address stated in the Leases or to such other persons or place as Lessor may from time to time designate in writing. Subject to the terms of the Master Indenture, and so long as any of the Bonds or the Loan remains outstanding, Lessee will: (a) through the Intercept Notice, cause the Controller to transfer the portion of the State Apportionment attributable to the School to the Master Trustee for deposit in the Gross Revenue Fund (as defined in the Master Indenture) as set forth in the Intercept Notice; and (b) cause the Master Trustee to pay from the Gross Revenue Fund the Rent due to Lessor under the terms of the Leases. See

“APPENDIX D – SUMMARY OF THE LEASES AND THE SANTA ANA LOAN AGREEMENT” herein.

Pursuant to each Lease, so long as the Bonds remain outstanding, (i) the Lessee’s obligation to pay management fees to third parties shall be subordinate to Lessee’s obligation to pay rent to Lessor under such Lease; (ii) the Lessee’s obligation to pay management fees to third parties shall be suspended for any such length of time as the payment of such fees would cause Lessee to fail to meet any of the financial covenants (concerning the days cash on hand and the debt service coverage ratio, respectively); and (iii) during any period of time when the payment of management fees is suspended in accordance with clause (ii) above, such fees shall accrue without interest. See “– Certain Covenants of the Lessee under the Lease – Financial Covenants – Subordination of Collection of Management Fees” below.

Certain Covenants of the Lessee under the Leases

General. Each Lease contains various covenants (including reporting covenants), representations and warranties made by the Lessee, as lessee, to the Lessor. Covenants include, but are not limited to:

- (i) restrictions on the use of the Premises to the operation of a charter school;
- (ii) compliance by the Lessee with applicable laws, including all environmental laws;
- (iii) sublease and assignment restrictions without the prior written consent of Lessor;
- (iv) covenants to maintain insurance policy coverages required pursuant to the Lease;
- (v) indemnification of the Lessee pursuant to the Lease terms;
- (vi) indemnification of the Lessor pursuant to the Lease terms;
- (vii) covenant to take all reasonable actions to maintain School’s Charter;
- (viii) limitations on disposition of property, plant and equipment of the Lessee;
- (ix) covenant not to incur further indebtedness of the Lessee or to encumber any of the assets attributable to and necessary for the operation of the School; and
- (x) covenant not to take any action or omit to take any action that, if taken or omitted, would cause Lessee to lose status as an organization described under Section 501(c)(3) of the Code.

Financial Covenants. Each Lease contains the following financial covenants on the part of the Lessee, as tenant thereunder.

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

connection with the issuance of Additional Bonds under the Indenture and with the consent of the Bondholder Representative.

Consolidated Days Cash on Hand. In accordance with the covenants under the Master Indenture, the Lessee has covenanted under the Lease that it will comply with the Consolidated Days Cash on Hand requirement set forth in the Master Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – THE MASTER INDENTURE – Consolidated Days Cash on Hand.”

Base Rent Coverage Ratio. In accordance with the Master Indenture, the Lease contains a covenant substantially in the form of the required Base Rent Coverage Ratio provisions set forth in the Master Indenture. Under each Lease, the Lessee has agreed to comply with a covenant substantially in the form of the covenant set forth in the Master Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – THE MASTER INDENTURE – Required Lease Covenants.”

Subordination of Collection of Management Fees. The Lessee shall amend any management agreement for the School such that, so long as Bonds remain outstanding: (i) the obligation of the Lessee to pay management fees relating to the School shall be subordinate to its payment of operating expenses of the School and rent payments to Lessor under the Lease; (ii) the obligation of the Lessee to pay management fees relating to the School shall be suspended for any such time as the payment of management fees would cause Lessee to fail to meet any of the financial covenants contained in the Lease (concerning the days cash on hand and the debt service coverage ratio); and (iii) during any period of time when management fees remain unpaid, such fees shall accrue without interest.

Change in Financial Accounting Under GAAP. If any pending or future change in financial accounting under GAAP, including but not limited to a change in the treatment of leases, shall lead to a materially different result in a calculation under any financial covenant set forth under the Lease, then such financial covenant shall be calculated based on GAAP in effect as of the date of this Lease as if such change in financial accounting had never occurred.

See “APPENDIX D – SUMMARY OF THE LEASES AND THE SANTA ANA LOAN AGREEMENT” herein.

SANTA ANA LOAN AGREEMENT

The following section contains brief descriptions of the Santa Ana Loan Agreement. All references in this Limited Offering Memorandum to the Santa Ana Loan Agreement are qualified in their entirety by reference to Santa Ana Loan Agreement, copies of which may be obtained by request to the Underwriter. See “APPENDIX D – SUMMARY OF THE LEASES AND THE SANTA ANA LOAN AGREEMENT.”

General

Pursuant to a Loan Agreement, dated as of April 1, 2017 (the “Santa Ana Loan Agreement”), MPM Santa Ana LLC, a California limited liability company, as lender, and MERF, MPM Santa Ana LLC will make a loan to MERF in the principal amount of [\$3,685,000] (the “Santa Ana Loan”) with a stated maturity date of _____, 20___. MERF will use the proceeds of the Santa Ana Loan to fund the portion of the Project located at the Santa Ana Facility or, with the consent of MPM Santa Ana, to finance or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and/or equipping of other charter school educational facilities located at the Santa Ana Facility.

Certain Covenants of MERF

MPM Santa Ana is a Member of the Obligated Group established under the Master Indenture. All deposits of moneys derived from the Intercept Notice under the Santa Ana Loan are required to be made at the corporate trust office of the Master Trustee or such other payee as set forth in the Intercept Notice. In connection with the Santa Ana Loan, MERF will timely amend, supplement or restate the Intercept Notice to require transfers to such other location as shall be designated in writing by the Master Trustee or such other payee to MERF.

Subject to payments made in accordance with the Intercept Notice, MERF has agreed to cause all Loan Payments payable to MPM Santa Ana under the Santa Ana Loan Agreement to be received by MPM Santa Ana in lawful money of the United States on or before the day on which it is due, without offset or deduction. Payment of Loan Payments due to MPM Santa Ana will be made to MPM Santa Ana at its address stated in the Santa Ana Loan Agreement or to such other persons or place as MPM Santa Ana may from time to time designate in writing. Subject to the terms of the Master Indenture, and so long as any of the Bonds or the Santa Ana Loan remains outstanding, MERF has agreed to: (a) through the Intercept Notice, cause the Controller to transfer the portion of the State Apportionment attributable to the School to the Master Trustee for deposit in the Gross Revenue Fund as set forth in the Intercept Notice; and (b) cause the Master Trustee to pay from the Gross Revenue Fund the Loan Payments due to MPM Santa Ana under the terms of the Santa Ana Loan Agreement.

Pledge and Security Interest

To secure the payment and performance of its obligations under the Santa Ana Loan Agreement, MERF has pledged to MPM Santa Ana and grants MPM Santa Ana a security interest in the Gross Revenues of the School and in the MERF Management Fees. From time to time, MERF may own or hold funds or other assets subject to a statutory, regulatory, grantor-imposed or donor-imposed restriction on use that prohibits the use of such funds or assets to satisfy the obligations of MERF under the Santa Ana Loan Agreement and/or prohibits the encumbrance of such funds or assets to secure such obligations. The pledge and grant of security interest set forth in the Santa Ana Loan Agreement will not encumber, attach to, or transfer, and the holder of any claims of MPM Santa Ana under the Santa Ana Loan Agreement will have no recourse under the Santa Ana Loan Agreement to, any funds or assets of MERF to the extent that any transfer of such funds or assets to or for the benefit of such holder would violate any such restriction on the use of such funds or assets.

Certain Covenants of the MERF under the Santa Ana Loan Agreement

For so long as the Sana Ana Loan is outstanding and has not been defeased or for so long as MPM Santa Ana shall have obligations under the Issuer Loan Agreement and Master Indenture, the following provisions of Exhibit B shall be applicable for the benefit of MPM Santa Ana and the Master Trustee.

School's Charter. To take all reasonable actions to maintain the School's Charter with a sponsoring entity and to take or cause to be taken any and all actions required to renew or extend the term of the School's Charter with a sponsoring entity. As soon as practicable, MERF covenants to provide MPM Santa Ana with a copy of any notice received with regards to any sponsoring entity's intent to renew or extend the term of any such Charter or any notice of any issues which, if not corrected or resolved, could lead to termination or nonrenewal of any such Charter. If such Charter is terminated or not renewed, MERF shall use its best efforts, and shall cooperate with MPM Santa Ana, to amend references to the School in the Loan Agreement and related promissory note to references to a successor charter school, if any, operated by MERF at the Premises that maintains a Charter with a sponsoring

entity. Further, MERF shall maintain accreditation status under the Charter Schools Act of 1992, as amended (constituting Part 26.8 of Division 4 of Title 2 of the California Education Code) and related administrative rules and, to the extent required to maintain the approval of the School's Charter petition by the sponsoring entity, meet the student performance accountability standards stated in the School's Charter petition

Limitation on Disposition of Property, Plant and Equipment. Without the consent of the Master Trustee, not to dispose or transfer any property, plant and equipment consisting of all or any part of the Premises, except for dispositions or transfers: (i) of property, plant and equipment no longer necessary for the operation of the Premises; (ii) of property, plant and equipment replaced by property, plant and equipment of similar type and/or of substantially equivalent function with a substantially equivalent value; or (iii) of property, plant and equipment sold or disposed of at a price equal to their fair market value.

Financial Reporting. [MERF agrees to provide MPM Santa Ana, and upon written request, the Master Trustee, the following information: (a) quarterly unaudited financial information of the School not later than 60 days from the end of each quarter, (b) annual budgets of the School within 60 days of their adoption, (c) financial information of the School within 30 days of approval by the governing board of MERF, (d) the results of any federal or State of California testing within 60 days of receipt by the governing board of MERF, (e) within 14 days of receipt, any notification or report of any potential or alleged violation of the Charter for the School, and (f) such other information as may be reasonably requested by MPM Santa Ana or MPM Santa Ana on behalf of the Master Trustee.

Assignment to Master Trustee; Deposit of Loan Payments

Pursuant to the Santa Ana Loan Agreement, MERF acknowledges and consents to the assignment by MPM Santa Ana of MPM Santa Ana's rights under the Santa Ana Loan Agreement to the Master Trustee under the Master Indenture and covenants and agrees to deposit all Loan Payments with the Master Trustee under the Master Indenture. MERF hereby covenants to pay to the Master Trustee the Loan Payments due under the Note on or before the twenty-fifth (25th) day of each month. In accordance with the terms of the Santa Ana Loan Agreement, MERF also agrees to provide an Intercept Notice to the Controller requesting that the amounts specified therein be transferred to the Master Trustee.

Limitation on Liens on Gross Revenues

Except as otherwise set forth in the Santa Ana Loan Agreement, MERF covenants and agrees that it will not create, assume or suffer to exist any lien upon the Gross Revenues of the School and that, if a subordinate security interest is created or assumed upon the Gross Revenues of the School by MERF, MERF will make or cause to be made effective a provision whereby the obligations of MERF under the Loan Agreement will be secured prior to any such indebtedness or other obligation secured by such security interest and that the revenues required by the Intercept Notice to be deposited with the Master Trustee under the Master Indenture will continue to be so deposited. A security interest in the Gross Revenues of the School on a parity with the lien created by the Loan Agreement may only be created in connection with the issuance of Indebtedness under the Master Indenture.

Liquidity Covenant

[To Come]

Coverage Ratio Covenant

[To Come]

CERTAIN RISK FACTORS

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

A number of factors could have an adverse impact on the ability of MERF to generate revenues needed to meet its respective obligations under each Lease and the Santa Ana Loan Agreement, which could, in turn, have an adverse effect on the ability of the Members of the Obligated Group to generate sufficient revenues to meet their respective obligations to make payments due under the Loan Agreement and the Obligations, including Obligation No. 1 and Obligation No. 2. The ability of MERF to generate sufficient revenues to make payments under each Lease and the Santa Ana Loan Agreement is dependent upon a number of elements, including State budget pressures, demand for charter schools, the ability of a School to provide the educational services and classes demanded by parents or to attract students generally, changes in the level of confidence in the public school system in general or public charter schools in particular, competition, faculty recruitment, demographic changes, legislation, governmental regulations, changes in immigration policy, litigation and the School's ability to achieve enrollment and fundraising levels. This, in turn, is affected by numerous circumstances both within and outside the control of the Obligated Group and MERF, including a continuation of favorable governmental policies and programs with respect to public charter schools (see "CHARTER SCHOOLS" herein); the competitive appeal and perceived quality of each School's curriculum; the ability and energy of each School's faculties and administration; and the benevolence of each School's supporters. There can be no assurance given that revenues of the Obligated Group or the revenues of MERF will not decrease. Any and all financial projections are only good faith estimates and are not intended as a representation or warranty as to the future financial condition of the members of the Obligated Group or MERF.

See "APPENDIX A – CERTAIN INFORMATION REGARDING THE PROJECT, MERF, THE CORPORATION, AND THE SCHOOLS," and "APPENDIX B – CONSOLIDATED AUDITED FINANCIAL STATEMENTS OF MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION FOR THE FISCAL YEAR ENDED JUNE 30, 2016" attached hereto.

Sufficiency of Revenues

The Bonds are payable primarily from Payments which are derived from payments received under the Loan Agreement and Obligation No. 1 and Obligation No. 2. The Corporation and the Members will also encumber the Facilities with the Mortgages as security for the obligation to make the payments under the Loan Agreement and Obligation No. 1 and Obligation No. 2.

The Corporation's primary expected source of the revenues will be the Rent payments that the Members received from MERF pursuant to each Lease and the Loan Payments that the Members received from MERF pursuant to the Santa Ana Loan Agreement. Based on present circumstances, including the successful operating history of MERF, the Corporation believes that MERF will generate sufficient revenues to meet its payment obligations under each Lease and the Santa Ana Loan Agreement representing the source of payment by the Corporation and the Members of the Obligated Group of debt

service on the Bonds. However, the charter of the Schools may be terminated or not extended or renewed, or the basis of the assumptions utilized by MERF and the Corporation to formulate such beliefs may otherwise change. No representation or assurance can be made that the Members of the Obligated Group generates or will continue to generate sufficient revenues to meet its obligations under the Loan Agreement and Obligation No. 1 and Obligation No. 2 with respect to the Bonds.

THE OBLIGATION OF MERF TO MAKE PAYMENTS UNDER EACH LEASE IS A SPECIAL OBLIGATION LIMITED SOLELY TO THE GROSS INCOME OF THE SCHOOL NAMED THEREIN, WHICH INCOME DERIVES SOLELY FROM THE OPERATION OF THE SCHOOL AND NOT FROM THE OTHER CHARTER SCHOOLS OPERATED BY OR ANY OTHER REVENUES OF MERF. NEITHER THE GENERAL REVENUES NOR THE REVENUES MERF MAY DERIVE FROM THE OPERATION OF CHARTER SCHOOLS OTHER THAN THE SCHOOLS, NOR FROM ANY SCHOOL MERF MAY OPERATE IN THE FUTURE, ARE PLEDGED TO MAKE PAYMENTS WITH RESPECT TO THE LEASES OR THE BONDS. SEE "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" HEREIN.

THE BONDS ARE NOT AND SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, AND ARE NOT AND SHALL NOT BE DEEMED TO BE A PLEDGE OF THE FAITH AND CREDIT OF THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY, WHICH SHALL ONLY BE OBLIGATED TO PAY THE BONDS SOLELY FROM THE PAYMENTS AND FUNDS PROVIDED THEREFOR IN THE BOND INDENTURE. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER FOR THE BONDS OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. NOTHING IN THIS INDENTURE, THE ACT OR OTHERWISE IS AN UNDERTAKING BY THE AUTHORITY OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO FUND THE TRANSFERS DESCRIBED IN THE INTERCEPT NOTICE OR TO MAKE FUNDS AVAILABLE TO MERF ON BEHALF OF THE SCHOOLS IN ANY AMOUNT OR AT ANY TIME.

Operating History; Reliance on Projections

Notwithstanding MERF's history of performance with respect to the Schools, future financial performance of the Schools may not equal or exceed the projections set forth in this Offering Memorandum. No assurance is given that such projections will be met, or that the number of students attending a School may not diminish in the future. The projections of revenues and expenses contained in Appendix A are based upon the number of students projected to be enrolled at each School and were prepared by MERF for the Corporation and have not been independently verified by any party other than MERF. See Appendix A for information regarding current and projected enrollment of the Schools.

No feasibility studies have been conducted with respect to operations of the Facilities pertinent to the Bonds. The projections are "forward-looking statements" and are subject to the general qualifications and limitations described herein. The Underwriter has not independently verified MERF's projections set forth in Appendix A hereto or otherwise, and makes no representations nor gives any assurances that such projections, or the assumptions underlying them, are complete or correct. Further, the projections relate only to a limited number of fiscal years, and consequently do not cover the entire period that the Bonds will be outstanding.

MERF PREPARED THE PROJECTIONS BASED ON ASSUMPTIONS ABOUT FUTURE STATE FUNDING LEVELS AND FUTURE OPERATIONS OF THE FACILITIES, INCLUDING

STUDENT ENROLLMENT AND EXPENSES. THERE CAN BE NO ASSURANCE THAT ACTUAL ENROLLMENT REVENUES AND EXPENSES WILL BE CONSISTENT WITH THE ASSUMPTIONS UNDERLYING SUCH PROJECTIONS. MOREOVER, NO GUARANTEE CAN BE MADE THAT THE PROJECTIONS OF REVENUES AND EXPENSES INCLUDED IN THIS LIMITED OFFERING MEMORANDUM WILL CORRESPOND WITH THE RESULTS ACTUALLY ACHIEVED IN THE FUTURE BECAUSE THERE CAN BE NO ASSURANCE THAT ACTUAL EVENTS WILL CORRESPOND WITH THE PROJECTIONS' UNDERLYING ASSUMPTIONS. ACTUAL OPERATING RESULTS MAY BE AFFECTED BY MANY FACTORS, INCLUDING, BUT NOT LIMITED TO, INCREASED COSTS, LOWER THAN ANTICIPATED REVENUES (AS A RESULT OF INSUFFICIENT ENROLLMENT, REDUCED STATE OR FEDERAL AID PAYMENTS, OR OTHERWISE), EMPLOYEE RELATIONS, CHANGES IN TAXES, CHANGES IN APPLICABLE GOVERNMENT REGULATIONS, CHANGES IN DEMOGRAPHIC TRENDS, CHANGES IN EDUCATION COMPETITION AND CHANGES IN LOCAL OR GENERAL ECONOMIC CONDITIONS. REFER TO "APPENDIX A – CERTAIN INFORMATION REGARDING THE PROJECT, MERF, THE CORPORATION, AND THE SCHOOLS" TO REVIEW THE PROJECTIONS, THEIR UNDERLYING ASSUMPTIONS, AND THE OTHER FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER SIGNIFICANTLY FROM PROJECTED RESULTS. REFER TO "INTRODUCTION" ABOVE, FOR QUALIFICATION AND LIMITATIONS APPLICABLE TO FORWARD-LOOKING STATEMENTS.

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

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

Possible Offsets to State Apportionment

Section 41344 of the Education Code provides that if an audit or review requires a school to repay prior year apportionments because of significant audit exceptions, including penalty payments ("Audit Exceptions"), the Superintendent of Public Instruction (the "Superintendent") and the Director of the Department of Finance (the "Director"), or their designees, will jointly establish a plan for the annual repayment of Audit Exceptions (the "Audit Repayment Plan"), which under certain circumstances can extend for a period of up to eight equal annual payments. The Controller withholds from the State School Fund the amounts specified in the Audit Repayment Plan. If the Superintendent and the Director do not establish an Audit Repayment Plan, the Controller withholds the entire amount of the Audit Exceptions from the next apportionment.

Included in the principal apportionment is the general-purpose entitlement for charter schools, which are the “funds subject to intercept” pursuant to Section 17199.4 of the Education Code. Specifically, the funds subject to intercept are State Apportionments with respect to the Schools.

Because the apportionments are the sum of multiple program entitlement calculations as well as prior adjustments, the amount available may be more or less than the calculated amount of funds subject to intercept. The amount available for intercept is therefore the lesser of periodic calculated funds subject to intercept and the amount of cash provided to MERF with respect to the School by the State.

The Controller may reduce the funding available in the payment schedules for these apportionments to offset for funds owing to the State. These offsets include, but are not limited to, the following: Charter School Revolving Loan (Education Code Section 41365), Class Size Reduction (Education Code Section 52124); Audit Repayment (Education Code Sections 41341, 41344); and Accounts Receivable (Government Code Section 12419.5), in addition to other possible authorized or required offsets, or additional offsets not yet authorized by legislation. None of the foregoing offsets is currently applicable to the Schools.

Risk of Non-Continued Philanthropy or Grants

In the past, MERF has received substantial income from unrestricted gifts or grants to supplement operating revenues to finance operations and capital needs. Gifts, grants and donations are expected to continue. However, there can be no assurance that the projections of this non-operating revenue will be realized or will not decrease, adversely affecting the financial condition of MERF.

Reliance on MERF; MERF Not Liable on Loan Agreement or Bonds

All ten Magnolia Public Schools were established by and are operated by MERF. The success of MERF and the Schools in attracting and retaining students, and on managing their respective expenses, depends largely on the efforts of MERF. MERF is a party to and obligated under the Leases or the Santa Ana Loan Agreement, but is not a party to, or obligated under, the Loan Agreement or the Bonds. See “APPENDIX A – CERTAIN INFORMATION REGARDING THE PROJECT, MERF, THE CORPORATION, AND THE SCHOOLS” hereto for more information about MERF. Financial information with respect to the Schools and MERF is included in APPENDIX B hereto.

Competition for Students

[MSA-1 is located within the City of Reseda, California. MSA-1 is located within the geographical boundaries of Los Angeles Unified School District and grants preference for enrollment for students currently attending the School and pupils who reside in the geographical boundaries of the Los Angeles Unified School District. MSA-SD is located within the _____ neighborhood of the City of San Diego. MSA-SD is located within the geographical boundaries of the San Diego Unified School District and grants preference for enrollment to students currently attending the charter school and pupils who reside in the San Diego Unified School District boundaries. MSA-SA is located within the _____ neighborhood of the City of Santa Ana. MSA-SA is located within the geographical boundaries of the Santa Ana Unified School District and grants preference for enrollment to students living within such boundaries.

There are other charter schools located in the geographical boundaries of Los Angeles Unified School District, San Diego Unified School District, and Santa Ana Unified School District, and MERF expects additional schools to open in in proximity to the Schools in future years. Accordingly, each School may face competition for student enrollment. There can be no assurance that the Schools will

continue to attract and retain the number of students needed to produce revenues necessary for MERF to make payments under the Leases, the Santa Ana Loan Agreement, and the Loan Agreement in order to satisfy debt service on the Bonds.]

Default Under the Leases or the Santa Ana Loan Agreement; No Assurance Regarding Subsequent Tenant

If there is a default by the Corporation under the Loan Agreement attributable to a default by the MERF under a Lease or the Santa Ana Loan Agreement, the Members of the Obligated Group will likely not have sufficient funds to satisfy the obligations under the Loan Agreement and Obligation No. 1 and Obligation No. 2, absent re-leasing – or in appropriate cases, selling – the Facilities. Were MERF to default under a Lease, there is no assurance that the applicable Member would be able to find a new tenant for the Facilities with authorization to operate a charter school which could generate revenues in a sufficient amount to allow the Corporation and the Members of the Obligated Group to make payments under the Loan Agreement and Obligation No. 1 and Obligation No. 2 to satisfy debt service on the Bonds or a buyer that would purchase such Facilities for a sufficient amount to allow the Corporation to repay principal and interest with respect to the Loan. This risk is heightened by the fact that the Facilities have been improved specifically for use as a charter school campus and may be legally restricted to that use. See “THE BONDS – Redemption – Extraordinary Mandatory Redemption Due to Change of Use” herein.

No Assurance of Lease Renewal

The Initial Term under each Lease ends on June 30, 20__*. In addition, MERF has two 5-year Extension Options and one 4-year Extension Option under each Lease to extend the Initial Lease Term for the periods applicable for each Extension Option. See “THE LEASES – General” herein. Pursuant to the Leases, MERF has covenanted that, so long as the applicable Member has any obligations under the Loan Documents, MERF will exercise each Extension Option under the applicable Lease. In the event MERF fails to exercise an Extension Option while Bonds are outstanding or other default by MERF under a Lease occurs, the Members of the Obligated Group may not have sufficient funds to satisfy the obligations under the Loan Agreement and Obligation No. 1 and Obligation No. 2, absent re-leasing – or, where possible, selling – the Facilities. See “THE BONDS – Redemption – Extraordinary Mandatory Redemption Due to Change of Use” herein and “ – Default Under a Lease; No Assurance Regarding Subsequent Tenant” above.

Survival of the Leases after a Bond Default and Foreclosure

The Corporation, the Members, MERF, and the Master Trustee will enter into Subordination, Non-Disturbance and Attornment Agreements (each, an “SNDA”). The SNDAs address the priority of the rights between MERF and the Master Trustee. Each SNDA provides that MERF’s rights under each Lease to the use, possession and enjoyment of the related Facilities will not be disturbed by the Master Trustee so long as no event of default exists under such Lease. The non-disturbance portion assures MERF that its rights to the relevant Facilities will be preserved (“nondisturbed”) on specified conditions within control of MERF if the Corporation defaults on its Loan with the Authority and the Master Trustee forecloses on the Facilities. The attornment component of the SNDAs provides that MERF will continue its obligations under each Lease if a new landlord takes over such Lease.

* Preliminary, subject to change.

Additional Indebtedness and Additional School Indebtedness

The Master Indenture permits the issuance of Additional Indebtedness on a parity basis with Obligation No. 1 and Obligation No. 2 if certain conditions are met. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – The Master Indenture – Limitations on Additional Indebtedness under the Master Indenture” The Corporation expects to acquire, construct and equip additional charter schools in the future. If it does, or for certain other expenses, it may issue Additional Indebtedness which may or may not be on a parity basis with Obligation No. 1 and Obligation No. 2 and may or may not be issued through the Master Indenture. If secured on a parity basis, any such parity indebtedness would be entitled to share ratably with the holders of the Bonds and any other holder of parity debt in any moneys realized from the exercise of remedies in the event of a default by the Corporation to the extent provided in the Bond Documents. The amount of any such Additional Indebtedness is undetermined at this time. The issuance of Additional Indebtedness may adversely affect the investment security of the Bonds.

Under each Lease, MERF may also issue additional School Indebtedness, subject to certain conditions and limitations. See “THE LEASES – Certain Covenants of the Lessee under the Lease – Financial Covenants” and “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – The Master Indenture – Limitations on Additional Indebtedness under the Leases” herein. The issuance of such additional School Indebtedness may adversely affect the investment security of the Bonds. See also “APPENDIX A – CERTAIN INFORMATION REGARDING THE PROJECT, MERF, THE CORPORATION, AND THE SCHOOLS – FINANCIAL INFORMATION AND CASHFLOWS – Debt Summary” for a summary of MERF’s current debt obligations.

Addition and Withdrawal of Members

The Master Indenture permits the addition of Members under the Obligated Group, but it also permits the withdrawal of Members, subject to certain conditions and limitations. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – The Master Indenture – Withdrawal from Obligated Group.” Any such withdrawal of Members from the Obligated Group may decrease the revenues available for payment of debt service on the Bonds and may adversely affect the investment security of the Bonds.

Reserve Account

The Bond Indenture establishes the Reserve Account within the Revenue Fund for payment of principal of and interest on the Bonds to the extent the Payments are insufficient to make such payments. Although the Corporation believes such reserve to be reasonable and anticipates that the Payments will be sufficient to cover the debt service on the Bonds, there is no assurance that funds on deposit in the Reserve Account and future Payments will be sufficient to cover debt service on the Bonds.

Purchases and Transfers of Bonds Restricted to Qualified Institutional Buyers and Accredited Investors

As described in the “NOTICE TO INVESTORS” that precedes the Table of Contents of this Limited Offering Memorandum, the Bonds are to be sold (including in secondary market transactions) only to Qualified Institutional Buyers or Accredited Investors. The Indenture contains provisions limiting transfers of the Bonds and beneficial interests therein to Qualified Institutional Buyers and Accredited Investors. The face of each Bond will contain a legend indicating that the Bond is subject to transfer restrictions as set forth in the Bond Indenture. The Bonds will be issued in minimum denominations of \$25,000 and any integral multiple of \$5,000 in excess thereof. Each initial beneficial owner of the Bonds

shall provide an executed Investor Letter in the form attached as Appendix H hereto. In light of these restrictions, purchasers should not expect that there will be an active secondary market for the Bonds.

There can be no assurance that there will be a secondary market for the purchase or sale of the Bonds, and there may be no market for the Bonds depending upon prevailing market conditions, the financial condition or market position of firms who make up the secondary market and the financial position and results of operations of the Corporation, the Schools, and MERF. The Underwriter is not obligated to create a secondary market for the purchase or sale of the Bonds.

Investors should be aware that they might be required to bear the financial risks of this investment for an indefinite period of time and/or that to the extent there is a secondary market for the Bonds, the secondary market price of the Bonds may be affected as a result of the restrictions. If a trading market for the Bonds develops, future trading prices of such Bonds will depend on many factors, including, among other things, prevailing interest rates and the market for similar instruments. Depending upon those and other factors, the Bonds may trade at a discount from their principal amount.

Tax Related Issues

Tax-Exempt Status of Interest on the 2017A Bonds. The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of Bond proceeds, limitations on the investment earnings of Bond proceeds prior to expenditure, a requirement that certain investment earnings on Bond proceeds be paid periodically to the United States and a requirement that the issuers file an information report with the Internal Revenue Service (the "IRS"). The Authority, the Corporation, and MERF have covenanted in certain of the documents referred to herein that they will comply with such requirements. Failure by any of the foregoing to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Bonds as taxable, retroactively to the date of issuance of the Bonds.

Maintenance of Tax-Exempt Status. The tax-exempt status of the 2017A Bonds depends upon the maintenance by the Corporation and MERF of their respective statuses as organizations described in Section 501(c)(3) of the Code. The maintenance of such status is contingent on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including the operation for charitable and educational purposes and avoidance of transactions which may cause the assets of either to inure to the benefit of private individuals.

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

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

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

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

Exemption from Property Taxes. In recent years, State, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt corporations with respect to their real property tax exemptions. The management of the Corporation and MERF believe that the Facilities will be exempt from California real property taxation.

Limitations of Appraisals

Appraisals are estimates of value and not an assurance of what any particular property would bring on sale. Appraisals also are subject to numerous other limitations set forth therein. Potential investors should not assume that the appraised values set forth in “THE PROJECT – Appraisal” represent reliable estimates of what such Facilities would bring in liquidation following an Event of Default.

Limitations on Value of the Facilities and to Remedies under the Mortgages

Maintenance of Value. The Facilities are located in a region that has experienced significant real property market volatility over the past several years. There can be no assurance made that, should the Corporation default in making the payments due under the Loan Agreement, including in the event MERF defaults in making the Rent payments due under a Lease, the Facilities could be foreclosed upon and sold for the amounts owed under the Loan Agreement.

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

Foreclosure. There are two methods of foreclosing on a deed of trust or mortgage under California law, by nonjudicial sale and by judicial sale. Foreclosure under a deed of trust may be

accomplished by a nonjudicial trustee's sale under the power of sale provision in the deed of trust. Prior to such sale, the trustee must record a notice of default and election to sell and send a copy to the trustor, to any person who has recorded a request for a copy of the notice of default and notice of sale, to any successor in interest of the trustor and to certain other parties discernable from the real property records. The trustee then must wait for the lapse of at least three months after the recording of the notice of default and election to sell before establishing the trustee's proposed sale date and giving a notice of sale (in a form mandated by California statutes). The notice of sale must be posted in a public place and published once a week for three consecutive calendar weeks, with the first such publication preceding the trustee's sale by at least 20 days. Such notice of sale must be posted on the property and sent, at least 20 days prior to the trustee's sale, to the trustor, to each person who has requested a copy, to any successor in interest of the trustor, to the beneficiary of any junior deed of trust and to certain other parties discernable from the real property records. In addition, the notice of sale must be recorded with the county recorder at least 14 days prior to the date of sale. The trustor, any successor in interest of the trustor in the trust property, or any person having a junior lien or encumbrance of record may, during the statutory reinstatement period, which extends to five days prior to the sale date, cure any monetary default by paying any delinquent installments of the debt then due under the terms of the deed of trust and certain other obligations secured thereby (exclusive of principal due by virtue of acceleration upon default) plus costs and expenses actually incurred in enforcing the obligation and certain statutorily limited attorneys' and trustees' fees. Following a nonjudicial sale, neither the trustor nor any junior lienholder has any right of redemption, and the beneficiary may not ordinarily obtain a deficiency judgment against the trustor.

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

Damage, Destruction or Condemnation. Although the Corporation will be required to obtain certain insurance against damage or destruction as set forth in the Loan Agreement and the Mortgage, there can be no assurance that any portion of the Facilities 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 MERF, as a result of damage or destruction to a Facility, cannot generate revenues, will not exceed the coverage of such insurance policies.

If a Facility, or any portion thereof, is damaged or destroyed, or is taken in a condemnation proceeding, the proceeds of insurance or any condemnation award for a Facility, or any portion thereof, must be applied as provided in the Loan Agreement to restore or rebuild the Facilities or to redeem Bonds. There can be no assurance that the amount of revenues available to restore or rebuild the Facilities, or any portion thereof, or to redeem Bonds will be sufficient for that purpose, or that any remaining portion of the Facilities will generate revenues sufficient to pay the expenses of the Corporation and the Loan Repayments.

Seismic. Each of the Facilities is located in a seismically active region of California. The occurrence of severe seismic activity could result in substantial damage to all or a portion of the Project, which could adversely affect the ability of MERF to operate the Facilities or make payments due under the Leases and/or the ability of the Corporation to make the Loan Repayments and could adversely affect the value of the Project and the Facilities. Neither the Corporation nor any Member of the Obligated

Group are obligated by the Loan Agreement or the Master Indenture to maintain earthquake insurance on any portion of the Project and there can be no assurance that the Corporation or any Member of the Obligated Group will obtain such coverage in the future.

Field Act Compliance. Certain public schools in the state of California, are entitled and approved through the Division of the State Architect (“DSA”), which reviews building plans and calculations based on three sets of criteria: Seismic and Engineering; Fire, Life, Safety; and Access. DSA applies the California building code standards and requires that certain buildings are compliant with the Field Act for Public Schools set forth in Sections 17280 & 81130 et seq. of the California Education Code (the “Field Act”). The Field Act resulted from the Long Beach Earthquake in 1933 in which 70 public schools were destroyed and another 120 schools suffered major structural damage. The Field Act sets forth structural design standards to enable applicable school buildings meet a higher threshold of seismic safety, ensuring safety for students and building occupants in the event of an earthquake. The DSA process requires state approved inspectors to certify that the work is being done in accordance with the approved plans.

The Field Act does not apply generally to all public schools.

Flood. Neither the Corporation nor any Members of the Obligated Group are obligated by the Loan Agreement or the Master Indenture to maintain flood insurance on any portion of the Project and there can be no assurance that the Corporation or any Member of the Obligated Group will obtain such coverage in the future. The Facilities are not located in special flood hazard areas as designated by the Federal Emergency Management Agency.

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

Bankruptcy

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

The Corporation or MERF could file a plan for the reorganization of its debts in any such proceeding which could include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, when confirmed by a court, binds all creditors who had

notice or knowledge of the plan and discharges all claims against the debtor provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are that the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two thirds in dollar amount and more than one half in number of the class cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

Factors Associated with a School's Operations

There are a number of factors affecting schools generally that could have an adverse effect on the School and, consequently, on revenues generated by MERF for operation of the School and on MERF's financial position and ability operate the Facilities as a charter school and, consequently, on the Corporation's ability to make Loan Repayments necessary to make debt service payments on the Bonds. These factors include, but are not limited to: (i) failure to qualify for statutory reimbursement under state programs; (ii) increasing costs of compliance with federal, state or local laws or regulations, including, but not limited to, laws or regulations concerning environmental quality, work safety and accommodation of persons with disabilities; (iii) taxes or other charges imposed by federal, state or local governments; (iv) the ability to attract a sufficient number of students; (v) changes in existing statutes pertaining to the powers of MERF and disruption of a School's operations by real or perceived threats against such School, its staff members or students; and (vi) decline in the reputation of a School or MERF or the ability of MERF and its management to provide educational services desired and accepted by the population it serves. Potential purchasers should be aware that the School faces constant competition for students and there can be no assurance that such School will continue to attract and retain the number of students that are needed to generate revenues sufficient to make payments on the Lease that are the source of revenue to debt service on the Bonds. See "CERTAIN RISK FACTORS – Competition for Students" herein. Neither the Corporation nor MERF can assess or predict the ultimate effect of the foregoing factors on its operations or financial results of its operations or on its ability to make payments required under the Lease, the Loan Agreement or Obligation No. 1 and Obligation No. 2.

State Financial Difficulties

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

The State has previously experienced severe financial difficulties. In prior years, the State's response to its financial difficulties has had a significant impact on Proposition 98 funding and settle-up treatment, as further described in "STATE FUNDING OF EDUCATION" herein. In the past, the State has sought to avoid or delay paying settle-up amounts when funding has lagged the guaranteed amount. The State has also sought to avoid increases in the minimum guarantee through various mechanisms by treating any excess appropriations as advances against subsequent years' Proposition 98 minimum funding levels rather than current-year increases; by deferring State aid payments from one fiscal year to the next; and by suspending Proposition 98. Continued decreases in State revenues may adversely affect

education appropriations made by the Legislature. None of the Corporation, MERF or any other party to the Bond transaction can predict how State income or State education funding will vary over the entire term of the Bonds. No party to the Bond transaction takes any responsibility for informing owners of the Bonds about any such changes.

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

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

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

The Budget Act must be approved by a majority vote of each House of the Legislature and must be in balance. The budget becomes law upon the signature of the Governor. Text of proposed and adopted budgets may be found at the website of the Department of Finance, www.dof.ca.gov, currently under the heading "California Budget." Analyses of budgets are prepared by the Legislative Analyst's Office at www.lao.ca.gov. Such information is prepared by the respective State entity maintaining each such website and not by any of the parties to this transaction. The parties to this transaction take no responsibility for the accuracy, completeness or timeliness of such information or the continued accuracy of the internet addresses noted herein, and no such information is incorporated herein by these references.

The State Legislature is required to approve a State Budget Act no later than June 15 of each year. The State Legislature has failed to approve the State Budget Act by the deadline therefor in a number of years. Failure by the State to adopt a Budget Act restricts the Controller's ability to disburse State funds after the beginning of the ensuing fiscal year. See "STATE FUNDING OF EDUCATION – General – Adoption of Annual State Budget" herein regarding the ability of the Controller to disburse State funds in such situations.

Any State budget delay would delay the State's appropriation of funds and could negatively impact the School's ongoing viability and its ongoing ability to make payments under the Leases representing debt service on the Bonds.

Key Management

The creation of, and the philosophy of teaching in, charter schools generally initially may reflect the vision and commitment of a few key persons on the board of directors and/or the upper management of the charter school or its management organization ("Key Directors/Managers"). Loss of any such Key

Directors/Managers, and the inability of the Corporation, MERF, or the Schools to find comparable qualified replacements, could adversely affect their respective operations or financial results. However, the Key Directors/Management of MERF believe that MERF's fifteen years of operations will have a positive impact on MERF's operations and continuity in the event any of such Key Directors/Managers were to leave. See "APPENDIX A – CERTAIN INFORMATION REGARDING THE PROJECT, MERF, THE CORPORATION, AND THE SCHOOLS" for information regarding the management and leadership of the Corporation, MERF, and the School.

Other Limitations on Enforceability of Remedies

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

In addition to the foregoing, the realization of any rights under the Loan Agreement, the Bond Indenture and the Mortgages upon a default depends upon the exercise of various remedies specified in the Loan Agreement, the Bond Indenture and the Mortgages. These remedies may require judicial action which is often subject to discretion and delay. Under existing law, certain of the remedies specified in the Loan Agreement, the Bond Indenture and the Mortgages may not be readily available or may be limited. For example, a court may decide not to order the specific performance of the covenants contained in the Loan Agreement, the Bond Indenture or a deed of trust. Accordingly, the ability of the Authority or the Bond Trustee to exercise remedies under the Loan Agreement, the Bond Indenture and the Mortgages upon an Event of Default could be impaired by the need for judicial or regulatory approval.

Specific Risks of Charter Schools

Charter School Law. The Charter School Law is evolving. Amendments are made relatively frequently and legislative and public attitudes are still forming. Certain amendments effective in 2006 and later have been described elsewhere in this Limited Offering Memorandum. It is likely that additional changes will be made in the future, some of which may be adverse to charter schools in general and may affect the financial viability of the School.

Non-Renewal or Revocation of Charter. The Charter School Law enables charter authorizers to grant five-year charters which may be renewed after evaluation and can be revoked at any time because of either educational non-performance or fiscal mismanagement. See "CHARTER SCHOOLS – Charter Revocation" attached hereto. The Key Directors/Managers of MERF believe that MERF has a stable relationships with the Los Angeles County Board of Education, the authorizer of MSA-1's charter, the State Board of Education, the authorizer of MSA-SA's charter, and the San Diego Unified School District, the authorizer of MSA-SD's charter. The Key Directors/Managers of MERF believe that MERF's relationship with the Los Angeles Unified School District, which serves as the authorizers of certain other schools operated by MERF, may lead to the denial of certain charter renewal petitions in the future. Nevertheless, MERF does not expect any changes in its relationship with the Los Angeles Unified School District to have a direct impact on the operation of any of the Schools. Further, MERF believes that it has stable relationships with the appeal bodies for each of its schools, each of which is authorized to renew charter petitions under the Charter School Law. See "APPENDIX A – CERTAIN

INFORMATION REGARDING THE PROJECT, MERF, THE CORPORATION, AND THE SCHOOLS” herein.

Legal Challenges. In addition to non-renewal or revocation, a charter may also be subject to challenge by an interested third-party. No assurance can be given that the charter for any of the Schools will not be subjected to legal challenge. See “ABSENCE OF MATERIAL LITIGATION – The Corporation” herein. Any failure of MERF to have a charter for a School in place could well have a material adverse effect on the Members of the Obligated Group or the Corporation and their ability to generate revenues necessary to make payments under the Loan Agreement and Obligation No. 1 and Obligation No. 2, which are expected to provide sufficient revenues to satisfy the debt service requirements for the Bonds.

Budgetary Constraints. Charter schools are funded primarily from State and local tax revenues and budgetary pressures at the State or local level may jeopardize future funding levels, which may adversely affect the ability of the Corporation and the Members of the Obligated Group to make payments under the Loan Agreement and the Obligations, including Obligation No. 1 and Obligation No. 2. See “STATE FUNDING OF EDUCATION” attached hereto.

Enrollment Levels. MERF’s revenues and financial strength will depend in part upon maintaining certain enrollment levels at the Facilities. A reduction in enrollment for a School will have a direct result of reducing revenues available to pay amounts due under a Lease or the Santa Ana Loan Agreement, as applicable. See “APPENDIX A – CERTAIN INFORMATION REGARDING THE PROJECT, MERF, THE CORPORATION, AND THE SCHOOLS” attached hereto.

Risk of Reduction in ADA Funding. Since the majority of funds for each School’s operations come from the State on the basis of ADA, MERF is subject to State funding reductions or restrictions that might affect all public school districts and charter schools. Among other such risks, over time the State may not increase ADA-based funding commensurate with increases in the cost of school operations, or the State may even decrease ADA-based funding.

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

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

Compliance with the Elementary and Secondary Education Act. Prior to the adoption of the ESSA (defined herein), the No Child Left Behind Act of 2001 (the “NCLB”) served as the primary federal law with respect to K-12 education. NCLB used Adequate Yearly Progress to measure and hold schools and school districts responsible for student achievement. Under California law, the right to operate a charter school may be terminated if the school fails to make or meet reasonable progress toward achievement of goals, objectives, content standards, pupil performance standards or applicable federal requirements.

In December 2015, the Every Student Succeeds Act of 2015 (the “ESSA”) was passed by Congress and signed by then-President Obama in connection with the amendment and reauthorization of the Elementary and Secondary Education Act of 1965. ESSA, among other things, prohibits officers and employees of the federal government from mandating, directing or controlling a state, local education agency or school’s specific instructional content, academic standards and assessments, curriculum, or program of instruction, as a condition of eligibility to receive funds under ESSA. MERF does not expect ESSA to impact its ability to make payments under each Lease representing debt service on the Bonds.

Claims and Insurance Coverage

Litigation could arise from the corporate and business activities of MERF or the Corporation. Such litigation may result as a result of either MERF’s or the Corporation’s status as an employer. Many of these risks are covered by insurance, but some are not. For example, claims arising from wrongful termination or sexual molestation claims and business disputes may not be covered by insurance or other sources. Such claims may, in whole or in part, constitute a significant liability of MERF or the Corporation if determined or settled adversely, as may any additional claims for other torts, accidents, or environmental enforcement actions, to the extent such claims exceed the limits of applicable insurance coverage.

The Corporation and MERF covenant and agree in the Loan Agreement and the Leases, respectively, that they will keep maintain, or caused to be maintained, property, general liability and business interruption insurance with respect to the Facilities at levels set forth therein. The Corporation and MERF are not obligated by the Loan Agreement or the Leases, respectively, to maintain earthquake insurance and there can be no assurance that the Corporation or MERF will obtain such coverage in the future. See “APPENDIX D – SUMMARY OF PRINCIPAL FINANCING DOCUMENTS – LOAN AGREEMENT” attached hereto.

Failure to Provide Ongoing Disclosure

The Corporation and MERF will enter into a Continuing Disclosure Agreement with Digital Assurance Certification, LLC, as dissemination agent, pursuant to Securities and Exchange Commission Rule 15c2-12 (the “Rule”) in connection with the issuance of the Bonds. Any failure to comply with the Continuing Disclosure Agreement and the Rule in the future may adversely affect the liquidity of the affected Bonds and their market price in the secondary market. See “CONTINUING DISCLOSURE” herein regarding prior compliance with previous continuing disclosure undertakings by Related Entities (defined herein).

Use of the Facilities

No assurance can be given as to whether a challenge to the educational use of a Facility brought would result in an interruption of the related School’s operations and have a material negative impact on the Revenues. Any court order prohibiting the educational use of the Facilities would entitle the Bond Trustee to submit a claim on the lender’s title insurance policy. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Mortgages.”

CHARTER SCHOOLS

General

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

Under State Law, charter schools are largely independent schools operating as part of the public school system under the exclusive control of the officers of the public schools. A charter school is usually created or organized by a group of teachers, parents and community leaders, or a community-based organization, and is usually sponsored by an existing local public school district or county board of education. Specific goals and operating procedures for the charter school are detailed in a "charter" granted by the sponsoring board to the charter organizers.

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

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

Anyone may write a charter. However, for a new charter school (not conversion of an existing traditional public school), charter developers must present a petition to the governing board of the local school district (or other chartering authority) containing the signatures of either: (1) a number of teachers meaningfully interested in teaching at the school equal to at least 50 percent of the number of teachers the charter school estimates will be employed, or (2) a number of parents representing at least 50 percent of the number of pupils expected to enroll at the school in its first year. For conversion schools, Charter School Law requires signatures of at least 50 percent of the teachers at the school to be converted. Pupils may not be required to attend a charter school nor may teachers be compelled to teach there. Charters are granted for a maximum term of five years, and may be renewed for new five-year terms without limitation upon satisfaction of certain criteria described below.

Generally, each charter school is funded to its statutory entitlement after the local contribution is taken into account. Local funding comes from the chartering school district or other sponsoring local education agency in lieu of property taxes (generally funded from the school district's own property tax

receipts), while the State funds the balance directly through the county office of education. The proportion coming from the State will vary from district to district depending on the amount of local property taxes collected. In addition, charter schools receive State categorical block grant funding and lottery funds based upon pupil attendance, and may be eligible for other special programmatic aid from State and federal grants. Charter schools are prohibited from charging tuition under the Charter School Law.

For additional information regarding funding of education in the State and information relating to certain risks and other considerations relevant to a decision to invest in the Bonds, see “STATE FUNDING OF EDUCATION” and “CERTAIN RISK FACTORS – Specific Risks of Charter Schools.”

Chartering Authority

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

For information concerning the charters granted with respect to the Schools, see “APPENDIX A – CERTAIN INFORMATION REGARDING THE PROJECT, MERF, THE CORPORATION, AND THE SCHOOLS – GENERAL INFORMATION – History” attached hereto.

Elements of a Charter Petition

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

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

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

Under the accountability requirements of Assembly Bill 1137 ("AB 1137"), signed into law in October 2003, districts or other agencies that grant charter authority must identify a contact person for charter schools, visit each charter school at least once a year, and ensure that charter schools submit all required reports (including fiscal reports that must be sent four times a year to the district and local county office of education). In addition, the district must monitor the fiscal condition of its charter schools and notify the State Department of Education whenever a charter is granted, denied, revoked, or the charter school will cease operation. AB 1137 also required that charter schools show a certain level of academic performance to have their charters renewed.

Countywide Benefit Charter Schools

Education Code Section 47605.6 provides for the creation of countywide benefit charter schools to operate at one or more sites within the geographic boundaries of a county and that provide instructional services that are not generally provided by a county office of education. A county board of education may approve a countywide charter only if it finds, in addition to the other requirements of the Charter School Law, that the educational services to be provided by the charter school will offer services to a pupil population that will benefit from those services and that cannot be served as well by a charter school that operates in only one school district in the county.

The provisions governing denial of a charter petition for school district governing boards, also apply to the denial of petition to countywide benefit charters. A county board of education will deny a petition if it finds one or more of the following: (i) the charter school presents an unsound educational program for the pupils to be enrolled in the charter school, (ii) petitioners are unlikely to successfully implement the program set forth in the petition, (iii) the petition does not contain the number of required

signatures, (iv) the petition does not contain an affirmation of each of the enumerated conditions, and (v) the petition does not contain comprehensive descriptions of the educational program of the school.

None of the Schools operates pursuant to a countywide benefit charter. See “APPENDIX A – CERTAIN INFORMATION REGARDING THE PROJECT, MERF, THE CORPORATION, AND THE SCHOOLS” attached hereto.

Statewide Benefit Charter Schools

Education Code Section 47605.8 provides for the creation of statewide benefit charter schools to operate at multiple locations throughout the State of California. A petition for the operation of a state charter school may be submitted to the State Board of Education (“SBE”) and the SBE has the authority to approve a charter for the operation of a state charter school. The SBE may not approve a petition for the operation of a state charter school unless it finds that the proposed state charter school will provide instructional services of statewide benefit that cannot be provided by a charter school operating in only one school district, or only in one county. As a condition of charter petition approval, the SBE may enter into an agreement with a third party, at the expense of the charter school, to oversee, monitor, and report on, the operations of the charter school.

The provisions governing denial of a charter petition for county boards of education, also apply to the denial of a petition to statewide benefit charters. Petition denials include: (i) the charter school presents an unsound educational program for the pupils to be enrolled in the charter school, (ii) petitioners are unlikely to successfully implement the program set forth in the petition, (iii) the petition does not contain the number of required signatures, (iv) the petition does not contain an affirmation of each of the enumerated conditions, and (v) the petition does not contain comprehensive descriptions of the educational program of the school. The School does not operate pursuant to a statewide benefit charter.

Charter Management Organizations

As the number of charter schools operating pursuant to the Charter School Law has increased over time, nonprofit organizations have been established, referred to as charter management organizations (“CMOs”), to manage the operations of several charter schools for the purpose of achieving certain economic and operational efficiencies. CMOs centralize or share certain functions and resources among multiple charter schools, including but not limited to accounting, human resources, marketing, purchasing, property management and administration. CMOs may operate at the regional or statewide level. See “APPENDIX A – CERTAIN INFORMATION REGARDING THE PROJECT, MERF, THE CORPORATION, AND THE SCHOOLS.”

Charter Revocation

A charter may be revoked if the charter granting authority finds, based on substantial evidence, that a charter school (i) has committed a material violation any of the conditions, standards or procedures set forth in its charter, or (ii) has failed to meet or to pursue any of the student outcomes identified in its charter, or (iii) has failed to meet generally accepted accounting principles, or engages in fiscal mismanagement, or (iv) has violated any provision of law. Prior to revoking a charter, the charter granting authority must notify the charter school of the violation, afford the charter school a reasonable opportunity to remedy the violation, and, upon failure to do so, give written notice of intent to revoke and hold a public hearing on the matter. An adverse decision by a school district governing board may be appealed to the county board of education and an adverse decision by the county board, directly or on appeal, may be appealed to the SBE. See “CERTAIN RISK FACTORS – Specific Risks of Charter Schools – Non-Renewal or Revocation of Charters” herein.

In addition, the SBE, whether or not it is the charter granting authority, may take action based on the recommendation of the State Superintendent of Public Instruction, including but not limited to revocation of a school's charter, upon a finding of (i) gross financial mismanagement that jeopardizes the financial stability of the charter school; (ii) illegal or substantially improper use of charter school funds for the personal benefit of any officer, director, or fiduciary of the charter school; (iii) substantial and sustained departure from measurably successful practices such that continued departure would jeopardize the educational development of the school's pupils; or (iv) failure to improve pupil outcomes across multiple state and school priorities identified in the charter pursuant to the Education Code. The California Department of Education is required to identify and notify the SBE of each charter school that is determined to warrant action pursuant to clause (iii) of the immediately preceding sentence by November 1 of each year. Under these regulations, charter schools so notified are required to be given an opportunity to submit written information as to why its charter should not be revoked. Any resulting action to revoke a charter is effective at the end of the fiscal year in which the action is taken, unless the SBE identifies departures at the school that are so significant as to be cause for immediate revocation and closure of the charter school. SBE must hold a public hearing to consider action including but not limited to charter revocation not later than March 31. See "CERTAIN RISK FACTORS – Specific Risks of Charter Schools – Non-Renewal or Revocation of Charters" herein.

None of the Schools has received any notice from the SBE or their respective chartering authorities regarding any violation or proposal to revoke the School's charters or of any other violation requiring corrective action. In addition, as noted above, any future adverse decision by the governing board of any authorizing entity may be appealed to the applicable county Board of Education and an adverse decision by such Board of Education, directly or on appeal, may be appealed to the SBE. See "APPENDIX A – CERTAIN INFORMATION REGARDING THE PROJECT, MERF, THE CORPORATION, AND THE SCHOOLS" attached hereto."

Amendments to the Charter School Law

The Legislature has amended the Charter School Law frequently since its initial adoption in 1992, and legislative and public attitudes are still evolving. Neither the Borrower nor any Charter School has any control over State legislative or regulatory decision making that could affect the operations or ongoing funding sources for the School. For example, Senate Bill 1290, signed into law by the Governor on September 26, 2012, requires the chartering authority to consider increases in pupil academic achievement for all groups of pupils as the most important factor in determining whether to grant a charter renewal or revoke a charter. In addition, Assembly Bill 948, signed into law by the Governor on September 30, 2014, expanded eligibility for the Charter School Facility Grant Program.

In addition, certain currently pending legislation affecting the Charter Schools Act and/or related law include: Senate Bill 322 ("SB 322") which, if approved, would require that charter schools follow similar suspension and expulsion procedures established under the Education Code for traditional public schools districts including due process and notice requirements; and Senate Bill 739 ("SB 739") which, if approved, would prohibit the governing board of a school district from authorizing new charter schools located outside of the boundaries of such school district if the school district is assigned a negative certification in connection with its financial reports. Neither the Borrower nor the School makes any representation as to whether SB 322 or SB 739 or any other proposed amendments to Charter School Law will be enacted into law.

For legislative updates, see www.calcharters.org/advocacy/statewide/current-legislation.html. The parties to this transaction take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by such reference.

Growth in Charter Schools in California

California has the largest concentration of charter schools in the nation with more than 572,752 students enrolled in charter schools for the 2015-16 school year according to the California Department of Education. The California Charter Schools Association also reported that 46 new charter schools opened in the State of California during the 2015-16 school year, bringing the total number of charter schools in California up to 1,230.

TOTAL CHARTER SCHOOLS IN CALIFORNIA 2002-03 through 2016-17

| <u>Year</u> | <u>Number of Schools</u> |
|-------------|--------------------------|
| 2016-17 | 1,253 |
| 2015-16 | 1,228 |
| 2014-15 | 1,182 |
| 2013-14 | 1,130 |
| 2012-13 | 1,063 |
| 2011-12 | 982 |
| 2010-11 | 912 |
| 2009-10 | 809 |
| 2008-09 | 746 |
| 2007-08 | 682 |
| 2006-07 | 585 |
| 2005-06 | 560 |
| 2004-05 | 502 |
| 2003-04 | 443 |
| 2002-03 | 408 |

Source: California Charter School Association.

STATE FUNDING OF EDUCATION

General

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

Adoption of Annual State Budget. According to the State Constitution, the Governor of the State is required to propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted no later than June 15, although this deadline has been breached in previous years. Pursuant to Proposition 25, which was approved by voters in November 2010, the vote requirement to pass a budget bill is a simple majority (50% plus one) of each house of the State Legislature. This vote requirement also applies to trailer bills that appropriate funds and are identified by the State Legislature “as related to the budget in the budget bill.” The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. Under Proposition 25, a two-thirds vote of the State Legislature is required to override any veto by the Governor. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget act

to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget. The Governor signed the Fiscal Year 2015-16 State budget on June 24, 2015.

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

State income tax and other receipts can fluctuate significantly from year to year, depending on economic conditions in the State and the nation. Because funding for education is closely related to overall State income, as described in this section, funding levels can also vary significantly from year to year, even in the absence of significant education policy changes. A brief description of the adopted State budget for Fiscal Year 2016-17 is included below; however, no prediction can be made as to how State income or State education funding will vary over the entire term to maturity of the Bonds, and neither the Borrower nor the Authority takes any responsibility for informing Beneficial Owners of the Bonds as to any such annual fluctuations. Information about the State budget and State spending for education is regularly available at various State maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, currently located at www.treasurer.ca.gov, and the Electronic Municipal Market Access ("EMMA") website of the Municipal Securities Rulemaking Board, currently located at <http://emma.msrb.org>. The information referred to is prepared by the respective entities maintaining each website and not by the Borrower or the Authority, and neither the Borrower nor the Authority can take any responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references. The information referred to above should not be relied upon in making an investment decision with respect to the Bonds.

Aggregate State Education Funding. Under Proposition 98, a constitutional and statutory amendment adopted by the State's voters in 1988 and amended by Proposition 111 in 1990 (now found at Article XVI, Sections 8 and 8.5 of the Constitution), a minimum level of funding is mandated for school districts, community college districts, and other State agencies that provide direct elementary and secondary instructional programs, including charter schools.

The Proposition 98 guaranteed amount for education is based on prior year funding, as adjusted through various formulas and tests that take into account State proceeds of taxes, local property tax proceeds, school enrollment, per capita personal income, and other factors. The State's share of the guaranteed amount is based on State general fund tax proceeds and is not based on the general fund in total or on the State budget. The local share of the guaranteed amount is funded from local property taxes. The total guaranteed amount varies from year to year and throughout the stages of any given fiscal year's

budget, from the Governor's initial budget proposal to actual expenditures to post year end revisions, as additional information regarding the various factors becomes available. Over the long run, the guaranteed amount may increase as enrollment and per capita personal income grow.

If, at year end, the guaranteed amount is calculated to be higher than the amount actually appropriated in that year, the difference becomes an additional education funding obligation, referred to as "settle up." If the amount appropriated is higher than the guaranteed amount in any year, that higher funding level permanently increases the base guaranteed amount in future years. The Proposition 98 guaranteed amount is reduced in years when general fund revenue growth lags personal income growth, and may be suspended for one year at a time by enactment of an urgency statute. In either case, in subsequent years when State general fund revenues grow faster than personal income (or sooner, as the State Legislature may determine), the funding level must be restored to the guaranteed amount, the obligation to do so being referred to as "maintenance factor."

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

The State has also sought to preserve general fund cash while avoiding increases in the base guaranteed amount through various mechanisms: by treating any excess appropriations as advances against subsequent years' Proposition 98 minimum funding levels rather than current year increases; by temporarily deferring apportionments of Proposition 98 funds from one fiscal year to the next; by permanently deferring apportionments of Proposition 98 funds from one fiscal year to the next; by suspending Proposition 98, as the State did in fiscal years 2004-05 and 2010-11; and by proposing to amend the Constitution's definition of the guaranteed amount and settle up requirement under certain circumstances. The State Budget Act, in recent fiscal years, has reversed certain of these trends by, among other things, eliminating certain deferrals, authorizing payments of certain deferred amounts owed to schools subject to State General Fund Revenues and authorizing settle-up payments with respect deferred apportionments of the Proposition 98 minimum guarantee.

2016-17 State Budget. The Governor signed the fiscal year 2016-17 State budget (the "2016-17 State Budget") on June 27, 2016. The 2016-17 State Budget sets forth a balanced budget for Fiscal Year 2016-17 and allocates funds from Proposition 2 to pay down outstanding budgetary borrowing and retirement liabilities of the State and University of California. The 2016-17 State Budget estimates that total resources available in fiscal year 2015-16 totaled approximately \$120.45 billion (including a prior year balance of \$3.4 billion) and total expenditures in fiscal year 2015-16 totaled approximately \$115.57 billion. The 2016-17 State Budget projects total resources available for fiscal year 2016-17 of \$125.18 billion, inclusive of revenues and transfers of \$120.31 billion and a prior year balance of \$4.87 billion. The 2016-17 State Budget projects total expenditures of \$122.47 billion, inclusive of non-Proposition 98 expenditures of \$71.42 billion and Proposition 98 expenditures of \$51.05 billion. The 2016 17 State Budget proposes to allocate \$966 million of the General Fund's projected fund balance to the Reserve for Liquidation of Encumbrances and \$1.75 billion of such fund balance to the State's Special Fund for Economic Uncertainties. In addition, the 2016-17 State Budget estimates the Rainy Day Fund will have a fund balance of \$6.71 billion.

Certain budgeted adjustments for K-12 education set forth in the 2016-17 State Budget include the following:

School District Local Control Funding Formula. The 2016-17 State Budget includes an increase of more than \$2.9 billion to continue the implementation of the Local Control Funding Formula. The 2016-17 State Budget proposes to commit most new funding to Supplemental Grants and Concentration Grants. The Governor estimates that the budgeted increase will bring the total Local Control Funding Formula implementation to 96%.

Proposition 98 Minimum Guarantee. The 2016-17 State Budget includes Proposition 98 funding of \$71.9 billion, inclusive of State and local funds, for fiscal year 2016-17. Such amount is expected to satisfy the Proposition 98 minimum guarantee for fiscal year 2016-17.

Mandate Claims. The 2016-17 State Budget proposes to allocate approximately \$1.3 billion in one-time moneys to reduce outstanding mandate claims by K-12 local education agencies. The State expects such funds to be used for activities including, among others, deferred maintenance, professional development, induction for beginning teachers, instructional materials, technology and the implementation of new educational standards.

College Readiness Block Grant. The 2016-17 State Budget includes a one-time increase of \$200 million to the Proposition 98 General Fund for grants to school districts and charter schools that serve high school students. The State will direct grant recipients to such funds be used to support access to higher education and transition to higher education.

Integrated Teacher Preparation Grant Program. The 2016-17 State Budget includes a one-time allocation of \$10 million from the Proposition 98 portion of the General Fund to the Integrated Teacher Preparation Grant Program, which provides competitive grants to colleges and universities to develop or improve teacher credential programs.

Classified School Employees Credentialing Program. The 2016-17 State Budget includes a one-time allocation of \$20 million from the Proposition 98 portion of the General Fund to establish a credentialing program that recruits non-certified school employees and prepares them to become certificated classroom teachers.

California Center on Teacher Careers. The 2016-17 State Budget includes a one-time increase of \$5 million of Proposition 98 General Fund to establish a multi-year competitive grant, which will be awarded to a local education agency to establish and operate the California Center on Teaching Careers. The California Center on Teaching Careers, once established, will recruit individuals to the teaching profession, host a referral database for teachers seeking employment, develop and distribute recruitment publications, conduct outreach activities to high school and college students, provide statewide public service announcements related to teacher recruitment, and provide prospective teachers information on credential requirements, financial aid and loan assistance programs.

California Collaborative for Educational Excellence. The 2016-17 State Budget provides a one-time increase of \$24 million to the Proposition 98 portion of the General Fund for the California Collaborative for Educational Excellence to, among other things, support statewide professional development training relating to evaluation methods and metrics and implement a pilot program related to advising and assisting local education agencies on improving pupil outcomes.

Safe Drinking Water in Schools. The 2016-17 State Budget includes an increase of \$9.5 million of one-time Proposition 98 General Fund to create a grant program to improve access to safe drinking

water for schools located in isolated areas and economically disadvantaged areas. The program will be developed and administered by the State Water Resources Control Board in consultation with the California Department of Education.

Charter School Startup Grants. The 2016-17 State Budget allocates an increase of \$20 million of one-time Proposition 98 General Fund resources to support operational startup costs for new charter schools in 2016 and 2017. Such allocation is expected to partially offset the loss of federal funding previously available for such purpose.

Multi-Tiered Systems of Support. The 2016-17 State Budget allocates an increase of \$20 million of one-time Proposition 98 General Fund resources to build upon the \$10 million investment included in the 2015-16 State Budget for an increased number of local educational agencies to provide academic and behavioral supports in a coordinated and systematic way. The State expects such funds to, among other things, assist local education agencies as they provide services that support academic, behavioral, social and emotional needs and improve outcomes for students.

Proposition 47. Proposition 47 (2014) requires a portion of any State savings which have resulted from the State's reduced penalties for certain non-serious and non-violent property and drug offenses, to be allocated to K-12 truancy and dropout prevention, victim services, and mental health and drug treatment. The 2016-17 State Budget includes an increase of \$18 million on a one-time basis to the Proposition 98 portion of the General Fund allocated to a grant program for truancy and dropout prevention.

The complete 2016-17 State Budget is available from the California Department of Finance website at www.dof.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

2017-18 Proposed State Budget. The Governor released his proposed fiscal year Proposed 2017-18 State Budget (the "Proposed 2017-18 State Budget") on January 10, 2017. The Proposed 2017-18 State Budget sets forth a balanced budget for fiscal year 2017-18. However, the Governor cautions that the State's projected revenues are approximately \$5.8 billion lower than projected for 2015-16 through 2017-18 and, absent corrective action, could lead to annual deficits of \$1 billion to \$2 billion. The Proposed 2017-18 State Budget estimates that total resources available in fiscal year 2016-17 totaled approximately \$123.79 billion (including a prior year balance of \$5.0 billion) and total expenditures in fiscal year 2016-17 totaled approximately \$122.76 billion. The Proposed 2017-18 State Budget projects total resources available for fiscal year 2017-18 of \$125.05 billion, inclusive of revenues and transfers of \$124.03 billion and a prior year balance of \$1.03 billion. The Proposed 2017-18 State Budget projects total expenditures of \$122.52 billion, inclusive of non-Proposition 98 expenditures of \$71.17 billion and Proposition 98 expenditures of \$51.35 billion. The 2016-17 State Budget proposes to allocate \$980 million of the General Fund's projected fund balance to the Reserve for Liquidation of Encumbrances and \$1.55 billion of such fund balance to the State's Special Fund for Economic Uncertainties. In addition, the Proposed 2017-18 State Budget estimates the Rainy Day Fund will have a fund balance of \$7.87 billion.

Certain budgeted adjustments for K-12 education set forth in the Proposed 2017-18 State Budget include the following:

School District Local Control Funding Formula. The Proposed 2017-18 State Budget includes an increase of more than \$744 million to continue the transition to full implementation of the Local Control

Funding Formula. The Governor estimates that the Local Control Funding Formula's implementation will reach 96 percent in fiscal year 2017-18.

Proposition 98 Minimum Guarantee. The Proposed 2017-18 State Budget proposes to fund the Proposition 98 minimum guarantee in fiscal year 2016-17 and 2017-18. However, due to changes in workload factors and budgetary adjustments, the Governor's calculation of the Proposition 98 minimum guarantee will be approximately \$55.5 million and \$113.5 million less than previously projected for fiscal years 2015-16 and 2016-17, respectively. The Proposed 2017-18 State Budget projects a Proposition 98 minimum guarantee of \$73.5 billion in 2017-18.

One-Time Local Control Funding Formula Cost Shift. The Proposed 2017-18 State Budget proposes to shift \$859.1 million in Local Control Funding Formula expenditures from June 2017 to July 2017 in order to maintain 2016-17 programmatic expenditure levels. The Proposed 2017-18 State Budget will repay this deferral in 2017-18.

One-Time Discretionary Funding. The Proposed 2017-18 State Budget includes an increase of \$287 million in one-time Proposition 98 General Fund for school districts, charter schools and county offices of education to use at local discretion. This funding will support investments such as content standards implementation, technology, professional development, induction programs for beginning teachers and deferred maintenance.

Career Technical Education Funding. The Proposed 2017-18 State Budget includes \$200 million for the Career Technical Education Incentive Grant Program, the final installment of funding for this three-year program.

County Offices of Education Local Control Funding Formula. The Proposed 2017-18 State Budget includes an increase of \$2.4 million Proposition 98 General Fund to support a cost-of-living adjustment and average daily attendance changes for county offices of education.

Charter School Growth. The Proposed 2017-18 State Budget includes an increase of \$93 million Proposition 98 General Fund to support projected charter school average daily attendance growth.

Special Education. The Proposed 2017-18 State Budget includes a decrease of \$4.9 million Proposition 98 General Fund to reflect a projected decrease in special education average daily attendance.

Local Property Tax Adjustments. The Proposed 2017-18 State Budget includes a decrease of \$922.7 million in Proposition 98 General Fund for school districts and county offices of education in 2017-18 as a result of increased offsetting local property tax revenues.

School District Average Daily Attendance. The Proposed 2017-18 State Budget includes a decrease of \$63.1 million in fiscal year 2017-18 for school districts as a result of a projected decline in average daily attendance.

Cost-of-Living Adjustments. The Proposed 2017-18 State Budget includes an increase of \$58.1 million Proposition 98 General Fund to support a 1.48-percent cost-of-living adjustment for categorical programs that remain outside of the Local Control Funding Formula, including Special Education, Child Nutrition, Foster Youth, American Indian Education Centers, and the American Indian Early Childhood Education Program.

California Clean Energy Jobs Act. The California Clean Energy Jobs Act of 2012 increases state corporate tax revenues, and requires half of the increased revenues, up to \$550 million per year, to be

used to support energy efficiency for fiscal years 2013-14 through 2017-18. The Proposed 2017-18 State Budget includes \$422.9 million to support school district and charter school energy efficiency projects.

Proposition 47. Proposition 47 (2014) requires a portion of any State savings which have resulted from the State's reduced penalties for certain non-serious and non-violent property and drug offenses, to be allocated to K-12 truancy and dropout prevention, victim services, and mental health and drug treatment. The Proposed 2017-18 State Budget includes \$10.1 million to support investments aimed truancy and dropout prevention among K-12 public school pupils.

Proposition 56. Proposition 56 (2016) requires a portion of the revenues from the increased cigarette tax and the tax on other tobacco products to be used for school programs that prevent and reduce the use of tobacco and nicotine products by youths. The Proposed 2017-18 State Budget includes \$29.9 million to support tobacco and nicotine prevention and reduction programs at K-12 schools.

Kindergarten Through Community College Public Education Facilities Bond Act. The Kindergarten Through Community College Public Education Facilities Bond Act of 2016 authorized \$7 billion in State general obligation bonds for K-12 schools. The Proposed 2017-18 State Budget states that the Governor will support the expenditures of Proposition 51 funds after, among other things, legislation is approved regarding bond expenditures audit requirements and the State Allocation Board and Office of Public School Construction revise policies and regulations for school participants that request funding through the school facilities program.

The complete Proposed 2017-18 State Budget is available from the California Department of Finance website at www.dof.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

LAO Overview of 2017-18 Proposed State Budget. The Legislative Analyst's Office ("LAO"), a nonpartisan State office which provides fiscal and policy information and advice to the State Legislature, released its report on the 2017-18 Proposed State Budget entitled "The 2017-18 Budget: Overview of the Governor's Budget" on January 13, 2017 (the "2017-18 Proposed Budget Overview"). In the 2017-18 Proposed Budget Overview, the LAO challenges the Governor's revenue projections with regard to personal income tax revenues as being far too low. While the LAO admits that the Governor's estimated 3.3% personal income tax growth rate is possible, the LAO points out that it is inconsistent with other aspects of the administration's economic outlook, which predicts stock price growth for several years after 2016. By the May revision of the budget, the LAO predicts that the budget will change and reflect considerably more revenue since the State will have more information on its fiscal condition. The LAO also points out that the Governor's budget proposal assumes no major changes in federal policy, which the LAO notes is a reasonable assumption given that at this point, there is no way of knowing precisely what actions the new Congress and President will pursue. The LAO explains that there may be some near-term benefit to state tax revenues based on changes in federal tax policies, but states that other possible federal policy changes, however, could affect the economy, reduce federal funding, and/or increase state costs substantially in future years—especially potential changes in federal health care programs.

With respect to the Proposition 98 budget plan in the 2017-18 Proposed State Budget, the LAO expects that the minimum guarantee for fiscal year 2015-16 will remain unchanged while the fiscal year 2016-17 minimum guarantee could be revised more substantially. In light of the higher revenue that the LAO expects in fiscal year 2017-18, the LAO also predicts that the minimum guarantee for fiscal year 2017-18 will be higher.

As discussed in the 2017-18 Proposed Budget Overview, the largest ongoing budget proposal is a \$744 million augmentation to LCFF. According to the LAO, the proposed augmentation is approximately equal to the cost of applying the statutory 1.48% cost-of-living adjustment. The LAO reports that the Governor estimates that LCFF would be 96% funded in fiscal year 2017-18—about the same percentage as fiscal year 2016-17. Under this proposal, school districts would receive 13 months of payments in fiscal year 2017-18, which includes 12 normal monthly LCFF payments plus a one-time payment of \$859 million related to the prior-year deferral. The LAO notes that the Governor’s proposed budget also includes new community college funding—about half of which is for apportionments, and the remainder is for mainly one-time payments for categorical programs. The 2017-18 Proposed Budget Overview provides that the Governor’s budget plan includes \$600 million in additional Proposition 98 related funding, including (1) \$287 million for the K-12 mandates backlog, (2) \$200 million for the Career Technical Education Incentive Grant program, (3) \$44 million for deferred maintenance at the community colleges, and (4) \$70 million for fund swaps (using one-time payments to support ongoing programs).

The Governor’s budget roughly balances new ongoing and one-time Proposition 98 spending in fiscal year 2017-18. Regardless of the exact level of the fiscal year 2017-18 minimum guarantee, the LAO recommends that the Legislature adopt a final budget plan that continues to rely on a mix of ongoing and one-time spending. Under the LAO’s advised approach, the Legislature could dedicate a portion of any additional increases in the minimum guarantee to LCFF and California Community College apportionments while using the remainder for one-time payments to reduce or eliminate the K-12 mandates backlog. The LAO cautions that a stronger fiscal year 2017-18 does not necessarily imply a strong fiscal year 2018-19, and by setting aside some funding for one-time purposes, the state would be better positioned to accommodate a drop in the fiscal year 2018-19 minimum guarantee without needing to make cuts to LCFF or community college apportionments.

The 2017-18 Budget Overview is available on the LAO website at www.lao.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

Changes in State Budget. The final fiscal year 2017-18 State budget, which requires approval by a majority vote of each house of the State Legislature, may differ substantially from the Governor’s budget proposal. Accordingly, the District cannot provide any assurances that there will not be any changes in the final fiscal year 2017-18 State budget from the 2017-18 Proposed State Budget. Additionally, the District cannot predict the impact that the final fiscal year 2017-18 State Budget, or subsequent budgets, will have on its finances and operations. The final fiscal year 2017-18 State budget may be affected by national and State economic conditions and other factors which the District cannot predict.

Future Budgets and Budgetary Actions. The District cannot predict what future actions will be taken by the State Legislature and the Governor to address changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors beyond the District’s ability to predict or control. Certain actions could result in a significant shortfall of revenue and cash, and could impair the State’s ability to fund schools during fiscal year 2016-17 and in future fiscal years. Certain factors, like an economic recession, could result in State budget shortfalls in any fiscal year and could have a material adverse financial impact on the District.

Prohibitions on Diverting Local Revenues for State Purposes. Beginning in 1992-93, the State satisfied a portion of its Proposition 98 obligations by shifting part of the property tax revenues otherwise

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

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

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

Future Budgets and Budgetary Actions. The Borrower and the Authority cannot predict what future actions will be taken by the State Legislature and the Governor to address changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors beyond the Borrower’s and the Authority’s ability to predict or control. Certain actions could result in a significant shortfall of revenue and cash, and could impair the State’s ability to fund schools during future fiscal years. Certain factors, like an economic recession, could result in State budget shortfalls in any fiscal year and could have a material adverse financial impact on the Lessee.

Allocation of State Funding to Charter Schools

General Purpose Entitlement. Under the Charter School Law, each charter school is calculated to have a “general purpose entitlement,” which has in the past been based on the statewide average amount of State aid, local property taxes and other revenue received by school districts of similar type and serving similar pupil populations. The general purpose entitlement is calculated on a per student basis at each of four grade level ranges (grades K-3, grades 4-5, grades 6-8, and grades 9-12) and is multiplied by the charter school’s Average Daily Attendance (“ADA”) in each grade level range.

Each charter school’s general purpose entitlement is funded from local funding in lieu of property taxes and, to the extent such funding is insufficient to fulfill the entire entitlement, from money appropriated by the State from the State’s general fund for education. The local share, which must be

transferred in monthly installments to the charter school by the sponsoring local educational agency in lieu of property taxes, is the average amount of property taxes per ADA received by the district, including charter school students, multiplied by the charter school's ADA.

Local Control Funding Formula. State Assembly Bill 97 (Stats. 2013, Chapter 47) ("AB 97"), which was enacted in connection with the State Budget Act for Fiscal Year 2013-14, established a new system for funding school districts, charter schools and county offices of education. Certain provisions of AB 97 were amended and clarified by Senate Bill 91 (Stats. 2013, Chapter 49) ("SB 91").

Funding. The primary component of AB 97, as modified by SB 91, is the implementation of the Local Control Funding Formula ("LCFF"), which replaces the revenue limit funding system for determining State apportionments, as well as the majority of categorical program funding. Under the LCFF, State allocations will be provided on the basis of target base funding grants per unit of ADA (a "Base Grant") assigned to each of four grade spans (identical to the grade spans previously used for charter school funding). Each Base Grant is subject to certain adjustments and add-ons, as discussed below. The Department of Finance's projections indicate that the LCFF will be fully funded by the Fiscal Year ending June 30, 2021. Beginning in fiscal year 2013-14, an annual transition adjustment is calculated for each charter school, equal to such charter school's proportionate share of appropriations included in the State budget to close the gap between the prior-year funding level and the target allocation following full implementation of the LCFF. In each year, charter schools will have the same proportion of their respective funding gaps closed, with dollar amounts varying depending on the size of the charter school's respective funding gaps.

The LCFF includes the following components:

- A Base Grant for each local education agency. The Base Grants are based on four uniform, grade-span base rates. For fiscal year 2016-17, the LCFF provided to school districts and charter schools: (a) a Target Base Grant for each LEA equivalent to \$7,820 per A.D.A. for kindergarten through grade 3; (b) a Target Base Grant for each LEA equivalent to \$7,189 per A.D.A. for grades 4 through 6; (c) a Target Base Grant for each LEA equivalent to \$7,403 per A.D.A. for grades 7 and 8; (d) a Target Base Grant for each LEA equivalent to \$8,801 per A.D.A. for grades 9 through 12. However, the amount of actual funding allocated to the Base Grant, Supplemental Grants and Concentration Grants will be subject to the discretion of the State. This amount includes an adjustment of 10.4% to the Base Grant to support lowering class sizes in grades K-3, and an adjustment of 2.6% to reflect the cost of operating career technical education programs in grades 9-12.
- A 20% Supplemental Grant for the unduplicated number of English language learners, students from low-income families and foster youth to reflect increased costs associated with educating those students.
- An additional Concentration Grant of up to 50% of a local education agency's Base Grant, based on the number of English language learners, students from low-income families and foster youth served by the local education agency that comprise more than 55% of enrollment.
- An Economic Recovery Target (the "ERT") that is intended to ensure that almost every local education agency receives at least their pre-recession funding level (i.e., the fiscal year 2007-08 revenue limit per unit of A.D.A.), adjusted for inflation, at full implementation of the LCFF. Upon full implementation, local education agencies would receive the greater of the Base Grant or the ERT.

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

Pursuant to the LCFF, each local education agency (“LEA”) is required to, among other things show progress toward an average class enrollment of no more than 24 pupils in kindergarten through grade 3 unless the LEA has collectively bargained an annual alternative average class enrollment in those grades for each school. Accordingly, the LCFF includes an adjustment to the Base Grant for kindergarten through grade 3 of approximately 10.4% in order to cover the costs associated with class size reduction. In addition, the LCFF includes an adjustment to the Base Grant for grades 9 through 12 of approximately 2.6% in order to cover the costs of, among other things, providing career technical education.

Charter schools that serve students of limited English proficiency (“EL” students), students from low income families that are eligible for free or reduced priced meals (“LI” students) and foster youth are eligible to receive additional funding grants. Enrollment counts are unduplicated, such that students may not be counted as both EL and LI. Foster youth automatically meet the eligibility requirements for free or reduced priced meals, and are therefore not discussed herein separately. Based on the ADA of the given demographic classification, charter schools and school districts are eligible to receive a 20% supplemental grant (the “Supplemental Grant”) for students classified as EL students, students eligible to receive a free or reduced price meal (“FRPM”), and students classified as foster youth. The State expects the Supplemental Grants to reflect the additional costs associated with the education of EL, FRPM and LI students. In addition, charter schools and school districts are eligible to receive a concentration grant (the “Concentration Grant”) if such charter school or school district has a significant concentration of students classified as EL, FRPM or LI. The LCFF uses an unduplicated student count to determine the amount of the Supplemental Grant and Concentration Grant authorized for a charter school or school district. A charter school or school district may only count a student one time if such student classified in more than one of the categories EL, FRPM and LI. In the event the percentage of EL or LI students exceeds 55% of the total enrollment of such charter school or school district, as applicable, the LCFF provides additional funding to the school district through a Concentration Grant. The Concentration Grant will be an amount equal to an additional 50% of the school district’s adjusted Base Grant for each EL or LI student above the 55% threshold.

For certain charter schools that would have received greater funding levels under the prior revenue limit system, the LCFF provides for a permanent economic recovery target (“ERT”) add-on, equal to the difference between the general purpose funding such charter schools would have received under the prior system in fiscal year 2020-21, and the target LCFF allocations owed to such charter schools in the same year. The ERT add-on will be paid incrementally over the eight-year implementing period of the LCFF.

The sum of a school district’s or charter school’s adjusted Base, Supplemental and Concentration Grants will be multiplied by (i) the school district’s P-2 ADA for the current or prior year, whichever is greater (with certain adjustments applicable to small school districts) or (ii) the charter school’s current year ADA. This funding amount, together with any applicable ERT or categorical block grant add-ons, will yield the total LCFF allocation. Generally, the amount of annual State apportionments received by a school district or charter school will amount to the difference between such total LCFF allocation and such entity’s share of applicable local property taxes. Most school districts and charter schools receive a significant portion of their funding from such State apportionments. As a result, decreases in State revenues may significantly affect appropriations made by the Legislature to school districts and charter schools.

Accountability. In November 2014, the SBE adopted regulations regarding the expenditure of supplemental and concentration funding. These regulations include a requirement that school districts and charter schools increase or improve services for EL/LI students in proportion to the increase in funds apportioned to such districts on the basis of the number and concentration of such EL/LI students, as well as the conditions under which school districts can use supplemental or concentration funding on a school-wide or district-wide basis.

School districts and charter schools are also required to adopt local control and accountability plans (“LCAPs”) disclosing annual goals for all students, as well as certain numerically significant student subgroups, to be achieved in eight areas of State priority. LCAPs may also specify additional local priorities. LCAPs must specify the actions to be taken to achieve each goal, including actions to correct identified deficiencies with regard to areas of State priority. Charter school LCAPs are required to be included in charter petitions and updated annually. School district LCAPs are required to be adopted every three years, beginning in fiscal year 2014-15, and updated annually thereafter.

Categorical Funding. In addition, each charter school has been entitled to a “categorical block grant.” School districts must qualify for categorical aid on the basis of the actual number of students in attendance who qualify for one or more special programs, and may only spend the aid for the restricted purposes of the program. Charter school students do not need to qualify individually for each program of certain categorical aid. Instead, a charter school “categorical block grant” is computed annually. Categorical block grant funding may be used for any purpose determined by the charter school. In addition, charter schools may apply for and receive separate categorical funds for many programs that are not included in the block grants, if otherwise eligible, but may not receive aid for programs exclusively or almost exclusively provided by a county office of education.

Lottery Funding. Charter schools receive funding from the State Lottery Fund, which receives all proceeds from, among other sources, the sale of lottery tickets. Lottery funding is allocated to charter schools per unit of ADA. Lottery funds are distributed quarterly by the State Controller’s Office. Funding is based on annual average ADA. Lottery funds are identified as either “Proposition 20” funds or “non-Proposition 20” funds. Proposition 20 lottery funds may only be used to purchase instructional materials. Non-Proposition 20 lottery funds are unrestricted, except that they may not be used for acquisition of property, construction of facilities, financing of research, or for other non-instructional purposes. Lottery funding is not included in the charter school categorical block grant.

SB 740 Facilities Grant Program Funding. Charter schools that meet certain criteria are eligible to receive up to \$750 per unit of ADA to reimburse an amount up to 75% of their annual facilities rent and lease costs from amounts appropriated under the annual Budget Act (and, if insufficient amounts are appropriated, then on a pro-rata basis) pursuant to the Charter School Facility Grant Program established under Senate Bill 740 (2001) (“SB 740”). Assembly Bill 104 (2015) amended the provisions of the Education Code modified by SB 740 such that eligibility requires (i) 55% or more of the charter school’s students must be eligible for free or reduced cost meals, or (ii) the charter school must be located in the attendance area of a public elementary school in which 55% or more of students are eligible for free or reduced cost meals and (iii) the charter school gives a preference in admissions to students who are currently enrolled in that public elementary school and to students who reside in the elementary school attendance area where the charter school is located. SB 740 facilities funding may be used for costs associated with facilities rents and leases, and for costs associated with remodeling buildings, deferred maintenance, installing or extending service systems and other built-in equipment, and improving sites. SB 740 facilities funding is not included in the charter school categorical block grant. See “APPENDIX A – CERTAIN INFORMATION REGARDING THE BORROWER, THE LESSEE AND THE SCHOOL – THE SCHOOL – Enrollment, Attendance and Student Retention – SB 740 Funding for the Schools” for information regarding SB 740 and the Schools.

While it is the intent of the Legislature to appropriate funds sufficient to fund all grant amounts approved under the Program, the Program is subject to the annual Budget Act. In the event insufficient funds are appropriated, the available funds are apportioned on a pro rata basis. In addition to the risk of underfunding, should there be any changes to the free and reduced-price meal eligibility data the amount of grant funds, which is awarded in three disbursements, may be adjusted (or a reimbursement notice provided).

The following tables describe ADA-based state funding of California charter school education for Fiscal Years 2012-13 through 2016-17:

STATE FUNDING OF CHARTER SCHOOL EDUCATION
Fiscal Year 2012-13
(Dollars per unit of ADA)

| | Grades | | | |
|-----------------------------|----------------|----------------|----------------|----------------|
| | K-3 | 4-6 | 7-8 | 9-12 |
| General Purpose Entitlement | \$5,076 | \$5,153 | \$5,308 | \$6,141 |
| Categorical Block Grant | 412 | 412 | 412 | 412 |
| Lottery ⁽²⁾ | <u>150</u> | <u>150</u> | <u>150</u> | <u>150</u> |
| Total ⁽¹⁾ | <u>\$5,674</u> | <u>\$5,755</u> | <u>\$5,911</u> | <u>\$6,752</u> |

STATE FUNDING OF CHARTER SCHOOL EDUCATION
Fiscal Year 2013-14
(Dollars per unit of ADA)

| | Grades | | | |
|------------------------|----------------|----------------|----------------|----------------|
| | K-3 | 4-6 | 7-8 | 9-12 |
| Target LCFF Base Grant | \$6,952 | \$7,056 | \$7,266 | \$8,149 |
| CTE/CSR Add-ons | 723 | -- | -- | 219 |
| Lottery ⁽²⁾ | <u>154</u> | <u>154</u> | <u>154</u> | <u>154</u> |
| Total | <u>\$7,829</u> | <u>\$7,210</u> | <u>\$7,420</u> | <u>\$8,522</u> |

STATE FUNDING OF CHARTER SCHOOL EDUCATION
Fiscal Year 2014-15
(Dollars per unit of ADA)

| | Grades | | | |
|------------------------|----------------|----------------|----------------|----------------|
| | K-3 | 4-6 | 7-8 | 9-12 |
| Target LCFF Base Grant | \$7,011 | \$7,116 | \$7,328 | \$8,490 |
| CTE/CSR Add-ons | 729 | -- | -- | 221 |
| Lottery ⁽²⁾ | <u>162</u> | <u>162</u> | <u>162</u> | <u>162</u> |
| Total | <u>\$7,902</u> | <u>\$7,278</u> | <u>\$7,490</u> | <u>\$8,873</u> |

STATE FUNDING OF CHARTER SCHOOL EDUCATION
Fiscal Year 2015-16
(Dollars per unit of ADA)

| | Grades | | | |
|------------------------|----------------|----------------|----------------|----------------|
| | K-3 | 4-6 | 7-8 | 9-12 |
| Target LCFF Base Grant | \$7,083 | \$7,189 | \$7,403 | \$8,577 |
| CTE/CSR Add-ons | 737 | -- | -- | 223 |
| Lottery ⁽²⁾ | <u>195</u> | <u>195</u> | <u>195</u> | <u>195</u> |
| Total | <u>\$8,015</u> | <u>\$7,384</u> | <u>\$7,598</u> | <u>\$8,995</u> |

STATE FUNDING OF CHARTER SCHOOL EDUCATION
Fiscal Year 2016-17⁽³⁾
(Dollars per unit of ADA)

| | Grades | | | |
|------------------------|----------------|----------------|----------------|----------------|
| | K-3 | 4-6 | 7-8 | 9-12 |
| Target LCFF Base Grant | \$7,083 | \$7,189 | \$7,403 | \$8,578 |
| CTE/CSR Add-ons | 737 | -- | -- | 223 |
| Lottery ⁽²⁾ | <u>189</u> | <u>189</u> | <u>189</u> | <u>189</u> |
| Total ⁽³⁾ | <u>\$8,009</u> | <u>\$7,378</u> | <u>\$7,592</u> | <u>\$8,990</u> |

⁽¹⁾ Excludes Special Education, Nutrition, After School Education and Safety, SB 740, Charter School Facility Grants, No Child Left Behind, Class Size Reduction, Supplemental Instruction, Economic Impact Aid, and National School Lunch Program funding and any private philanthropy, grants, or other fund-raising.

⁽²⁾ Estimated.

⁽³⁾ The Fiscal Year 2016-17 funding amounts are preliminary, used for initial budgeting purposes in general. For specific projections with respect to the School, see "APPENDIX A—CERTAIN INFORMATION REGARDING THE PROJECT, MERF, THE CORPORATION, AND THE SCHOOLS – The School – Projected Income" attached hereto.

Sources: California Charter Schools Association; California Department of Education.

Appendix A

**CERTAIN INFORMATION REGARDING THE
PROJECT, MERF,
THE CORPORATION, AND THE SCHOOLS**

APPENDIX A

CERTAIN INFORMATION REGARDING THE PROJECT, MERF, THE CORPORATION, AND THE SCHOOLS

The information in this Appendix A has been compiled from information provided by representatives of Magnolia Educational & Research Foundation, and has not been independently confirmed or verified by either the Underwriter, Financial Advisor or the Authority. Capitalized terms used but not separately defined herein shall have the meanings given thereto in this Limited Offering Memorandum, including Appendix C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL BOND DOCUMENTS.”

GENERAL INFORMATION

Magnolia Educational & Research Foundation

History. In 1998, the Magnolia Educational & Research Foundation (“MERF”) began its first project of providing volunteer tutors for middle and high school students, especially for math, science and computer technology assistance, utilizing its connections to major research universities throughout southern California. In 1999, MERF organized and implemented a joint program with the Culver City Unified School District to provide tutoring for district students. It also started a free tutoring program in the Sherman Oaks/Van Nuys Area of the San Fernando Valley. These programs resulted from cooperative partnerships with school districts to support educational initiatives.

In the fall of 2002, MERF established its first charter school, Magnolia Science Academy (also known as Magnolia Science Academy 1 (“MSA-1”)), in the San Fernando Valley of southern California. Since then, MERF has grown in size and sophistication, establishing ten other charter schools in the State of California (the “State”), while maintaining the goal of providing an innovative, high-quality education to students. See Table A-1 for information about the locations and charter renewal status of the existing schools.

Organization. MERF operates as a non-profit charter management organization headquartered in Los Angeles, California, that operates a network of charter schools throughout the State, including MSA-1, Magnolia Science Academy-San Diego (“MSA-SD”), and Magnolia Science Academy-Santa Ana (“MSA-SA”). MERF currently operates ten charter schools (collectively, the “Magnolia Schools”). While each school has its own charter, MERF operates all Magnolia Schools as a single California nonprofit corporation, and all faculty and staff of the Magnolia Schools are employees of MERF. MERF was incorporated on August 28, 1997 as an organization described under section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”).

MERF is dedicated to inspiring students to choose career paths in science, technology, engineering and math (“STEM”), while providing a robust, standards-based education program within a supportive culture that strives toward excellence. MERF’s “culture of excellence” is based on core values, the cultivation of college aspirations, and a dedicated, highly trained faculty that implements a comprehensive educational approach. Its four-part educational model includes (1) technology integration across all subject areas, (2) advanced studies for selected students, (3) proactive and personalized academic guidance, and (4) data-driven instruction based on analysis of student performance, all in support of a standards-based educational program.

MERF’s central office (the “central office”) executes the decisions and policies set by the Board of Directors of MERF (the “Board”) and manages business operations in MERF’s schools. The

responsibilities of the central office include overseeing operations for compliance with charter agreements, hiring school principals, managing payroll, purchasing, budgeting and auditing, community outreach, public relations, data management, information technology and facilities, and serving as a point of contact for the chartering agency. MERF employs ___ employees, including ___ teachers, ___ administrators, and ___ staff. All staff and faculty of MSA-1, MSA-SD, and MSA-SA, as well as those of the other Magnolia School, are employees of MERF.

Magnolia Properties Management, Inc.

Magnolia Properties Management, Inc. (the “Corporation”) is a single purpose entity formed for the sole purpose of acquiring and owning the Facilities. The Corporation was formed in 2012 and in the same year received a determination letter from the Internal Revenue Service recognizing it as exempt from taxation under Section 501(a) of the Internal Revenue Code of 1986 (the “Code”) as an organization described in Section 501(c)(3) of the Code. The Corporation provides property development and maintenance services for schools operated by MERF and was formed as a supporting organization for MERF. The Corporation is governed by a three-member board of directors. All staff of the Corporation are employees of MERF. The Corporation has no significant assets other than the Facility and is not expected to accumulate any. It also has no operating experience. Therefore, no financial information regarding the Corporation is provided in this Limited Offering Memorandum. See “MAGNOLIA PROPERTIES MANAGEMENT, INC.” herein.

MAGNOLIA PROPERTIES MANAGEMENT, INC.

Board of Directors and Key Directors/Management

Board of Directors. The current members of the Board of Directors of the Corporation are set forth in the following table.

| <u>Name</u> | <u>Position</u> | <u>Beginning of Current Term</u> | <u>End of Current Term</u> |
|------------------------|-----------------|----------------------------------|----------------------------|
| Mr. Serdar Orazo | Director | November 12, 2015 | November 11, 2020 |
| Mr. John Helgeson | Director | November 12, 2015 | November 11, 2020 |
| Mr. Johnathan Williams | Director | November 12, 2015 | November 11, 2020 |

Brief biographical information about the members of the Board follows below.

Serdar Orazov, Director. Mr. Orazov is the Controller of the Church Divinity School of the Pacific (Graduate School) in Berkeley, California. He has more than ten years of experience in finance and operations in the private and public sector. He has served MERF as a Business Manager and Senior Accountant for six years. He holds a Master of Business Administration from Moscow Aviation Institute (State Technical University) in the field of Finance and Accounting and a Bachelor of Science degree in textile engineering from International University in Ashgabat, Turkmenistan. He has more than nine years of experience in non-profit accounting and finance, with charter schools comprising the majority of his experience.

John Helgeson, Director. Mr. Helgeson is the Executive Vice President of Strategic Planning and Growth of the Learn 4 Life Concept charter schools. He has more than twenty years in private and public school development and finance, having been a co-Founder of Charter School Capital, Inc. in 2004 after serving in development officer roles for the University of Southern California and the Webb School. He earned his Bachelor of Arts in Political Economy from the University of California, Berkeley.

Johnathan Williams, Director. Mr. Williams is the Chief Executive Officer/Co-Founder of The Accelerated School. During his distinguished career in education, he has served as a Commissioner of the Los Angeles City Recreation and Parks Commission, a Board Member of the California State Board of Education, and a founding Board Member of the California Charter Schools Association. He earned his Bachelor of Arts in _____ and teaching credential from the University of California, Los Angeles.

Key Directors/Management. The current officers of the Corporation are set forth in the following table.

| <u>Name</u> | <u>Position</u> |
|-------------------|-------------------------|
| Dr. Caprice Young | Chief Executive Officer |
| Mr. Serdar Orazov | Treasurer |
| Ms. Nanie Montijo | Chief Financial Officer |

See “MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION – Management Team” for biographical information relating to the current officers of the Corporation.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION

MERF Board of Directors

The Board of MERF currently consists of nine members. The Board establishes broad policies to implement the mission of MERF and its schools, including MSA-1, MSA-SD, and MSA-SA. The policies adopted by the Board influence school operations such as educational program development, after-school programs, financial planning, staffing, benefits, compensation, and conditions for student suspension or expulsion.

The following table sets forth the members of the Board of MERF.

| <u>Name</u> | <u>Position</u> | <u>Beginning of Current Term</u> | <u>End of Current Term</u> |
|-----------------------------|-----------------|----------------------------------|----------------------------|
| Ms. Noel Russell-Uterburger | President | October 11, 2012 | October 10, 2017 |
| Dr. Umit Yapanel | Secretary | October 11, 2012 | October 10, 2017 |
| Mr. Serdar Orazo | Treasurer | September 10, 2015 | September 9, 2020 |
| Dr. Saken Sherkanov | Director | December 12, 2013 | December 11, 2018 |
| Mr. Nguyen Huynh | Director | March 12, 2015 | October 10, 2017 |
| Dr. Salih Dikbas | Director | April 21, 2016 | December 10, 2019 |
| Ms. Diane Gonzalez | Director | December 11, 2014 | December 10, 2019 |
| Dr. Remzi Oten | Director | March 12, 2015 | March 11, 2020 |
| Rabbi Beliak | Director | February 9, 2017 | February 8, 2022 |

Brief biographical information about the members of the Board follows below.

Noel Russel-Uterburger, President. Ms. Russel-Uterburger is a Director and serves as President of the Board of MERF. Ms. Russel-Uterburger is an executive-level accounting professional with more than 18 years of financial management, leadership and advisory experience and expertise. Her responsibilities include oversight of accounting and finance operations, best practices, ongoing cash flow and budgeting, and financial planning and analysis. In addition to accounting and finance oversight, Ms. Russel-Uterburger offers comprehensive management, internal control and strategic advice to executive management. She has previously held various positions in the nonprofit sector, including as chief

financial officer, comptroller and management accounting, and has served as an accounting director in manufacturing and served as a senior financial analyst in banking. Ms. Russel-Uterburger serves as the financial advisor on the board of directors for the Powell Academy, which is currently seeking charter status, and Dr. Theodore T. Alexander, Jr. Science Center, a charter school within LAUSD (defined herein). Ms. Russel-Uterburger holds an Associate degree in Accounting from Santa Monica College and a Bachelor of Science degree in Business Management from Pepperdine University, Graziadio School of Business & Management.

Umit Yapanel, Ph.D., Secretary. Dr. Yapanel is a Director and serves as Secretary of the Board of MERF. Dr. Yapanel is a Senior Algorithm Developer for Automatic Speech Recognition (ASR) Audience, Inc. During the spring of 2010, he served as an adjunct faculty at the University of Colorado at Boulder, Department of Electrical, Computer and Energy Engineering and taught Digital Signal Processing classes to graduate and undergraduate students. Previously, Dr. Yapanel worked as a Speech Technology Engineer at a high-tech company focused on inventing language monitoring systems for children and on early detection of delay and deficiencies related to infants' language development, and spent two summers at IBM's TJ Watson Research Center in New York. Dr. Yapanel holds a Bachelor of Science in Electronics and Communications, a Master of Science in Communications Engineering and a Master of Science in Electrical and Computer Engineering, as well as a degree in Automatic Speech Recognition from the University of Colorado at Boulder. From 2003 through 2007, Dr. Yapanel served as a founding board member at Lotus School for Excellence, a charter school in Aurora, Colorado.

Serdar Orazo, Treasurer. Mr. Orazov serves as a Director on the Board of MERF. Mr. Orazov is the Controller of the Church Divinity School of the Pacific (Graduate School) in Berkeley, California. He has more than ten years of experience in finance and operations in the private and public sector. He has served MERF as a Business Manager and Senior Accountant for six years. He holds a Master of Business Administration from Moscow Aviation Institute (State Technical University) in the field of Finance and Accounting and a Bachelor of Science degree in textile engineering from International University in Ashgabat, Turkmenistan. He has more than nine years of experience in non-profit accounting and finance, with charter schools comprising the majority of his experience.

Saken Sherkhanov, Director. Mr. Sherkhanov is a Director and serves as Secretary of the Board of MERF. Mr. Sherkhanov received his Bachelor of Science degree in biology from California Institute of Technology in 2003. Upon completion of his undergraduate study, he joined MSA-1 as a physical science and biology teacher. During his five-year tenure at MERF, he helped to develop the curriculum and adaptive assessment programs for the Physical and Life Sciences courses, introduced advanced math, science and engineering programs, and initiated an Advancement Placement program in multiple schools. Currently, Mr. Sherkhanov is attending a Ph.D. program at the University of California, Los Angeles in the Chemistry & Biochemistry Department.

Mr. Nguyen Huynh, Director. Mr. Huynh joined GATES Capital Corporation in 2002. Prior to the GATES Capital Corporation, Mr. Huynh worked in the Municipal Finance Department of Goldman, Sachs & Co. where he was responsible for the structuring and execution of financings for infrastructure, airport and higher education clients. Mr. Huynh started his career as a financial analyst for the New York City Municipal Water Finance Authority where he assisted with the issuance of water and wastewater revenue bonds and operation of a commercial paper program. Mr. Huynh received his Master in Public Policy with a concentration in International Trade and Finance from Harvard University and a Bachelor of Arts in Political Economy from the University of California at Berkeley. He currently holds FINRA Series 7, Series 3, and Series 63 licenses.

Dr. Salih Dikbas, Director. Dr. Dikbas joined Qualcomm Inc. in 2013 as a Staff Engineer. Prior to joining Qualcomm Inc., Dr. Dikbas was a System Engineer for Texas Instruments Inc. and helped

develop a frame noise algorithm. In addition, he co-authored Texas Instrument's proposal for a next-generation video standard. Dr. Dikbas received his degree from Middle East Technical University, a Master of Science degree from Clemson University and a Ph.D. from Georgia Institute of Technology.

Ms. Diane Gonzalez, Director. Ms. Gonzalenz has served as a Community Outreach Coordinator for the United States Department of Justice since 1964. In addition to her many community service volunteer roles, Ms. Gonzalez has served on the Law Enforcement Torch Run Council for Special Olympics Southern California since 1988.

Dr. Remzi Oten, Director. Dr. Remzi Oten is an entrepreneur and founder of several companies including Sena Cases, a copy which was acquired by Targus Inc. in 2012. After the acquisition of Sena Cases, Dr. Oten continued his role as the President and Chief Executive Officer of Sena Cases. Dr. Oten is also a Senior Vice President in Targus Group International. Dr. Oten received his Ph.D. degree in electrical and computer engineering from University of California at Irvine, in 2000. Since 1997, he has worked in research and development in various technology companies of different sizes in the imaging industry. Between 2005 and 2008, Dr. Oten was part of a start-up core team at Newport Imaging Corp. At Newport Imaging Corp., he has managed the research and development team that developed an innovative multi-sensor CMOS camera.

Rabbi Beliak, Director. Rabbi Beliak pursued his higher education at Claremont Graduate University specializing in Cairo Genizah.

Management Team

The chief executive officer of MERF is appointed by the Board of Directors to manage the day-to-day operations of MERF. Dr. Caprice Young currently serves as the Chief Executive Officer.

Dr. Caprice Young, Chief Executive Officer. Caprice Young, Ed.D., is the chief executive officer of Magnolia Public Schools. Dr. Young has an extensive history leading school systems, philanthropic, business, governmental and community-based organizations, which are engaged in transformational work. Prior to joining MERF, Dr. Young served as Assistant Deputy Mayor of the City of Los Angeles, a manager in IBM's eBusiness consulting practice, the founding CEO/President of the California Charter Schools Association, CEO/President of KC Distance learning. In addition, Dr. Young has served as the Chief Executive Officer of Inner City Education Foundation Public Schools and Chief Executive Officer/President of EnCorps, a non-profit organization recruiting and training new STEM teachers. Dr. Young earned her doctorate in education from the University of California at Los Angeles, her Master of Public Administration from the University of Southern California and her Bachelor of Arts from Yale University.

Nanie Montijo, Chief Financial Officer. Ms. Montijo has more than 30 years of experience in accounting and finance, including twenty years within the California public school system and government fund accounting. Prior to joining MERF, Ms. Montijo served as a consultant with FCMAT (defined herein). Ms. Montijo has served as the Director of Fiscal Services for several school districts including Centinela Valley Union High School District, El Monte Union High School District, Sweetwater Union High School District, Puget Sound Education Service District, and San Bernardino City Unified School District. Ms. Montijo holds a Bachelor's degree in accounting and is a certified public accountant.

Kenya Jackson, Chief Academic Officer. Kenya Jackson has more than fifteen years of experience teaching and leading in public and charter schools in New York City and Los Angeles. She is a Teach for America Alumna and a UNCF Mellon Fellow. She is currently an America Achieves Fellow.

Her extensive work as a charter school principal in south Los Angeles is published in “The Urban Challenge in Education: The Story of Charter School Successes in Los Angeles” by Joseph Scollo, Dona Stevens, Ellen Pomella. Additionally, her work with respect to personalized literacy, online learning and closing the belief gap has been featured on several websites, including Edutopia.org and Smartblogs.com. Ms. Jackson graduated from Dillard University with a Bachelor of Arts in English and received Masters of Science degree in Secondary Education from Pace University.

Alfredo Rubalcava, Chief External Officer. Mr. Rubalcava brings a well-rounded perspective from his prior work with MERF as a previous Magnolia Public Schools Teacher and Athletic Director at MSA-1 and Dean of Students and Principal Magnolia Science Academy 8 (Bell). Mr. Rubalcava holds a Bachelor of Science in Kinesiology with an emphasis in Physical Education from California State University of Northridge.

David Yilmaz, Chief Accountability Officer. Mr. Yilmaz pursued his undergraduate study in the Electrical & Electronics Engineering Department at Bilkent University, Turkey, and graduated with high honors. He has published journal articles and conference papers in the areas of image processing and circuit simulation, and has developed mathematical software modules for Cadence, a world-known electronic circuit design and simulation company. Mr. Yilmaz has taught computer programming classes to undergraduates at UCI, Microsoft Office applications for the City of Fountain Valley as a volunteer, and SAT Math classes at private organizations. Holding clear teaching credential in both math and science fields, Mr. Yilmaz served as a teacher, dean of academics, and principal at three different campuses of Magnolia Public Schools for ten years. Mr. Yilmaz now serves as the Chief Academic Officer coordinating curriculum and instruction, charter renewal, accreditation, and other accountability measures at MPS. Mr. Yilmaz's experience within MERF has ranged from Teacher (math, science, computer) for 6 years (MSA-1 & MSA-SD), Dean of Academics for 2 years (MSA-SD), Principal for 3.5 years (MSA-SD & PTS-Santa Ana), Chief Academic & Accountability Officer for 2.5 years (MPS Home Office), and Director of Accountability for 1 year (MPS Home Office). Mr. Yilma holds a Master of Arts in School Leadership from California State University, Dominguez Hills, a Master of Science in Electrical & Computer Engineering from University of California, Irvine, a Clear Single Subject Teaching Credential in Mathematics and Science: Physics and an Administrative Services Credential.

Erdinc Acar, Regional Director – South. Mr. Acar is an accomplished and forward-thinking educator with more than fifteen years of leadership in developing and implementing leading-edge programs and services that align with mission and vision of educational institutions. He has an outstanding record of improving processes by adapting and applying aspects of STEAM Education in school systems, through comprehensive research, strategic evaluation and effective presentations of best practices in curricula, programs, tools and technologies. He has pioneered establishment of state-of-the-art online learning programs and professional development portals for academic advancement, combined with directing formative assessment and performance-based programs. He has served in top school level administrative positions in Nevada and California for over a decade. His professional licenses include: Clear Administrative Services Credential, CA; General Science Teaching Credential, CA School Administrator CE, NJ; Physical Science Teacher, CEAS, NJ; Administrator, School License, NV Physical Science Teacher License, NV. He holds the following degrees: Master of Education, Educational Leadership, University of Nevada, Reno; Master of Education, Science Education, Rutgers University, New Brunswick; and Bachelor of Science, Teaching Physics.

Suat Acar, Chief Operating Officer and Regional Director – North. Mr. Acar started his educational career as a math teacher and taught all types of math for 11 years. Subsequently, Mr. Acar became a school administrator in Arizona. He served as a principal from various traditional public schools and charter schools, including Principal at a Magnolia Public School and Principal at the Sonora Schools in the Phoenix Arizona area. Mr. Acar has a Bachelor of Arts in Economics from Bosphorus University in

Istanbul, Turkey and a Master's in Education in Educational Leadership with principal credential from Arizona State University. Mr. Acar is presently enrolled in a doctoral program in educational leadership and administration at California State University, Northridge.

Terri Boatman, Chief Human Resources Officer. Ms. Boatman has significant experience and consummate achievements building multiple best-in-class organizations in diverse industries operating over multiple jurisdictions and globally. Ms. Boatman prides herself on being a proactive change agent that spends time in the employee environment encouraging learning and career development whose award winning and innovative "people strategy" has directly contributed to revenue growth and branding. Throughout her career, Ms. Boatman has gained valuable human resources experience in fields such as employee/labor relations, organizational design, benefits, mergers & acquisitions, compensation, worker's comp management and health and safety. Ms. Boatman spent most of her career working with Fortune 500 companies including subsidiaries of Alcoa and Citigroup. Most recently, she was the Senior Human Resources Manager for Republic Services in the Los Angeles area. Ms. Boatman holds a Bachelor of Arts and Science degree from Oglethorpe University in Atlanta, Georgia

Academic Mission

The heart of the mission of each school is to provide a solid academic foundation in the core subject areas through implementation of a rigorous, yet motivating and exciting curriculum. MERF seeks to:

- Enable students to become self-motivated, competent, and lifelong learners.
- Provide challenging and engaging curriculum with carefully selected standards-based teaching materials and state-of-the-art equipment implemented by highly qualified teachers.
- Create a supportive and caring environment with small class sizes and strong student-parent-teacher communication.
- Improve students' knowledge and skills in core subjects, thereby increasing their chances of success in higher education and beyond.
- Establish intensive enrichment programs for both high and low achieving students.
- Enable students to think objectively and critically, respect truth, and be socially responsible.
- Prepare students to be conscientious and productive citizens.
- Prepare them to become responsible, educated citizens who have the skills and understanding to participate and work productively in a diverse, multicultural community.
- Enable literacy in math, science, and technology, self-motivated life-long learners equipped with communication and presentation skills indispensable for the technologically oriented global environment of the 21st century.
- Provide a standards-based curriculum with emphasis on math, science, and technology, supported by state-of-the-art science and computer labs.
- Provide academic and recreational after-school activities with the aim of enabling students to attain a healthy body, a healthy mind and the disciplinary and behavioral standards necessary for their future endeavors.
- Provide opportunities for parental involvement.

Curriculum and Instruction

General. MERF's educational program specifically emphasizes science, technology, engineering and math (STEM) education. While the curriculum concentrates on STEM, it also provides a solid instruction in humanities and social sciences in order to provide a comprehensive education. At the core of the curriculum is the notion that writing serves as an important vehicle for learning in all subject areas.

Thus, at each Magnolia School, students in all classes write frequently about what they have learned, thereby reinforcing learning and enhancing understanding. Another significant feature of the curriculum is the emphasis on collaborative learning.

- *Math.* Math courses provide a comprehensive scope and sequence in an effort to address the diverse skills, interests and backgrounds of all learners. Students are assessed for their current knowledge and skill level and placed in an appropriate class. Those with little math background in mathematics are supported with remediation and intervention. Students with a strong background are provided with enrichment opportunities. These students also have the opportunity to participate in the Advanced Math and Science Program (“AMSP”) which challenges qualifying students by preparing them for various levels of competitions from regional to state to international in math, science, and computers. Students can further reinforce the material they learned in math through Technology Integrated Education (“TIE”) courses.
- *Science.* The science curriculum immerses students in the scientific method and encourages them to use applicable technology, to plan and organize projects, hypothesize, analyze data, and draw conclusions from tests they create. Using this method, MERF believes, will give its students, who accumulate experience applying scientific inquiry and reasoning to real-world problems in the classroom a clear advantage when they are exposed as adults to questions requiring a similar thought and reasoning process. In keeping with the math, science and technology emphasis at the School, advanced courses are offered to spur interest and prepare students for STEM-related fields. Science classes employ technology in laboratory explorations and experimentation. Computer simulations assist in expanding the number of lab opportunities in all grade levels.
- *Language Arts.* The language arts curriculum is literature-based with fluency practice in reading and writing. Conventions of writing are emphasized in daily written homework and lab assignments. The curriculum incorporates a period of sustained silent reading as part of the daily curriculum. Accelerated Reader by Renaissance Learning is used to make essential reading practice more effective for every student and personalize reading practice to each student’s current level.
- *Social Science.* The social science courses use inquiry-based research topics involving real-world problems, with a focus on local current events, history and culture. In accord with the National Council for the Social Studies, the School’s social studies programs prepare students to identify, understand, and work to solve the challenges facing the nation in an increasingly interdependent world. Education for citizenship is intended to help students acquire and learn to use certain skills, knowledge, and attitudes to prepare them to be competent and responsible citizens throughout their lives, to aim to participate in their communities, be involved politically, and exhibit moral and civic virtues.
- *Art, Music and Technology.* The arts are an important part of the curriculum. Specialized art, music and technology courses will be offered for students at both the middle and high school levels. Study of the arts will be enhanced by their integration into lesson plans in other subjects, such as: The Physics of Sound and Music, The Art of Fractals and Snowflakes, Design Elements in Art (analysis of Marc Chagall’s work in technology courses), Design on the Frontier (simulated quilt construction in an eighth grade American History course), Japanese Papermaking and Kite Design (World History and Cultures), and streamline and deco design, as used in automobile styling, and film robots described in science fiction literature (as part of the technology and robotics lab). The School’s goal is to immerse its students in culture and diversity through daily discussion, projects and guest speaker presentation.

Middle School Curriculum. Middle school students are required to take core courses in mathematics, science, English-language arts and history-social science. In addition, students are required to take courses in computers and technology, TIE, physical education, visual and performing arts, foreign languages, sustained silent reading and Get Ready For Life (“GRFL”).

The GRFL program contains units on Life Skills, Study Skills, Test Taking Skills, Drug Prevention, Environmental Issues, Career Awareness, and Character Development. Each middle grade student attends a GRFL class for one period each week. GRFL themes are integrated into broader school-wide activities including assemblies, field trips, displays, announcements, and the general curriculum. Parents are informed about the topic of the week to cultivate their involvement and support at home.

High School Curriculum. One of the cornerstones of MERF’s academic vision is the understanding that science is a central factor in understanding the world around us. As a college-preparatory school, the high schools must consider the various factors that correlate with student success at university, such as high school achievement in advanced science and math courses and writing ability. Consequently, MERF’s curriculum emphasizes writing in all classes, including math and science.

The high school curriculum meets all California state minimum course requirements for high school graduation, and the a-g requirements of the University of California system. MERF offers courses in mathematics, science, history-social science, and English-language arts. In addition to these core subjects, students are required to take physical education and foreign language courses. Students who wish to apply for higher education at any college or university are required to take two courses in computers and technology, at least one course in the visual and performing arts, and college preparatory electives.

- ***Life Skills.*** High school students will be required to take a life skills course which consists of a community service project and soft skills development. Students engage in community service to develop and demonstrate the incorporation of necessary life skills into their academic achievements. Students are required to complete at least one community service project before graduation. Projects are curriculum-related and designed to ensure that students gain “real life” responsibility, caring and respect for the community. Students are required to present the results of their community service projects to parents, teachers, students and other members of the School community.

- *Advanced Math and Science Program (“AMSP”).* AMSP is a program for academically high-achieving students. The School prepares participating students to participate in competitions such as the Intel Science Talent Search, the California State Science Fair, and the International Academic Olympiads in Mathematics, Informatics, Physics and Biology.
- *Technology Integrated Education.* Use of multimedia and other technology resources in all classes enable powerful learning situations that aid students in extracting meaning out of complexity. TIE is a unique program to MERF and integrates math, science, social science and language arts classes with technology education in an engaging and comprehensive manner. Students gain an understanding of how computers operate and learn basic skills to successfully use programs such as Microsoft Word, Excel and PowerPoint. They learn how to design websites and effectively use the Internet. Core teachers spend time each week in the computer lab with their students, using the NetSupport School Classroom Management program to enhance the interaction between the students and the teachers.
- *AP Courses.* MERF is committed to increasing the college readiness of its students by offering Advanced Placement (“AP”) courses. These courses have been approved by The National Advanced Placement Program by The College Board, based on the quality of the college-preparatory, honors curriculum. Some of the AP courses offered include Biology, Calculus AB, Psychology, Spanish Language, English Language World History, U.S. History and Comparative Government & Politics.

Parent-Student-Teacher Cooperation

MERF works with parents to increase their awareness of the importance of their involvement in their children’s education through the following activities:

- *Individualized parent counseling.* Teachers and mentors will be assigned to a small group of students. They will arrange two to four meetings with each parent during the school year to discuss their students’ academic achievements.
- *Parent Volunteer Hours.* A voluntary time commitment is requested. There are multiple areas of volunteering available, including classroom teacher support, clerical, site improvements, field trips, and fundraising.
- *One-on-one Meetings.* Schools operated by MERF hold one-on-one meetings with parents of academically low-achieving students to assist the parent in providing support to the student.
- *Small Class Sizes.* The average number of students per class at schools operated by MERF will be 25 in order to guarantee close communication between teacher and student.
- *Sustained Reading Time.* All students, teachers and administrators read for 25 minutes every day during a dedicated time that is part of the structured school day.
- *Online Portal.* MERF uses CoolSIS, an online web portal, to enable parents, students and teachers to communicate more efficiently.

Charter Authorizations

General. MERF currently operates ten schools under 4 different charter authorizers. MERF has completed more than twenty initial charter authorizations and/or renewals with charter authorizers, such

as local school districts, county boards of education, and the State Department of Education. A copy of the action of the State or local education agency authorizing each school’s charter petition is available upon request to MERF during the underwriting period. To obtain a copy, please contact _____, Magnolia Educational & Research Foundation, at 250 E. 1st Street, Suite 1500, Los Angeles, California. MERF may impose a fee for copying, mailing and handling.

The following Table A-1 sets forth the location, current authorizer, the year on which the school opened and the years on which a renewal occurred of each of the Magnolia Schools.

**Table A-1
MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
CHARTER HISTORY**

| <u>School</u> | <u>Location</u> | <u>Charter Authorizer</u> | <u>Year Opened</u> | <u>Charter Renewals</u> |
|---------------------------------------|--|---|--------------------|-------------------------|
| Magnolia Science Academy 1 | 18238 Sherman Way Reseda, CA 91335 | Los Angeles County Board of Education | 2002 | 2007, 2012 |
| Magnolia Science Academy San Diego | 6365 Lake Atlin Ave San Diego, CA 92119 | San Diego Unified School District | 2005 | 2008 |
| Magnolia Science Academy-2, Valley | 17125 Victory Blvd Van Nuys, CA 91406 | Los Angeles County Office of Education | 2007 | 2012 |
| Magnolia Science Academy-3, Carson | 1254 East Helmick Street Carson, CA 90746 | Los Angeles County Board of Education | 2008 | 2012 |
| Magnolia Science Academy-4, Venice | 11330 W Graham Place Los Angeles, CA 90064 | Los Angeles Unified School District | 2008 | 2013 |
| Magnolia Science Academy-5, Hollywood | 929 N Las Palmas Ave Los Angeles, CA 9003 | Los Angeles Unified School District | 2008 | 2013 |
| Magnolia Science Academy-6, Palms | 3754 Dunn Dr. Los Angeles CA 90034 | Los Angeles Unified School District | 2009 | 2014 |
| Magnolia Science Academy Santa Ana | 280 W. 1 st Street Santa Ana, CA 92703 | California Department of Education | 2009 | 2014 |
| Magnolia Science Academy-7, Van Nuys | 18355 Roscoe Boulevard, Northridge, CA 91325 | Los Angeles Unified School District | 2010 | 2015 |
| Magnolia Science Academy-8, Bell | 6411 Orchard Ave Bell, CA 90201 | Los Angeles Unified School District | 2010 | 2015 |

Source: Magnolia Educational & Research Foundation.

In 2012, the Board of MERF approved the closure of Pacific Technology School, located in Orangevale, California, as a result of the inability of MERF to locate adequate facilities, including a Proposition 39 site. On July 1, 2016, MERF closed its Santa Clara, California location after Magnolia Science Academy Santa Clara after MERF was unable to identify a reasonable facility replacement. The closure, among other things, impacted MERF’s finances. In connection therewith, MERF wrote off uncollectable revenue due to MERF from the school district. In addition, MERF believes that all costs associated with closure are being addressed and will be absorbed over time by MERF. MERF does not plan to reopen a school in the City of Santa Clara at this time.

Events Relating to Charter Approvals.

LAUSD Denial of Charter Renewal Petitions (2014). In November 2013, MERF submitted to LAUSD petitions to renew the charters for Magnolia Science Academy 6 (“MSA-6”) and Magnolia Science Academy 7 (“MSA-7”). In March 2014, LAUSD granted conditional approval to the charter petitions pending further review of fiscal processes and operations. LAUSD determined that MSA-6 and MSA-7 did not meet the renewal conditions and rescinded the conditional approvals. See “ – State Audit of MERF” for information relating to the renewal conditions which LAUSD stated were not satisfied. In response to LAUSD’s actions, MERF filed a petition for writ of mandate and complaint for injunctive and declaratory relief in Los Angeles Superior Court to challenge LAUSD’s actions.

In November 2014, the LAUSD Board denied a charter renewal petition for Magnolia Science Academy (“MSA-8”) based on the same underlying issues which led to the denial of petitions to renew the charters for MSA-6 and MSA-7. In response to LAUSD’s actions, MERF amended its petition for writ of mandate to address the denial of MSA-8’s charter renewal petition.

In March 2015, MERF and LAUSD entered into a Settlement Agreement (the “Settlement Agreement”), pursuant to which LAUSD agreed to reconsider its actions rescinding the renewal of MSA-6 and MSA-7 and denying the renewal charter petition for MSA-8. Further, LAUSD agreed to renew charters of MSA-6, MSA-7, and MSA-8 and acknowledged that such schools had met the applicable academic renewal criteria set forth in the Education Code. Pursuant to the Settlement Agreement, MERF agreed to terminate a contract with a third-party vendor and modify its governance structure through the use of staggered terms of service for Board members. MERF also agreed to add three members to its Board of Directors. In addition, MERF agreed that it would end its practice of permitting fund transfers between schools and between schools and its central office and authorizing expenditures on immigration fees except for certain existing employees. Further, MERF agreed to be subject to fiscal oversight during fiscal year 2015-16 by the Fiscal Crisis & Management Assistance Team (“FCMAT”).

State Audit of MERF (2014-2015). In July 2014, subsequent to LAUSD’s denial of the renewal petitions for MSA-6 and MSA-7, State Assemblyman Adrin Nazarian requested the State conduct an audit of MERF. The Joint Legislative Audit Committee approved the proposed audit in August 2014 and an inquiry related to MERF’s operations commenced in September 2014. In May 2015, the State Auditor released Report 2014-035 with respect to the Magnolia Science Academies (the “Magnolia Audit”). The Magnolia Audit is available on the website of the State Auditor at <https://www.auditor.ca.gov/reports/recommendations/2014-135R>. Such website is not incorporated herein by reference and neither the Corporation nor MERF makes any representation as to the accuracy of the information provided therein.

The Magnolia Audit acknowledged that MERF and its schools had been the subject of scrutiny from LAUSD in previous years which led to, among other things, the denial of renewal petitions for MSA-6, MSA-7, and MSA-8. The Magnolia Audit concluded that LAUSD may have acted prematurely when it rescinded the charter renewal petitions submitted by MERF on behalf of MSA-6, MSA-7, and MSA-8. The Magnolia Audit noted that LAUSD based its decision to rescind the three charter renewal petitions on a summary of an outside accounting firm’s draft findings, which did not provide sufficient context regarding the financial situation at the schools. Further, LAUSD did not provide sufficient time for MERF to respond to its concerns and did not share the accounting firm’s findings with MERF until the charter renewal petitions were denied.

The Magnolia Audit found that, during the prior three years, some of MERF’s schools were insolvent due, in part, to funding delays by the State. Nevertheless, the Magnolia Audit recommended that MERF strengthen its financial and management processes. The State Auditor recommended that MERF

ensure that each school maintains the minimum required cash reserve, implement procedures relating to the authorization of MERF expenditures and school expenditures, and ensure that staff follow fundraising procedures in its accounting manual. The State Auditor also recommended that MERF continue to develop procedures relating to the reporting of truancy data. In addition, the State Auditor recommended that LAUSD modify its procedures when it considers whether to rescind a charter school's conditional renewed petition. MERF believes that it has continued to make improvements in all aspects of its operations including those areas recommended in the Magnolia Audit.

The Magnolia Audit noted that MERF's expenditures related to the employment of citizens from outside the United States appear to be "lawful and appropriate." However, the State Auditor cautioned that MERF may not have always provided the requisite notifications to the United States Department of Homeland Security with respect to changes in noncitizen employment.

In response to the State Auditor's findings MERF retained a new auditor and educational services provider. In July 2016, the State Auditor confirmed that MERF had fully implemented the recommendations set forth in the Magnolia Audit and remains financially stable.

LAUSD Denial of Charter Petitions (2016). In August 2016, MERF submitted renewal petitions to LAUSD in order to operate MSA-1, Magnolia Science Academy-2 ("MSA-2"), and Magnolia Science Academy-3 ("MSA-3") for an additional five year term. Following such submission, LAUSD denied each of the petitions and stated that the schools were unlikely to successfully implement the educational program set forth in the petitions and the petitions did not contain reasonable comprehensive descriptions of the fifteen elements required in a charter school petition. In response to the denial, MERF appealed to LAUSD to reconsider its decision, which MERF stated did not comply with the recommendations set forth in the Magnolia Audit. MERF submitted an appeal of LAUSD's decision to the Los Angeles County Board of Education. Upon review of MERF's petition, the Los Angeles County Board of Education approved the charter renewal petitions for MSA-1, MSA-2, and MSA-3. The term of the current charters for MSA-1, MSA-2, and MSA-3 is scheduled to end on June 30, 2022.

MERF notes that a report from Standard & Poor's Rating Services cautioned that the political environment with regards to charter schools and LAUSD has eroded over the last couple of years. The report speculates that factors such as LAUSD's financial position and decreased enrollment are contributing to the change in relationship between LAUSD and MERF. MERF expects elections to be held for LAUSD's Board of Education in the spring 2017 may significantly improve or worsen this relationship depending on the winning candidates. During 2017-18, MERF expects to submit renewal petitions to LAUSD for Magnolia Science Academy 4 (Westside) and Magnolia Science Academy 4 (Reseda), which are two of MERF's smaller schools. MERF presently expects that LAUSD will decline to renew the charter petitions for such schools. In the event, LAUSD does not approve the charter renewal petitions, MERF plans to appeal the decision to the Los Angeles County Board of Education through the appeal process set forth in the Education Code.

Compliance with the Settlement Agreement. In connection with the Settlement Agreement, MERF agreed to fiscal oversight by the FCMAT and created a finance committee and an audit committee within the MERF Board of Directors. MERF completed the initial FCMAT review, but has retained FCMAT to complete a limited scope review for an additional six month period during the 2016-17 school year.

As of the date hereof, MERF and the LAUSD Office of the Inspector General (the "LAUSD OIG") have not agreed to whether MERF has complied with all terms of the Settlement Agreement. In September 2015, the LAUSD OIG submitted a document request, which MERF believes covers

documents that were requested by LAUSD in 2014. MERF is currently cooperating with the LAUSD OIG in connection with its current review of MERF's operations.

The LAUSD OIG has not filed any claims or notices alleging criminal or civil violations of law on the part of MERF or any of its Board members or officials. The Law Offices of Young, Minney & Corr, LLP, MERF's counsel in this matter, has stated to the LAUSD OIG that any matters with respect to MERF's charter petitions were resolved with the execution of the Settlement Agreement and the approval of all parties to the terms thereof.

Inquiry by the California Department of Education. In 2015, the California Department of Education was named in a complaint filed by several residents of the State of California. The complaint was submitted by the law firm, Amsterdam & Associates, which represents, among other entities, the Republic of Turkey. In connection therewith, in August 2015, the California Department of Education requested that MERF provide to it documents similar to those requested by the LAUSD OIG. MERF believes that the complaint contains unfounded claims and unsubstantiated allegations with respect to MERF and its staff, including its staff of Turkish descent. MERF has retained counsel to represent it in these matters and has provided to the California Department of Education's request and provided all requested documents. However, MERF has not received any communication regarding the complaint from the State subsequent to the transmittal of the requested documents.

Awards and Recognition

[To Come]

Student Admissions

Application for Enrollment. Pursuant to the California Education Code, MERF is required to admit all pupils who reside in the State of California who wish to attend the charter school who submit a timely application. Each MERF school only accepts applications from prospective students during a publicly advertised open application period each year for enrollment in the following school year. Following the enrollment period each year, applications are counted to determine whether any grade level has received more applications than availability. See "Student Waitlist" herein. In the event that any grade level receives applications in excess of availability, the charter school holds a public, random drawing to determine enrollment for the impacted grade level, with the exception of existing students who are guaranteed enrollment in the following school year.

MERF is nonsectarian in its programs, admission policies, and all other operations. MERF does not charge tuition nor discriminate against any student based upon any of the characteristics listed in Section 220 of the California Education Code. Further, MERF may not administer or require a test or assessment to prospective students prior to acceptance and enrollment into the school. In addition, MERF is required to comply with all laws establishing minimum and maximum age for public school attendance in charter schools. The MERF application process is comprised of the completion of a random public drawing (lottery) application for each child who is interested in attending a school.

SB 740 Funding. The Charter School Facility Grant Program was enacted pursuant to Senate Bill 740 of 2001 ("SB 740"). SB 740 provides authority for the State to grant funding assistance to charter schools for rent and lease expenditures subject to certain conditions including, among other things, the percentage of pupil enrollment classified as FRPM students. Charter schools may qualify for SB 740 funding if (1) 55% or more of the charter school's students are eligible for FRPM, or (2) the charter school must be located in the attendance area of a public elementary school in which 55% or more of students are eligible for FRPM, and the charter school must give a lottery preference to such local

students. See “STATE FUNDING OF EDUCATION – Allocation of State Funding to Charter Schools – SB 740 Facilities Grant Program Funding” in the forepart of the Limited Offering Memorandum.

Based on, among other things, the composition of competing schools in the area and the demographics of the local area, MERF expects _____ to qualify for funding under SB 740. [Each MERF school accepts applications from prospective students during a publicly advertised open application period each year for enrollment in the following school year. In the event that any grade level receives applications in excess of availability, the charter school holds a public, random drawing to determine enrollment for the impacted grade level, with the exception of existing students who are guaranteed enrollment in the following school year. MERF uses outreach to bring together students from different backgrounds to attain benefits from a diverse student body.

Waiting List

The total waitlist for MERF Schools for 2016-17 was ____, which includes ____ applicants to the Obligated Group Schools. The following Table A-2 sets forth the waitlist for admission into each Magnolia School, including the Schools, for the 2016-17 school year for each grade level.

**Table A-2
MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
Student Waitlist
2016-17 School Year**

| | Grades | | | | | | | | | | | | Total | |
|---------------------------------------|--------|---|---|---|---|---|---|---|---|---|----|----|-------|----|
| | K | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | | 12 |
| Magnolia Science Academy 1 | | | | | | | | | | | | | | |
| Magnolia Science Academy San Diego | | | | | | | | | | | | | | |
| Magnolia Science Academy-2, Valley | | | | | | | | | | | | | | |
| Magnolia Science Academy-3, Carson | | | | | | | | | | | | | | |
| Magnolia Science Academy-4, Venice | | | | | | | | | | | | | | |
| Magnolia Science Academy-5, Hollywood | | | | | | | | | | | | | | |
| Magnolia Science Academy-6, Palms | | | | | | | | | | | | | | |
| Magnolia Science Academy Santa Ana | | | | | | | | | | | | | | |
| Magnolia Science Academy-7, Van Nuys | | | | | | | | | | | | | | |
| Magnolia Science Academy-8, Bell | | | | | | | | | | | | | | |
| Total | | | | | | | | | | | | | | |

Source: Magnolia Educational & Research Foundation.

Student Enrollment

The following Table A-3 sets forth the enrollment for the 2016-17 school year and the grades served for each Magnolia School.

Table A-3
MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
SCHOOL ENROLLMENT
Fiscal Year 2015-16

| School | Grades Served | 2015-16 School Enrollment |
|---------------------------------------|---------------|------------------------------|
| Magnolia Science Academy 1 | 6-12 | 540 |
| Magnolia Science Academy San Diego | 6-8 | 423 |
| Magnolia Science Academy-2, Valley | 6-12 | 480 |
| Magnolia Science Academy-3, Carson | 6-12 | 455 |
| Magnolia Science Academy-4, Venice | 6-12 | 184 |
| Magnolia Science Academy-5, Hollywood | 6-9 | 148 |
| Magnolia Science Academy-6, Palms | 6-8 | 165 |
| Magnolia Science Academy Santa Ana | K-12 | 144 |
| Magnolia Science Academy-7, Van Nuys | K-5 | 291 |
| Magnolia Science Academy-8, Bell | 6-8 | 493 |

Source: California Department of Education.

The following Table A-4 sets forth the number of charter schools operated by MERF and related enrollment from fiscal year 2003-04 through 2016-17.

Table A-4
MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
Enrollment
2003-04 through 2016-17

| Year | Number of Schools | Enrollment |
|---------|-------------------|------------|
| 2003-04 | 1 | 191 |
| 2004-05 | 1 | 225 |
| 2005-06 | 1 | 375 |
| 2006-07 | 2 | 490 |
| 2007-08 | 2 | 695 |
| 2008-09 | 3 | 1,203 |
| 2009-10 | 6 | 1,649 |
| 2010-11 | 9 | 2,595 |
| 2011-12 | 12 | 3,164 |
| 2012-13 | 11 ⁽¹⁾ | 3,645 |
| 2013-14 | 11 | 3,935 |
| 2014-15 | 11 | 3,790 |
| 2015-16 | 11 | 3,420 |
| 2016-17 | 10 ⁽²⁾ | |

⁽¹⁾ In 2012, the Board of MERF approved the closure of Pacific Technology School, located in Orangevale, California, as a result of the inability of MERF to locate adequate facilities, including a Proposition 39 site.

- (2) In 2016, after an eighteen month search, the Board of MERF determined that it could not find a suitable campus at which to operate Magnolia Science Academy Santa Clara. Accordingly, Magnolia Science Academy Santa Clara ceased operations effective July 1, 2016.
Source: Magnolia Educational & Research Foundation.

Student Demographics

MERF’s educational program is based on, among other things, the instructional needs of its target student profile. MERF estimates that, during fiscal year 2016-17, approximately ___% of its students qualify for a free or reduced price meal (“FRPM Students”), approximately ___% of its students qualify as English Language Learners (“EL Students”) and approximately ___% of its students qualify as Foster Youth (“FY Students”).

In addition, each school maintains a special education program which includes services for students who are eligible under the Individuals with Disabilities Education Act. MERF estimates that approximately ___% of its students are students classified as having special needs during the 2016-17 school year.

SB 740 provides authority for the State to grant funding assistance to charter schools for rent and lease expenditures subject to certain conditions including, among other things, the percentage of FRPM Students. _____ currently qualifies for funding under SB 740. For additional information regarding the SB 740 requirements and the Lessee’s qualification therefor, see “MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION – Student Admissions – SB 740 Funding” herein. The demographic profile of MSA-1, MSA-SD, MSA-SA, and Magnolia Public Schools on a system-wide basis for the 2016-17 school year set forth in the table below.

Table A-5
MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
Demographics of Current Students
2016-17 School Year

| Category | MSA-1 | MSA-SD | MSA-SA | MERF ⁽¹⁾ |
|-------------------------------------|-------|--------|--------|---------------------|
| American Indian or Alaska Native | % | % | % | % |
| Asian | | | | |
| Black or African American | | | | |
| Filipino | | | | |
| Hispanic or Latino | | | | |
| Native Hawaiian or Pacific Islander | | | | |
| White | | | | |
| Two or More Races | | | | |
| Other/Declined to State | | | | |
| Total | | | | |
| [Socioeconomically Disadvantaged] | % | % | % | % |
| English Learners | % | % | % | % |
| Students with Disabilities | % | % | % | % |

Source: Magnolia Educational & Research Foundation.

Employment and Staffing

General. As of March 1, 2017, MERF has approximately ____ employees which consists of ____ teachers, ____ school support staff, and ____ non-school professional staff including staff based in MERF's central office. The following Table A-6 sets forth information regarding MERF's employment for fiscal years 2013-14 through 2015-16.

Table A-6
MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
Teachers & Professional Staff
Fiscal Years 2016-17

| | <u>2016-17</u> |
|-------------------------------|----------------|
| Teachers | |
| School Support Staff | |
| Non-School Professional Staff | _____ |
| Total Employees | ===== |
| | |
| Total Number of Students | _____ |
| | |
| Student-to-Teacher Ratio | |

Source: Magnolia Educational & Research Foundation.

Salaries and Compensation. Salaries are generally equivalent to the salaries paid to teachers at the schools in the jurisdiction which each of MERF's schools are located. In addition to competitive salaries, MERF offers 100% health, dental and vision care to all full time employees and their dependents.

Budgetary Process

General. MERF adopts its annual budget for the upcoming fiscal year at or prior to the last meeting of the Board of Directors for the current fiscal year. The budget sets forth final expenditures, revenues, and fund balances available so that appropriations during that fiscal year will not exceed revenues and other funds. The Board of Directors may only adopt the recommended budget for a fiscal year with the approval of at least a majority of the members of the Board of Directors in attendance.

Fiscal Year 2016-17 Adopted Budget. MERF adopted its budget for Fiscal Year 2016-17 on _____, 2016 (the “Fiscal Year 2016-17 MERF Budget”). The Fiscal Year 2016-17 MERF Budget projects revenues of \$____ million and total expenditures of \$____ million. MERF expects to adopt its budget for Fiscal Year 2017-18 in June 2017. The following Table A-7 sets forth the Fiscal Year 2016-17 MERF Budget.

**TABLE A-7
MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
Fiscal Year 2016-17 MERF Budget**

| | |
|---|-----------------------------|
| REVENUE | |
| Local Revenues | \$6,410,367 |
| Fundraising and Grants | <u>150,000</u> |
| Total Revenue | <u>\$6,560,367</u> |
| EXPENSES | |
| Compensation and Benefits | \$3,567,998 |
| Books and Supplies | 84,820 |
| Services and Other Operating Expenditures | 2,616,824 |
| Depreciation | <u>1,440</u> |
| Total Expenses | <u>\$6,271,082</u> |
| OPERATING INCOME | <u>\$289,286</u> |
| FUND BALANCE | |
| Beginning Balance (Unaudited) | \$(285,175) |
| Audit Adjustment | 284,225 |
| Beginning Balance (Audited) | (950) |
| Operating Income | 289,286 |
| ENDING FUND BALANCE | <u>\$288,335</u> |

Source: Magnolia Educational & Research Foundation.

FINANCIAL INFORMATION AND CASH FLOWS

Local Control Funding Formula in the State of California

In the State of California, MERF receives operating revenues from federal, State and local sources, including appropriations from the State of California's general fund and philanthropic bequests. In addition, the State of California appropriates funds which are restricted to specific categories of use under various programs such as student transportation, class-size reduction and special education. The amount of categorical funding appropriated to a school may vary significantly from other schools and yearly. Article XVI of the California State Constitution requires that from all State revenues there first be set apart the moneys to be applied by the State of California for support of the public school system and public institutions of higher education. However, the actual appropriations and the timing of such appropriations are subject to, among other things, the estimated amount of State General Fund revenues during the fiscal year and subsequent changes in State law.

Beginning with the Fiscal Year ended June 30, 2014, the State of California replaced the former revenue limit formula for determining State of California apportionments for general operating costs ("State Aid") to schools with the Local Control Funding Formula (the "LCFF"). See " – Local Control Funding Formula" in the forepart of this Limited Offering Memorandum. Funding for school districts, charter schools and county offices of education in connection with the LCFF includes State Aid and funding for categorical programs. During Fiscal Year 2015-16, approximately ___% of MERF's revenues were pursuant to the LCFF. During Fiscal Year 2016-17, MERF projects that approximately ___% of MERF's revenues will consist of funds determined under the LCFF.

The LCFF allocates State funding based on a school district's demographics. Each school district receives a base grant (the "Base Grant") per ADA in an amount determined by the State of California. Pursuant to the LCFF, each local education agency ("LEA") is required to, among other things, show progress toward an average class enrollment of no more than 24 pupils in kindergarten through grade 3 unless the LEA has collectively bargained an annual alternative average class enrollment in those grades for each school. Accordingly, the LCFF includes an adjustment to the Base Grant for kindergarten through grade 3 of approximately 10.4% in order to cover the costs associated with class size reduction. In addition, the LCFF includes an adjustment to the Base Grant for grades 9 through 12 of approximately 2.6% in order to cover the costs of, among other things, providing career technical education.

Based on the ADA of the given demographic classification, school districts are eligible to receive a 20% supplemental grant (the "Supplemental Grant") for students classified as English learners ("EL"), students eligible to receive a free or reduced price meal ("FRPM"), and students classified as foster youth ("LI"). The State of California expects the Supplemental Grants to reflect the additional costs associated with the education of EL, FRPM and LI students. In addition, school districts are eligible to receive a concentration grant (the "Concentration Grant") if the school district has a significant concentration of students classified as EL, FRPM or LI. The LCFF uses an unduplicated student count to determine the amount of the Supplemental Grant and Concentration Grant authorized for a school district. A school district may only count a student one time if such student is classified in more than one of the categories EL, FRPM and LI. In the event the percentage of EL or LI students exceeds 55% of the school district's total enrollment, the LCFF provides additional funding to the school district through a Concentration Grant. The Concentration Grant will be an amount equal to an additional 50% of the school district's adjusted Base Grant for each EL or LI student above the 55% threshold.

The Base Grants are based on four uniform, grade-span base rates. For Fiscal Year 2016-17, the LCFF is expected to provide: (a) a Base Grant for each LEA equivalent to \$7,820 per ADA for kindergarten through grade 3; (b) a Base Grant for each LEA equivalent to \$7,189 per ADA for grades 4

through 6; (c) a Base Grant for each LEA equivalent to \$7,403 per ADA for grades 7 and 8; (d) a Base Grant for each LEA equivalent to \$8,801 per ADA for grades 9 through 12. However, the amount of actual funding allocated to the Base Grant, Supplemental Grants and Concentration Grants will be subject to the discretion of the State of California.

Statement of Financial Position

Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year. The following tables contain data abstracted from the consolidated financial statements of MERF and its affiliates which have been prepared by MERF's independent auditors, Vavrinek, Trine, Day & Co., Rancho Cucamonga, California (the "Vavrinek, Trine, Day & Co.") for fiscal years 2014-15 and 2015-16 and Hill, Morgan and Associates LLP, Culver City, California ("Hill, Morgan and Associates, LLP" and together with Vavrinek, Trine, Day & Co, the "Independent Auditors"). The significant accounting policies followed by MERF are described in Note 1 to MERF's audited financial statements for the fiscal year ended June 30, 2016, which are included as Appendix C hereto. The Independent Auditors have not been requested to consent to the use or to the inclusion of their financial statements in this Limited Offering Memorandum, and they has not audited nor reviewed this Limited Offering Memorandum.

The following Table A-8 sets forth the assets, liabilities and net assets of MERF and its affiliates as of June 30, 2015 and June 30, 2016.

Table A-8
MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
Consolidated Statement of Financial Position
Fiscal Years ended June 30, 2015 and June 30, 2016

| | <u>2014-15</u> | <u>2015-16</u> |
|--|----------------------------|----------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Equivalents | \$10,173,244 | \$9,875,931 |
| Restricted Cash | 998,292 | 6,327,515 |
| Accounts Receivable | 4,170,911 | 4,317,399 |
| Prepaid Expenses and Deposits | 29,854 | 141,671 |
| Total Current Assets | <u>\$15,372,301</u> | <u>\$20,662,516</u> |
| Non-Current Assets | | |
| Debt Issue Costs, Net | \$ 126,849 | \$ 371,596 |
| Security Deposits | 110,561 | 144,150 |
| Fixed Assets | 10,716,608 | 23,391,744 |
| Less: Accumulated Depreciations | <u>1,795,398</u> | <u>2,338,891</u> |
| Total Non-Current Assets | <u>9,158,620</u> | <u>21,568,599</u> |
| Total Assets | <u>\$24,530,921</u> | <u>\$42,231,115</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts Payable and Accruals | \$2,569,245 | \$3,117,074 |
| Deferred Revenue | 445,725 | 507,918 |
| Current Portion of Long-Term Obligations | 244,392 | 190,871 |
| Total Current Liabilities | 3,259,362 | 3,815,863 |
| Long Term Obligations | | |
| Non-Current Portion of Long-Term Obligations | <u>\$8,263,038</u> | <u>\$17,553,792</u> |
| Total Liabilities | <u>\$11,522,400</u> | <u>\$21,369,655</u> |
| NET ASSETS | | |
| Unrestricted | <u>\$13,008,521</u> | <u>\$20,861,460</u> |
| Total Liabilities and Net Assets | <u>\$24,530,921</u> | <u>\$42,231,115</u> |

Source: Magnolia Educational & Research Foundation.

Activities and Changes in Net Assets

The following Table A-9 sets forth the activities and changes in net assets of MERF and its affiliates for fiscal years ended June 30, 2015 and June 30, 2016.

Table A-9
MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
Consolidated Statement of Activities and Changes in Net Assets
Fiscal Years ended June 30, 2015 and June 30, 2016

| | <u>2014-15</u> | <u>2015-16</u> |
|--------------------------------------|---------------------|---------------------|
| REVENUE: | | |
| State Apportionments | \$ 26,635,709 | \$ 28,674,688 |
| Federal Revenue | 2,425,080 | 2,983,400 |
| Other State Revenue | 4,313,775 | 14,298,155 |
| Local Revenue | <u>982,894</u> | <u>1,358,287</u> |
| Total Revenues | <u>\$34,357,458</u> | <u>\$47,762,041</u> |
| EXPENSES | | |
| Program Services | | |
| Salaries and Benefits | \$19,967,246 | \$24,182,556 |
| Student Services | 2,190,954 | 2,028,885 |
| Materials and Supplies | 985,129 | 1,237,521 |
| Student Nutrition | 1,182,504 | 1,312,016 |
| Other Expenses | <u>300,509</u> | <u>1,139,571</u> |
| Subtotal | <u>24,626,342</u> | <u>29,900,549</u> |
| Management and General | | |
| Amortization | -- | \$12,814 |
| Depreciation | \$286,341 | 543,494 |
| Management Fee | -- | 642,960 |
| Occupancy | 2,669,178 | 1,785,885 |
| Operating Expenses | 3,704,719 | 6,342,425 |
| Interest | <u>8,485</u> | <u>680,975</u> |
| Subtotal | <u>6,668,723</u> | <u>10,008,553</u> |
| Total Expenses | <u>\$31,295,065</u> | <u>\$39,909,102</u> |
| CHANGE IN NET ASSETS | \$ 3,062,393 | \$7,852,939 |
| NET ASSETS, BEGINNING OF YEAR | \$ 9,946,128 | \$13,008,521 |
| NET ASSETS, END OF YEAR | \$13,008,521 | \$20,861,460 |

Source: Magnolia Educational & Research Foundation

Retirement Plans

General. Certificated employees in the State of California are eligible to participate in the California State Teachers Retirement System (“CalSTRS”). Classified employees in the State of California are eligible to participate in the California Public Employees Retirement System (“CalPERS”). MERF employees in the State of California who are not members of CalSTRS or CalPERS are required to contribute to the federal Social Security system.

The information set forth below regarding CalSTRS and CalPERS and their respective actuarial valuations and comprehensive annual financial reports has been obtained from publicly available sources and has not been independently verified by MERF and is not guaranteed as to the accuracy or completeness thereof by or to be construed as a representation by MERF. Furthermore, the summary data below should not be read as current or definitive, as recent gains or losses on investments made by the retirement systems generally may have changed the unfunded actuarial accrued liabilities stated below.

California State Teachers’ Retirement System. CalSTRS is a defined benefit plan that covers all full-time certificated employees of MERF and some classified employees of MERF, which are employees employed in a position that does not require a teaching credential from the State of California. Benefit provisions are established by State legislation in accordance with the State Teachers’ Retirement Law. CalSTRS is operated on a Statewide basis and, based on publicly available information, has substantial unfunded liabilities. Additional funding of CalSTRS by the State and the inclusion of adjustments to such State contributions based on consumer price changes were provided for in Chapter 282, Statutes of 1979.

For many years prior to Fiscal Year 2014-15 and unlike typical defined benefit programs such as those administered by CalPERS, neither the CalSTRS employer nor the State of California contribution rate varied annually to make up funding shortfalls or assess credits for actuarial surpluses. The State of California did pay a surcharge when the teacher and school district contributions were not sufficient to fully fund the basic defined benefit pension (generally consisting of 2% of salary for each year of service at age 60 referred to as “pre-enhancement benefits”) within a 30-year period. In recent fiscal years, participant employees contributed 8.00% of gross salary expenditures to CalSTRS, and participant employers contributed 8.25% of gross salary expenditures to CalSTRS.

As of June 30, 2015, an actuarial valuation (the “2015 CalSTRS Actuarial Valuation”) for the entire CalSTRS defined benefit program showed an estimated unfunded actuarial liability of \$76.2 billion, an increase of approximately \$3.48 billion from the June 30, 2014 valuation. The funded ratios of the actuarial value of valuation assets over the actuarial accrued liabilities as of June 30, 2015, June 30, 2014 and June 30, 2013, based on the actuarial assumptions, were approximately 68.5%, 68.5% and 66.9%, respectively. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions and other experience that may differ from the actuarial assumptions used for the CalSTRS valuation. The following are certain of the actuarial assumptions set forth in the 2015 CalSTRS Actuarial Valuation: measurement of accruing costs by the “Entry Age Normal Actuarial Cost Method,” 7.50% investment rate of return, 4.50% interest on member accounts, 3.75% projected wage growth, and 3.00% projected inflation. The 2015 CalSTRS Actuarial Valuation also assumes that all members hired on or after January 1, 2013 are subject to the provisions of PEPR (as defined herein). See “California Public Employees’ Pension Reform Act of 2013” below for a discussion of the pension reform measure signed by the Governor in August 2012 expected to help reduce future pension obligations of public employers with respect to employees hired on or after January 1, 2013.

On February 1, 2017, the State Teachers’ Retirement Board voted to adopt revised actuarial assumptions reflecting members’ increasing life expectancies and current economic trends. The revised assumptions include a decrease from 7.50% to a 7.25% investment rate of return for the June 30, 2016 actuarial valuation, a decrease from 7.25% to a 7.00% investment rate of return for the June 30, 2017 actuarial valuation, a decrease from 3.75% to a 3.50% projected wage growth, and a decrease from 3.00% to a 2.75% price inflation factor. Due to the revised actuarial assumptions, among other factors, CalSTRS projects that the June 30, 2016 actuarial valuation will reflect

a decrease in overall funded ratio of its defined benefit program from 68.5% to approximately 64% based on the actuarial value of assets.

As indicated above, there was no required contribution from teachers, schools districts or the State to fund the unfunded actuarial liability for the CalSTRS defined benefit program and only the State legislature can change contribution rates. The 2015 CalSTRS Actuarial Valuation noted that, as of June 30, 2015, the contribution rate, inclusive of contributions from the teachers, the school districts and the State, was equivalent to 33.439% over the next 30 years.

As part of the 2014-15 State Budget, the Governor signed Assembly Bill 1469 which implements a new funding strategy for CalSTRS, increasing the employer contribution rate in fiscal year 2014-15 from 8.25% to 8.88% of covered payroll. Such rate would increase by 1.85% beginning in fiscal year 2015-16 until the employer contribution rate is 19.10% of covered payroll as further described below. Teacher contributions will also increase from 8.00% to a total of 10.25% of pay, phased in over the next three years. The State’s total contribution will also increase from approximately 3% in fiscal year 2013-14 to 6.30% of payroll in fiscal year 2016-17, plus the continued payment of 2.5% of payroll annual for a supplemental inflation protection program for a total of 8.80%. In addition, AB 1469 provides the State Teachers Retirement Board with authority to modify the percentages paid by employers and employees for fiscal year 2021-22 and each fiscal year thereafter to eliminate the CalSTRS unfunded liability by June 30, 2046. The State Teachers Retirement Board would also have authority to reduce employer and State contributions if they are no longer necessary.

Pursuant to Assembly Bill 1469, contribution rates for local education agencies will increase in accordance with the following schedule:

| Effective Date (July 1) | School District Contribution Rate |
|----------------------------|--------------------------------------|
| 2016 | 12.58% |
| 2017 | 14.43 |
| 2018 | 16.28 |
| 2019 | 18.13 |
| 2020 | 19.10 |

Source: Assembly Bill 1469.

The following Table A-10 sets forth MERF’s regular annual contributions to CalSTRS for Fiscal Years 2010-11 through 2013-14 and the estimated contribution for Fiscal Year 2014-15. MERF has always paid all required CalSTRS annual contributions. As of March 1, 2017, approximately __% of MERF employees are members of CalSTRS.

Table A-10
MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
Annual Regular CalSTRS Contributions
Fiscal Years 2010-11 through 2014-15
(\$ in millions)

| Fiscal Year | Contributions |
|-------------|---------------|
| 2012-13 | \$ |
| 2013-14 | 1,001,421 |
| 2014-15 | 1,001,799 |
| 2015-16 | 1,322,909 |
| 2016-17 | |

⁽¹⁾ Estimated.

Source: Magnolia Educational & Research Foundation.

The UAAL and funded status of the CalSTRS pension fund as of June 30 of Fiscal Years ended June 30, 2010 through June 30, 2014 are set forth in the following Table A-11. The fair market value of the CalSTRS pension fund as of June 30, 2013 and June 30, 2014 was \$157.2 billion and \$179.7 billion, respectively, based on total system assets less amounts allocable to the CalSTRS Supplemental Benefits Maintenance Account Reserve. The individual funding progress for MERF is not provided in the actuarial report from CalSTRS.

Table A-11
ACTUARIAL VALUE OF
STATE TEACHERS' RETIREMENT FUND DEFINED BENEFIT PROGRAM
Valuation Dates June 30, 2010 through June 30, 2014
(\$ in billions)

| Valuation Date (June 30) | Actuarial Obligation | Actuarial Value of Assets⁽¹⁾ | Unfunded Actuarial Obligation | Funded Ratio (Actuarial Value) | Funded Ratio (Fair Market Value) |
|---------------------------------|-----------------------------|--|--------------------------------------|---------------------------------------|---|
| 2010 | \$196.315 | \$140.291 | \$56.024 | 71.5% | 59.7% |
| 2011 | 208.405 | 143.930 | 64.475 | 69.1 | 67.2 |
| 2012 | 215.189 | 144.232 | 70.957 | 67.0 | 62.7 |
| 2013 | 222.281 | 148.614 | 73.667 | 66.9 | 66.5 |
| 2014 | 231.213 | 158.495 | 72.718 | 68.5 | 73.3 |

⁽¹⁾ Actuarial Value of Assets and Fair Market Value of Assets does not include amounts allocable to the CalSTRS Supplemental Benefits Maintenance Account Reserve which was approximately \$9.27 billion as of June 30, 2013 and \$10.24 billion as of June 30, 2014.

Sources: California State Teachers' Retirement System Defined Benefit Program Actuarial Valuations as of June 30, 2010 through June 30, 2014.

Copies of the CalSTRS' comprehensive annual financial report may be obtained from CalSTRS, P.O. Box 15275, Sacramento, California 95851. The information presented in these reports is not incorporated by reference in this Limited Offering Memorandum.

California Public Employees' Retirement System. CalPERS is a defined benefit plan that covers classified personnel who work four or more hours per day. Benefit provisions are established by State legislation in accordance with the Public Employees' Retirement Law. The contribution requirements of the plan members are established by State statute. The actuarial methods and assumptions used for determining the rates are based on those adopted by the Board of Administration of CalPERS. MERF's contributions for all members for Fiscal Years 2016-17 were in accordance with the required contribution rates calculated by CalPERS' actuary for each fiscal year.

PEPRA members are required to contribute 6% of their monthly salary, and MERF is required to contribute based on an actuarially determined rate. The required employer contribution rates for Fiscal Year 2013-14 is 11.442% for members hired prior to January 1, 2013. The required employer contribution rate for Fiscal Year 2014-15 is 11.771% for members hired prior to January 1, 2013. MERF's annual pension costs for Fiscal Years 2012-13 through 2015-16 were equal to the annual required contributions for such fiscal years and its net pension obligation to CalPERS for such fiscal years was \$0.

The following Table A-12 sets forth MERF's regular annual contributions to CalPERS for Fiscal Years 2011-12 through 2015-16 and the estimated contributions for Fiscal Year 2016-17. MERF has

always paid all required CalPERS annual contributions. As of March 1, 2017, approximately ___% of MERF employees were members of CalPERS.

Table A-12
MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
Annual CalPERS Regular Contributions
Fiscal Years 2010-11 through 2014-15

| <u>Fiscal Year</u> | <u>Contributions</u> |
|--------------------|----------------------|
| 2012-13 | \$ |
| 2013-14 | |
| 2014-15 | 94,508 |
| 2015-16 | 169,607 |
| 2016-17 | |

⁽¹⁾ Estimated.

Sources: Magnolia Educational & Research Foundation.

The actuarial funding method used in the CalPERS Schools Pool Actuarial Valuation as of June 30, 2013 is the “Individual Entry Age Normal Cost Method.” The CalPERS Schools Pool Actuarial Valuation as of June 30, 2013 assumes, among other things, a 7.50% investment rate of return (net of administrative expenses), projected 2.75% inflation, and projected payroll growth of 3.00%. The UAAL and funded status of the schools portion of CalPERS as of June 30 of Fiscal Years ended June 30, 2010 through June 30, 2014 are set forth in the following Table A-13

Table A-13
ACTUARIAL VALUE OF SCHOOLS PORTION OF CALPERS
HISTORICAL FUNDING STATUS
Valuation Dates June 30, 2010 through June 30, 2014
(\$ in millions)

| <u>Valuation Date (June 30)</u> | <u>Actuarial Accrued Liabilities</u> | <u>Market Value of Assets (MVA)</u> | <u>Funded Status (MVA)</u> | <u>Unfunded Liabilities/ (Surplus) (MVA)</u> | <u>Projected Payroll for Determining Contributions</u> | <u>Unfunded Liability/ (Surplus) as a % of Payroll</u> |
|---------------------------------|--------------------------------------|-------------------------------------|----------------------------|--|--|--|
| 2010 | \$55,306.96 | \$38,435.17 | 69.5% | \$16,871.79 | \$11,283.40 | 149.5% |
| 2011 | 58,358.41 | 45,900.99 | 78.7 | 12,457.42 | 10,540.43 | 118.2 |
| 2012 | 59,439.13 | 44,853.80 | 75.5 | 14,585.33 | 10,242.25 | 142.4 |
| 2013 | 61,487.18 | 49,481.90 | 80.5 | 12,005.28 | 10,423.82 | 115.2 |
| 2014 | 65,599.71 | 56,838.24 | 86.6 | 8,761.47 | 11,293.82 | 77.6 |

Source: CalPERS Schools Pool Actuarial Valuation as of June 30, 2014.

CalPERS issues a comprehensive annual financial report and actuarial valuations that include financial statements and required supplementary information. Copies of the CalPERS comprehensive annual financial report and actuarial valuations may be obtained from the CalPERS Financial Services Division, P.O. Box 942703, Sacramento, California 94229-2703. The information set forth therein is not incorporated by reference in this Limited Offering Memorandum.

THE OBLIGATED GROUP AND RELATED SCHOOLS

MPM Sherman Way LLC

MPM Sherman Way LLC (the “MPM Sherman Way LLC”), is a California limited liability company whose sole member is the Corporation. At the request of the Borrower, the Authority is issuing the Bonds for the purpose of making a loan to the Corporation, pursuant to the Loan Agreement. Pursuant to the Loan Agreement, the Corporation will use the loan of the proceeds, along with other available funds of the Corporation, to, among other things, finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and/or equipping of charter school educational facilities known as Magnolia Science Academy 1 – Reseda (“MSA-1”), located at 18238 Sherman Way in the City of Reseda, California, with associated properties located or to be located at [18214 and 18228 Sherman Way] in the City of Reseda, California, to be owned by MPM Sherman Way LLC, a California limited liability company.

MSA-1 was established by MERF in the fall of 2002 as its first charter school, serving grades 6-12. MSA-1 is located at 18238 Sherman Way in the City of Reseda, California. As of March 1, 2017, MSA-1 serves approximately ___ students. The charter for MSA-1 was authorized by the Los Angeles Unified School District (“LAUSD”) in the fall of 2002. LAUSD approved renewal petitions for MSA-1 in 2012 and 2015. In December 2016, the Board of Education of LAUSD declined to renew MERF’s charter renewal petition for MSA-1, Magnolia Science Academy-2 (“MSA-2”), and Magnolia Science Academy-3 (“MSA-3”). MERF submitted an appeal of this decision to the Los Angeles County Board of Education. Upon review of MERF’s petition, the Los Angeles County Board of Education approved the charter renewal petitions for MSA-1, Magnolia Science Academy-2, and Magnolia Science Academy-3. See “Charter Reauthorizations – Events Relating to Charter Approvals” herein. The term of the current charter for MSA-1 is scheduled to end on June 30, 2022.

MSA-1’s curriculum specifically emphasizes science, technology, engineering and math education while also providing solid instruction in humanities and social sciences, and is in alignment with California Content Standards. MSA-1 is fully accredited through the Western Association of Schools and Colleges (“WASC”) and courses offered are transferable to other public schools and meet the entrance requirements of the University of California system and the University of Southern California.

MPM San Diego, LLC

MPM San Diego, LLC (the “MPM San Diego, LLC”), is a California limited liability company whose sole member is the Corporation. At the request of the Borrower, the Authority is issuing the Bonds for the purpose of making a loan to the Corporation, pursuant to the Loan Agreement. Pursuant to the Loan Agreement, the Corporation will use the loan of the proceeds, along with other available funds of the Corporation, to, among other things, finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and/or equipping of charter school educational facilities known as Magnolia Science Academy – Santa Ana (“MSA-SA”), located at Magnolia Science Academy – San Diego (“MSA-SD”), located at 6365 Lake Atlin Avenue in the City of San Diego, California, to be owned by MPM San Diego LLC.

MSA-SD is currently located at 6365 Lake Atlin Avenue in the San Carlos community of the City of San Diego, California. In connection with the Project, MERF expects to relocate MSA-SD to a new school facility, the DeAnza School, which is located at 6525 Estrella Avenue in the City of San Diego, California (the “San Diego Facility”), in September 2017. MSA-SD serves approximately 425 students in grades 6 through 8 with an average class size of thirty or fewer students.

MSA-SD was founded in the fall of 2005 by a group of scientists and engineers who are devoted to math, science, and technology education. The charter for MSA-SD has been authorized by the San Diego Unified School District since 2005 and was most recently renewed in _____ 20___. The current charter for MSA-SD is scheduled to end on _____ 20__.

MPM Santa Ana, LLC

MPM Santa Ana, LLC (the “MPM Santa Ana, LLC”), is a California limited liability company whose sole member is the Corporation. At the request of the Borrower, the Authority is issuing the Bonds for the purpose of making a loan to the Corporation, pursuant to the Loan Agreement. Pursuant to the Loan Agreement, the Corporation will use the loan of the proceeds, along with other available funds of the Corporation, to, among other things, finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and/or equipping of charter school educational facilities known as Magnolia Science Academy – Santa Ana (“MSA-SA”), located at 2840 W 1st Street in the City of Santa Ana, California, to be owned by MPM Santa Ana LLC, a California limited liability company.

MSA-SA is currently located at 2840 W 1st Street in the City of Santa Ana, California. MSA-SA serves approximately 639 students in transitional kindergarten through grade twelve. MSA-SA maintains a mission to provide a college preparatory educational program, emphasizing STEM education in a safe environment that cultivates respect for self and others. MSA-SA offers, among other things, a comprehensive learning experience designed to serve the needs of students. MSA-SA uses site-based instruction, hands-on learning, and basics presented in ways that are relevant and inspiring for students. Classroom instruction at MSA-SA is supplemented with tutoring, morning school, after-school programs, and school-to-university collaborations (e.g. dual enrollment partnerships with local community colleges). The charter for MSA-SA has been authorized by the California Department of Education since 20__ and was most recently renewed in _____ 20___. The current charter for MSA-SD is scheduled to end on _____ 20__.

Student Enrollment

As of March 1, 2017, MSA-1 had enrolled approximately _____ students in grades six through twelve. The following Table A-14 sets forth the historic, current and projected enrollment each year by grade level.

**Table A-14
MAGNOLIA SCIENCE ACADEMY 1
Enrollment By Grade
Fiscal Year 2011-12 through 2018-19**

| <u>Grade</u> | <u>2011-12</u> | <u>2012-13</u> | <u>2013-14</u> | <u>2014-15</u> | <u>2015-16</u> | <u>2016-17</u> | <u>2017-18</u> | <u>2018-19</u> | <u>2019-20</u> | <u>2020-21</u> |
|--------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| 6 | 106 | 83 | 90 | | | | | | | |
| 7 | 94 | 87 | 80 | | | | | | | |
| 8 | 92 | 78 | 80 | | | | | | | |
| 9 | 69 | 70 | 70 | | | | | | | |
| 10 | 63 | 61 | 70 | | | | | | | |
| 11 | 53 | 53 | 55 | | | | | | | |
| 12 | 39 | 51 | 55 | | | | | | | |
| Total | <u>516</u> | <u>483</u> | <u>500</u> | | | | | | | |

Source: Magnolia Educational & Research Foundation.

As of March 1, 2017, MSA-SD had enrolled approximately ____ students in grades six through eight. The following Table A-15 sets forth the historic, current and projected enrollment each year by grade level.

Table A-15
MAGNOLIA SCIENCE ACADEMY – SAN DIEGO
Enrollment By Grade
Fiscal Year 2011-12 through 2018-19

| <u>Grade</u> | <u>2011-12</u> | <u>2012-13</u> | <u>2013-14</u> | <u>2014-15</u> | <u>2015-16</u> | <u>2016-17</u> | <u>2017-18</u> | <u>2018-19</u> | <u>2019-20</u> | <u>2020-21</u> |
|--------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| 6 | | | | | | | | | | |
| 7 | | | | | | | | | | |
| 8 | | | | | | | | | | |
| Total | | | | | | | | | | |

Source: Magnolia Educational & Research Foundation.

As of March 1, 2017, MSA-SA had enrolled approximately ____ students in grades six through twelve. The following Table A-16 sets forth the historic, current and projected enrollment each year by grade level.

Table A-16
MAGNOLIA SCIENCE ACADEMY – SANTA ANA
Enrollment By Grade
Fiscal Year 2011-12 through 2018

| <u>Grade</u> | <u>2011-12</u> | <u>2012-13</u> | <u>2013-14</u> | <u>2014-15*</u> | <u>2015-16*</u> | <u>2016-17</u> | <u>2017-18</u> | <u>2018-19</u> | <u>2019-20</u> | <u>2020-21</u> |
|--------------|----------------|----------------|----------------|-----------------|-----------------|----------------|----------------|----------------|----------------|----------------|
| K | | | | | | | | | | |
| 1 | | | | | | | | | | |
| 2 | | | | | | | | | | |
| 3 | | | | | | | | | | |
| 4 | | | | | | | | | | |
| 5 | | | | | | | | | | |
| 6 | | | | | | | | | | |
| 7 | | | | | | | | | | |
| 8 | | | | | | | | | | |
| 9 | | | | | | | | | | |
| 10 | | | | | | | | | | |
| 11 | | | | | | | | | | |
| 12 | | | | | | | | | | |
| Total | | | | | | | | | | |

Source: Magnolia Educational & Research Foundation.

Retention Rate

MSA-1. Of the non-graduating students enrolled during the 2015-16 school year, approximately ___% of those students returned to MSA-1 for the 2016-17 school year.

MSA-SD. Of the non-graduating students enrolled during the 2015-16 school year, approximately ___% of those students returned to MSA-SD for the 2016-17 school year.

MSA-SA. Of the non-graduating students enrolled during the 2015-16 school year, approximately ___% of those students returned to MSA-SA for the 2016-17 school year.

Assessments and Evaluation

Student Assessments. MERF uses a variety of student assessments to, among other things, observe individual student progress, determine the efficacy of individual teachers, and evaluate the success of the program as a whole. MERF students are assessed through, standardized tests mandated in the California Education Code (e.g. CAASPP), nationally recognized tests, specialized assessments developed by MERF for all areas of the academic core, and day-to-day assessments related to specific content.

Implementation of the Common Core. In 2010, the California Department of Education and State Board of Education adopted the language arts and mathematics academic content standards proposed by the California Academic Content Standards Commission. The standards with respect to the Common Core State Standards for English language arts and literacy in history/social studies, science, and technical subjects and Common Core State Standards for Mathematics (collectively, the “Common Core”) set forth the expected levels of achievement that students are expected to possess at each grade from kindergarten through grade 12.

California Assessment of Student Performance and Progress. Beginning in the 2014-15 school year, the State of California began implementation of the CAASPP. The CAASPP includes the Smarter Balanced Summative Assessments for English language arts/literacy and mathematics (the “Smarter Balanced Assessments”). See “Academic Results” herein.

Prior Assessment Systems. In connection with the reauthorization of the Elementary and Secondary Education Act of 1965, the United States Congress passed the federal No Child Left Behind Act of 2001 (the “NCLB Act”). Under the NCLB Act, a state was required to identify a local educational agency (“LEA”) for improvement (“Program Improvement”) if the LEA failed to make federal Adequate Yearly Progress (“AYP”) requirements, evaluated by state standards, for two consecutive years. The State of California evaluated AYP based on, among other things, a LEA’s (1) percentage participation rates in English-language arts and mathematics assessments measured LEA-wide, by grade span (grades 2 through 5, grades 6 through 8 and grade 10) and by numerically significant subgroups within grade spans, (2) graduation rate criteria LEA-wide, if a LEA has high school students, and (3) percentage of students performing at or above the proficient level in English-language arts and mathematics (also measured LEA-wide, by grade span and by subgroups) as compared to performance targets established under the NCLB Act.

In December 2015, in connection with a subsequent reauthorization and amendment of the Elementary and Secondary Education Act of 1965, the United States Congress passed the federal Every Student Succeeds Act of 2015 (“ESSA”). ESSA eliminated the AYP requirement implemented under the NCLB Act. See “CERTAIN RISK FACTORS – Specific Risks of Charter Schools – Compliance with the Elementary and Secondary Education Act” in the forepart of this Limited Offering Memorandum.

Prior to the implementation of CAASPP, the Academic Performance Index (“API”), which was established by the California Public Schools Accountability Act of 1999, served as the State of California’s measurement of academic progress. Scores on the API ranged from 200 to 1000 and, the Statewide API performance target for all schools under the API was 800. The California Department of Education measured API growth by the extent to which a school or local education agency moves toward or past the Statewide performance target of 800. The API was also used in meeting State requirements under the Public Schools Accountability Act of 1999 and the federal AYP requirements under the then-existing federal NCLB Act. Information about the API can be found at the California Department of Education’s website at <http://www.cde.ca.gov/ta/ac/ap>. The information on such website is not included as part of, or incorporated by any reference in, this Limited Offering Memorandum.

The State of California did not calculate API scores for schools during the 2013-14 and 2014-15 school years. Effective July 1, 2013, the State of California repealed the section of the California Education Code requiring API ranking of schools. In January 2014, the State of California established CAASPP for student assessment. Accordingly, beginning in 2014, the State of California no longer produces statewide and similar schools API rankings.

The following Table A-17 sets forth a comparison of the API scores for MSA-1 to schools in the LAUSD and State of California in the fiscal years 2008-09 through 2012-13.

Table A-17
MAGNOLIA SCIENCE ACADEMY 1
API Comparison to LAUSD and California Schools
Fiscal Years 2008-09 to 2012-13

| Fiscal Year | API MSA-1 | API LAUSD | API All State Schools |
|--------------------|----------------------|----------------------|----------------------------------|
| 2008-09 | 787 | 693 | 755 |
| 2009-10 | 800 | 709 | 767 |
| 2010-11 | 807 | 729 | 779 |
| 2011-12 | 805 | 744 | 788 |
| 2012-13 | 797 | 750 | 790 |

Source: Magnolia Educational & Research Foundation.

The following Table A-18 sets forth a comparison of the API scores for MSA-1 to schools in the San Diego Unified School District and State of California in the fiscal years 2008-09 through 2012-13.

Table A-18
MAGNOLIA SCIENCE ACADEMY – SAN DIEGO
API Comparison to San Diego Unified School District and California Schools
Fiscal Years 2008-09 to 2012-13

| Fiscal Year | API MSA-SD | API SDUSD | API All State Schools |
|--------------------|-----------------------|----------------------|----------------------------------|
| 2008-09 | 796 | 766 | 755 |
| 2009-10 | 818 | 785 | 767 |
| 2010-11 | 814 | 798 | 779 |
| 2011-12 | 865 | 808 | 788 |
| 2012-13 | 847 | 809 | 790 |

Source: Magnolia Educational & Research Foundation.

Academic Performance of Competing Schools. There are a number of traditional public and charter schools at the middle and high school levels located in close proximity to each of the Schools. The following Table A-19 sets forth the names of such competing schools, the estimated enrollment, and the percentage of students who met or exceeded the standard on the Smarter Balanced Assessment with respect to MSA-1.

Table A-19
MAGNOLIA SCIENCE ACADEMY – 1
Competing Schools in a Three-Mile Radius from the Additional MSA-1 Facility

| | Distance | Enrollment | ELA | Math | ELA Econ Dis | Math Econ Dis |
|----------------------------------|-----------------|-------------------|------------|-------------|-------------------------|--------------------------|
| MSA-1 | -- | | 43% | 31% | 41% | 29% |
| Reseda Senior High School | | | 60 | 31 | 62 | 31 |
| John R. Wooden High School | | | 3 | 0 | 0 | 0 |
| Grover Cleveland High School | | | 69 | 39 | 63 | 31 |
| William Mulholland Middle School | | | 34 | 22 | 33 | 22 |
| High Tech Los Angeles School | | | 80 | 58 | 75 | 51 |
| Birmingham Community | | | 64 | 26 | 64 | 25 |
| Northridge Middle School | | | 28 | 21 | 27 | 21 |
| John A. Sutter Middle School | | | 26 | 18 | 25 | 18 |
| James Jordan Middle School | | | 40 | 29 | 39 | 28 |

Source: Magnolia Educational & Research Foundation.

Table A-20
MAGNOLIA SCIENCE ACADEMY – 1
Competing Schools in a Three-Mile Radius from the Additional MSA-1 Facility
School Year 2016-17

[Map of Competing Schools]

The following Table A-20 sets forth the names of such competing schools, the estimated enrollment, and the percentage of students who met or exceeded the standard on the Smarter Balanced Assessment with respect to MSA-sd.

Table A-20
MAGNOLIA SCIENCE ACADEMY – SAN DIEGO
Competing Schools in a Three-Mile Radius from the San Diego Facility

| | <u>Distance</u> | <u>Enrollment</u> | <u>ELA</u> | <u>Math</u> | <u>ELA Econ Dis</u> | <u>Math Econ Dis</u> |
|--------|-----------------|-------------------|------------|-------------|-------------------------|--------------------------|
| MSA-SD | -- | | 71% | 61% | 61% | 48% |

Source: Magnolia Educational & Research Foundation.

Table A-21
MAGNOLIA SCIENCE ACADEMY – 1
Competing Schools in a Three-Mile Radius from the San Diego Facility
School Year 2016-17

[Map of Competing Schools]

The following Table A-22 sets forth the names of such competing schools, the estimated enrollment, and the percentage of students who met or exceeded the standard on the Smarter Balanced Assessment with respect to MSA-SA.

Table A-22
MAGNOLIA SCIENCE ACADEMY – SANTA ANA
Competing Schools in a Three-Mile Radius from the Santa Ana Facility

| | <u>Distance</u> | <u>Enrollment</u> | <u>ELA</u> | <u>Math</u> | <u>ELA Econ Dis</u> | <u>Math Econ Dis</u> |
|--------|-----------------|-------------------|------------|-------------|-------------------------|--------------------------|
| MSA-SD | -- | | 73% | 46% | 70% | 36% |

Source: Magnolia Educational & Research Foundation.

Table A-23
MAGNOLIA SCIENCE ACADEMY – SANTA ANA
Competing Schools in a Three-Mile Radius from the Santa Ana Facility
School Year 2016-17

[Map of Competing Schools]

Administration, Teachers and Staff

MSA-1. The administration of MSA-1 is set forth below:

| Name | Title |
|-----------------------|--------------------|
| Mr. Mustafa Sahin | Principal |
| Mr. Omar F. P. | Dean of Academics |
| Mrs. Azniv Fotolyan | Dean of Academics |
| Ms. Jillian Okamura | Dean of Culture |
| Mr. Salvador Gonzalez | Dean of Discipline |

The following Table 8 sets forth the leadership structure and staffing at MSA-1.

Table A-24
MSA-1
Staffing and Leadership Structure
As of March 1, 2017

| Personnel | Number |
|---|------------------|
| Principal | 1 |
| Assistant Principals and Deans | 4 |
| Teachers | 28 |
| Counselors and Instructional Assistants | 7 |
| Office, Facility and Campus Monitor Staff | <u>3</u> |
| Total | <u>43</u> |

Source: Magnolia Educational & Research Foundation.

Mr. Mustafa Sahin currently serves as the Principal of MSA-1. Brief biographical information for the Principal of MSA-1 is set forth below.

Mustafa Sahin, Principal. [To Come]

The following Table A-25 sets forth the number of teachers and employees at MSA-1, the rate of retention from the 2015-16 school year to the 2016-17 school year, and student to teacher ratio for the 2016-17 school year.

**Table A-25
MAGNOLIA SCIENCE ACADEMY -1
Teacher Training and Experience**

| Category | Number |
|----------------------------------|--------|
| Teachers | |
| Teachers with B.S. or B.A. | |
| Teachers with a Master's degree | — |
| Total Teachers | == |
| Non-Teaching Employees | — |
| Total Employees | — |
| 2016-17 Teacher Retention Rate | % |
| 2016-17 Student to Teacher Ratio | :1 |

Source: Magnolia Educational & Research Foundation.

MSA-SD. The administration of MSA-SD is set forth below:

| Name | Title |
|---------------------|--------------------------------------|
| Mr. Gokhan Serce | Principal |
| Mrs. Nellie Tate | Dean of Academics |
| Mr. Halil Akdeniz | Dean of Culture/ Engineering Teacher |
| Mr. Nathan Williams | Dean of Students |

The following Table A-26 sets forth the leadership structure and staffing at MSA-SD.

**Table A-26
MAGNOLIA SCIENCE ACADEMY – SAN DIEGO
Staffing and Leadership Structure
As of March 1, 2017**

| Personnel | Number |
|---|-----------|
| Principal | 1 |
| Assistant Principals and Deans | 3 |
| Teachers | 21 |
| Counselors and Instructional Assistants | 2 |
| Office, Facility and Campus Monitor Staff | 3 |
| Total | <u>30</u> |

Source: Magnolia Educational & Research Foundation.

Mr. Gokhan Serce currently serves as the Principal of MSA-1. Brief biographical information for the Principal of MSA-1 is set forth below.

Mr. Gokhan Serce, Principal. [To Come]

The following Table A-27 sets forth the number of teachers and employees at MSA-1, the rate of retention from the 2015-16 school year to the 2016-17 school year, and student to teacher ratio for the 2016-17 school year.

Table A-27
MAGNOLIA SCIENCE ACADEMY – SAN DIEGO
Teacher Training and Experience

| Category | Number |
|----------------------------------|-----------|
| Teachers | |
| Teachers with B.S. or B.A. | |
| Teachers with a Master's degree | — |
| Total Teachers | == |
| Non-Teaching Employees | — |
| Total Employees | — |
| 2016-17 Teacher Retention Rate | % |
| 2016-17 Student to Teacher Ratio | <u>:1</u> |

MSA-SA. The administration of MSA-SA is set forth below:

| Name | Title |
|-----------------------|--|
| Mrs. Laura Schlottman | MS/HS Principal |
| Varol Gurler | Elementary Principal (K-5)/Site Director |
| Ms. Teresita Diaz | Dean of Academics |
| Ms. Sheri A. Johnson | Dean of Culture |
| Bao Nguyen | Dean of Students |
| Mrs. Hulya Odabasoglu | College Counselor |
| Meg Fuller | Special Education Coordinator |
| Melik Sayin | RTI Coordinator |

The following Table 8 sets forth the leadership structure and staffing at MSA-SA.

Table A-28
MAGNOLIA SCIENCE ACADEMY – SANTA ANA
Staffing and Leadership Structure
As of March 1, 2017

| Personnel | Number |
|---|------------------|
| Principal | 2 |
| Assistant Principals and Deans | 3 |
| Elementary Teachers | 12 |
| Secondary Teachers | 15 |
| Counselors and Instructional Assistants | 3 |
| Office, Facility and Campus Monitor Staff | <u>3</u> |
| Total | <u>38</u> |

Source: Magnolia Educational & Research Foundation

Mrs. Laura Schlottman currently serves as the Principal of the elementary school at MSA-SA. Brief biographical information for the Principal of MSA-SA elementary school is set forth below.

Mrs. Laura Schlottman, Principal. [To Come]

Mr. Varol Gurler currently serves as the Principal of the secondary school at MSA-SA. Brief biographical information for the Principal of MSA-SA secondary school is set forth below.

Mr. Varol Gurler, Principal. [To Come]

The following Table A-29 sets forth the number of teachers and employees at MSA-SA, the rate of retention from the 2015-16 school year to the 2016-17 school year, and student to teacher ratio for the 2016-17 school year.

Table A-29
MAGNOLIA SCIENCE ACADEMY – SANTA ANA
Teacher Training and Experience

| Category | Number |
|----------------------------------|--------|
| Teachers | |
| Teachers with B.S. or B.A. | |
| Teachers with a Master’s degree | |
| Total Teachers | |
| Non-Teaching Employees | |
| Total Employees | |
| 2016-17 Teacher Retention Rate | |
| 2016-17 Student to Teacher Ratio | |

Source: Magnolia Educational & Research Foundation

Extracurricular Activities

MSA-1. The School offers a variety of after-school activities and Saturday school for all students free of charge ranging from tutoring to athletic teams. All subject teachers are required to have tutoring sessions twice a week, and a fun/sport club once a week. Examples of activities include: Girls’ Club, Digital Art, College Mentorship and Leadership Program (CMLP), Stand-up Comedy Club, Food Prep-Cooking Club, Cheerleaders Club, SRLA, Soccer Club, Calculus Club, Craft Club, Theatre/Acting Club, Video Game Club, Movie Club, Ping Pong Club, Early Morning Walk Club, Horror Make-up Club, Volleyball Club and Robotics Club.

MSA-SD. [To Come]

MSA-SA. [To Come]

FINANCIAL PERFORMANCE OF THE SCHOOLS

General

See Appendix B for the audited financial statements of MERF, MSA-1, MSA-SD, and MSA-SD for the fiscal year ended June 30, 2016. Historic and projected operating results as well as projected debt service coverage and cash on hand computations are also included.

Magnolia Science Academy 1

Statement of Financial Position. The following Table A-30 sets forth the assets, liabilities and net assets of MSA-1 and its affiliates as of June 30, 2015 and June 30, 2016.

Table A-30
MAGNOLIA SCIENCE ACADEMY 1
Consolidated Statement of Financial Position
Fiscal Years ended June 30, 2015 and June 30, 2016

| | <u>2014-15</u> | <u>2015-16</u> |
|--|--------------------|--------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Equivalents | \$1,737,714 | \$ 1,403,525 |
| Restricted Cash | -- | -- |
| Accounts Receivable | 440,019 | 853,258 |
| Intra-company receivable | -- | 332,908 |
| Prepaid Expenses and Other Current Assets | -- | 14,351 |
| Total Current Assets | <u>\$2,177,733</u> | <u>\$2,604,042</u> |
| Non-Current Assets | | |
| Debt Issue Costs, Net | -- | -- |
| Security Deposits | \$39,035 | \$39,035 |
| Fixed Assets | 658,685 | 4,458,685 |
| Less: Accumulated Depreciations | <u>583,322</u> | <u>745,865</u> |
| Total Non-Current Assets | <u>\$114,398</u> | <u>\$3,751,855</u> |
| Total Assets | <u>\$2,292,131</u> | <u>\$6,355,897</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts Payable and Accruals | \$64,913 | \$208,364 |
| Intra-Company Payable | -- | 187,120 |
| Deferred Revenue | -- | -- |
| Current Portion of Long-Term Obligations | -- | -- |
| Total Current Liabilities | <u>\$64,913</u> | <u>\$395,484</u> |
| Long Term Obligations | | |
| Non-Current Portion of Long-Term Obligations | -- | \$2,800,000 |
| Total Liabilities | <u>\$64,913</u> | <u>\$3,195,484</u> |
| NET ASSETS | | |
| Unrestricted | \$2,227,218 | \$3,160,413 |
| Designated | -- | -- |
| Total Net Assets | <u>\$2,227,218</u> | <u>\$3,160,413</u> |
| Total Liabilities and Net Assets | <u>\$2,227,218</u> | <u>\$6,355,897</u> |

Source: Magnolia Educational & Research Foundation.

Activities and Changes in Net Assets. The following Table A-31 sets forth the activities and changes in net assets of MERF and its affiliates for fiscal years ended June 30, 2015 and June 30, 2016.

Table A-31
MAGNOLIA SCIENCE ACADEMY 1
Consolidated Statement of Activities and Changes in Net Assets
Fiscal Years ended June 30, 2015 and June 30, 2016

| | <u>2014-15</u> | <u>2015-16</u> |
|--|--------------------|--------------------|
| REVENUE: | | |
| State Apportionments | \$4,108,987 | \$4,902,054 |
| Federal Revenue | 600,269 | 673,666 |
| Other State Revenue | 749,565 | 1,778,747 |
| Rent Revenue | -- | -- |
| Local Revenue | <u>71,342</u> | <u>137,854</u> |
| Total Revenues | <u>\$5,530,163</u> | <u>\$7,492,321</u> |
| EXPENSES | | |
| Program Services | | |
| Salaries and Benefits | \$2,756,741 | \$3,359,332 |
| Student Services | 368,240 | 243,193 |
| Materials and Supplies | 190,130 | 171,245 |
| Student Nutrition | 264,309 | 270,203 |
| Other Expenses | <u>29,459</u> | <u>133,304</u> |
| Subtotal | <u>\$3,608,879</u> | <u>\$4,177,277</u> |
| Management and General | | |
| Amortization | -- | -- |
| Depreciation | \$5,820 | \$162,543 |
| Management Fee | 1,013,451 | 915,722 |
| Occupancy | 676,885 | 620,993 |
| Operating Expenses | 221,826 | 556,505 |
| Debt Service | -- | -- |
| Interest | -- | <u>126,086</u> |
| Subtotal | <u>\$1,917,982</u> | <u>\$2,381,849</u> |
| Total Expenses | <u>\$5,526,861</u> | <u>\$6,559,126</u> |
| CHANGE IN UNRESTRICTED NET ASSETS | \$3,302 | \$933,195 |
| NET ASSETS (DEFICIT), BEGINNING OF YEAR | \$2,223,916 | \$2,227,218 |
| NET ASSETS, END OF YEAR | \$2,227,218 | \$3,160,413 |

Source: Magnolia Educational & Research Foundation

Magnolia Science Academy –San Diego

Statement of Financial Position. The following Table A-32 sets forth the assets, liabilities and net assets of MSA-SD and its affiliates as of June 30, 2015 and June 30, 2016.

Table A-32
MAGNOLIA SCIENCE ACADEMY – SAN DIEGO
Consolidated Statement of Financial Position
Fiscal Years ended June 30, 2015 and June 30, 2016

| | <u>2014-15</u> | <u>2015-16</u> |
|--|--------------------|--------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Equivalents | \$382,157 | \$761,775 |
| Restricted Cash | 118,998 | 106,607 |
| Accounts Receivable | 248,652 | 308,121 |
| Intra-company receivable | -- | 10,064 |
| Prepaid Expenses and Other Current Assets | -- | 8,521 |
| Total Current Assets | <u>\$749,807</u> | <u>\$1,195,088</u> |
| Non-Current Assets | | |
| Debt Issue Costs, Net | -- | -- |
| Security Deposits | -- | -- |
| Fixed Assets | \$586,778 | \$644,168 |
| Less: Accumulated Depreciations | <u>258,217</u> | <u>302,836</u> |
| Total Non-Current Assets | <u>328,561</u> | <u>341,332</u> |
| Total Assets | <u>\$1,078,368</u> | <u>\$1,536,420</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts Payable and Accruals | \$85,518 | \$190,591 |
| Intra-Company Payable | 202,149 | 19,442 |
| Deferred Revenue | 2,940 | -- |
| Current Portion of Long-Term Obligations | -- | -- |
| Total Current Liabilities | <u>\$290,607</u> | <u>\$210,033</u> |
| Long Term Obligations | | |
| Non-Current Portion of Long-Term Obligations | <u>\$151,806</u> | <u>\$151,806</u> |
| Total Liabilities | <u>\$442,413</u> | <u>\$361,839</u> |
| NET ASSETS | | |
| Unrestricted | \$516,957 | \$1,174,581 |
| Designated | <u>118,998</u> | -- |
| Total Net Assets | <u>\$635,955</u> | <u>\$1,174,581</u> |
| Total Liabilities and Net Assets | <u>\$1,078,368</u> | <u>\$1,536,420</u> |

Source: Magnolia Educational & Research Foundation.

Activities and Changes in Net Assets. The following Table A-33 sets forth the activities and changes in net assets of MSA-SD and its affiliates for fiscal years ended June 30, 2015 and June 30, 2016.

Table A-33
MAGNOLIA SCIENCE ACADEMY – SAN DIEGO
Consolidated Statement of Activities and Changes in Net Assets
Fiscal Years ended June 30, 2015 and June 30, 2016

| | <u>2014-15</u> | <u>2015-16</u> |
|--|--------------------|--------------------|
| REVENUE: | | |
| State Apportionments | \$2,243,691 | \$2,888,409 |
| Federal Revenue | 93,377 | 97,228 |
| Other State Revenue | 361,721 | 602,791 |
| Rent Revenue | -- | -- |
| Local Revenue | <u>99,896</u> | <u>84,976</u> |
| Total Revenues | <u>\$2,798,625</u> | <u>\$3,673,404</u> |
| EXPENSES | | |
| Program Services | | |
| Salaries and Benefits | 1,834,111 | \$1,985,116 |
| Student Services | 132,745 | 128,325 |
| Materials and Supplies | 27,733 | 172,634 |
| Student Nutrition | 38,481 | 44,650 |
| Other Expenses | <u>10,249</u> | <u>105,525</u> |
| Subtotal | <u>\$2,043,319</u> | <u>\$2,436,250</u> |
| Management and General | | |
| Amortization | | -- |
| Depreciation | \$37,442 | \$44,619 |
| Management Fee | 416,373 | 334,759 |
| Occupancy | -- | 305 |
| Operating Expenses | 110,824 | 318,845 |
| Debt Service | -- | -- |
| Interest | 82 | -- |
| Subtotal | <u>564,721</u> | <u>698,528</u> |
| Total Expenses | <u>\$2,608,040</u> | <u>\$3,134,778</u> |
| CHANGE IN UNRESTRICTED NET ASSETS | \$190,645 | \$538,626 |
| NET ASSETS (DEFICIT), BEGINNING OF YEAR | \$445,310 | \$635,955 |
| NET ASSETS, END OF YEAR | \$635,955 | \$1,174,581 |

Source: Magnolia Educational & Research Foundation

Magnolia Science Academy – Santa Ana

Statement of Financial Position. The following Table A-34 sets forth the assets, liabilities and net assets of MSA-SA and its affiliates as of June 30, 2015 and June 30, 2016.

Table A-34
MAGNOLIA SCIENCE ACADEMY – SANTA ANA
Consolidated Statement of Financial Position
Fiscal Years ended June 30, 2015 and June 30, 2016

| | <u>2014-15</u> | <u>2015-16</u> |
|--|---------------------------|----------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Equivalents | \$140,106 | \$170,647 |
| Restricted Cash | 432,732 | 5,774,345 |
| Accounts Receivable | 578,641 | 213,512 |
| Intra-company receivable | -- | 2,759 |
| Prepaid Expenses and Other Current Assets | <u>19,000</u> | <u>5,354</u> |
| Total Current Assets | <u>\$1,170,479</u> | <u>\$6,166,617</u> |
| Non-Current Assets | | |
| Debt Issue Costs, Net | -- | -- |
| Security Deposits | \$27,000 | \$27,000 |
| Fixed Assets | 3,788,424 | 12,030,297 |
| Less: Accumulated Depreciations | <u>94,867</u> | <u>128,715</u> |
| Total Non-Current Assets | <u>\$3,720,557</u> | <u>\$11,928,582</u> |
| Total Assets | <u>\$4,891,036</u> | <u>\$18,095,199</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts Payable and Accruals | \$149,228 | \$201,105 |
| Intra-Company Payable | 330,000 | 776,832 |
| Deferred Revenue | 354,000 | 61,355 |
| Current Portion of Long-Term Obligations | <u>25,000</u> | <u>25,000</u> |
| Total Current Liabilities | <u>\$858,228</u> | <u>\$1,064,292</u> |
| Long Term Obligations | | |
| Non-Current Portion of Long-Term Obligations | <u>\$2,090,702</u> | <u>\$8,731,986</u> |
| Total Liabilities | <u>\$2,948,938</u> | <u>\$9,796,278</u> |
| NET ASSETS | | |
| Unrestricted | <u>\$1,509,374</u> | <u>\$8,298,921</u> |
| Designated | <u>432,732</u> | -- |
| Total Net Assets | <u>\$1,942,106</u> | <u>\$ 8,298,921</u> |
| Total Liabilities and Net Assets | <u>\$4,891,036</u> | <u>\$18,095,199</u> |

Source: Magnolia Educational & Research Foundation.

Activities and Changes in Net Assets. The following Table A-35 sets forth the activities and changes in net assets of MSA-SA and its affiliates for fiscal years ended June 30, 2015 and June 30, 2016.

Table A-35
MAGNOLIA SCIENCE ACADEMY – SANTA ANA
Consolidated Statement of Activities and Changes in Net Assets
Fiscal Years ended June 30, 2015 and June 30, 2016

| | <u>2014-15</u> | <u>2015-16</u> |
|--|--------------------|--------------------|
| REVENUE: | | |
| State Apportionments | \$1,155,757 | \$1,178,240 |
| Federal Revenue | 89,864 | 364,623 |
| Other State Revenue | 210,696 | 7,070,882 |
| Rent Revenue | -- | -- |
| Local Revenue | <u>29,745</u> | <u>47,229</u> |
| Total Revenues | <u>\$1,486,062</u> | <u>\$8,660,974</u> |
| EXPENSES | | |
| Program Services | | |
| Salaries and Benefits | \$993,530 | \$1,239,163 |
| Student Services | 231,343 | 127,714 |
| Materials and Supplies | 27,013 | 169,969 |
| Student Nutrition | 37,922 | 68,807 |
| Other Expenses | <u>9,483</u> | <u>49,339</u> |
| Subtotal | <u>\$1,299,291</u> | <u>\$1,654,992</u> |
| Management and General | | |
| Amortization | -- | -- |
| Depreciation | \$24,823 | \$33,848 |
| Management Fee | -- | 60,000 |
| Occupancy | 206,499 | 229,754 |
| Operating Expenses | 260,521 | 325,565 |
| Debt Service | -- | -- |
| Interest | 460 | -- |
| Subtotal | <u>492,303</u> | <u>649,167</u> |
| Total Expenses | <u>\$1,791,594</u> | <u>\$2,304,159</u> |
| CHANGE IN UNRESTRICTED NET ASSETS | \$(305,532) | \$6,356,815 |
| NET ASSETS (DEFICIT), BEGINNING OF YEAR | \$2,247,638 | \$1,942,106 |
| NET ASSETS, END OF YEAR | \$1,942,106 | \$8,298,921 |

Source: Magnolia Educational & Research Foundation

BOND PURCHASE AGREEMENT

BOND PURCHASE AGREEMENT

§ _____
California School Finance Authority
Charter School Revenue Bonds
(Magnolia Public Schools – Obligated Group)
Draw Down Series 2017A

§ _____
California School Finance Authority
Charter School Revenue Bonds
(Magnolia Public Schools – Obligated Group)
Series 2017B (Taxable)

April __, 2017

The Honorable John Chiang
Treasurer of the State of California
915 Capitol Mall, Room 261
Sacramento, California 95814

Magnolia Properties Management, Inc.
250 E First Street, Suite 1500
Los Angeles, California 90012
Attention: Ms. Caprice Young

California School Finance Authority
304 S. Broadway, Suite 550
Los Angeles, California, 90013
Attention: Executive Director

Ladies and Gentlemen:

The undersigned, D.A. Davidson & Co., acting on its own behalf (the “Underwriter”), offers to enter into the following agreement (this “Agreement”) with the Honorable John Chiang, Treasurer of the State of California (the “State Treasurer”), as agent for sale, the California School Finance Authority (the “Authority”) and Magnolia Properties Management, Inc., a California nonprofit public benefit corporation (the “Borrower”), which, upon the State Treasurer’s, the Authority’s and the Borrower’s written acceptance of this offer and approval by Magnolia Educational and Research Foundation, a California nonprofit public benefit corporation (“MERF”), will be binding upon the State Treasurer, the Authority, the Borrower and the Underwriter. This offer is made subject to the State Treasurer’s and the Authority’s written acceptance hereof and approval by the Borrower on or before 4:00 p.m., Pacific time, on the date hereof, and, if not so accepted, will be subject to withdrawal by the Underwriter upon notice delivered to the State Treasurer, the Authority and Borrower at any time prior to the acceptance hereof by the State Treasurer, the Authority and approval by the Borrower. Terms not otherwise defined in this Agreement shall have the same meanings set forth in the Indenture (as defined herein) or in the Limited Offering Memorandum (as defined herein).

1. **Underwriter Not Acting as Advisor or Fiduciary.** The State Treasurer, the Authority, the Borrower and the Underwriter acknowledge and agree that (i) the purchase and sale of the Bonds pursuant to this Agreement is an arm’s-length, commercial transaction among the State Treasurer, the Authority, the Borrower and the Underwriter in which the Underwriter is

acting solely as a principal and is not acting as an agent, advisor or fiduciary including, without limitation, a “Municipal Advisor” as such term is defined in Section 15B of the Securities and Exchange Act of 1934, as amended, and the related final rules (the “Municipal Advisor Rules”), of the State Treasurer, the Authority or the Borrower, (ii) the Underwriter has not assumed any advisory or fiduciary responsibility to the State Treasurer, the Authority or the Borrower with respect to this Agreement, the offering of the Bonds and the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriter, or any affiliate of the Underwriter, has provided other services or is currently providing other services to the State Treasurer, the Authority or the Borrower on other matters), (iii) the only contractual obligations the Underwriter has to the State Treasurer, the Authority and the Borrower with respect to the transactions contemplated hereby are those set forth in this Agreement, (iv) the Underwriter has financial and other interests that differ from those of the State Treasurer, the Authority and the Borrower, and (v) each of the State Treasurer, the Authority and the Borrower has consulted with its own legal, accounting, tax, financial and other advisors, as applicable, to the extent each has deemed appropriate. Nothing in the foregoing paragraph is intended to limit the Underwriter’s obligations of fair dealing under MSRB Rule G-17.

2. **Purchase and Sale of the Bonds.** Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Underwriter hereby agrees to purchase from the State Treasurer on behalf of the Authority, and the Authority hereby agrees to sell and deliver to the Underwriter, all, but not less than all, of the above-captioned bonds (the “Bonds”). Inasmuch as this purchase and sale represents a negotiated transaction, the Authority and the Borrower understand, and hereby confirm, that the Underwriter is not acting as a fiduciary of the Authority or the Borrower, but rather is acting solely in its capacity as Underwriter for its own account. The Underwriter’s obligation to purchase the Bonds is dependent upon Hamlin Capital Management LLC, as Bondholder Representative for the Bonds, providing the Underwriter with funds equal to the aggregate principal amount of the Bonds.

The purchase price for the Bonds shall be \$_____ (calculated as the aggregate principal amount of the Bonds (\$_____), plus/less an Underwriter’s premium/discount of \$[_____]), less Underwriter’s compensation of \$_____).

The principal amount of the Bonds to be issued, the dated date therefor, the maturities and interest rates per annum are set forth in Schedule I hereto. The Bonds will be issued pursuant to the Constitution and laws of the State of California (the “State”) and particularly under and pursuant to Chapter 18 (commencing with section 17170) of Part 10 of Division 1 of Title 1 of the California Education Code (the “Act”), and will be issued and secured under and pursuant to an Indenture, dated as of April 1, 2017 (the “Indenture”), by and between the Authority and UMB Bank, National Association, as trustee (the “Trustee”). The Bonds shall be as described in the Limited Offering Memorandum (as defined herein). The Authority approved the issuance of the Bonds pursuant to a resolution adopted by the Authority on April [12], 2017 (the “Bond Resolution”).

The Bonds may only be offered and sold (including, in secondary market transactions) in whole or in part, in connection with a sale to or through a broker/dealer only to (i) any accredited investor (within the meaning of Rule 501 of Regulation D promulgated under the Securities Act

of 1933, as amended) or qualified institutional buyer (within the meaning of Rule 144A promulgated under the Securities Act of 1933, as amended), (ii) any bank, savings institution or insurance company (whether acting in a trustee or custodial capacity for any accredited investor or qualified institutional buyer), (iii) any trust or custodial arrangement each of the beneficial owners of which is an accredited investor or qualified institutional buyer, or (iv) a broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934, as amended.

The Authority will loan the proceeds of the sale of the Bonds (the “Loan”) to the Borrower pursuant to a loan agreement, dated as of the date of the Indenture (the “Loan Agreement”), by and between the Authority and the Borrower to finance and/or refinance the acquisition, construction, equipping and/or improvement of: (i) the charter school facility at [18214 and 18228] Sherman Way, Reseda, California 91335 (the “MSA-1 Facility”) owned by MPM Sherman Way LLC, a California limited liability company (“MPM Sherman Way”), and leased to MERF pursuant to a lease (the “MSA-1 Lease”), for use and occupancy by Magnolia Science Academy-1 (“Magnolia Science Academy-1”), a charter school organized under the Charter Schools Act of 1992, as amended (constituting Part 26.8 of Division 4 of Title 2 of the Education Code) (the “Charter School Law”), (ii) certain charter school facilities located at 6365 Lake Atlin Avenue, San Diego, California 92119 (the “San Diego Facility”) owned by MPM San Diego LLC, a California limited liability company (“MPM San Diego”), on land used by MERF pursuant to a shared use agreement between MERF and the San Diego Unified School District, for use and occupancy by Magnolia Science Academy-San Diego (“Magnolia Science Academy-San Diego”), a charter school organized under the Charter School Law, and (iii) certain charter school facilities located at 2840 W 1st Street, Santa Ana, California 92703 (the “Santa Ana Facility,” and together with the MSA-1 Facility and the San Diego Facility, the “Facilities”), to be owned by MPM Santa Ana LLC (“MPM Santa Ana” and together with the Borrower, MPM Sherman Way and MPM San Diego, the “Initial Members”) and leased by MERF for use and occupancy by Magnolia Science Academy-Santa Ana (“Magnolia Science Academy-Santa Ana” and together with Magnolia Science Academy-1 and Magnolia Science Academy-San Diego, the “Schools”), a charter school organized under the Charter School Law (collectively, the “Project”).

In connection with the issuance of the Bonds and financing and/or refinancing of the Project, MERF will enter into a: (1) Lease Agreement with [MPM Sherman Way] to finance the portion of the Project located at the MSA-1 Facility (the “Sherman Way Lease”); (2) [Lease and Equipment Agreement] with MPM San Diego to finance the portion of the Project located at the San Diego Facility (the “San Diego Lease” and together with the Sherman Way Lease, the “Leases”); and (3) School Loan Agreement with MPM Santa Ana to finance the portion of the Project located at the Santa Ana Facility (the “School Loan Agreement”). The Initial Members and UMB Bank, National Association, as master trustee (the “Master Trustee”) will enter into a Master Indenture of Trust (the “Master Indenture”), as supplemented by a Supplemental Master Indenture for Obligation No. 2 (the “Supplemental MTI for Obligation No. 2”), each dated as of the date of the Indenture, pursuant to which the Initial Members will issue an Obligation (as defined in the Master Indenture) to evidence the Initial Members’ obligation to ensure performance of the obligations of the Borrower arising under the Loan Agreement (“Obligation No. 2”). Obligation No. 2 will be secured by a [Deed of Trust, made as of April 1, 2017, executed by [the Borrower], to MPM Sherman Way for the benefit of the Master Trustee] and a [Leasehold Deed of Trust, made as of April 1, 2017, executed by [the Borrower], to MPM San Diego for the benefit of the Master Trustee] (collectively, the “Deeds of Trust”).

Simultaneously with the issuance of the Bonds, the Borrower shall cause MERF to provide to the State Controller of the State of California (the "Controller"), a notice (the "Intercept Notice"), including a schedule of transfers to the Trustee of certain amounts to become due and payable with respect to the Bonds (the "Intercept") pursuant to Section 1.7199.4(a)(1) and (4) of the California Education Code.

To ensure compliance with the requirements of Securities and Exchange Commission Rule 15c2-12, the Borrower and MERF will execute and deliver a continuing disclosure agreement (the "Continuing Disclosure Agreement") pursuant to which MERF will annually prepare audited financial statements and other specified operating information, as well as provide notice of certain enumerated events.

3. **Public Offering.** The Underwriter agrees to make a bona fide limited public offering of all of the Bonds at a price not to exceed the public offering price set forth on the cover of the Limited Offering Memorandum and may subsequently change such offering price without any requirement of prior notice. The Underwriter may offer and sell Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the public offering price stated on the cover of the Limited Offering Memorandum.

4. **The Limited Offering Memorandum.** The Authority has approved the use of the Limited Offering Memorandum dated the date hereof (such Limited Offering Memorandum, including the cover page and all appendices, exhibits, reports and statements included therein or attached thereto, and any amendments and supplements thereto being herein called the "Limited Offering Memorandum"). The Authority and the Borrower represent and warrant that the Limited Offering Memorandum was deemed final by the Authority and the Borrower as of its date within the meaning of Section 240.15c2-12 in Chapter II of Title 17 of the Code of Federal Regulations ("Rule 15c2-12"). The Borrower represents that it has reviewed and approved the information in the Limited Offering Memorandum and hereby authorizes the Limited Offering Memorandum to be used by the Underwriter in connection with the limited public offering and the sale of the Bonds. The Borrower will cause the delivery of a final printed form of the Limited Offering Memorandum not later than seven (7) business days after the execution of this Agreement and in sufficient time to accompany any confirmation that requests payment from any customer in sufficient quantity to comply with paragraph (b)(4) of Rule 15c2-12 and the Rules of the Municipal Securities Rulemaking Board, with only such changes as shall have been approved by Orrick, Herrington & Sutcliffe LLP ("Bond Counsel") and the Underwriter, signed on behalf of the Borrower by any authorized officer. The Authority and the Borrower also authorize the use, in connection with the limited public offering and sale of the Bonds, of copies of the final Limited Offering Memorandum, the Indenture and the Loan Agreement. The Underwriter hereby agrees to deliver a copy of the Limited Offering Memorandum to a nationally recognized municipal securities information repository, which as of the date hereof, is the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system, on or before the date of the original issuance and delivery of the Bonds (the "Closing Date"), and to otherwise comply in all material respects with all applicable statutes and regulations in connection with the offering and sale of the Bonds, including, without limitation, MSRB Rule G-32.

5. **Representations, Warranties, and Covenants of the Authority.** The Authority hereby represents and warrants to and covenants with the Underwriter that:

(i) The Authority is and will be at the Closing Date duly organized and existing under the Constitution and laws of the State of California, has full power and authority to issue the Bonds, to adopt the Bond Resolution, to enter into the Indenture, the Loan Agreement and this Agreement (collectively, the “Authority Documents”) and to perform its obligations under the Authority Documents and when executed and delivered by the respective parties hereto and thereto, the Authority Documents will constitute the valid and binding obligations of the Authority enforceable in accordance with their respective terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other similar laws affecting creditors’ rights generally, by the application of equitable principles as the court having jurisdiction may impose, regardless of whether such proceeding is considered in a proceeding in equity or law, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against governmental entities in the State of California;

(ii) When delivered to and paid for by the Underwriter at the Closing (as defined herein) in accordance with the provisions of this Agreement, the Bonds will have been duly authorized, executed, issued and delivered, and assuming due authentication by the Trustee, will constitute valid and binding limited obligations of the Authority, enforceable in accordance with their terms, in conformity with, and entitled to the benefit and security of, the Indenture;

(iii) By official action of the Authority prior to or concurrently with the acceptance hereof, the Authority has authorized and approved the distribution of the Limited Offering Memorandum and the execution and delivery of, and the performance by the Authority of the obligations on its part contained in, the Bonds and the Authority Documents and the consummation by the Authority of all other financing transactions on its part contemplated by the Limited Offering Memorandum and this Agreement;

(iv) There is no action, suit or proceeding, at law or in equity, before or by any court pending (with service of process having been accomplished against the Authority) or any action, suit, proceeding, inquiry or investigation before any court, governmental agency, public board or body known to the Authority to be threatened against the Authority seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or contesting any proceedings of the Authority taken concerning the issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, in any way contesting the validity or enforceability of the Bonds or the Authority Documents or contesting in any way the completeness or accuracy of the information in the Limited Offering Memorandum under the captions “THE AUTHORITY” or “ABSENCE OF MATERIAL LITIGATION – The Authority” (the “Authority Information”) or the existence or powers of the Authority relating to the issuance of the Bonds;

(v) As of the date hereof and as of the Closing Date, the statements and information contained in the Authority Information were and will be true and correct in all material respects, and did not and will not contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements and information therein, in light of the circumstances under which they were made, not misleading.

(vi) Both at the time of acceptance hereof by the Authority and at the Closing Date, the statements and information contained in the Authority Information (including any supplements or amendments) are and will be true and correct in all material respects, and do not and will not contain an untrue statement of a material fact or omit to state a material fact necessary to make such statements and information therein, in the light of the circumstances under which they were made, not misleading in any material respect, it being further understood that no such representation, warranty or agreement shall apply to any other statements or information in or omissions from the Limited Offering Memorandum;

(vii) The Authority will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in endeavoring (i) to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate and (ii) to determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions, and, subject to Section 9 hereof, will use its best efforts to continue such qualification in effect so long as required for distribution of the Bonds; provided, however, that in no event shall the Authority be required to take any action that would subject it to general, special or unlimited service of process in any jurisdiction in which it is now not so subject;

(viii) To the best knowledge of the Authority, the execution and delivery by the Authority of the Authority Documents, and compliance with the provisions on the Authority's part contained therein, will not in any material respect conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Authority is a party or is otherwise subject, which breach or default would have a material adverse effect on the Authority's ability to perform its obligations under the Authority Documents nor will any such execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the Authority pledged under the Authority Documents under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, which lien, charge, security interest or encumbrance would have a material adverse effect on the Authority's ability to perform its obligations under the Authority Documents;

(ix) The Authority is not in material breach of or in material default under any applicable law or administrative regulation of the State or the United States or any applicable material judgment or material decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Authority is a party or is

otherwise subject, which breach or default would have a material adverse effect on the Authority's ability to perform its obligations under the Authority Documents and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a material breach of or a material default or a material event of default under any such instrument, which breach or default would have a material adverse effect on the Authority's ability to perform its obligations under the Authority Documents;

(x) (1) If between the date of this Agreement and up to and including the 25th day following the "end of the underwriting period" (as such term is defined in Rule 15c2-12) an event occurs affecting the Authority, of which the Authority has knowledge, which might or would cause the Authority Information contained in the Limited Offering Memorandum, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which they were made, not misleading, or if the Authority is notified by the Borrower pursuant to the provisions of this Agreement or otherwise requested to amend, supplement or otherwise change the Limited Offering Memorandum, the Authority will notify the Underwriter and the Borrower, and if in the reasonable opinion of the Underwriter such event requires the preparation and publication of a supplement or amendment to the Limited Offering Memorandum, the Authority will amend or supplement the Limited Offering Memorandum in a form and in a manner approved by the Underwriter, and all reasonable expenses thereby incurred will be paid by the Borrower pursuant hereto; and

(2) During the period described in the preceding paragraph, the Authority will not participate in the issuance of any amendment of or supplement to the Limited Offering Memorandum to which, after being furnished with a copy, the Borrower, the Trustee or the Underwriter shall reasonably object in writing or which shall be disapproved by any of their respective counsel.

The execution and delivery of this Agreement by the Authority shall constitute a representation by the Authority to the Underwriter that the representations, warranties and agreements contained in this Section 5 are true as of the date hereof; provided, that as to information furnished by the Borrower pursuant to this Agreement or otherwise and in the Limited Offering Memorandum, the Authority is relying on such information in making the Authority's representations, warranties and agreements; and as to all matters of law, the Authority is relying on the advice of counsel to the Authority; and provided further, that no member of the governing body of the Authority or officer, employee or agent of the Authority shall be individually liable for the breach of any representation, warranty or agreement contained herein.

6. Representations, Warranties and Covenants of the Borrower. The Borrower hereby represents, warrants and agrees as follows:

(i) The Borrower is a California nonprofit public benefit corporation duly organized, validly existing and in good standing under the laws of the State of California. The Borrower has and, at the Closing Date will have, requisite organizational power and

authority to enter into the Master Indenture of Trust, the Supplemental MTI for Obligation No. 2, Obligation No. 2, the Deeds of Trust, the Loan Agreement, the Bond Purchase Agreement, the Leases, the School Loan Agreement, the Tax Certificate of the Authority and the Borrower relating to the Bonds and the Continuing Disclosure Agreement (collectively, the "Borrower Documents"); to execute the Limited Offering Memorandum and to carry out and consummate all transactions contemplated by the Borrower Documents and the Limited Offering Memorandum; and by proper organizational action has duly authorized the execution and delivery of the Borrower Documents and the Limited Offering Memorandum and the distribution of the Limited Offering Memorandum.

(ii) The officers or other designees of the sole member of the Borrower executing the Borrower Documents and the Limited Offering Memorandum on behalf of the Borrower are duly and properly in office and authorized to execute and approve the same.

(iii) As of the date hereof, this Agreement has been duly executed and delivered by the Borrower and as of the Closing the Borrower Documents will be legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their terms, except as enforcement of each of these documents may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles if equitable remedies are sought.

(iv) [Reserved]

(v) As of the date thereof and at the Closing Date, the statements and information contained in the Limited Offering Memorandum (including any supplements or amendments) relating to the Borrower are and will be true and correct in all material respects, and do not and will not contain an untrue statement of a material fact or omit to state a material fact necessary to make such statements and information therein, in the light of the circumstances under which they were made, not misleading in any material respect, it being further understood that no such representation, warranty or agreement shall apply to any other statements or information in or omissions from the Limited Offering Memorandum.

(vi) The Borrower is not (i) in violation of any applicable law or administrative regulation of the State of California or the United States or any applicable judgment or decree, which violation would materially adversely affect the financial position or operations of the Borrower or (ii) in default under any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which MERF or the Borrower is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice or both, would constitute an event of default under any such instrument, which default would materially adversely affect the financial position or operations of the Borrower.

(vii) The execution and delivery of the Borrower Documents and execution and delivery of the Limited Offering Memorandum by the Borrower, the consummation by the Borrower of the transactions herein and therein contemplated and the Borrower's fulfillment of or compliance with the terms and conditions thereof will not (a) conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under (i) the operating Agreement of the Borrower, (ii) any indenture, mortgage, deed of trust, loan agreement, contract, lease or other agreement or instrument to which the Borrower is a party or by which it or its properties are otherwise subject or bound or (iii) any law or administrative rule or regulation or any court or administrative decree or order applicable to the Borrower; or (b) result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Borrower, except for the liens or pledges created by the Borrower Documents, which conflict, violation, breach, default, lien, charge or encumbrance could reasonably be expected to have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Borrower Documents, the Limited Offering Memorandum or the financial condition, assets, properties or operations of the Borrower.

(viii) No consent or approval of any trustee or holder of any indebtedness of the Borrower and no consent, permission, authorization, order or license of, or filing or registration with, any governmental issuer (except the approval of the Authority for the execution and delivery of the Bonds and in connection with Blue Sky proceedings) is necessary in connection with the execution and delivery of this Agreement, the execution and delivery of the other Borrower Documents at the Closing, the approval of the Limited Offering Memorandum, or the consummation of any transaction therein contemplated, except in all such cases as have been obtained or made and as are in full force and effect.

(ix) There are no actions, suits or proceedings which have been served on the Borrower or, to the best of the knowledge of the Borrower, are otherwise pending or threatened against the Borrower:

(a) seeking to restrain or enjoin the execution or delivery of any of the Bonds or the pledge under the Loan Agreement or any payments to be made by the Borrower pursuant to the Loan Agreement,

(b) in any way contesting or affecting the Authority or the execution or delivery of the Bonds or the validity when executed and delivered of Borrower Documents or the pledge under the Indenture,

(c) in any way contesting the corporate existence or powers of the Borrower;

(d) which, if determined adversely to it, could reasonably be expected to materially adversely affect the consummation of the transactions contemplated by the Borrower Documents or the financial condition, assets or properties of the Borrower,

(e) alleging that the Limited Offering Memorandum, as amended or supplemented pursuant to this Agreement contains an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or

(f) contesting the powers of the Borrower to conduct the business now being conducted by it and as contemplated by the Borrower Documents.

(x) To the extent permitted by law, the Borrower agrees to indemnify and hold harmless the Authority, the State Treasurer, the Underwriter and each person, if any, who controls (as such term is defined in Section 15 of the Securities Act of 1933, as amended (the "Securities Act")) any of the Underwriter and the members, officers, agents and employees of the State Treasurer and the Authority (collectively, the "Indemnified Persons," and individually, an "Indemnified Person") from and against any and all judgments, losses, claims, damages or liabilities, joint or several, to which any Indemnified Person may become subject insofar as such judgments, losses, claims, damages or liabilities (or actions in respect thereof) arise out of, or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Limited Offering Memorandum, or that arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading with respect to the information contained therein, and will reimburse each Indemnified Person for any legal or other expenses reasonably incurred by such Indemnified Person in connection with investigating, defending or preparing to defend any such loss, claim, damage, liability or any action in respect thereof; provided, however, that the Borrower shall not be liable to the Authority for the information provided by the Authority in the "AUTHORITY" portion of the Limited Offering Memorandum, and the Borrower shall not be liable to the Authority for the information provided by the Underwriter in the "UNDERWRITING" portion of the Limited Offering Memorandum. On the date of delivery of the Bonds, the Borrower will deliver a certificate to the effect that the Limited Offering Memorandum (except for the Authority Information and the information provided by the Underwriter in the "UNDERWRITING" portion of the Limited Offering Memorandum) does not contain a misstatement of a material fact or omit to state a material fact required to be stated therein in order to make the statements therein not misleading.

In case any claim shall be made or action brought against any Indemnified Person based upon the Limited Offering Memorandum, in respect of which indemnity may be sought against the Borrower, the Borrower shall be promptly notified in writing setting forth the particulars of such claim or action and the Borrower shall assume the defense thereof including the retaining of counsel and the payment of all expenses. Any Indemnified Person shall have the right to retain separate counsel in any such action and to participate in the defense thereof but shall bear the fees and expenses of such counsel unless: (i) the Borrower shall have specifically authorized the retaining of such counsel and has consented to pay the fees and expenses thereof; or (ii) the parties to such suit include said Indemnified Person, and the Borrower and such Indemnified Person or Persons have been advised by such counsel that one or more legal defenses may be available to said Indemnified Person or Persons which may not be available to the Borrower; or

(iii) the Attorney General assumes the defense of the Authority and/or the State Treasurer, or any Indemnified Party thereof, in which case the Borrower shall not be entitled to assume the defense of such suit notwithstanding its obligation to bear the fees and expenses of such counsel.

(xi) The Borrower shall pay the fees and expenses described as payable by it in Section 12 of this Agreement and pay any expenses incurred in amending or supplementing the Limited Offering Memorandum pursuant to this Agreement.

(xii) The Borrower:

(a) is in material compliance with all laws, ordinances, governmental rules and regulations to which it is subject and which are material to its properties, operations and finances;

(b) has obtained all licenses, permits, franchises or other governmental authorizations necessary and material to the ownership of its property or to the conduct of its activities, agrees to obtain all permits and approvals or other governmental authorizations that are required and necessary for construction and operation of newly acquired facilities for the Borrower and agrees to obtain all such licenses, permits, franchises or other governmental authorizations as may be required in the future for its operations in all cases where failure to obtain such licenses, permits, franchises or other governmental authorizations could reasonably be expected to materially and adversely affect the condition (financial or otherwise) of the Borrower or its ability to perform its obligations under the Borrower Documents; and

(c) is in material compliance with all provisions of the Borrower Documents applicable to the Borrower including, but not limited to, the requirements of the Loan Agreement that the Borrower maintain certain insurance policies or programs.

(xiii) The Project constitutes a “project” and the Borrower is a “participating party,” as those terms are defined in the Act.

(xiv) As of the date thereof and at the Closing Date, the Limited Offering Memorandum does not and will not contain an untrue statement of a material fact or omit to state a material fact necessary to make such statements and information therein, in the light of the circumstances under which they were made, not misleading;

(xv) If between the date hereof and up to and including the 25th day following the “end of the underwriting period” (as such term is defined in Rule 15c2-12), any event shall occur which might or would cause the Limited Offering Memorandum, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the Borrower shall notify the Authority, the Treasurer and the Underwriter and if in the reasonable opinion of the Borrower, the Authority or the Underwriter such event requires the preparation and publication of a supplement or amendment to the Limited Offering

Memorandum, the Borrower will request the Authority to cause the Limited Offering Memorandum to be amended or supplemented in a form and in a manner approved by the Underwriter, provided all expenses thereby incurred will be paid by the Borrower.

(xvi) During the period described in the preceding paragraph, the Borrower will not participate in the issuance of any amendment of or supplement to the Limited Offering Memorandum to which, after being furnished with a copy, either the Authority or the Underwriter shall reasonably object in writing or which shall be disapproved by their respective counsel.

The representations, warranties, agreements and indemnities herein shall survive the Closing and any investigation made by or on behalf of the Authority, the State Treasurer or the Underwriter or any person who controls the Authority, the State Treasurer or the Underwriter of any matters described in or related to the transactions contemplated hereby and by the Borrower Documents or the Limited Offering Memorandum.

7. **Closing.** At or before 10:00 a.m. California time, on _____, 2017, or at such other time and date as shall have been mutually agreed upon by the Authority and the Underwriter (the "Closing Date"), the Authority will, subject to the terms and conditions hereof, deliver or cause to be delivered the Bonds to The Depository Trust Company ("DTC") in New York, New York, or to the Trustee as part of the FAST system, for the account of the Underwriter duly executed and authenticated, in definitive fully registered form, bearing CUSIP numbers without coupons, with one Bond for each maturity of the Bonds, registered in the name of Cede & Co., all as provided in the Indenture, together with the other documents hereinafter mentioned, and the Underwriter will, subject to the terms and conditions hereof, accept such delivery and pay the purchase price of the Bonds as set forth in Section 2 of this Agreement by wire transfer payable in immediately available funds to the order of the Trustee (such delivery and payment being referred to as the "Closing"). Payment for the Bonds as aforesaid shall be made at the offices of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel") in Los Angeles, California, or such other place as shall have been mutually agreed upon by the Authority and the Underwriter.

8. **Closing Conditions.** The Underwriter has entered into this Agreement in reliance upon the representations, warranties and agreements of the Authority, the State Treasurer and the Borrower contained herein, and in reliance upon the representations, warranties and agreements to be contained in the documents and instruments to be delivered at the Closing and upon the performance by the Authority, the State Treasurer and the Borrower of their obligations hereunder, both as of the date hereof and as of the date of the Closing. Accordingly, the Underwriter's obligations under this Agreement to purchase, to accept delivery of and to pay for the Bonds shall be conditioned upon the performance by the Authority and the Borrower of their obligations to be performed hereunder and under such documents and instruments at or prior to the Closing, and shall also be subject to the following additional conditions, including the delivery of such documents as are enumerated herein, in form and substance reasonably satisfactory to the Underwriter:

(i) The representations and warranties of the Authority and the Borrower contained herein shall be true and correct on the date hereof and on and as of the date of the Closing, as if made on the date of the Closing;

(ii) The Authority and the Borrower shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by it prior to or at the Closing;

(iii) At the time of the Closing, (i) the Authority Documents, the Borrower Documents and the Bonds shall be duly executed, issued and delivered and shall be in full force and effect in the form heretofore approved by the Underwriter and shall not have been amended, modified or supplemented, and the Limited Offering Memorandum shall not have been supplemented or amended, except in any such case as may have been agreed to by the Underwriter; and (ii) all actions of the Authority and the Borrower required to be taken shall be performed in order for Bond Counsel and other counsel to deliver their respective opinions referred to hereafter;

(iv) At or prior to the Closing, the Bond Resolution shall have been duly executed and delivered by the Authority and the Authority shall have duly executed and delivered and the trustee shall have duly authenticated the Bonds;

(v) At the time of the Closing, there shall not have occurred any change or any development involving a prospective change in the Project, in the condition, financial or otherwise, or in the revenues or operations of the Borrower, from that set forth in the Limited Offering Memorandum that in the judgment of the Underwriter, is material and adverse and that makes it, in the judgment of the Underwriter, impracticable to market the Bonds on the terms and in the manner contemplated in the Limited Offering Memorandum;

(vi) The Borrower shall not have failed to pay principal or interest when due on any of its outstanding obligations for borrowed money;

(vii) All steps to be taken and all instruments and other documents to be executed, and all other legal matters in connection with the transactions contemplated by this Agreement shall be reasonably satisfactory in legal form and effect to the Underwriter;

(viii) At or prior to the Closing, the Underwriter shall have received copies of each of the following documents:

(a) The Limited Offering Memorandum, and each supplement or amendment thereto, if any, and the reports and audits referred to or appearing in the Limited Offering Memorandum;

(b) The Bond Resolution with such supplements or amendments as may have been agreed to by the Underwriter;

(c) The Continuing Disclosure Agreement;

(d) The approving opinion of Bond Counsel with respect to the Bonds, in substantially the form attached to the Limited Offering Memorandum;

(e) A supplemental opinion of Bond Counsel addressed to the Underwriter, substantially to the effect that:

(A) the Bonds not subject to the registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended;

(B) the Bond Purchase Agreement has been duly executed and delivered by, and is a valid and binding agreement of, the Authority;

(C) The statements contained in the Limited Offering Memorandum under the captions "THE BONDS," "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS," "TAX MATTERS," Appendix C - "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL BOND DOCUMENTS," and Appendix F - "FORM OF OPINION OF BOND COUNSEL," excluding any material that may be treated as included under such captions by cross-reference, insofar as such statements expressly summarize certain provisions of the Indenture, the Loan Agreement, and the form and content of their Bond Opinion, are accurate in all material respects;

(D) That they are not passing upon and do not assume any responsibility for the accuracy (except as explicitly stated in paragraph 3 above), completeness or fairness of any of the statements contained in the Limited Offering Memorandum, and make no representation that they have independently verified the accuracy, completeness or fairness of any such statements. They do not assume any responsibility for any electronic version of the Limited Offering Memorandum, and assume that any such version is identical in all respects to the printed version. In their capacity as bond counsel to the Authority in connection with issuance of the Bonds, they participated in conferences with representatives of the Underwriter and its counsel, representatives of the Authority, the Borrower, Alliance, the Sole Member, their respective counsel, and others, during which conferences the contents of the Limited Offering Memorandum and related matters were discussed. Based on their participation in the above-referenced conferences (which did not extend beyond the date of the Limited Offering Memorandum), and in reliance thereon, on oral and written statements and representations of the Borrower, Alliance, the Sole Member and others and on the records, documents, certificates, opinions and matters herein mentioned, subject to the limitations on their role as bond counsel, they advise you as a matter of fact and not opinion that no facts came to the attention of the attorneys in their firm rendering legal services with respect to the Limited Offering Memorandum which caused them to believe that the statements contained in the Limited Offering

Memorandum as of its date (except for any CUSIP numbers, financial, accounting, statistical or economic, engineering or demographic data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, any information about feasibility, valuation, appraisals, absorption, real estate or environmental matters, ratings, underwriters, underwriting, Appendices B, E and G, included or referred to therein, which we expressly exclude from the scope of this paragraph and as to which they express no opinion or view) contained any untrue statement of a material fact or omitted to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. No responsibility is undertaken or view expressed with respect to any other disclosure document, materials or activity, or as to any information from another document or source referred to by or incorporated by reference in the Limited Offering Memorandum;

(f) An opinion of the Honorable Xavier Becerra, Attorney General of the State of California (the "Attorney General"), counsel to the Authority, dated the Closing Date, addressed to the Authority and the Trustee, in a form acceptable to the Authority and the Underwriter;

(g) An opinion of Borrower's Counsel addressed to the Authority, the Trustee and the Underwriter to the effect that:

(A) Each of the Schools is a school established pursuant to the Charter School Law.

(B) The Borrower has the corporate power and authority to execute and deliver the Borrower Documents and to perform its obligations thereunder. The execution and delivery by the Borrower of the Borrower Documents and the performance of its obligations thereunder have been duly authorized by proceedings of the sole member of the Borrower;

(C) The Borrower Documents constitute the valid and binding obligations of the Borrower enforceable against it in accordance with their terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, liquidation, reorganization, moratorium or other similar laws relating to or affecting the enforcement of creditors' rights generally, and except as their enforcement may be subject to the application of equitable principles, the exercise of judicial discretion in appropriate cases and the limitations on legal remedies against public schools in the State of California;

(D) The approval and distribution of the Limited Offering Memorandum, the approval of the Bond Purchase Agreement and the Indenture, the execution and delivery of the Borrower Documents by the

Borrower, and the performance of the obligations of the Borrower under the Borrower Documents on the date hereof do not violate the provisions of the Borrower's operating agreement, and, to our knowledge, do not require any consents, approvals, authorizations, registrations, declarations or filings by the Borrower under, any federal or California statute (other than Blue Sky laws, as to which no opinion is expressed), rule or regulation applicable to the Borrower, and of a type that is typically applicable to transactions similar to those transactions contemplated by the Borrower Documents, that have not been obtained or made except filings and recordings required in order to perfect or otherwise protect the security interests under the Borrower Documents.

(h) A certificate, dated the Closing Date, of the Authority to the effect that (A) the Authority has fulfilled or performed each of its obligations contained in the Authority Documents required to be fulfilled or performed by it as of the Closing Date; and (B) to the best of such official's knowledge, the representations and warranties made by the Authority in this Agreement are true and correct in all material respects on the Closing Date, with the same effect as if made on and with respect to the facts as of the Closing Date;

(i) A certificate, dated the date of Closing, of the sole member of the Borrower on behalf of the Borrower to the effect that (i) the representations and warranties of the Borrower contained herein are true and correct in all material respects on and as of the date of Closing as if made on the date of Closing; (ii) no litigation or proceeding against it is pending or, to its knowledge, threatened in any court or administrative body nor is there a basis for litigation which would (a) contest the due organization and valid existence of the Borrower, (b) contest the validity, due authorization and execution of the Bonds or the Borrower Documents or (d) attempt to limit, enjoin or otherwise restrict or prevent the Borrower from functioning and collecting revenues and other income; (iii) the resolutions of the sole member of the Borrower authorizing on behalf of the Borrower the execution, delivery and/or performance of the Limited Offering Memorandum and Borrower Documents have been duly adopted by the sole member of the Borrower, are in full force and effect and have not been modified, amended or repealed, and (iv) to the best of its knowledge, no event affecting the Borrower has occurred since the date of the Limited Offering Memorandum which should be disclosed in the Limited Offering Memorandum for the purpose for which it is to be used or which it is necessary to disclose therein in order to make the statements and information therein, in light of the circumstances under which made, not misleading in any respect as of the time of Closing, and the information contained in the Limited Offering Memorandum is correct in all material respects and, as of the date of the Limited Offering Memorandum did not, and as of the Closing Date does not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading;

(j) A Letter of Representations of MERF to the Underwriter and the Authority, substantially in the form of Exhibit A hereto;

(k) The Tax Certificate, in form satisfactory to Bond Counsel and counsel to the Underwriter;

(l) Any other certificates and opinions required by the Indenture for the issuance thereunder of the Bonds;

(m) [a fully executed Pledge Agreement, between each Initial Member and the Trustee, each in form and substance reasonably acceptable to the Underwriter];

(n) [a fully executed Deposit Account Control Agreement, among the Borrower, the Trustee and _____;]

(o) Mortgage title insurance policies, in amounts aggregating not less than the sum of the aggregate purchase price of all real property collateral subject to the Deeds of Trust, to be obtained at the Borrower's expense, insuring that each of the Deeds of Trust constitutes a valid first lien on the applicable real property collateral, free and clear of all defects and encumbrances except Permitted Encumbrances, as defined in the [Indenture], and naming the Trustee as insured grantee;

(p) a guaranteed maximum price contract or contracts with the general contractor(s) for the Project with respect to which funds are requested to be disbursed, in form and substance reasonably acceptable to the Underwriter, and an assignment of such contract to the [Trustee], executed by the Borrower and acknowledged by the contractor(s), in form and substance reasonably acceptable to the Underwriter; and

(q) Such other certificates, opinions or documents as the Underwriter may reasonably request.

All of the opinions, letters, certificates, instruments and other documents mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof if, but only if, they are in form and substance satisfactory to the Underwriter, as evidenced by the Closing.

If the Authority or the Borrower shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Bonds contained in this Agreement, or if the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Bonds shall be terminated for any reason permitted by this Agreement, this Agreement shall terminate and neither the Underwriter nor the Authority shall be under any further obligation hereunder.

9. Conditions to the Obligations of the Authority. The obligations of the Authority to issue and deliver the Bonds on the Closing Date shall be subject, at the option of the

Authority, to the performance by the Underwriter of its obligations to be performed hereunder at or prior to the Closing Date and to the following additional conditions:

(i) The Authority Documents and the Borrower Documents shall have been executed by the other parties thereto;

(ii) No order, decree, injunction, ruling or regulation of any court, regulatory agency, public board or body shall have been issued, nor shall any legislation have been enacted, with the purpose or effect, directly or indirectly, of prohibiting the offering, sale or issuance of the Bonds as contemplated hereby or by the Limited Offering Memorandum;

(iii) The forms of documents contemplated by Section 8(viii), which are set forth herein, shall have been delivered substantially in the forms set forth herein, and the other documents contemplated by Section 8(viii) shall have been delivered to the Authority in form and substance satisfactory to Bond Counsel and the Authority; and

(iv) The Authority shall have received evidence of payment or provision for payment of the fees of the Authority and the State Treasurer as agent for sale.

10. Indemnification.

(i) The Underwriter will indemnify and hold harmless the Authority and the State Treasurer and the members, officers, agents and employees of the State Treasurer and the Authority against any losses, claims, damages or liabilities to which any of them may become subject, under federal securities laws, or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the "UNDERWRITING" section of the Limited Offering Memorandum or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or omission or alleged omission was made in the "UNDERWRITING" section of the Limited Offering Memorandum, or any such amendment or supplement, in reliance upon and in conformity with written information furnished to the Authority by the Underwriter expressly for use therein or reviewed without comment by the Underwriter; and will reimburse such indemnified parties for any legal or other expenses reasonably incurred thereby in connection with investigating or defending any such action or claim.

(ii) Promptly after receipt by an indemnified party pursuant to subsection (a) above of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under such subsection, notify in writing of the commencement thereof; but the omission so to notify the indemnifying party shall not relieve it from any liability which it may have to any indemnified party otherwise than under such subsection. In case any such action shall be brought against any indemnified party and it shall notify of the commencement thereof,

and shall be entitled to participate therein and to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party or shall otherwise have an actual or potential conflict in such representation), and, after notice to such indemnified party of its election so to assume the defense thereof, shall not be liable to such indemnified party under such subsection for any legal expenses or other counsel or any other expenses, in each case subsequently incurred by such indemnified party, in connection with the defense thereof other than reasonable costs of investigation; provided, however, that each indemnified party shall have the right to employ separate counsel in any such action or proceeding and participate in the investigation and defense thereof, and the Underwriter shall pay the reasonable fees and expenses of such separate counsel; provided further, however, that such indemnified party may only employ separate counsel at the expense of the Underwriter if (1) the Attorney General assumes the defense of the indemnified party, (2) in the judgment of such indemnified party a conflict of interest exists by reason of common representation, (3) if all parties commonly represented do not agree as to the action (or inaction) of counsel, or (4) if substantially different or additional defenses apply to such indemnified party.

11. **Termination.** The Underwriter, after notifying the State Treasurer, shall have the right to cancel its obligation to purchase the Bonds if, between the date of this Agreement and the Closing, the market price or marketability of the Bonds shall be materially adversely affected, in the sole, reasonable judgment of the Underwriter, following consultation with the State Treasurer, by the occurrence of any of the following:

(i) legislation shall be enacted by the Congress of the United States or the State legislature, a decision by a court of the United States or of the State or the United States Tax Court shall be rendered, or an order, ruling, regulation, press release, statement or other form of notice by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency shall be made, the effect of any or all of which would be to impose, directly or indirectly, state income taxation upon interest received on obligations of the general character of the Bonds or, with respect to state taxation, of the interest on the Bonds as described in the Limited Offering Memorandum, or other action or events shall have transpired which may have the purpose or effect, directly or indirectly, of changing the federal income tax consequences or state income tax consequences of any of the transactions contemplated herein;

(ii) legislation enacted (or resolution passed) by the Congress or an order, decree, or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation, press release or other form of notice issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Bonds, including any or all underlying arrangements, are not exempt from registration under or other requirements of the 1933 Act, or that the Bond Resolution is not exempt from qualification under or other requirements of the Trust Indenture Act of 1939, as amended, or that the issuance, offering, or sale of obligations of the general character of the Bonds, including any or all underlying arrangements, as contemplated hereby or by

the Limited Offering Memorandum or otherwise, is or would be in violation of the federal securities law as amended and then in effect;

(iii) any state Blue Sky or securities commission or other governmental agency or body shall have withheld a registration exemption or clearance of the offering of the Bonds as described herein, or issued a stop order or similar ruling relating thereto;

(iv) a general suspension of trading in securities on the New York Stock Exchange or the American Stock Exchange, the establishment of minimum prices on either such exchange, the establishment of material restrictions (not in force as of the date hereof) upon trading securities generally by any governmental Authority or any national securities exchange, a general banking moratorium declared by federal, State of New York, or State officials authorized to do so;

(v) the New York Stock Exchange or other national securities exchange or any governmental issuer, shall impose, as to the Bonds or as to obligations of the general character of the Bonds, any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by, or the charge to the net capital requirements of, Underwriter;

(vi) any amendment to the federal or state Constitution or action by any federal or state court, legislative body, regulatory body, or other Authority materially adversely affecting the tax status of the Authority, its property, income securities (or interest thereon);

(vii) any event occurring, or information becoming known which, in the reasonable judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Limited Offering Memorandum, or has the effect that the Limited Offering Memorandum contains any untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(viii) there shall have occurred any materially adverse change in the affairs or financial condition of the Borrower;

(ix) the United States shall have become engaged in hostilities which have resulted in a declaration of war or a national emergency or there shall have occurred any other new material outbreak or material escalation of hostilities or a national or international calamity or crisis, financial or otherwise;

(x) any fact or event shall exist or have existed that, in the Underwriter's reasonable judgment, requires or has required an amendment of or supplement to the Limited Offering Memorandum;

(xi) there shall have occurred or any notice shall have been given of any intended review, downgrading, suspension, withdrawal, or negative change in credit watch status by any national rating service to any rating of the Bonds;

(xii) the purchase of and payment for the Bonds by the Underwriter, or the resale of the Bonds by the Underwriter, on the terms and conditions herein provided shall be prohibited by any applicable law, governmental issuer, board, agency or commission; and

(xiii) the State Treasurer or the Authority may terminate this Agreement if the Underwriter shall fail, by the Closing, to perform its obligations contained herein, upon written notice of such termination to the Underwriter.

Any notice of termination pursuant to this Section 11 shall be given in the manner provided in Section 13 hereof. If this Agreement shall be terminated as provided in this Section 11, such termination shall be without liability of the State Treasurer, the Authority, the Underwriter or the Borrower; provided, however, that in the event of termination of this Agreement for any reason, the Borrower shall remain liable to pay for the Authority's expenses pursuant to this Agreement.

12. **Expenses.**

(i) The Underwriter shall be under no obligation to pay, and the Borrower shall pay, any expenses incident to the performance of the obligations hereunder, including, but not limited to (a) the cost of preparation and printing of the Bonds, (b) the fees and disbursements of Bond Counsel, the State Treasurer and counsel to the Authority, the Trustee, and the Bondholder Representative (and its counsel); (c) the fees and disbursements of any other engineers, accountants, and other experts, consultants or advisers retained by the Authority; (d) the fees for bond ratings and credit enhancement fees or premiums, if any; and (e) all other expenses incurred by them in connection with the public offering of the Bonds, including the fees and disbursements of counsel retained by the Underwriter, and fees of the California Debt and Investment Advisory Commission.

(ii) If this Agreement shall be terminated by the Underwriter because of any failure or refusal on the part of the Borrower to comply with the terms or to fulfill any of the conditions of this Agreement, or if for any reason the Borrower shall be unable to perform its obligations under this Agreement, the Borrower will reimburse the Underwriter for all out-of-pocket expenses (including the fees and disbursements of counsel to the Underwriter) reasonably incurred by the Underwriter in connection with this Agreement or the offering contemplated hereunder.

(iii) The Borrower acknowledges that it has had an opportunity in consultation with such advisors as it may deem appropriate, if any, to evaluate and consider the fees and expenses being incurred in connection with the issuance of the Bonds. The Authority and the Borrower acknowledge that the underwriting fee will pay or reimburse the Underwriter for various expenses incurred by the Underwriter which are incidental to implementing this Bond Purchase Agreement including, but not limited to, meals, transportation and lodging, if any, other miscellaneous closing costs, and the issuance and purchase of the Bonds.

13. **Notices.** Any notice or other communication to be given to the Borrower, the Authority and/or the State Treasurer under this Agreement may be given by delivering the same in writing to the Borrower, the Authority and/or the State Treasurer at the applicable address set forth on the first page hereof. Any notice or other communication to be given to the Underwriter under this Agreement may be given by delivering the same in writing to D.A. Davidson & Co., 1550 Market Street, Suite 300, Denver, Colorado 80202: Matthew DeAngelis, Senior Vice President.

14. **Parties in Interest.** This Agreement as heretofore specified shall constitute the entire agreement between us and is made solely for the benefit of the Authority, the State Treasurer, the Borrower and the Underwriter (including successors or assigns of the Underwriter) and no other person shall acquire or have any right hereunder or by virtue hereof. This Agreement may not be assigned by the Authority, the State Treasurer or the Borrower. All of the representations, warranties and agreements contained in this Agreement shall remain operative and in full force and effect, regardless of (i) any investigations made by or on behalf of the Underwriter, the State Treasurer or the Authority; and (ii) delivery of and payment for the Bonds pursuant to this Agreement.

15. **Effectiveness.** This Agreement shall become effective upon the acceptance hereof by the State Treasurer and the Authority and approval by the Borrower and shall be valid and enforceable at the time of such acceptance.

16. **Choice of Law; Forum and Venue.** This Agreement shall be governed by and interpreted under the laws of the State of California. Any action arising out of this Agreement shall be filed and maintained in Sacramento County Superior Court, Sacramento, California, unless the Authority shall waive this requirement. To the extent permitted by law, the parties hereto hereby irrevocably waive any objection, including, without limitation, any objection to the laying of venue or based on the grounds of forum non conveniens, which they may now or hereafter have, to the bringing of any such action or proceeding in such respective jurisdictions.

17. **Severability.** If any provision of this Agreement shall be held or deemed to be or shall, in fact, be invalid, inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions, or in all jurisdictions because it conflicts with any provisions of any Constitution, statute, rule of public policy, or any other reason, such circumstances shall not have the effect of rendering the provision in question invalid, inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions of this Agreement invalid, inoperative or unenforceable to any extent whatever.

18. **Business Day.** For purposes of this Agreement, "business day" means any day on which the New York Stock Exchange is open for trading.

19. **Section Headings.** Section headings have been inserted in this Agreement as a matter of convenience of reference only, and it is agreed that such section headings are not a part of this Agreement and will not be used in the interpretation of any provisions of this Agreement.

20. **Counterparts.** This Agreement may be executed in several counterparts each of which shall be regarded as an original (with the same effect as if the signatures thereto and hereto were upon the same document) and all of which shall constitute one and the same document.

21. **Limitation of Liability of Authority.** Neither the Authority nor the Treasurer shall be directly, indirectly, contingently or otherwise liable for any costs, expenses, losses, damaging claims or actions of any conceivable kind under any conceivable theory under this Agreement or any document or instrument referred to herein or by reason of or in connection with this Agreement or other document or instrument except to the extent it receives amounts from the Borrower available for such purpose.

22. **Target Business Enterprise in the Professional Bond Services Report.** Not later than 10 calendar days after the Closing Date, the Underwriter shall submit to the Authority the Target Business Enterprise in the Professional Bond Services Report required pursuant to Section 1899.532 of Subchapter 4, of Chapter 4, Division 2 of Title 2 of the California Code of Regulation.

If you agree with the foregoing, please sign the enclosed counterpart of this Agreement and return it to the Underwriter. This Agreement shall become a binding agreement among the Authority, the Borrower and the Underwriter when at least the counterpart of this letter shall have been signed by or on behalf of each of the parties hereto.

[Remainder of Page Left Blank Intentionally]

[Underwriter's Signature Page to Magnolia Public Schools Bond Purchase Agreement]

Respectfully submitted,

D. A. DAVIDSON & CO.

By: _____
Name:
Title:

[Treasurer and Authority Signature Page to Magnolia Public Schools Bond Purchase Agreement]

ACCEPTANCE

ACCEPTED at [_____] p.m. California time this ___ day of _____, 2017

TREASURER OF THE STATE OF CALIFORNIA

By: _____
Deputy Treasurer

For California State Treasurer John Chiang

CALIFORNIA SCHOOL FINANCE AUTHORITY

By: _____
Executive Director

[Treasurer and Authority Signature Page to Magnolia Public Schools Bond Purchase Agreement]

ACCEPTANCE

ACCEPTED at [_____] p.m. California time this ____ day of _____, 2017.

TREASURER OF THE STATE OF CALIFORNIA

By: _____
Deputy Treasurer

For California State Treasurer John Chiang

CALIFORNIA SCHOOL FINANCE AUTHORITY

By: _____
Executive Director

[Borrower Signature Page to Magnolia Public Schools Bond Purchase Agreement]

ACCEPTED at [_____] p.m. California time this ____ day of _____, 2017.

MAGNOLIA PROPERTIES MANAGEMENT, INC.,
a California nonprofit public benefit corporation

By: _____
Name: _____
Title: _____

Acknowledged and approved:

**MAGNOLIA EDUCATIONAL & RESEARCH
FOUNDATION,** a California nonprofit public
benefit corporation

By: _____
Name: _____
Title: _____

SCHEDULE I
MATURITY SCHEDULE

SERIES 2017A BONDS

| Maturity Dates | Principal Amounts | Interest Rates |
|-----------------------|--------------------------|-----------------------|
| July 1, 20__ | \$ _____ | _____% |
| July 1, 20__ | _____ | _____% |
| July 1, 20__ | _____ | _____% |

SERIES 2017B BONDS

| Maturity Date | Principal Amount | Interest Rate |
|----------------------|-------------------------|----------------------|
| July 1, 2019 | \$ _____ | _____% |

EXHIBIT A

LETTER OF REPRESENTATIONS

_____, 2017

The Honorable John Chiang
Treasurer of the State of California
915 Capitol Mall, Room 261
Sacramento, California 95814

California School Finance Authority
304 S. Broadway, Suite 550
Los Angeles, California 90013

D.A. Davidson & Co.
1550 Market Street, Suite 300,
Denver, Colorado 80202

Re: \$ _____ California School Finance Authority Charter School Revenue
 Bonds (Magnolia Public Schools – Obligated Group) Draw Down Series
 2017A

 \$ _____ California School Finance Authority Charter School Revenue
 Bonds (Magnolia Public Schools – Obligated Group) Series 2017B (Taxable)

Ladies and Gentlemen:

The California School Finance Authority (the “Authority”) proposes to issue its Charter School Revenue Bonds (Magnolia Public Schools – Obligated Group) Draw Down Series 2017A (the “Series 2017A Bonds”), in the aggregate principal amount of \$ _____, and its Charter School Revenue Bonds (Magnolia Public Schools – Obligated Group) Series 2017B (Taxable) (the “Series 2017B Bonds” and together with the Series 2017A Bonds, the “Bonds”), in the aggregate principal amount of \$ _____, pursuant to an indenture, dated as of April 1, 2017 (the “Indenture”), by and between the Authority and UMB Bank, National Association, as trustee (the “Trustee”). The Authority will loan the proceeds of the sale of the Bonds (the “Loan”) to the Borrower pursuant to a loan agreement, dated as of the date of the Indenture (the “Loan Agreement”), by and between the Authority and the Borrower to finance and/or refinance the acquisition, construction, equipping and/or improvement of: (i) the charter school facility at [18214 and 18228] Sherman Way, Reseda, California 91335 (the “MSA-1 Facility”) owned by MPM Sherman Way LLC, a California limited liability company (“MPM Sherman Way”), and leased to Magnolia Educational & Research Foundation, a California nonprofit public benefit corporation (the “Corporation”) pursuant to a lease (the “MSA-1 Lease”), for use and occupancy by Magnolia Science Academy-1 (“Magnolia Science Academy-1”), a charter school organized under the Charter Schools Act of 1992, as amended (constituting Part 26.8 of Division 4 of Title 2 of the Education Code) (the “Charter School Law”), (ii) certain charter school facilities located at 6365 Lake Atlin Avenue, San Diego, California 92119 (the “San Diego Facility”) owned by

MPM San Diego LLC, a California limited liability company (“MPM San Diego”), on land used by the Corporation pursuant to a shared use agreement between the Corporation and the San Diego Unified School District, for use and occupancy by Magnolia Science Academy-San Diego (“Magnolia Science Academy-San Diego”), a charter school organized under the Charter School Law, and (iii) certain charter school facilities located at 2840 W 1st Street, Santa Ana, California 92703 (the “Santa Ana Facility,” and together with the MSA-1 Facility and the San Diego Facility, the “Facilities”), to be owned by MPM Santa Ana LLC (“MPM Santa Ana” and together with the Borrower, MPM Sherman Way and MPM San Diego, the “Initial Members”) and leased by the Corporation for use and occupancy by Magnolia Science Academy-Santa Ana (“Magnolia Science Academy-Santa Ana” and together with Magnolia Science Academy-1 and Magnolia Science Academy-San Diego, the “Schools”), a charter school organized under the Charter School Law (collectively, the “Project”).

In connection with the issuance of the Bonds and financing and/or refinancing of the Project, the Corporation will enter into a: (1) Lease Agreement with [MPM Sherman Way] to finance the portion of the Project located at the MSA-1 Facility (the “Sherman Way Lease”); (2) [Lease and Equipment Agreement] with MPM San Diego to finance the portion of the Project located at the San Diego Facility (the “San Diego Lease” and together with the Sherman Way Lease, the “Leases”); and (3) School Loan Agreement with MPM Santa Ana to finance the portion of the Project located at the Santa Ana Facility (the “School Loan Agreement”). The Initial Members and UMB Bank, National Association, as master trustee (the “Master Trustee”) will enter into a Master Indenture of Trust (the “Master Indenture”), as supplemented by a Supplemental Master Indenture for Obligation No. 2 (the “Supplemental MTI for Obligation No. 2”), each dated as of the date of the Indenture, pursuant to which the Initial Members will issue an Obligation (as defined in the Master Indenture) to evidence the Initial Members’ obligation to ensure performance of the obligations of the Borrower arising under the Loan Agreement (“Obligation No. 2”). Obligation No. 2 will be secured by a [Deed of Trust, made as of April 1, 2017, executed by [the Borrower], to MPM Sherman Way for the benefit of the Master Trustee] and a [Leasehold Deed of Trust, made as of April 1, 2017, executed by [the Borrower], to MPM San Diego for the benefit of the Master Trustee] (collectively, the “Deeds of Trust”).

Pursuant to a Bond Purchase Agreement, dated the date hereof (the “Bond Purchase Agreement”) among D.A. Davidson & Co. (the “Underwriter”), the Borrower, the Treasurer of the State of California, as agent for sale, and the Authority, and approved by the Corporation, the Authority proposes to sell the Bonds to the Underwriter. Capitalized terms used herein and not otherwise defined herein shall have the respective meanings set forth in the Bond Purchase Agreement. The offering of the Bonds is described in a Limited Offering Memorandum dated _____, 2017 (the “Limited Offering Memorandum”).

In order to induce you to enter into the Bond Purchase Agreement and to make the sale and purchase of the Bonds therein contemplated, the Corporation hereby represents, warrants and agrees with you as follows:

(1) The Corporation is a nonprofit public benefit corporation duly organized, validly existing and in good standing under the laws of the State of California. The Corporation has and at the Closing Date will have requisite corporate power and authority to enter into this Letter of Representations (this “Letter of Representations”), the Leases, the School Loan Agreement and a

Continuing Disclosure Agreement dated as of _____, 2017 (collectively, the "Corporation Documents") and to carry out and consummate all transactions contemplated by the Corporation Documents and the Limited Offering Memorandum and by proper corporate action has duly authorized the execution and delivery of the Corporation Documents.

(2) The Corporation is a school established pursuant to the Part 26.8 (commencing with Section 47600) of Title 2 of the California Education Code (the "Charter School Law").

(3) The officers or other designees of the Corporation executing the Corporation Documents are duly and properly in office and authorized to execute and approve the same.

(4) As of the date hereof, the Corporation Documents will have been duly executed and delivered by the Corporation; the Corporation Documents will constitute the legal, valid and binding obligations of the Corporation enforceable against the Corporation in accordance with their respective terms; except as enforcement of each of the Corporation Documents may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles if equitable remedies are sought.

(5) The Corporation is not (i) in violation of any applicable law or administrative regulation of the State of California or the United States or any applicable judgment or decree, which violation would materially adversely affect the financial position or operations of the Corporation or (ii) in default under any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Corporation is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice or both, would constitute an event of default under any such instrument, which default would materially adversely affect the financial position or operations of the Corporation.

(6) The execution and delivery of the Corporation Documents, the consummation by the Corporation of the transactions herein and therein contemplated, and the Corporation's fulfillment of or compliance with the terms and conditions thereof will not (a) conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under (i) the articles of incorporation of the Corporation, (ii) the bylaws of the Corporation, (iii) any indenture, mortgage, deed of trust, loan agreement, contract, lease or other agreement or instrument to which the Corporation is a party or by which it or its properties are otherwise subject or bound, or (iv) any law or administrative rule or regulation or any court or administrative decree or order applicable to the Corporation, or (b) result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Corporation, except for the liens or pledges created by the Corporation Documents, which conflict, violation, breach, default, lien, charge or encumbrance could reasonably be expected to have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Corporation Documents or the financial condition, assets, properties or operations of the Corporation.

(7) No consent or approval of any trustee or holder of any indebtedness of the Corporation, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority (except the approval of the Authority for the

execution and delivery of the Bonds and in connection with Blue Sky filings) is necessary in connection with the execution and delivery of this Letter of Representations, the execution and delivery of the other Corporation Documents at the Closing, or the consummation of any transaction therein contemplated, except in all such cases as have been or will be obtained or made and as are or will be in full force and effect.

(8) The Corporation's charter petition for each School (each a "Charter" and collectively, the "Charters") operating in the Facilities complies with the Charter School Law and is valid and in full force and effect. The Corporation is in material compliance with the provisions of each Charter. The Corporation has the right to renew or extend each Charter, has not received oral or written notice from any Person to the contrary and will use all reasonable efforts to renew each Charter. The Corporation currently qualifies to apply for fiscal year 2017-18 for funding under California Education Code Section 47614.5 for leased facilities and the Corporation will seek funding thereunder each year to the maximum extent available or will seek funding under more favorable state or federal programs if available.

(9) There are no actions, suits or proceedings which have been served on the Corporation or, to the best of the knowledge of the Corporation, are otherwise pending or threatened against the Corporation:

(a) seeking to restrain or enjoin the execution or delivery of any of the Bonds or the pledge or collection of the Leases or the School Loan Agreement or any payments to be made by the Corporation pursuant to the Leases or the School Loan Agreement;

(b) in any way contesting or affecting the authority for the execution or delivery of Corporation Documents or the pledge or collection of rents pledged under the Indenture;

(c) in any way contesting the corporate existence or powers of the Corporation;

(d) which, if determined adversely to it, could reasonably be expected to materially adversely affect the consummation of the transactions contemplated by the Corporation Documents or the financial condition, assets or properties of the Corporation; or

(e) contesting or affecting the Corporation's status as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), or which would subject any income of the Corporation to federal income taxation to such extent as would result in loss of the exclusion from gross income for federal income tax purposes of interest on any of the Bonds under Section 103 of the Code.

(10) The Corporation is an organization described in Section 501(c)(3) of the Code and is exempt from federal income tax under Section 501(a) of the Code, except with respect to any unrelated business income of the Corporation, which income is not expected to result from the consummation of any transaction contemplated by the Corporation Documents. Such status is based in part on a letter of determination from the Internal Revenue Service (the "IRS"), which letter has not been withdrawn or conditioned by the IRS. The Corporation is not a private

foundation within the meaning of Section 509(a) of the Code and the Corporation at all times will maintain its status as an organization described in Section 501(c)(3) of the Code and its exemption from federal income tax under Section 501(a) of the Code or corresponding provisions of future federal income tax laws. To the best of the Corporation's knowledge, the facts and circumstances which formed the basis of the Corporation's status as an organization described in Section 501(c)(3) of the Code as represented to the Internal Revenue Service continue substantially to exist.

(11) The audited financial statements of the Corporation as of June 30, 2016 present fairly, in all material respects, the financial position of the Corporation as of June 30, 2016 and there has not been any material adverse change in the assets, operations or financial condition of the Corporation since June 30, 2016, which is not described in the Limited Offering Memorandum, whether or not arising from transactions in the ordinary course of business.

(12) The Corporation:

(a) is in material compliance with all laws, ordinances, governmental rules and regulations to which it is subject and which are material to its properties, operations, finances or status as an organization described in Section 501(c)(3) of the Code;

(b) has obtained all licenses, permits, franchises or other governmental authorizations necessary and material to the ownership of its property or to the conduct of its activities, agrees to obtain all permits and approvals or other governmental authorizations that are required and necessary for construction and operation of newly acquired facilities for the Corporation and agrees to obtain all such licenses, permits, franchises or other governmental authorizations as may be required in the future for its operations in all cases where failure to obtain such licenses, permits, franchises or other governmental authorizations could reasonably be expected to materially and adversely affect the condition (financial or otherwise) of the Corporation or its ability to perform its obligations under the Corporation Documents; and

(c) is in material compliance with all provisions of the Corporation Documents applicable to the Corporation including, but not limited to, the requirements of the Leases and the School Loan Agreement that the Corporation maintain certain insurance policies or programs.

(13) To the extent permitted by law, the Corporation agrees to indemnify and hold harmless the Authority, the State Treasurer, the Underwriter and each person, if any, who controls (as such term is defined in Section 15 of the Securities Act of 1933, as amended (the "Securities Act")) any of the Underwriter and the members, officers, agents and employees of the Authority or the State Treasurer (collectively, the "Indemnified Persons," and individually, an "Indemnified Person") from and against any and all judgments, losses, claims, damages or liabilities, joint or several, to which any Indemnified Person may become subject insofar as such judgments, losses, claims, damages or liabilities (or actions in respect thereof) arise out of, or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Limited Offering Memorandum other than the portions under the captions "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION – The Authority," or that arise out of or are

based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading with respect to the information contained therein, and will reimburse each Indemnified Person for any legal or other expenses reasonably incurred by such Indemnified Person in connection with investigating, defending or preparing to defend any such loss, claim, damage, liability or any action in respect thereof; provided, however, that the Corporation shall not be liable to the Authority for the information provided by the Authority in the "AUTHORITY" portion of the Limited Offering memorandum, and the Corporation shall not be liable to the authority for the information provided by the Underwriter in the "UNDERWRITING" portion of the Limited Offering Memorandum. As of the date hereof, the portions of the Limited Offering Memorandum related to the Corporation, or the schools run by it at the Facilities, including the information concerning the Corporation under the captions ["THE FACILITIES," "ABSENCE OF MATERIAL LITIGATION – The Schools," "APPENDIX A: CERTAIN INFORMATION ABOUT THE BORROWER, THE SCHOOLS, THE PROJECT AND MAGNOLIA EDUCATION & RESEARCH FOUNDATION" and "APPENDIX B: AUDITED FINANCIAL STATEMENTS OF MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND JUNE 30, 2016 and UNAUDITED FINANCIAL STATEMENTS FOR THE PERIOD FROM JULY 1, 201[] TO MARCH 31, 201[]"] (collectively, the "Corporation Information") does not contain a misstatement of material fact or omit to state a material fact required to be stated therein in order to make the statements therein not misleading. On the date of delivery of the Bonds, we will deliver a certificate to the effect that the Corporation Information does not contain a misstatement of a material fact or omit to state a material fact required to be stated therein in order to make the statements therein not misleading.

In case any claim shall be made or action brought against any Indemnified Person based upon the Limited Offering Memorandum, in respect of which indemnity may be sought against the Corporation, you shall promptly notify the Corporation in writing setting forth the particulars of such claim or action and the Corporation shall assume the defense thereof including the retaining of counsel and the payment of all expenses. Any Indemnified Person shall have the right to retain separate counsel in any such action and to participate in the defense thereof but shall bear the fees and expenses of such counsel unless: (i) the Corporation shall have specifically authorized the retaining of such counsel and has consented to pay the fees and expenses thereof, such consent not to be unreasonably withheld; (ii) the parties to such suit include said Indemnified Person, and the Corporation and such Indemnified Person or Persons have been advised by such counsel that one or more legal defenses may be available to said Indemnified Person or Persons which may not be available to the Corporation, or (iii) the Attorney General represents such Indemnified Person, in which case, the Corporation shall not be entitled to assume the defense of such suit notwithstanding its obligation to bear the fees and expenses of such counsel.

The representations, warranties, agreements and indemnities herein shall survive the Closing and any investigation made by or on behalf of either of you or any person who controls either of you of any matters described in or related to the transactions contemplated hereby and by the Corporation Documents or the Limited Offering Memorandum.

This Letter of Representations shall be binding upon and inure solely to the benefit of each of you and the Corporation and, to the extent set forth herein, persons controlling either of you, and their respective officers, employees, agents and personal representatives, successors and assigns, and no other person or firm shall acquire or have any right under or by virtue of this Letter of Representations. No recourse under or upon any obligation, covenant or agreement contained in this Letter of Representations shall, under any circumstances, exist or be had against any officer, agent, employee or director of the Corporation as individuals.

This Letter of Representations shall be governed by and interpreted under the laws of the State of California. Any action arising out of this Letter or Representations shall be filed and maintained in Sacramento County Superior Court, Sacramento, California, unless the Authority shall waive this requirement. To the extent permitted by law, the parties hereto hereby irrevocably waive any objection, including, without limitation, any objection to the laying of venue or based on the grounds of forum non conveniens, which they may now or hereafter have, to the bringing of any such action or proceeding in such respective jurisdictions.

This Letter of Representations may be executed in any number of counterparts and all such counterparts shall together constitute one and the same instrument.

If the foregoing is in accordance with your understanding of the agreement between us, kindly sign and return to the Underwriter the duplicates of this Letter of Representations whereupon this will constitute a binding agreement among us in accordance with the terms hereof.

**MAGNOLIA EDUCATIONAL & RESEARCH
FOUNDATION**, a California nonprofit public
benefit corporation

By: _____
Name: _____
Title: _____

[Signatures continue on next page]

[Counterpart signature page to MERF's Letter of Representations]

Accepted and Agreed:

D. A. DAVIDSON & CO.
as Underwriter

By: _____
Name: _____
Title: _____

**MAGNOLIA
EDUCATIONAL &
RESEARCH FOUNDATION**

**RESOLUTIONS OF THE
BOARD OF DIRECTORS**

**(Approval of 2017 Bond Financing
Transaction)**

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION

RESOLUTIONS OF THE BOARD OF DIRECTORS

(Approval of 2017 Bond Financing Transaction)

WHEREAS, Magnolia Educational & Research Foundation, a California nonprofit public benefit corporation (“MERF” or the “Corporation”), is organized for charitable purposes;

WHEREAS, Magnolia Properties Management, Inc., a California nonprofit public benefit corporation (the “Borrower”), was formed and is operated exclusively to support MERF;

WHEREAS, the Borrower formed and is the sole member of (i) MPM Sherman Way LLC, a California limited liability company (“MPM Sherman Way”), (ii) MPM Santa Ana LLC, a California limited liability company (“MPM Santa Ana”), and (iii) MPM San Diego LLC, a California limited liability company (“MPM San Diego” and, together with MPM Sherman Way and MPM Santa Ana, the “Members”);

WHEREAS, MERF operates the public charter school known as Magnolia Science Academy 1 – Reseda (“MSA-1”) on real property owned by MPM Sherman Way and located at 18214, 18228 and 18238 Sherman Way, Reseda, Los Angeles County, California 91335 (the “Sherman Way Property”);

WHEREAS, MERF operates the public charter school known Magnolia Science Academy – Santa Ana (“MSA-SA”) on real property owned by MERF and located at 2840 W 1st Street, Santa Ana, California 92703 (the “Santa Ana Property”);

WHEREAS, MERF operates the public charter school known as Magnolia Science Academy – San Diego (“MSA-SD” and, collectively with MSA-1 and MSA-SA, the “Schools”) on real property owned by the San Diego Unified School District and located at 6365 Lake Atlin Avenue, San Diego, California 92119;

WHEREAS, MERF desires to operate MSA-SD on real property owned by the San Diego Unified School District and located at 6525 Estrella Avenue, San Diego, California 92120 (the “San Diego Property”);

WHEREAS, the California School Finance Authority (the “Authority”) issued its California School Finance Authority School Facility Revenue Bonds (Magnolia Science Academy-1, Reseda Project) Series 2014A in the aggregate principal amount of \$5,675,000 (the “2014A Bonds”) and its California School Finance Authority School Facility Revenue Bonds (Magnolia Science Academy-1, Reseda Project) Series 2014B (Taxable), in the aggregate principal amount of \$345,000 (the “2014B Bonds” and, together with the 2014A Bonds, the “2014 Bonds”) pursuant to an Indenture (the “2014 Indenture”) dated as of June 1, 2014 by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee thereunder (the “2014 Trustee”);

WHEREAS, the Authority made a loan (the “2014 Loan”) of the proceeds of the 2014 Bonds to MPM Sherman Way pursuant to the terms of (i) the 2014 Indenture and (ii) a Loan Agreement (the “2014 Loan Agreement”) dated as of June 1, 2014, between the Authority and the MPM Sherman Way;

WHEREAS, the Authority, the 2014 Trustee, and MPM Sherman Way propose to amend the 2014 Indenture and the 2014 Loan Agreement and to secure the payment of the obligations of MPM Sherman Way under the amended 2014 Loan Agreement pursuant to the terms of (i) a Master Indenture of Trust (the “Master Indenture”), by and among the Borrower, as the initial obligated group representative (the “Obligated Group Representative”) and the Members, as the initial members of the obligated group (the “Obligated Group”), and UMB Bank, National Association, as master trustee (the “Master Trustee”), as amended by a Supplemental Master Indenture for Obligation No. 1 (the “Supplemental Master Indenture”), by and between the Obligated Group Representative and the Master Trustee, (ii) a First Amendment to Indenture (the “First Amendment to Indenture”) by and between the Authority and the 2014 Trustee, (iii) a First Amendment to Loan Agreement (the “First Amendment to Loan Agreement”) by and between the Authority and MPM Sherman Way, and (iv) an Obligation No. 1 (“Obligation No. 1”) issued by the Obligated Group Representative to the 2014 Trustee;

WHEREAS, MPM Sherman Way proposes to construct certain improvements to the Sherman Way Property and to lease the Sherman Way Property to MERF for use and occupation by MSA-1 pursuant to an Amended and Restated Lease Agreement by and between MPM Sherman Way and MERF (the “MSA-1 Lease”);

WHEREAS, MPM Santa Ana proposes to make a loan to MERF to fund the construction of certain improvements to the Santa Ana Property pursuant to a Loan Agreement by and between MPM Santa Ana and MERF (the “Santa Ana Loan Agreement”);

WHEREAS, MPM San Diego proposes to acquire certain modular classroom and office facilities (the “San Diego Facilities”) and to lease the San Diego Facilities to MERF for use by MSA-SD on the San Diego Property pursuant to an Lease and Equipment Agreement by and between MPM Santa Ana and MERF (the “MSA-San Diego Lease”);

WHEREAS, the Authority proposes to issue its California School Finance Authority Charter School Revenue Bonds (Magnolia Public Schools – Obligated Group) Draw Down Series 2017A and California School Finance Authority Charter School Revenue (Magnolia Public Schools – Obligated Group) Series 2017B (Taxable) (collectively, the “Bonds”) in a maximum amount not to exceed \$25,000,000 pursuant to an Indenture (the “Indenture”) by and between the Authority and UMB Bank, National Association, as trustee thereunder (the “Trustee”);

WHEREAS, D.A. Davidson & Co. (the “Underwriter”) proposes to underwrite the Bonds pursuant to a bond purchase agreement (the “Bond Purchase Agreement”), by and among the Underwriter, the Honorable John Chiang, Treasurer of the State of California, as agent for sale on behalf of the Authority, the Authority, the Borrower, and MERF;

WHEREAS, the Authority proposes to make a loan (the “Loan”) of the proceeds of the Bonds to the Borrower pursuant to the terms of (i) the Master Indenture, as amended by a Supplemental Master Indenture for Obligation No. 2 (the “Second Supplemental Master Indenture”), by and between the Obligated Group Representative and the Master Trustee, (ii) the Indenture, (iii) a Loan Agreement (the “Loan Agreement”) between the Authority and the Borrower, and (iv) an Obligation No. 2 (“Obligation No. 2”) issued by the Obligated Group Representative to the Bond Trustee;

WHEREAS, MERF and the Borrower propose that the Borrower or the Members will use the proceeds of the Loan to (1) finance and refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and equipping of charter school educational facilities located at the Sherman Way Property, the Santa Ana Property, and the San Diego Property (collectively, the “Project”), (2) pay certain expenses incurred in connection with the issuance of the Bonds, (3) pay capitalized interest on the Bonds and/or related working capital and (4) fund a debt service reserve fund with respect to the Bonds and a repair and replacement fund;

WHEREAS, MERF and the Borrower propose to secure or support the obligations of the Borrower and the Obligated Group Representative by (i) the Sherman Way Property and related personal property pursuant to the terms of a Deed of Trust with Assignment of Rents, Security Agreement and Fixture Filing (the “Deed of Trust”) executed by MPM Sherman Way, as grantor, to Fidelity National Title Insurance Company, as trustee, for the benefit of the Master Trustee, (ii) the Santa Ana Loan Agreement pursuant to the terms of a Security Agreement (the “Santa Ana Security Agreement”) executed by MPM Santa Ana, as debtor, to the Master Trustee, as secured party, (iii) the MSA-San Diego Lease pursuant to the terms of a Security Agreement (the “San Diego Security Agreement”) executed by MPM San Diego, as debtor, to the Master Trustee, as secured party, (iv) an intercept of portions of each School’s general purpose apportionment by the State Controller or another state agency of the State of California pursuant to Section 17199.4(a)(1) of the Education Code of the State of California (collectively, the “Intercept”), and (v) the Borrower’s membership interests in the Members pursuant to the terms of a Security Agreement (the “Membership Interest Security Agreement”) executed by the Borrower, as debtor, to the Master Trustee, as secured party;

WHEREAS, MERF and the Borrower propose that the MSA-1 Lease, the Santa Ana Loan Agreement, and the MSA-San Diego Lease collectively will provide for the payment of rent and loan payments sufficient to satisfy the Borrower’s obligations under the 2014 Loan Agreement, as amended, Obligation No. 1, the Loan Agreement, Obligation No. 2, and all other obligations of the Borrower arising from the foregoing transactions and agreements;

WHEREAS, MERF proposes to make such loans, charitable grants or capital contributions to the Borrower or the Members as may be necessary or desirable to capitalize the Borrower or the Members for purposes of entering into the transactions described above;

WHEREAS, the Board has reviewed proposed forms of the following documents and agreements (collectively, the “Primary Transaction Documents”):

- (a) the Bond Purchase Agreement;

- (b) the Master Indenture;
- (c) the Supplemental Master Indenture;
- (d) the Obligation No. 1;
- (e) the First Amendment to Indenture;
- (f) the First Amendment to Loan Agreement;
- (g) the Second Supplemental Master Indenture;
- (h) the Obligation No. 2;
- (i) the Indenture;
- (j) the Loan Agreement;
- (k) the MSA-1 Lease;
- (l) the Santa Ana Loan Agreement;
- (m) the MSA-San Diego Lease;
- (n) the Deed of Trust;
- (o) the Santa Ana Security Agreement;
- (p) the San Diego Security Agreement;
- (q) the Membership Interest Security Agreement;
- (r) a Subordination, Non-Disturbance and Attornment Agreement (“SNDA”) by and among MPM Sherman Way, MERF, and the Master Trustee;
- (s) a Continuing Disclosure Agreement among the Borrower, MERF, and the Trustee, as dissemination agent; and
- (t) a form of Limited Offering Memorandum that has been prepared to furnish information with respect to the sale and delivery of the Bonds;

WHEREAS, the Borrower is a nonprofit, tax-exempt corporation which, as one of its primary purposes, supports the Corporation and functions of the Board of Directors (the “Board”) of the Corporation;

WHEREAS, certain of the directors, officers and employees of the Corporation, including without limitation the persons listed on Schedule 1 hereto, also serve as non-compensated officers or directors of the Borrower, and the interests of such persons in the

Borrower and the indirect interests of such persons in the Members has been disclosed to the Corporation and is hereby noted in the official records of the Corporation;

WHEREAS, the Board finds that the terms of the foregoing transactions (collectively, the “Transactions”), including the MSA-1 Lease, the Santa Ana Loan Agreement, and the MSA-San Diego Lease, are fair and reasonable as to the Corporation under the circumstances, in the best interest of the Corporation, and in furtherance of the charitable purposes of the Corporation; and

WHEREAS, the Board desires the Corporation to take all actions necessary or advisable to facilitate the Transactions;

NOW, THEREFORE, BE IT RESOLVED, that the Board approves the Transactions and authorizes the execution, delivery and performance of the Primary Transaction Documents to which the Corporation is a party and all such other documents, instruments and agreements as may be necessary or advisable to facilitate the Transactions (collectively with the Primary Transaction Documents, the “Transaction Documents”);

RESOLVED FURTHER, that the Board hereby approves, confirms, and ratifies the election of the following individuals to the offices of the Corporation set forth after their names:

| | |
|---------------------------|---------------------------------------|
| Noel Russell-Unterbuerger | Chairman of the Board |
| Caprice Young | President and Chief Executive Officer |
| Alfredo Rubalcava | Secretary |
| Nanie Montijo | Chief Financial Officer and Treasurer |

RESOLVED FURTHER, that the Board hereby approves, confirms, and ratifies the designation of the following individuals as the directors of the Borrower, to serve for terms ending November 11, 2020, or until removed or replaced as provided in the bylaws of the Borrower:

Serdar Orazov
John Helgeson
Johnathan Williams;

RESOLVED FURTHER, that the officers of the Corporation (collectively, the “Authorized Signatories”), and each of them individually, are authorized and directed, for and in the name and on behalf of the Corporation, to execute, deliver, approve, and, as appropriate, declare final the Primary Transaction Documents, in the forms that have been presented to the Board for approval or with such amendments or modifications thereto as an Authorized Signatory may approve as necessary or advisable, and all such other purchase and sale agreements, escrow agreements, bond purchase agreements, indentures, loan agreements, promissory notes, leases, deeds of trust, security agreements, account control agreements, subordination, non-disturbance and attornment agreements, tax certificates, offering memoranda, disclosure agreements, assignments, indemnification agreements, guaranties, subordination agreements, letters of representation, notices, certificates, and other documents, agreements, or instruments or amendments to any of the foregoing, as an Authorized Signatory may approve as

necessary or advisable to facilitate the Transactions, each with such additions, deletions or changes therein as the Authorized Signatory executing the same shall approve (the execution and delivery thereof by any such Authorized Signatory to be conclusive evidence of his or her approval of any such document, agreement, instrument, amendment, addition, deletion or change);

RESOLVED FURTHER, that, pursuant to Section 17199.4(a)(1) of the Education Code of the State of California, this Board hereby elects to participate in the Intercept to secure payment of the principal of and interest on the Bonds in amounts not exceeding the amounts due under the MSA-1 Lease, the Santa Ana Loan Agreement, and the MSA-San Diego Lease, as applicable, and the Authorized Signatories, and each of them individually, are authorized and directed, for and in the name and on behalf of the Corporation, to provide notice to the State Controller of the State of California or other applicable state agency of the State of California of such election of the Board;

RESOLVED FURTHER, that the Corporation shall apply for grant funds under the Charter School Facility Grant Program to be applied to costs associated with facility rents under the MSA-1 Lease and the MSA-San Diego Lease;

RESOLVED FURTHER, that the Board hereby ratifies and confirms the acts of the officers, agents or employees of the Corporation taken on behalf of the Corporation in connection with the Transactions;

RESOLVED FURTHER, that by the adoption of these resolutions, the Board hereby reconfirms, ratifies and adopts all prior actions of the Board which may have previously been taken in connection with the Transactions;

RESOLVED FURTHER, that all prior resolutions of the Board or any parts thereof in conflict with any or all of the foregoing resolutions are hereby repealed to the extent of such conflict;

RESOLVED FURTHER, that these resolutions shall take effect and be in full force immediately after their adoption by the Board; and

RESOLVED FURTHER, that the Authorized Signatories, and each of them individually, are hereby authorized and directed, for and in the name and on behalf of the Corporation, to approve, execute and deliver any and all documents, instruments and agreements, and to perform or cause to be performed any and all acts as may, in their judgment, be necessary or desirable to accomplish the purposes of the foregoing resolutions and the transactions contemplated thereby and by the agreements therein approved, and any such documents, instrument or agreements so executed and delivered or actions taken by them or any of them shall be conclusive evidence of their authority in so doing.

Certificate of Secretary

The undersigned certifies that the undersigned is the duly appointed and acting Secretary of Magnolia Educational & Research Foundation (the "Corporation"), a California nonprofit public benefit corporation, and that the foregoing Resolutions were duly adopted by the majority vote of the directors of the Corporation then in office at a meeting of the board of directors of the Corporation duly held on April __, 2017, in compliance with the bylaws of the Corporation, in compliance with the notice, agenda, and open meeting requirements of the Ralph M. Brown Act, and while a quorum was present.

IN WITNESS WHEREOF, I have hereunto set my hand as Secretary of the Corporation this ___ day of April 2017.

Alfredo Rubalcava, Secretary

Schedule 1

Serdar Orazov
Caprice Young
Alfredo Rubalcava
Nanie Montijo

Santa Ana
Loan Agreement

LOAN AGREEMENT

THIS LOAN AGREEMENT (“Agreement” or “Loan Agreement”) is made as of April 1, 2017, by and between MPM SANTA ANA LLC, a California limited liability company (“Lender”), and MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION, California nonprofit public benefit corporation (“MERF”). Lender and MERF are referred to herein singly as a “Party” and collectively as the “Parties.” Capitalized terms used in this Agreement and not otherwise defined have the meanings set forth in the Recitals and/or Section 1 hereof.

RECITALS:

A. The School. MERF operates the California public charter school known as Magnolia Science Academy – Santa Ana at the premises (the “Premises”) commonly referred to as 2840 W. 1st Street, Santa Ana, California 92703 (the “Premises”) and more particularly described in Exhibit A attached hereto.

B. The Improvements. MERF proposes to construct a gymnasium on the Premises and to make certain related improvements to the Premises (such work of improvement, the “Project”) and estimates the total cost of the Project at approximately [\$3,685,000]. MERF desires to borrow funds from Lender to finance the Project.

C. The Loan. MERF and Lender have agreed that Lender shall make a loan to MERF, concurrently with the execution and delivery of this Agreement, in the principal amount of [\$3,685,000.00] (the “Loan”).

D. This Agreement. In order to provide for the full payment and performance by MERF of all of its obligations, duties, expenses, and liabilities under or in connection with the Loan as they may be now or hereafter amended, modified, or restated (such obligations, duties, expenses, liabilities, and all other sums of any kind now or hereafter due thereunder are referred to herein collectively as the “Obligations”), MERF is entering into this Agreement for the benefit of Lender and the Bondholders (as hereinafter defined), as required by Lender as a condition of funding the Loan.

AGREEMENT

NOW, THEREFORE, in consideration of the recitals, covenants, and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, the Parties hereby agree as follows:

1. Basic Definitions and Data. Each reference in this Agreement to any of the following terms shall incorporate the definition or data or specified below:

| Term | Definition/Data |
|-------------------------|--|
| “ <u>Bond Trustee</u> ” | UMB Bank, National Association, as bond trustee under the Indenture. |

| Term | Definition/Data |
|---------------------------------------|--|
| <u>“Bondholder Representative”</u> | The “Bondholder Representative,” as such term is defined in the Indenture. |
| <u>“Bondholders”</u> | The beneficial owners of the Bonds. |
| <u>“Bonds”</u> | Collectively, the California School Finance Authority Charter School Revenue Bonds (Magnolia Public Schools – Obligated Group) Draw Down Series 2017A and California School Finance Authority Charter School Revenue Bonds (Magnolia Public Schools – Obligated Group) Draw Down Series 2017B (Taxable). |
| <u>“Gross Revenues of the School”</u> | All income and revenues directly or indirectly derived by MERF’s operation of the School, including without limitation per pupil revenues and other funding received from the State of California or by virtue of the charter granted to MERF for the School and all gifts, grants, bequests and contributions (including income and profits therefrom) specifically restricted by the donor or maker thereof to the School or the Premises, to the extent not specifically restricted by the donor or maker thereof to a particular purpose inconsistent with their use for the payments required under this Agreement. Gross Revenues of the School also includes net insurance or condemnation proceeds received or payable to MERF on account of damage or destruction of the Premises or other loss incurred by MERF with respect to its operation of the School or the Premises. |
| <u>“Indenture”</u> | The Indenture dated as of the date of this Agreement by and between the California School Finance Authority and UMB Bank, National Association, relating to the Bonds. |
| <u>“Lender”</u> | MPM Santa Ana LLC, a California limited liability company. |
| <u>“Lender’s Address”</u> | c/o Magnolia Educational & Research Foundation., 250 E. 1st Street, Los Angeles, California 90012. |
| <u>“MERF Management Fees”</u> | The internal management fees charged by MERF to the public charter schools operated by MERF, including but not limited to the School, for the administrative services provided by the MERF central office staff to such schools, calculated as if each such school and the MERF central office operations were operated as separate legal entities. |

| Term | Definition/Data |
|----------------------------------|--|
| <u>“Material Adverse Change”</u> | (i) A material adverse change in the business, operations or financial condition of MERF or (ii) any event, matter, condition or circumstance that (A) would materially impair the ability of MERF to perform or observe its obligations under or in respect of this Agreement, or (B) affects the legality, validity, binding effect or enforceability of this Agreement. |
| <u>“Maturity Date”</u> | The Loan is to mature on [TBD]. |
| <u>“MERF”</u> | Magnolia Educational & Research Foundation, a California nonprofit public benefit corporation. |
| <u>“MERF’s Address”</u> | 250 E. 1st Street, Los Angeles, California 90012. |
| <u>“Premises”</u> | The land and improvements commonly referred to as 2840 W 1st Street, Santa Ana, California 92703. |
| <u>“School”</u> | The charter school operated by MERF known as Magnolia Science Academy – Santa Ana, or any successor charter school operated by MERF on the Premises. |
| <u>“School Loan Repayments”</u> | The payments due under this Agreement. |

2. Agreements to Lend and Borrow; Use of Loan Proceeds. Lender agrees to lend to MERF, and MERF agrees to borrow from Lender, the Loan, subject to the terms and conditions of this Agreement. The Loan is not a revolving loan, and MERF shall not be entitled to re-borrow any amounts borrowed and repaid hereunder. MERF shall use the proceeds of the Loan solely to fund the Project or, with the consent of Lender, to finance or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and/or equipping of other charter school educational facilities on the Premises.

3. Interest. The unpaid principal balance of the Loan shall accrue interest at the rate of [TBD].

4. Loan Payments. Subject to the provisions of Section 12, MERF promises to repay the Loan and to pay interest accrued thereon by making payments to Lender of principal and interest in accordance with the payment schedule attached hereto as Schedule 1. All remaining principal and accrued interest shall be due and payable in full on the Maturity Date. All payments made by or on behalf of MERF under this Agreement shall be applied first to accrued interest, then in reduction of the unpaid principal balance of the Loan, and then to any fees or costs payable hereunder. MERF may, at its election, from time to time prior to maturity, prepay without penalty all [or any portion of] the principal indebtedness of the Loan.

5. Representations and Warranties. MERF hereby represents and warrants to Lender as follows:

(a) MERF is a nonprofit public benefit corporation duly organized, validly existing and in good standing under the laws of the State of California, is qualified to do business and is in good standing in each jurisdiction in which the failure so to qualify or be in good standing would have a material adverse effect upon MERF (and/or would cause a Material Adverse Change to occur) and has all requisite power and authority to own its assets and carry on its business and to execute, deliver and perform its obligations under this Agreement.

(b) The execution, delivery and performance by MERF of this Agreement has been duly authorized by all necessary corporate action of MERF, and do not and will not: (i) contravene the terms of the certificate of incorporation and the bylaws of MERF or result in a breach of or constitute a default under any indenture or loan agreement or any other agreement, lease or instrument to which MERF is a party or by which it or its properties may be bound or affected, the breach of which or default under which would have a material adverse effect upon MERF (and/or would cause a Material Adverse Change to occur); or (ii) violate any provision of any law, rule, regulation, order, writ, judgment, injunction, decree or the like binding on or affecting MERF, the violation of which would have a material adverse effect upon MERF (and/or would cause a Material Adverse Change to occur).

(c) There are no pending or threatened actions or proceedings before any court or administrative agency which may materially and adversely affect the financial condition or operation of MERF.

(d) This Agreement constitutes the legal, valid and binding obligations of MERF, enforceable against MERF in accordance with its terms.

(e) No authorization, consent, approval, license, exemption of, or filing or registration with, any governmental authority, or approval or consent of any other person, that has not been obtained, is required for the due execution, delivery or performance by MERF of this Agreement.

6. Conditions of Lender's Obligations. The obligations of Lender hereunder are subject to satisfaction of all of the following conditions:

(a) Delivery to Lender of this Agreement, executed by each of the parties thereto.

(b) Each of MERF's representations and warranties contained in this Agreement is true, accurate and complete.

(c) Delivery to Lender of any and all other closing documents that Lender reasonably requests.

(d) Non-existence of any Event of Default, as defined in Section 9 hereof.

7. MERF's Covenants. MERF hereby covenants with Lender that, as long as the Loan or any portion thereof, any interest thereon, or any other amounts owing under this Agreement remain unpaid:

(a) MERF shall maintain and preserve its legal existence as a California nonprofit public benefit corporation, its rights to transact business and all other rights, franchises and privileges necessary or desirable in the normal course of its business and operations and the ownership of its properties.

(b) MERF shall execute, acknowledge, deliver, file, notarize and register at its own expense all such further agreements, instruments, certificates, documents and assurances and perform such acts as Lender, the Bond Trustee, or the Bondholder Representative shall deem necessary or appropriate to effectuate the purposes of this Agreement and promptly provide Lender, the Bond Trustee or the Bondholder Representative, as applicable, with evidence of the foregoing satisfactory in form and substance to it.

8. MERF's Additional Covenants.

(a) Lender and MERF acknowledge that Lender is a member (a "Member") of an obligated group (the "Obligated Group") under a Master Trust Indenture dated as of April 1, 2017 (the "Master Indenture"), by and among Magnolia Properties Management, Inc., a California nonprofit public benefit corporation, as the Obligated Group representative (the "Obligated Group Representative"), certain other Obligated Group Members as identified in the Master Indenture (together with the Member, the "Members"), and UMB Bank, National Association, as master trustee (the "Master Trustee"), as amended by a Supplemental Master Indenture for Obligation No. 2 by and among the Obligated Group Representative, the Members, and the Master Trustee. The Obligated Group Representative, on behalf of the Members, obtained a loan (the "Issuer Loan") from the California School Finance Authority (the "Issuer") as evidenced by a Loan Agreement dated as of April 1, 2017, by and between the Issuer and the Obligated Group Representative (the "Issuer Loan Agreement," under which Obligated Group Representative is sometimes referred to as the "Borrower"). The Loan will be funded by a portion of the proceeds of the Issuer's Charter School Revenue Bonds (Magnolia Public Schools – Obligated Group) Draw Down Series 2017A and Charter School Revenue Bonds (Magnolia Public Schools – Obligated Group) Draw Down Series 2017B (Taxable) (collectively, the "Bonds") pursuant to an Indenture dated as of April 1, 2017 (the "Indenture") by and between the Issuer and UMB Bank, National Association, as bond trustee (the "Bond Trustee").

(b) Simultaneously with the execution and delivery of the Bonds, MERF shall deliver or cause to be delivered the Intercept Notice, substantially in the form set forth in Exhibit C attached hereto (the "Intercept Notice"), to the State Controller (as defined in Exhibit C hereto) to indicate transfers to the Bond Trustee to pay amounts due under this Agreement as they come due. Amounts specified in the Intercept Notice for transfer to the Bond Trustee shall be limited to funding apportioned for purposes of the charter school block grant or the local control funding formula pursuant to Section 42238.02 of the Education Code of the State of California (the "State Apportionments"). MERF shall, with Lender's and the Bondholder Representative's prior written consent, amend, supplement or restate the Intercept Notice and deliver such to the State Controller from time to time as necessary or appropriate (including without limitation as a result of redemption prior to maturity) to indicate transfers to the Bond Trustee to pay the amounts due under this Agreement as they come due and to cure any delinquency in payment of such amounts. MERF will cooperate with the Bond Trustee and the Bondholder Representative in any manner the Bond Trustee and the Bondholder Representative

may request in connection with amending, supplementing or restating the Intercept Notice. If at any time the Intercept Notice is amended, supplemented or restated for any reason, MERF shall promptly provide the Issuer, the Bondholder Representative, the Department of Education of the State of California and the Bond Trustee with a copy of such amended, supplemented or restated Intercept Notice. The Intercept Notice may provide additional amounts payable to the Bond Trustee for purposes set forth in the Indenture or to any other payee or payees for any other costs necessary or incidental to the Bonds; provided, that MERF shall not grant preference or any prior right of funding access or security in respect of the State Apportionment to any other payment indicated in the Intercept Notice or any other notice delivered pursuant to Section 17199.4 of the Education Code of the State of California. All deposits of moneys derived from the Intercept Notice hereunder shall be made at the corporate trust office of the Bond Trustee or such other payee as set forth in the Intercept Notice. MERF shall timely amend, supplement or restate the Intercept Notice to require transfers to such other location as shall be designated in writing by the Bond Trustee or such other payee to MERF.

(c) Subject to payments made in accordance with the Intercept Notice, MERF shall cause all amounts payable to Lender under this Agreement to be received by Lender in lawful money of the United States on or before the day on which it is due, without offset or deduction. Payment of amounts due to Lender shall be made to Lender at its address stated herein or to such other persons or place as Lender may from time to time designate in writing.

(d) For so long as Lender shall have any obligations under this Agreement, the provisions of Exhibit B shall be applicable for the benefit of Lender and the Bond Trustee.

9. Events of Default. If one or more of the following events (each an "Event of Default") shall occur, MERF shall be considered in default under this Agreement, subject to any grace, notice, and/or cure period specified below:

(a) MERF fails to make any payment of principal or interest on the Loan pursuant to the terms and conditions of this Agreement, whether at stated maturity or at a date fixed for any installment thereof, or in any notice of prepayment or otherwise.

(b) MERF fails to make any payment of any amount other than principal or interest on the Loan, due and owing under this Agreement (including, without limitation, Lender transaction and dispute expenses under Section 11 hereof), within three business days of the date upon which notice of nonpayment is received by MERF.

(c) Any representation or warranty of MERF contained in this Agreement proves to have been incorrect or misleading in any material respect when made or deemed to have been made.

(d) MERF (i) suspends or discontinues its business; (ii) makes an assignment for the benefit of creditors or a composition with creditors; (iii) generally does not pay its debts as they mature; (iv) admits its inability to pay its debts as they mature; (v) files a petition in bankruptcy; (vi) becomes insolvent (howsoever such insolvency may be evidenced); (vii) is adjudicated insolvent or bankrupt; (viii) petitions or applies to any tribunal for the

appointment of any receiver, custodian, liquidator, or trustee of or for it or any of its property or assets; (ix) commences any proceeding relating to it under any bankruptcy, reorganization, arrangement, readjustment of debt, receivership, dissolution, or liquidation law or statute of any jurisdiction, whether now or hereafter in effect; (x) has any such proceeding commenced against it and the same is not dismissed within sixty (60) calendar days after an order, judgment, or decree approving the petition in such proceeding is entered against it; (xi) by any act or failure to act indicates its consent to, approval of, or acquiescence in, any such proceeding or any appointment of any receiver, custodian, liquidator, or trustee of or for it or for any substantial part of its property or assets; (xii) fails to obtain dismissal of any such proceeding within sixty (60) calendar days after any court of competent jurisdiction assumes jurisdiction thereof; (xiii) allows or suffers any receiver, trustee, or other officer or representative of a court, governmental office, or agency, under color of legal authority, to take and hold possession of any of its property or assets without relinquishing possession within sixty (60) calendar days; (xiv) conceals, removes, or permits to be concealed or removed any of its property or assets with intent to hinder, delay, or defraud its creditors or any of them; (xv) makes or suffers any transfer of any of its property or assets which may be fraudulent under any bankruptcy, fraudulent conveyance, or similar law; (xvi) makes any transfer of any of its property or assets to or for the benefit of a creditor which constitutes a preferential transfer under any bankruptcy or similar law; or (xvi) allows or suffers, while insolvent, any creditor to obtain a lien on any of its property or assets through legal proceedings or distraint.

(e) This Agreement ceases to be a legal, valid, and binding agreement, enforceable against MERF in accordance with its terms, or in any way is declared ineffective or inoperative or challenged or contested by MERF or any other obligor thereunder or guarantor thereof.

(f) The revocation, termination or non-renewal of the charter granted to MERF for the operation of the School, unless within 60 days of the expiration of the charter MERF replaces the School with a successor charter school operated by MERF at the Premises that maintains a charter with a sponsoring entity.

(g) MERF fails to observe or perform any other term, covenant, or agreement contained in this Agreement and, if such event is capable of being cured, (i) Lender, the Bond Trustee, or the Bondholder Representative has given written notice to MERF specifying the default and requiring MERF to cure the default and (ii) after MERF has received the notice, MERF has not promptly commenced efforts to cure the default, MERF has not proceeded diligently thereafter, or such event of default continues unremedied for a period of sixty (60) calendar days after MERF's receipt of the notice.

10. Lender's Remedies. If an Event of Default shall have occurred and be continuing, Lender shall have the right to exercise any or all of the remedies provided in this Agreement or by law and may declare all obligations of MERF hereunder to be immediately due and payable, whereupon the same shall become due and payable without presentment, demand, protest, or notice of any kind. No delay in accelerating the maturity of any obligation as aforesaid or in taking any other action with respect to any Event of Default shall affect the rights of Lender later to take such action with respect thereto, and no waiver as to a prior occasion shall affect rights as to any other Event of Default. Lender shall not exercise any remedy or waive any

Event of Default without the prior written consent of the Bondholder Representative and shall do so at the written direction of the Bondholder Representative.

11. Dispute Expenses. Subject to the provisions of Section 12, MERF and Lender each agree to pay to the opposing Party, upon demand, reasonable attorneys' fees and all costs and other expenses which the prevailing Party expends or incurs in any dispute or litigation over any matters described in this Agreement, including but not limited to the collection, or defense against collection, of any amounts claimed to be payable by MERF hereunder or in the enforcement of this Agreement against MERF, whether or not suit is filed.

12. Limitation on Recourse. Notwithstanding any other terms or provisions of this Agreement to the contrary, MERF's liability under this Agreement will be limited to the Gross Revenues of the School and the MERF Management Fees, and under no circumstances shall Lender have recourse to any revenues or assets (other than MERF Management Fees) attributable to, or designated by any third party for, any other school operated by MERF or pledged by MERF to secure loans to or financings or leases for such other school. Such other school's moneys, assets and revenues would include income and revenues directly or indirectly derived by MERF's operation of the other school, including without limitation per pupil revenues and other funding received from the State of California or by virtue of the charter granted to MERF for the other school and all gifts, grants, bequests and contributions (including income and profits therefrom) to the extent specifically restricted by the donor or MERF thereof to the other school and such moneys would also include net insurance or condemnation proceeds received or payable to MERF on account of damage or destruction of the other school or its property or other loss incurred by MERF with respect to its operation of the other school or its property.

13. Pledge and Security Interest. To secure the payment and performance of its obligations hereunder, MERF hereby pledges to Lender and grants Lender a security interest in the Gross Revenues of the School and in the MERF Management Fees. From time to time, MERF may own or hold funds or other assets subject to a statutory, regulatory, grantor-imposed or donor-imposed restriction on use that prohibits the use of such funds or assets to satisfy the obligations of MERF under this Agreement and/or prohibits the encumbrance of such funds or assets to secure such obligations. The foregoing pledge and grant of security interest shall not encumber, attach to, or transfer, and the holder of any claims of Lender under this Agreement shall have no recourse under this Agreement to, any funds or assets of MERF to the extent that any transfer of such funds or assets to or for the benefit of such holder would violate any such restriction on the use of such funds or assets.

14. Termination. This Agreement shall terminate and be of no further force or effect upon MERF's performance in full of the Obligations.

15. Miscellaneous.

(a) Notices. All notices, requests, demands, consents, waivers and other communications given under any of the provisions of this Agreement shall be in writing and shall be delivered, mailed, or sent by electronic transmission (i.e., email), and if mailed, shall be deemed given when deposited in the mail first-class, postage prepaid, or registered or certified

mail, return receipt requested, sent to the Parties' respective addresses set forth in Section 1 hereof or to such other address as the addressee may have specified in a notice duly given to the sender, and if sent by electronic transmission, shall be deemed delivered only upon and at the time of confirmation of receipt by telephone or by electronic transmission specifically acknowledging the contents of the communication (i.e., an automatic reply does not constitute confirmation of receipt). Copies of all notices given under any of the provisions of this Agreement shall be sent to the Bondholder Representative and the Bond Trustee.

(b) No Waiver; No Third-Party Beneficiaries. No delay or failure on the part of Lender in exercising any rights hereunder, and no partial or single exercise thereof, shall constitute a waiver of such rights or of any other rights hereunder. Nothing in this Agreement shall be construed as giving any person, firm, corporation or other entity other than the Parties hereto, the Bondholder Representative, and the Bond Trustee any right, remedy or claim under or in respect of this Agreement or any provision hereof.

(c) Successors and Assigns. This Agreement shall bind, and the benefits and burdens shall inure to, the Parties hereto and their respective successors and assigns. MERF shall not transfer or assign any of its rights or obligations hereunder without the prior written consent of Lender and the Bondholder Representative, which consent may be withheld for any reason or no reason. Lender may, with the consent of the Bondholder Representative, assign, transfer, sell, or otherwise convey in whole or in part, at any time, its right, duties, title, and interest under, in, and to the Loan and this Agreement. MERF acknowledges that Lender will assign its rights under this Agreement to the Master Trustee to secure the obligations of the Obligated Group Representative under the Master Indenture.

(d) Entire Agreement; Amendments. This Agreement contains the entire agreement of the Parties hereto with respect to the transactions contemplated hereby. No amendment, modification, or waiver of any provision hereof shall be valid unless in writing signed by the Party to be bound and consented to in writing by the Bondholder Representative.

(e) Survival of Representations, Warranties and Agreements. All representations, warranties, and agreements herein shall survive until the expiration of the term of this Agreement, except to the extent that a representation, warranty, or agreement expressly provides otherwise.

(f) Governing Law; Severability. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to principles of conflicts of law. The Parties further agree that upon an Event of Default, this Agreement may be enforced in any court of competent jurisdiction in the State of California, and they do hereby submit to the jurisdiction of any and all such courts regardless of their residence or where this agreement may be executed. If any provision of this Agreement shall for any reason be held to be illegal, invalid, or unenforceable, no other provision of this Agreement shall be affected thereby, but this Agreement shall be construed as if such illegal, invalid, or unenforceable provision had never been contained herein.

(g) Consents and Approvals. Whenever Lender or the Bondholder Representative has any rights under this Agreement to consent to or approve any request, action,

plan, or other matter, such consent or approval rights (i) have been reserved for the sole benefit of Lender and the Bondholder Representative, (ii) shall be given, withheld, or conditioned by Lender or the Bondholder Representative, as applicable, solely to protect its interests or the interests of the Bondholders, and (iii) may not be relied upon by MERF or any third party for any purpose whatsoever.

(h) Counterparts. This Agreement may be executed in any number of several counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

[SIGNATURE PAGES FOLLOW]

COUNTERPART SIGNATURE PAGE

LOAN AGREEMENT

IN WITNESS WHEREOF, the Parties hereto have duly executed this Loan Agreement as of the date first above written.

Lender:

MPM SANTA ANA LLC,
a California limited liability company

By: Magnolia Properties Management, Inc.,
a California nonprofit public benefit
corporation,
its sole member

By: _____
_____, President

COUNTERPART SIGNATURE PAGE

LOAN AGREEMENT

IN WITNESS WHEREOF, the Parties hereto have duly executed this Loan Agreement as of the date first above written.

MERF:

**MAGNOLIA EDUCATIONAL &
RESEARCH FOUNDATION,**
a California nonprofit public benefit corporation

By: _____
_____, President

EXHIBIT A

Description of Premises

EXHIBIT B

Additional Covenants

For so long as the Issuer Loan is outstanding and has not been defeased or for so long as Lender shall have obligations under the Issuer Loan Agreement or the Master Indenture, the following provisions of Exhibit B shall be applicable for the benefit of Lender, the Bondholders, and the Master Trustee. Capitalized terms not otherwise defined in this Exhibit B shall have the meanings ascribed to such terms in the Loan Agreement or, if not defined therein, in the Issuer Loan Agreement or the Master Indenture, provided that, unless the context otherwise requires, the term "School" shall mean the School described in this Loan Agreement.

1. **General Covenants.** MERF covenants and agrees:

(a) **School's Charter.** To take all reasonable actions to maintain the School's Charter with a sponsoring entity and to take or cause to be taken any and all actions required to renew or extend the term of the School's Charter with a sponsoring entity. As soon as practicable, MERF covenants to provide Lender and the Bondholder Representative with a copy of any notice received with regards to any sponsoring entity's intent to renew or extend the term of any such Charter or any notice of any issues which, if not corrected or resolved, could lead to termination or nonrenewal of any such Charter. If such Charter is terminated or not renewed, MERF shall use its best efforts, and shall cooperate with Lender, to amend references to the School in the Loan Agreement and related promissory note to references to a successor charter school, if any, operated by MERF at the Premises that maintains a Charter with a sponsoring entity. Further, MERF shall maintain accreditation status under the Charter Schools Act of 1992, as amended (constituting Part 26.8 of Division 4 of Title 2 of the California Education Code) and related administrative rules and, to the extent required to maintain the approval of the School's Charter petition by the sponsoring entity, meet the student performance accountability standards stated in the School's Charter petition.

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

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

(ii) of property, plant and equipment replaced by property, plant and equipment of similar type and/or of substantially equivalent function with a substantially equivalent value; or

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

2. **Financial Reporting.** [MERF agrees to provide Lender and the Bondholder Representative, and upon written request, the Master Trustee, the following information:

- (a) quarterly unaudited financial information of the School not later than 45 days from the end of each quarter,
- (b) annual budgets of the School within 30 days of their adoption,
- (c) financial information of the School within 30 days of approval by the governing board of MERF,
- (d) the results of any federal or State of California testing within 45 days of receipt by the governing board of MERF,
- (e) within 7 days of receipt, any notification or report of any potential or alleged violation of the Charter for the School, and
- (f) such other information as may be reasonably requested by Lender, the Bondholder Representative, or the Master Trustee.]

3. **MERF Representations and Warranties.** MERF represents, warrants, and covenants that:

- (a) it is an organization described in Section 501(c)(3) and Section 170(b)(1)(A)(ii) of the Code, and except for unrelated business income taxable under Section 511 of the Code, it is exempt from federal income tax under Section 501(a) of the Code;
- (b) it will not take any action or omit to take any action that, if taken or omitted, would cause: (x) it to lose its current federal income tax status as exempt from federal income taxation under Section 501(a) of the Code as an organization described in Code Section 501(c)(3) and as an organization described in Code Section 170(b)(1)(A)(ii) or 170(b)(1)(A)(vi), or (y) Lender to be viewed, for federal income tax purposes, as other than disregarded as an entity separate from its sole member pursuant to Treasury Regulation Section 301.7701-3(b);
- (c) it has not and will not divert a substantial part of its corpus or income for a purpose or purposes other than the purpose or purposes for which it is organized or operated and will use Bond proceeds solely for the charitable purposes of MERF;
- (d) it has not operated, and will not operate, in a manner that would result in it being classified as an “action” organization within the meaning of Section 1.501(c)(3)-1(c)(3) of the Treasury Regulations, including, but not limited to, promoting or attempting to influence legislation by propaganda or otherwise as a substantial part of its activities;
- (e) it shall not use any of the proceeds of the Bonds to: (A) carry on propaganda, or otherwise attempt to influence legislation, within the meaning of Section 4945(d)(1) or Section 501(c)(3) of the Code, or the corresponding provisions of any subsequent federal tax laws; or (B) participate in, or intervene in (including publishing or distributing of any statements), any political campaign on behalf of any political candidate for public office or attempt to influence the outcome of any specific public election, or to carry on, directly or indirectly, any voter registration drive, within the meaning of Section 4945(d)(2) or Section 501(c)(3) of the Code, or corresponding provisions of any subsequent federal tax laws, and not make any grant which does

not comply with the requirements of Section 4945(d)(3) or Section 4945(d)(4) of the Code, or corresponding provisions of any subsequent federal tax laws, or which violates the provisions of Section 4945(d)(5) of the Code, or corresponding provisions of any subsequent federal tax laws;

(f) none of its directors, officers, organizers or incorporators, or any Person controlled by MERF, or any other Person having a private or professional interest in the activities of MERF has acquired or received nor will such Persons be allowed to acquire or receive, directly or indirectly, without due compensation, goods, or services therefore, or any of the income or assets of MERF, in any form;

(g) it is not a “private foundation” within the meaning of Section 509(a) of the Code;

(h) it has not received any indication or notice to the effect that its exemption from federal income taxation under Section 501(a) of the Code has been revoked or modified, or that the Internal Revenue Service is considering revoking or modifying such exemption, and such exemption is still in full force and effect;

(i) it will timely file with the Internal Revenue Service all requests for determination, reports, and returns required to be filed by it to maintain its status as an organization described in Section 501(c)(3) of the Code, and such requests for determination, reports, and returns have not omitted or misstated any material fact;

(j) it has not devoted nor will it devote more than an insubstantial part of its activities in furtherance of a purpose other than an exempt purpose within the meaning of Section 501(c)(3) of the Code;

(k) the School’s Charter is in full force and effect; and

(l) to the best of its knowledge, it is in material compliance with the terms, including financial covenants, of all leases and loan agreements to which it is a party.

4. Assignment to Master Trustee; Deposit of Loan Payments. MERF hereby acknowledges and consents to the assignment by Lender of Lender’s rights hereunder to the Master Trustee under the Master Indenture and covenants and agrees, subject to the provisions of Sections 8(b) and 12 of this Loan Agreement, to deposit all amounts due under this Loan Agreement with the Master Trustee under the Master Indenture.

5. Limitation on Liens on Gross Revenues. Except as set forth above, MERF covenants and agrees that it will not create, assume or suffer to exist any lien upon the Gross Revenues of the School and that, if a subordinate security interest is created or assumed upon the Gross Revenues of the School by MERF, MERF will make or cause to be made effective a provision whereby the obligations of MERF under this Loan Agreement will be secured prior to any such indebtedness or other obligation secured by such security interest and that the revenues required by the Intercept Notice to be deposited with the Bond Trustee under the Indenture will continue to be so deposited. A security interest in the Gross Revenues of the School on a parity with the lien created by this Loan Agreement may only be created in connection with the issuance of Indebtedness under the Master Indenture and with the written consent of the Bondholder representative.

6. **Liquidity Covenant.**

[TBD]

7. **Coverage Ratio Covenant.**

[TBD]

8. **Change in Financial Accounting Under GAAP.** If any pending or future change in financial accounting under GAAP, including but not limited to a change in the treatment of leases, shall lead to a materially different result in a calculation under any financial covenant in this Exhibit B, then such financial covenant shall be calculated based on GAAP in effect as of the date of this Loan Agreement as if such change in financial accounting had never occurred.

9. **[Other Covenants].** [TBD]

EXHIBIT C

Form of Intercept Notice

This Notice shall be provided not later than the date of issuance of the Bonds.

Notice to the State Controller Pursuant to Education Code Section 17199.4

_____, 2017

Re: Charter School Revenue Bonds (Magnolia Public Schools – Obligated Group) Draw Down Series 2017A and Charter School Revenue Bonds (Magnolia Public Schools – Obligated Group) Draw Down Series 2017B (Taxable)

WHEREAS, MPM SANTA ANA LLC, a California limited liability company, is a member (a “Member”) of an obligated group (the “Obligated Group”) under a Master Trust Indenture dated as of _____, 2017 (the “Master Indenture”), by and among Magnolia Properties Management, Inc., as the Obligated Group representative (the “Obligated Group Representative”), the Member, certain other Obligated Group Members as identified in the Master Indenture (together with the Member, the “Members”), and UMB Bank, National Association, as master trustee (the “Master Trustee”), as amended by a Supplemental Master Indenture for Obligation No. 2 by and among the Obligated Group Representative, the Members, and the Master Trustee;

WHEREAS, the Obligated Group Representative (the “Borrower”), on behalf of the Members, has entered into a Loan Agreement, dated as of _____, 2017, by and between the California School Finance Authority (the “Issuer”) and the Borrower, providing for a loan (the “Loan”) for among other purposes, to construct certain charter school facilities for use by Magnolia Science Academy – Santa Ana, a school established pursuant to the Charter Schools Act of 1992, as amended, constituting Part 26.8 (commencing with Section 47600) of Division 4 of Title 2 of the Education Code of the State of California (the “School”) (CDS #30-76893-0130765); and

WHEREAS, the Issuer has issued its above-referenced revenue bonds (the “Bonds”) to fund the Loan;

NOW THEREFORE, NOTICE IS HEREBY GIVEN PURSUANT TO SECTION 17199.4(c)(2) OF THE EDUCATION CODE OF THE STATE OF CALIFORNIA TO THE STATE CONTROLLER OF THE STATE OF CALIFORNIA (the “State Controller”), that:

1. The governing board of the School has elected, pursuant to a resolution adopted on _____ and Section 17199.4(c)(1) of the Education Code, to direct the State Controller to make transfers at the times and in the amounts (or such lesser amounts as are available to transfer) in the “State Intercept” column set forth on Schedule I attached hereto, directly to the

payee or payees, or the trustee or agent on their behalf to receive such payments, as set forth therein. If the amount transferred on any transfer date is less than the amount in the "State Intercept" column set forth on Schedule I attached hereto, then such deficiency shall be added to subsequent transfers until no deficiency remains.

2. The School hereby represents and certifies that it is not submitting the notice for the purpose of accelerating the School's receipt of apportionments under Section 42238.02 of the Education Code of the State of California.

3. Transfers pursuant to paragraph 1 above shall be paid by wire transfer of immediately available funds to each of the payees set forth in Schedule I pursuant to the following wire instructions:

UMB Bank, National Association
[Address]
Attention: _____
Telephone Number: _____
ABA Routing Number: _____
Account Title/Owner: _____
Account Number: _____

**MAGNOLIA EDUCATIONAL & RESEARCH
FOUNDATION,**
a California nonprofit public benefit corporation

By: _____
Name: _____
Its: _____

Schedule I

Intercept Payment Amounts and Dates

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SCHEDULE 1

Payment Schedule

**MAGNOLIA PROPERTIES
MANAGEMENT, INC.
RESOLUTIONS OF THE
BOARD OF DIRECTORS**

**(Approval of 2017 Bond Financing
Transaction)**

MAGNOLIA PROPERTIES MANAGEMENT, INC.
RESOLUTIONS OF THE BOARD OF DIRECTORS
(Approval of 2017 Bond Financing Transaction)

WHEREAS, Magnolia Educational & Research Foundation, a California nonprofit public benefit corporation (“MERF”), is organized for charitable purposes;

WHEREAS, Magnolia Properties Management, Inc., a California nonprofit public benefit corporation (the “Borrower” or the “Corporation”), was formed and is operated exclusively to support MERF;

WHEREAS, the Borrower formed and is the sole member of (i) MPM Sherman Way LLC, a California limited liability company (“MPM Sherman Way”), (ii) MPM Santa Ana LLC, a California limited liability company (“MPM Santa Ana”), and (iii) MPM San Diego LLC, a California limited liability company (“MPM San Diego” and, together with MPM Sherman Way and MPM Santa Ana, the “Members”);

WHEREAS, MERF operates the public charter school known as Magnolia Science Academy 1 – Reseda (“MSA-1”) on real property owned by MPM Sherman Way and located at 18214, 18228 and 18238 Sherman Way, Reseda, Los Angeles County, California 91335 (the “Sherman Way Property”);

WHEREAS, MERF operates the public charter school known Magnolia Science Academy – Santa Ana (“MSA-SA”) on real property owned by MERF and located at 2840 W 1st Street, Santa Ana, California 92703 (the “Santa Ana Property”);

WHEREAS, MERF operates the public charter school known as Magnolia Science Academy – San Diego (“MSA-SD” and, collectively with MSA-1 and MSA-SA, the “Schools”) on real property owned by the San Diego Unified School District and located at 6365 Lake Atlin Avenue, San Diego, California 92119;

WHEREAS, MERF desires to operate MSA-SD on real property owned by the San Diego Unified School District and located at 6525 Estrella Avenue, San Diego, California 92120 (the “San Diego Property”);

WHEREAS, the California School Finance Authority (the “Authority”) issued its California School Finance Authority School Facility Revenue Bonds (Magnolia Science Academy-1, Reseda Project) Series 2014A in the aggregate principal amount of \$5,675,000 (the “2014A Bonds”) and its California School Finance Authority School Facility Revenue Bonds (Magnolia Science Academy-1, Reseda Project) Series 2014B (Taxable), in the aggregate principal amount of \$345,000 (the “2014B Bonds” and, together with the 2014A Bonds, the “2014 Bonds”) pursuant to an Indenture (the “2014 Indenture”) dated as of June 1, 2014 by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee thereunder (the “2014 Trustee”);

WHEREAS, the Authority made a loan (the “2014 Loan”) of the proceeds of the 2014 Bonds to MPM Sherman Way pursuant to the terms of (i) the 2014 Indenture and (ii) a Loan Agreement (the “2014 Loan Agreement”) dated as of June 1, 2014, between the Authority and the MPM Sherman Way;

WHEREAS, the Authority, the 2014 Trustee, and MPM Sherman Way propose to amend the 2014 Indenture and the 2014 Loan Agreement and to secure the payment of the obligations of MPM Sherman Way under the amended 2014 Loan Agreement pursuant to the terms of (i) a Master Indenture of Trust (the “Master Indenture”), by and among the Borrower, as the initial obligated group representative (the “Obligated Group Representative”) and the Members, as the initial members of the obligated group (the “Obligated Group”), and UMB Bank, National Association, as master trustee (the “Master Trustee”), as amended by a Supplemental Master Indenture for Obligation No. 1 (the “Supplemental Master Indenture”), by and between the Obligated Group Representative and the Master Trustee, (ii) a First Amendment to Indenture (the “First Amendment to Indenture”) by and between the Authority and the 2014 Trustee, (iii) a First Amendment to Loan Agreement (the “First Amendment to Loan Agreement”) by and between the Authority and MPM Sherman Way, and (iv) an Obligation No. 1 (“Obligation No. 1”) issued by the Obligated Group Representative to the 2014 Trustee;

WHEREAS, MPM Sherman Way proposes to construct certain improvements to the Sherman Way Property and to lease the Sherman Way Property to MERF for use and occupation by MSA-1 pursuant to an Amended and Restated Lease Agreement by and between MPM Sherman Way and MERF (the “MSA-1 Lease”);

WHEREAS, MPM Santa Ana proposes to make a loan to MERF to fund the construction of certain improvements to the Santa Ana Property pursuant to a Loan Agreement by and between MPM Santa Ana and MERF (the “Santa Ana Loan Agreement”);

WHEREAS, MPM San Diego proposes to acquire certain modular classroom and office facilities (the “San Diego Facilities”) and to lease the San Diego Facilities to MERF for use by MSA-SD on the San Diego Property pursuant to an Lease and Equipment Agreement by and between MPM Santa Ana and MERF (the “MSA-San Diego Lease”);

WHEREAS, the Authority proposes to issue its California School Finance Authority Charter School Revenue Bonds (Magnolia Public Schools – Obligated Group) Draw Down Series 2017A and California School Finance Authority Charter School Revenue (Magnolia Public Schools – Obligated Group) Series 2017B (Taxable) (collectively, the “Bonds”) in a maximum amount not to exceed \$25,000,000 pursuant to an Indenture (the “Indenture”) by and between the Authority and UMB Bank, National Association, as trustee thereunder (the “Trustee”);

WHEREAS, D.A. Davidson & Co. (the “Underwriter”) proposes to underwrite the Bonds pursuant to a bond purchase agreement (the “Bond Purchase Agreement”), by and among the Underwriter, the Honorable John Chiang, Treasurer of the State of California, as agent for sale on behalf of the Authority, the Authority, the Borrower, and MERF;

WHEREAS, the Authority proposes to make a loan (the “Loan”) of the proceeds of the Bonds to the Borrower pursuant to the terms of (i) the Master Indenture, as amended by a Supplemental Master Indenture for Obligation No. 2 (the “Second Supplemental Master Indenture”), by and between the Obligated Group Representative and the Master Trustee, (ii) the Indenture, (iii) a Loan Agreement (the “Loan Agreement”) between the Authority and the Borrower, and (iv) an Obligation No. 2 (“Obligation No. 2”) issued by the Obligated Group Representative to the Bond Trustee;

WHEREAS, MERF and the Borrower propose that the Borrower or the Members will use the proceeds of the Loan to (1) finance and refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and equipping of charter school educational facilities located at the Sherman Way Property, the Santa Ana Property, and the San Diego Property (collectively, the “Project”), (2) pay certain expenses incurred in connection with the issuance of the Bonds, (3) pay capitalized interest on the Bonds and/or related working capital and (4) fund a debt service reserve fund with respect to the Bonds and a repair and replacement fund;

WHEREAS, MERF and the Borrower propose to secure or support the obligations of the Borrower and the Obligated Group Representative by (i) the Sherman Way Property and related personal property pursuant to the terms of a Deed of Trust with Assignment of Rents, Security Agreement and Fixture Filing (the “Deed of Trust”) executed by MPM Sherman Way, as grantor, to Fidelity National Title Insurance Company, as trustee, for the benefit of the Master Trustee, (ii) the Santa Ana Loan Agreement pursuant to the terms of a Security Agreement (the “Santa Ana Security Agreement”) executed by MPM Santa Ana, as debtor, to the Master Trustee, as secured party, (iii) the MSA-San Diego Lease pursuant to the terms of a Security Agreement (the “San Diego Security Agreement”) executed by MPM San Diego, as debtor, to the Master Trustee, as secured party, (iv) an intercept of portions of each School’s general purpose apportionment by the State Controller or another state agency of the State of California pursuant to Section 17199.4(a)(1) of the Education Code of the State of California (collectively, the “Intercept”), and (v) the Borrower’s membership interests in the Members pursuant to the terms of a Security Agreement (the “Membership Interest Security Agreement”) executed by the Borrower, as debtor, to the Master Trustee, as secured party;

WHEREAS, MERF and the Borrower propose that the MSA-1 Lease, the Santa Ana Loan Agreement, and the MSA-San Diego Lease collectively will provide for the payment of rent and loan payments sufficient to satisfy the Borrower’s obligations under the 2014 Loan Agreement, as amended, Obligation No. 1, the Loan Agreement, Obligation No. 2, and all other obligations of the Borrower arising from the foregoing transactions and agreements;

WHEREAS, MERF proposes to make such loans, charitable grants or capital contributions to the Borrower or the Members as may be necessary or desirable to capitalize the Borrower or the Members for purposes of entering into the transactions described above;

WHEREAS, the Board has reviewed proposed forms of the following documents and agreements (collectively, the “Primary Transaction Documents”):

- (a) the Bond Purchase Agreement;

- (b) the Master Indenture;
- (c) the Supplemental Master Indenture;
- (d) the Obligation No. 1;
- (e) the First Amendment to Indenture;
- (f) the First Amendment to Loan Agreement;
- (g) the Second Supplemental Master Indenture;
- (h) the Obligation No. 2;
- (i) the Indenture;
- (j) the Loan Agreement;
- (k) the MSA-1 Lease;
- (l) the Santa Ana Loan Agreement;
- (m) the MSA-San Diego Lease;
- (n) the Deed of Trust;
- (o) the Santa Ana Security Agreement;
- (p) the San Diego Security Agreement;
- (q) the Membership Interest Security Agreement;
- (r) a Subordination, Non-Disturbance and Attornment Agreement (“SNDA”) by and among MPM Sherman Way, MERF, and the Master Trustee;
- (s) a Continuing Disclosure Agreement among the Borrower, MERF, and the Trustee, as dissemination agent; and
- (t) a form of Limited Offering Memorandum that has been prepared to furnish information with respect to the sale and delivery of the Bonds;

WHEREAS, MERF and the Borrower propose that certain officers of MERF shall be authorized on behalf of the Borrower and the Members to approve construction contracts, construction plans and specifications, and other contracts, agreements, documents or matters relating to the financing and development of the Project and to approve and execute on behalf of the Borrower or any Member construction loan draws, certificates, and other documents relating to the financing and development of the Project;

WHEREAS, the Board of Directors (the “Board”) finds that the terms of the foregoing transactions (collectively, the “Transactions”), including the MSA-1 Lease, the Santa Ana Loan Agreement, and the MSA-San Diego Lease, are fair and reasonable as to the Corporation under the circumstances, in the best interest of the Corporation, and in furtherance of the charitable purposes of the Corporation; and

WHEREAS, the Board desires the Corporation to take all actions necessary or advisable to facilitate the Transactions;

NOW, THEREFORE, BE IT RESOLVED, that the Board approves the Transactions and authorizes the execution, delivery and performance of the Primary Transaction Documents to which the Corporation or any Member is a party and all such other documents, instruments and agreements as may be necessary or advisable to facilitate the Transactions (collectively with the Primary Transaction Documents, the “Transaction Documents”);

RESOLVED FURTHER, that the Board hereby approves, confirms, and ratifies the election of the following individuals to the offices of the Corporation set forth after their names:

Caprice Young
Alfredo Rubalcava
Nanie Montijo

President and Chief Executive Officer
Secretary
Chief Financial Officer and Treasurer

RESOLVED FURTHER, that the officers of the Corporation (collectively, the “Authorized Signatories”), and each of them individually, are authorized and directed, for and in the name and on behalf of the Corporation, for itself and as the member or manager of the Members, and for and in the name and on behalf of the Members, to execute, deliver, approve, and, as appropriate, declare final the Primary Transaction Documents, in the forms that have been presented to the Board for approval or with such amendments or modifications thereto as an Authorized Signatory may approve as necessary or advisable, and all such other purchase and sale agreements, escrow agreements, bond purchase agreements, indentures, loan agreements, promissory notes, leases, deeds of trust, security agreements, account control agreements, subordination, non-disturbance and attornment agreements, tax certificates, offering memoranda, disclosure agreements, assignments, indemnification agreements, guaranties, subordination agreements, letters of representation, notices, certificates, and other documents, agreements, or instruments or amendments to any of the foregoing, as an Authorized Signatory may approve as necessary or advisable to facilitate the Transactions, each with such additions, deletions or changes therein as the Authorized Signatory executing the same shall approve (the execution and delivery thereof by any such Authorized Signatory to be conclusive evidence of his or her approval of any such document, agreement, instrument, amendment, addition, deletion or change);

RESOLVED FURTHER, that each of the Chief Executive Officer of MERF and the Chief Financial Officer of MERF, each *ex officio*, are authorized on behalf of the Borrower and the Members to approve construction contracts, construction plans and specifications, and other contracts, agreements, documents or matters relating to the financing and development of the Project and to approve and execute on behalf of the Borrower or any Member construction loan draws, certificates, and other documents relating to the financing and development of the Project;

RESOLVED FURTHER, that the Board hereby ratifies and confirms the acts of the officers, agents or employees of the Corporation taken on behalf of the Corporation in connection with the Transactions;

RESOLVED FURTHER, that by the adoption of these resolutions, the Board hereby reconfirms, ratifies and adopts all prior actions of the Board which may have previously been taken in connection with the Transactions;

RESOLVED FURTHER, that all prior resolutions of the Board or any parts thereof in conflict with any or all of the foregoing resolutions are hereby repealed to the extent of such conflict;

RESOLVED FURTHER, that these resolutions shall take effect and be in full force immediately after their adoption by the Board; and

RESOLVED FURTHER, that the Authorized Signatories, and each of them individually, are hereby authorized and directed, for and in the name and on behalf of the Corporation, for itself and as the member or manager of the Members, and for and in the name and on behalf of the Members, to approve, execute and deliver any and all documents, instruments and agreements, and to perform or cause to be performed any and all acts as may, in their judgment, be necessary or desirable to accomplish the purposes of the foregoing resolutions and the transactions contemplated thereby and by the agreements therein approved, and any such documents, instrument or agreements so executed and delivered or actions taken by them or any of them shall be conclusive evidence of their authority in so doing.

Certificate of Secretary

The undersigned certifies that the undersigned is the duly appointed and acting Secretary of Magnolia Properties Management, Inc. (the "Corporation"), a California nonprofit public benefit corporation and that the foregoing Resolutions were duly adopted by the unanimous written consent of the members of the Board of Directors (the "Board") of the Corporation then in office effective as of _____, 2017, in compliance with the bylaws of the Corporation.

IN WITNESS WHEREOF, I have hereunto set my hand as Secretary of the Corporation this ___ day of April 2017.

Alfredo Rubalcava, Secretary

**LEASE AND EQUIPMENT
AGREEMENT**

by and between

MPM SAN DIEGO LLC,

LEASE AND EQUIPMENT AGREEMENT

by and between

MPM SAN DIEGO LLC,
a California limited liability company

and

**MAGNOLIA EDUCATIONAL &
RESEARCH FOUNDATION,**
a California nonprofit public benefit corporation

dated as of _____, 2017

for the use and occupation of certain property by
MAGNOLIA SCIENCE ACADEMY SAN DIEGO

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LEASE AND EQUIPMENT AGREEMENT

1. **Basic Provisions.**

1.1 **Parties.** This Lease and Equipment Agreement (“**Lease**”) dated, for reference purposes only, as of _____, 2017, is made by and between MPM SAN DIEGO LLC, a California limited liability company (“**Lessor**”), and MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION, a California nonprofit public benefit corporation (“**Lessee**”) (Lessor and Lessee being sometimes referred to herein collectively as the “**Parties**” and individually a “**Party**”). Lessee is entering into this Lease to provide for the use and occupation of the Property (as defined below) by MAGNOLIA SCIENCE ACADEMY SAN DIEGO (the “**School**”), a California public charter school operated by Lessee.

1.2 **Property.** Those certain facilities and structures (the “**Property**”) owned by Lessor, located at 6365 Lake Atlin Avenue, San Diego, California (the “**Land**”), which Land is used by Lessee pursuant to a shared use agreement with the San Diego Unified School District. (See also Section 2 below.) The Parties agree that notwithstanding that the Property may be installed, located and/or affixed to the Land, ownership of the Property shall at all times be and remain vested in Lessor, which shall have the right to remove the Property from the Land at the expiration of this Lease.

1.3 **Term.** The term of this Lease shall commence on _____, 2017 (the “**Commencement Date**”) and shall end on July 1, 2037 (the “**Initial Term**”) (or such other later date if Lessee exercises its extension option) (such date, as it may be extended, the “**Expiration Date**”). (See also Section 3 below.) Based upon the occurrence of any of the events described in Section 4.06(b) and (c) of the Loan Agreement, this Lease may be terminated by Lessee by depositing with the Bond Trustee (as defined in Section 1.5 below) sufficient cash or securities to defease the principal amount of the Bonds (as defined in Section 1.5 below). In addition, notwithstanding any terms herein to the contrary, this Lease shall terminate without liability upon the termination of Lessee’s shared use agreement for the Land. Upon such termination, Lessor shall have the right to remove the Property from the Land.

1.4 **Extension Option.** Lessee shall have two (2) options to extend the Initial Term, each for five (5) years as of the funding of the Loan described in Section 1.5 below (such extension terms collectively, the “**Extension Term**” and, collectively with the Initial Term, the “**Term**”) with the Rent during the Extension Term to be set at an amount no less than the Fair Market Rent of the Property at the date the option becomes exercisable. “**Fair Market Rent**” for purposes of this Section 1.4 shall be determined pursuant to Section 5 below.

1.5 **Base Rent.**

(a) **Obligated Group.** Lessor and Lessee acknowledge that Lessor is a member (a “**Member**”) of an obligated group (the “**Obligated Group**”) under a Master Trust Indenture dated as of _____, 2017 (the “**Master Indenture**”), by and among Magnolia Properties Management, Inc., a California nonprofit public benefit corporation, as the Obligated Group representative (the “**Obligated Group Representative**”), certain other Obligated Group Members as identified in the Master Indenture (together with the Member, the

“**Members**”), and UMB Bank, National Association, as master trustee (the “**Master Trustee**”), by and among the Obligated Group Representative, the Members, and the Master Trustee. The Obligated Group Representative, on behalf of the Members, obtained a loan (the “**Loan**”) from the California School Finance Authority (the “**Issuer**”) as evidenced by a Loan Agreement dated as of _____, 2017, by and between the Issuer and the Obligated Group Representative (the “**Loan Agreement**,” under which the Obligated Group Representative is sometimes referred to as “**Borrower**”). The Loan will be funded by the proceeds of the Issuer’s Charter School Revenue Bonds (Magnolia Public Schools - Obligated Group), Draw Down Series 2017A and Charter School Revenue Bonds (Magnolia Public Schools - Obligated Group), Series 2017B (collectively, the “**Bonds**”) pursuant to an Indenture dated as of _____, 2017 (the “**Indenture**”) by and between the Issuer and UMB Bank, National Association, as bond trustee (the “**Bond Trustee**”). Hamlin Capital Management, LLC is currently acting as the Bond Holder Representative (the “**BHR**”). So long as the Loan is outstanding, the “**Base Rent**” shall be payable in accordance with the schedule set forth in Exhibit B attached hereto, subject to downward adjustment in the event of any prepayment of all or a portion of the Loan related to the Property and the redemption or defeasance of all or a portion of the Bonds related to the Property. In the event of the prepayment of the Loan in its entirety and the redemption or defeasance of all of the Bonds prior to the Expiration Date or termination of this Lease such that no Bonds remain outstanding under the Indenture, the Base Rent shall be payable based upon the average of the debt service payments during the five (5) years immediately preceding such defeasance or prepayment.

(b) Intercept Notice. Simultaneously with the execution and delivery of the Bonds, Lessee shall deliver or cause to be delivered the Intercept Notice, substantially in the form set forth in Exhibit E attached hereto (the “**Intercept Notice**”), to the State Controller (as defined in Exhibit E hereto) to indicate transfers to the Bond Trustee to pay the amounts due under this Lease as they come due. Amounts specified in the Intercept Notice for transfer to the Bond Trustee shall be limited to funding apportioned for purposes of the charter school block grant or the local control funding formula pursuant to Section 42238.02 of the Education Code of the State of California (the “**State Apportionments**”). Lessee shall, with Lessor’s and BHR’s prior written consent, amend, supplement or restate the Intercept Notice and deliver such to the State Controller from time to time as necessary or appropriate (including without limitation as a result of redemption prior to maturity) to indicate transfers to the Bond Trustee to pay the amounts due under this Lease as they come due and to cure any delinquency in payment of such amounts. Lessee will cooperate with the Bond Trustee in any manner the Bond Trustee may request in connection with amending, supplementing or restating the Intercept Notice. If at any time the Intercept Notice is amended, supplemented or restated for any reason, Lessee shall promptly provide the Issuer, the Department of Education of the State of California, the BHR and the Bond Trustee with a copy of such amended, supplemented or restated Intercept Notice. The Intercept Notice may provide additional amounts payable to the Bond Trustee for purposes set forth in the Master Indenture or to any other payee or payees for any other costs necessary or incidental to the Bonds; provided, that Lessee shall not grant preference or any prior right of funding access or security in respect of the State Apportionment to any other payment indicated in the Intercept Notice or any other notice delivered pursuant to Section 17199.4 of the Education Code of the State of California. All deposits of moneys derived from the Intercept Notice hereunder shall be made at the corporate trust office of the Bond Trustee or such other payee as set forth in the Intercept Notice. Lessee shall timely amend, supplement or restate the

Intercept Notice to require transfers to such other location as shall be designated in writing by the Bond Trustee or such other payee to Lessee.

1.6 **Refinancing of Loan.** For purposes of this Lease, “**Lender**” shall be deemed to refer to the Issuer under the Loan Agreement, its successors or assigns, including Master Trustee and Bond Trustee. Upon any refinancing of the Loan, the term “**Loan Agreement**” thereafter shall refer to the agreement for the refinancing of the Loan, the term “**Loan**” thereafter shall refer to the refinancing loan, and the term “**Lender**” thereafter shall refer to the lender making the refinancing loan, but otherwise all of the terms, covenants and conditions of this Lease shall remain unmodified and in full force and effect.

1.7 *(Reserved)*

1.8 **Real Estate Brokers.** None.

2. **Property.**

2.1 **Letting.** Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Property, for the Term, at the Rent (as defined below) and upon and subject to all of the terms, covenants and conditions set forth in this Lease.

2.2 **Condition of Property.** Lessee hereby acknowledges and agrees that it has reviewed and approved the Loan Agreement and agrees to accept the Property in its as-is condition, following completion of the installation of the Property upon the Land. All references in this Lease to the “Property” shall be deemed to include the Property as installed, located and/or affixed upon the Land. Subject to the terms of section 6.2(e) of this Lease, Lessee accepts the Property in its current as-is condition. Lessee hereby acknowledges that the Property has not undergone an inspection by a certified access specialist.

2.3 **Compliance.** If the applicable building codes, applicable laws, covenants or restrictions of record, regulations, and ordinances (the “**Applicable Requirements**”) require, during the Term, the installation of an addition to, or an alteration of, the Property, the remediation of any Hazardous Substance, or the reinforcement or other physical modification of the Property, Lessee hereby agrees to undertake and complete such installation, alteration, remediation, reinforcement or other modification (each, a “**Capital Expenditure**”), and the costs therefor shall be incurred solely by Lessee, provided that notwithstanding such work, title to the Property shall be vested in Lessor.

2.4 **[Intentionally omitted]**

2.5 **Energy Use Disclosure Program.** Lessee hereby acknowledges that Lessor may be required to disclose certain information concerning the energy performance of the Property (the “**Energy Disclosure Information**”) pursuant to California Public Resources Code Section 25402.10 and the regulations adopted pursuant thereto (collectively the “**Energy Disclosure Requirements**”). If and to the extent not prohibited by applicable laws, Lessee hereby waives any right Lessee may have to receive the Energy Disclosure Information, including, without limitation, any right Lessee may have to terminate this Lease as a result of Lessor’s failure to disclose such information. Further, Lessee hereby releases Lessor from any and all losses, costs,

SUPPLE

MENTAL MASTER INDENTURE FOR OBLIGATION NO. 2

THE NONPRC

MAGNOLIA PROPERTIES MANAGEMENT, INC.,
and
FIT CORPORATIONS AND LIMITED LIABILITY COMPANIES
LISTED ON APPENDIX A OF THE
HERINAFTER DEFINED MASTER INDENTURE,
as Initial Members of the Obligated Group

and

UMB BANK, NATIONAL ASSOCIATION,
as Master Trustee

Dated as of April 1, 2017

Supplementing the Master Indenture of Trust
Dated as of April 1, 2017

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SUPPLEMENTAL MASTER INDENTURE FOR OBLIGATION NO. 2

THIS SUPPLEMENTAL MASTER INDENTURE FOR OBLIGATION NO. 2, dated as of April 1, 2017 (“Supplement No. 2”), between MAGNOLIA PROPERTIES MANAGEMENT, INC., a nonprofit public benefit corporation organized and existing under the laws of the State of California (the “Borrower”), as Obligated Group Representative pursuant to the Master Indenture of Trust, dated as of April 1, 2017 (the “Master Indenture”), between the Borrower and UMB BANK, NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, as master trustee (the “Master Trustee”), and the Master Trustee;

W I T N E S S E T H

WHEREAS, the Borrower, the Initial Members and the Master Trustee have entered into the Master Indenture, which provides for the issuance by the Obligated Group Representative of Obligations thereunder, pursuant to one or more indentures supplemental thereto;

WHEREAS, the Borrower has been appointed the Obligated Group Representative under the Master Indenture and has all requisite corporate power and is authorized under the terms of the Master Indenture to issue Obligations, which constitute the joint and several obligations of the Members;

WHEREAS, the Borrower, as Obligated Group Representative, is entering into this Supplement No. 2 for the purpose of issuing an Obligation hereunder to secure the obligations arising under and pursuant to a Loan Agreement, dated as of April 1, 2017, between the California School Finance Authority and the Borrower; and

WHEREAS, all acts and things necessary to constitute this Supplement No. 2 a valid supplemental indenture and agreement according to its terms have been done and performed, and the Borrower, as Obligated Group Representative, has duly authorized the execution and delivery hereof and of the Obligation issued hereby;

NOW, THEREFORE, in consideration of the premises, of the acceptance by the Master Trustee of the trusts hereby created, and of the giving of consideration for and acceptance of the Obligation issued hereunder by the Holder thereof, the Borrower, as Obligated Group Representative, covenants and agrees with the Master Trustee for the benefit of the Holder from time to time of the Obligation issued hereby, as follows:

Section 1. Definitions. Unless otherwise required by the context, all terms used herein which are defined in the Master Indenture shall have the meanings assigned to them therein, except as set forth below:

“Authority” means the California School Finance Authority and its successors or assigns.

“Obligation No. 2” means the Obligation issued pursuant to this Supplement No 2.

“Series 2017 Bond Indenture” means that certain Indenture, dated as of April 1, 2017, between the Authority and the Series 2017 Bond Trustee, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

“Series 2017 Bond Trustee” means UMB Bank, National Association, a national banking association duly organized and existing under the laws of the United States of America, in its capacity as trustee under the Series 2017 Bond Indenture, and any successor to its duties or co-trustee under the Series 2017 Bond Indenture.

“Series 2017 Bonds” means, collectively, the California School Finance Authority Charter School Revenue Bonds (Magnolia Public Schools – Obligated Group) Series 2017A and California School Finance Authority Charter School Revenue Bonds (Magnolia Public Schools – Obligated Group) Draw Down Series 2017B (Taxable), issued and outstanding pursuant to the Series 2017 Bond Indenture.

“Series 2017 Loan Agreement” means that certain Loan Agreement, dated as of April 1, 2017, between the Authority and the Borrower, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Series 2017 Bond Indenture.

“Series 2017 Loan Repayments” means all of the payments so designated and required to be made by the Borrower pursuant to Section [3.02] of the Series 2017 Loan Agreement.

“Supplement No. 2” means this Supplemental Master Indenture for Obligation No. 2.

Section 2. Issuance of Obligation No. 2. There is hereby created and authorized to be issued an Obligation in an aggregate principal amount of [Aggregate Principal Amount Written Out] dollars (\$[Aggregate Principal Amount]). This Obligation shall be dated as of April 1, 2017, shall be designated “Magnolia Public Schools Obligation No. 2” and shall be payable in such amounts, at such times and in such manner and shall have such other terms and provisions as are set forth in the form of Obligation No. 2 as provided in Section 11 hereof.

The aggregate principal amount of Obligation No. 2 is limited to [Aggregate Principal Amount Written Out] dollars (\$[Aggregate Principal Amount]), except for any Obligation No. 2 authenticated and delivered in lieu of another Obligation No. 2 (as provided in Section 7 hereof), with respect to any Obligation No. 2 mutilated, destroyed, lost or stolen or, subject to the provisions of Section 6 of this Supplement No. 2, upon transfer of registration of Obligation No. 2.

Section 3. Purpose for Which Obligation No. 2 Is Being Issued. Obligation No. 2 is being issued to evidence the Members’ obligation to ensure performance of the obligations of the Borrower arising under the Series 2017 Loan Agreement, including Additional Payments.

Section 4. Payments on Obligation No. 2; Credits.

(a) Principal of and interest and any applicable redemption premium on Obligation No. 2 are payable in any coin or currency of the United States of America which on the payment date is legal tender for the payment of public and private debts. Except as provided in subsection (b) of this Section with respect to credits, and Section 5 hereof regarding prepayment, payments on the principal of and premium, if any, and interest on Obligation No. 2 shall be made at the times and in the amounts specified in Obligation No. 2 by the Members (i) depositing the same with or to the account of the Series 2017 Bond Trustee at or prior to the opening of business on the day such payments shall become due or payable (or the next succeeding business day if such date is a Saturday, Sunday or bank holiday in the city in which the principal corporate trust office of the Series 2017 Bond Trustee is located) and (ii) giving notice to the Master Trustee and the Series 2017 Bond Trustee of each payment of principal, interest or premium on Obligation No. 2, specifying the amount paid and identifying such payment as a payment on Obligation No. 2.

(b) The Members shall receive credit for payment on Obligation No. 2, in addition to any credits resulting from payment or prepayment from other sources, as follows:

(i) On installments of interest on Obligation No. 2 in an amount equal to moneys deposited in the Interest Account created under the Series 2017 Bond Indenture which amounts are available to pay interest on the Bonds and to the extent such amounts have not previously been credited against payments on Obligation No. 2;

(ii) On installments of principal of Obligation No. 2 in an amount equal to moneys deposited in the Principal Account created under the Series 2017 Bond Indenture which amounts are available to pay principal of the Bonds and to the extent such amounts have not previously been credited against payments on Obligation No. 2;

(iii) On installments of principal and interest, respectively, on Obligation No. 2 in an amount equal to the principal amount of Bonds for the redemption or payment of which sufficient amounts (as determined by Section [10.03] of the Series 2017 Bond Indenture) in cash or securities are on deposit as provided in Section [10.03] of the Series 2017 Bond Indenture, to the extent such amounts have not previously been credited against such payments on Obligation No. 2, and the interest on such Bonds from and after the date fixed for payment at maturity or redemption thereof. Such credits shall be made against the installments of principal and interest on Obligation No. 2 which would have been used, but for such call for payment or redemption, to pay principal of and interest on such Bonds when due;

(iv) On installments of principal and interest, respectively, on Obligation No. 2 in an amount equal to the principal amount of Bonds acquired by any Member and surrendered to the Series 2017 Bond Trustee for cancellation or purchased by the Series 2017 Bond Trustee and canceled, and the interest on such Bonds from and after the date interest thereon has been paid prior to cancellation. Such credits shall be made against the installments of principal of and interest on Obligation No. 2 which would have been used, but for such cancellation, to pay principal of and interest on such Bonds when due; and

(v) On amounts deposited with the Series 2017 Bond Trustee to satisfy any other payment obligations under the Series 2017 Loan Agreement but not transferred

by the Series 2017 Bond Trustee to the Borrower pursuant to Section [5.02] of the Series 2017 Bond Indenture.

Section 5. Prepayment of Obligation No. 2.

(a) So long as all amounts which have become due under Obligation No. 2 have been paid or credits for such payments have occurred, the Members shall have the right, at any time and from time to time, to pay in advance and in any order of due dates all or part of the amounts to become due under Obligation No. 2. Prepayments may be made by payments of cash or surrender of the Bonds, as contemplated by subsections 4(b)(iii) and (iv) hereof. All such prepayments (and the additional payment of any amount necessary to pay the applicable premium, if any, payable upon the redemption of the Bonds) shall be deposited and applied in the manner and subject to the terms and conditions set forth in the Series 2017 Bond Indenture. Notwithstanding any such redemption or surrender of the Bonds, as long as any Bonds remain Outstanding (as defined in the Series 2017 Bond Indenture) or any additional payments required to be made hereunder remain unpaid, the Members shall not be relieved of their obligations hereunder.

(b) Prepayments made under subsection (a) of this Section shall be credited against amounts to become due on Obligation No. 2 as provided in Section 4 hereof.

(c) The Members may also prepay all of their indebtedness under Obligation No. 2 by providing for the payment of Bonds in accordance with [Article X] of the Series 2017 Bond Indenture.

Section 6. Registration, Number, Negotiability and Transfer of Obligation No. 2.

(a) Except as provided in subsection (b) of this Section, so long as any Bonds remain Outstanding, Obligation No. 2 shall consist of a single Obligation without coupons, registered as to principal and interest in the name of the Series 2017 Bond Trustee, and no transfer of Obligation No. 2 shall be permitted or shall be registered under the Master Indenture except for transfers to a successor Series 2017 Bond Trustee.

(b) Upon the principal of all Obligations then Outstanding being declared immediately due and payable upon and during the continuance of an Event of Default, Obligation No. 2 may be transferred, if and to the extent the Master Trustee requests that the restrictions of subsection (a) of this Section on transfers be terminated.

(c) Obligation No. 2 shall be registered on the register to be maintained by the Master Trustee as registrar for that purpose at the Corporate Trust Office of the Master Trustee and Obligation No. 2 shall be transferable only upon presentation of Obligation No. 2 at said Corporate Trust Office by the Holder or by the Holder's duly authorized attorney. Such transfer shall be without charge to the Holder thereof, but any taxes or other governmental charges required to be paid with respect to the same shall be paid by the Holder requesting such transfer as a condition precedent to the exercise of such privilege. Upon any such transfer, the Obligated Group Representative shall execute and the Master Trustee shall authenticate and deliver in exchange for

Obligation No. 2 a new registered Obligation without coupons, registered in the name of the transferee.

(d) Prior to due presentment of Obligation No. 2 for registration of transfer, the Members, the Master Trustee, any paying agent and any registrar with respect to Obligation No. 2 may deem and treat the person in whose name Obligation No. 2 is registered as the absolute owner hereof for all purposes; and neither the Members, any paying agent, the Master Trustee nor any Obligation registrar shall be affected by any notice to the contrary. All payments made to the registered owner hereof shall be valid, and, to the extent of the sum or sums so paid, sufficient to satisfy and discharge the liability for moneys payable on Obligation No. 2.

Section 7. Mutilation, Destruction, Loss and Theft of Obligation No. 2. If (a) Obligation No. 2 is surrendered to the Master Trustee in a mutilated condition, or the Obligated Group Representative and the Master Trustee receive evidence to their satisfaction of the destruction, loss or theft of Obligation No. 2 and (b) there is delivered to the Obligated Group Representative and the Master Trustee such security or indemnity as may be required by them to hold them harmless, then, in the absence of proof satisfactory to the Obligated Group Representative and the Master Trustee that Obligation No. 2 has been acquired by a bona fide purchaser and upon the Holder paying the reasonable expenses of the Obligated Group Representative and the Master Trustee, the Obligated Group Representative shall cause to be executed and the Master Trustee shall authenticate and deliver, in exchange for such mutilated Obligation No. 2 or in lieu of such destroyed, lost or stolen Obligation No. 2, a new Obligation No. 2 of like principal amount, date and tenor. If any such mutilated, destroyed, lost or stolen Obligation No. 2 has become or is about to become due and payable, Obligation No. 2 may be paid when due instead of delivering a new Obligation No. 2.

Section 8. Execution and Authentication of Obligation No. 2. Obligation No. 2 shall be executed for and on behalf of the Obligated Group Representative by its Authorized Representative and attested by its secretary, an assistant secretary or another Authorized Representative. The signatures of either or both of such officers may be mechanically or photographically reproduced on Obligation No. 2. If any officer whose signature appears on Obligation No. 2 ceases to be such officer before delivery thereof, such signature shall remain valid and sufficient for all purposes as if such officer had remained in office until such delivery. Obligation No. 2 shall be manually authenticated by an authorized signatory of the Master Trustee, without which authentication Obligation No. 2 shall not be entitled to the benefits hereof.

Section 9. Partial Prepayment of Obligation No. 2. Upon the selection and call for prepayment and the surrender of Obligation No. 2 for prepayment in part only, the Obligated Group Representative shall cause to be executed and the Master Trustee shall authenticate and deliver to, upon the written order of, the Holder thereof, at the expense of the Members, a new Obligation No. 2 in principal amount equal to the unredeemed portion of Obligation No. 2, which new Obligation No. 2 shall be a fully registered Obligation without coupons.

The Obligated Group Representative may agree with the Holder of Obligation No. 2 that such Holder may, in lieu of surrendering the Obligation for a new fully registered Obligation without coupons, endorse on the Obligation a notice of such partial prepayment, which notice shall set forth, over the signature of such Holder, the payment date, the principal amount redeemed and

the principal amount remaining unpaid. Such partial prepayment shall be valid upon payment of the amount thereof to the registered owner of Obligation No. 2 and the Members and the Master Trustee shall be fully released and discharged from all liability to the extent of such payment irrespective of whether such endorsement shall or shall not have been made upon the reverse of Obligation No. 2 by the Holder thereof and irrespective of any error or omission in such endorsement.

Section 10. Effect of Prepayment. On the date cash or securities (as and to the extent permitted by the Series 2017 Bond Indenture), or both, are deposited with the Trustee (for a corresponding amount of Bonds with respect to the Bonds to be redeemed on the date fixed for redemption all as provided in the Series 2017 Bond Indenture), Obligation No. 2 shall be deemed paid (in an amount corresponding to the Bonds to be redeemed on the date fixed for redemption) and such corresponding amount of Obligation No. 2 shall be deemed not to be outstanding, as defined in the Master Indenture, and shall no longer be entitled to the benefits of the Master Indenture.

Section 11. Form of Obligation No. 2. Obligation No. 2 shall be in substantially the form attached hereto as Exhibit A, with such necessary and appropriate omissions, insertions and variations as are permitted or required hereby or by the Master Indenture and are approved by those officers executing such Obligation on behalf of the Borrower and execution thereof by such officers shall constitute conclusive evidence of such approval.

Section 12. Additional Obligations. Notwithstanding Section 3.05 of the Master Indenture, so long as Obligation No. 2 remains outstanding, the following shall be additional conditions precedent to the issuance of any Additional Indebtedness under the terms of the Master Indenture:

- (a) Consent by the Holders of not less than a majority in aggregate principal amount of the 2017 Bonds then outstanding;
- (b) Completion of a due diligence review to the satisfaction of the Bondholder Representative under the Series 2017 Bond Indenture;
- (c) Subordinate Indebtedness shall be limited to \$250,000 [per occurrence/ in the aggregate]; and
- (d) Indebtedness with respect to capital leases or equipment shall be limited to \$25,000 [per occurrence/ in the aggregate].

Section 13. Event of Default. The Borrower and the Master Trustee hereby covenant to exercise any and all remedies available under any Lease and shall foreclose on the related Mortgage upon an Event of Default provided that the Master Trustee shall only exercise remedies under the Mortgages described in clause (1) of the definition thereof, set forth in the Master Indenture for the benefit of Obligation No. 2.

Section 14. Ratification of Master Indenture. As supplemented hereby, the Master Indenture is in all respects ratified and confirmed and the Master Indenture as so supplemented hereby shall be read, taken and construed as one and the same instrument.

Section 15. Permitted Withdrawal from Obligated Group of MPM San Diego LLC and MPM Santa Ana LLC. [Notwithstanding any provision of Section 3.14 of the Master Indenture to the contrary, MPM San Diego LLC and MPM Santa Ana LLC shall automatically be deemed withdrawn from the Obligated Group and shall no longer be subject to the terms of the Master Indenture upon the payment in full of the Allocable Amount (as defined in the 2017 Bond Indenture) corresponding to each such Member's obligations in respect of the Related Bonds and Obligation No. 2.]

Section 16. Severability. If any provision of this Supplement No. 2 shall be held or deemed to be or shall, in fact, be inoperative or unenforceable as applied in any particular case and any jurisdiction or jurisdictions or in all jurisdictions, or in all cases, because it conflicts with any other provision or provisions hereof or any constitution, statute, rule or public policy, or for any other reason, such circumstances shall not have the effect of rendering the provision in question inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions herein contained invalid, inoperative or unenforceable to any extent whatever.

The invalidity of any one or more phrases, sentences, clauses, sections or subsections contained in this Supplement No. 2 shall not affect the remaining portions of this Supplement No. 2 or any part thereof.

Section 17. Interpretation.

(a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

Section 18. Miscellaneous.

(a) No covenant or agreement contained in Obligation No. 2 or the Master Indenture shall be deemed to be a covenant or agreement of any officer, agent or employee of any Member or of the Master Trustee in an individual capacity, and no incorporator, member, officer or member of the governing board of any Member shall be liable personally on Obligation No. 2 or be subject to any personal liability or accountability by reason of the issuance of Obligation No. 2.

(b) The Master Trustee hereby acknowledges and agrees that the Leases and School Loan Agreements provide for payment of rental or repayment obligations, as applicable, directly to the Master Trustee for deposit in the Gross Revenue Fund established in Section 3.15 of the Master Indenture, and that only upon transfer of such funds by the Master Trustee to the Series 2017 Bond Trustee for deposit in the Revenue Fund established in the Series 2017 Bond Indenture shall such deposits constitute credits for purposes of Section 4 hereof.

(c) The Master Trustee hereby further acknowledges that the Members may approve amendments to the Leases or School Loan Agreements subject to the limitations of Section 3.06 of the Master Indenture.

(d) The Borrower shall file with the Master Trustee, no later than July 1 of each year, commencing July 1, 2017, a Certificate stating that the Borrower has complied with Section 3.03 of the Master Indenture. The Master Trustee is entitled to rely on such Certificate as to the Borrower's compliance with said Section 3.03, and the Master Trustee shall have no further duty to confirm the accuracy thereof.

Section 19. Counterparts. This Supplement No. 2 may be executed in several counterparts, each of which shall be an original and all of which shall constitute one instrument.

Section 20. Governing Law. This Supplement No. 2 shall be construed in accordance with and governed by the laws of the State of California.

IN WITNESS WHEREOF, the Borrower, as Obligated Group Representative, has caused these presents to be signed in its name and on its behalf by an Authorized Representative and, to evidence its acceptance of the trusts hereby created, the Master Trustee has caused these presents to be signed in its name and on its behalf by a Responsible Officer, all as of the day and year first above written.

MAGNOLIA PROPERTIES
MANAGEMENT, INC., as Obligated Group
Representative

By: _____
[Authorized Representative]

[Signature page of Supplemental Master Indenture]

UMB BANK, NATIONAL ASSOCIATION,
as Master Trustee

By: _____
Responsible Officer

[Signature page of Supplemental Master Indenture]

EXHIBIT A

FORM OF OBLIGATION NO. 2

MAGNOLIA PROPERTIES MANAGEMENT, INC.,
as Initial Member of the Obligated Group

Obligation No. 2

[\$[PAR AMOUNT]]

KNOW ALL BY THESE PRESENTS that MAGNOLIA PROPERTIES MANAGEMENT, INC. (the “Borrower”), a nonprofit public benefit corporation organized and existing under the laws of the State of California, as Obligated Group Representative under the Master Indenture (as defined below), for value received hereby acknowledges itself and each Member of the Obligated Group (as such terms are defined in the Master Indenture) obligated to, and promises to pay to UMB Bank, National Association, as trustee (the “Series 2017 Bond Trustee”) under the Series 2017 Bond Indenture dated as of April 1, 2017 (the “Series 2017 Bond Indenture”), between the Series 2017 Bond Trustee and the California School Finance Authority (the “Authority”), and any successor trustee under the Series 2017 Bond Indenture, or registered assigns, the principal sum of [Aggregate Principal Amount Written Out] dollars (\$[Aggregate Principal Amount]), and to pay interest on the unpaid balance of said sum from the date hereof on the dates and in the manner hereinafter described.

This Obligation No. 2 is a single Obligation limited to [Aggregate Principal Amount Written Out] dollars (\$[Aggregate Principal Amount]), in principal amount (except as provided in the Master Indenture), designated as “Magnolia Public Schools Obligation No. 2” (“Obligation No. 2” and, together with all other obligations issued under the Master Indenture hereinafter identified, “Obligations”), issued under and pursuant to the Supplemental Master Indenture for Obligation No. 2, dated as of April 1, 2017 (the “Supplemental Indenture”), supplementing and amending the Master Indenture of Trust, dated as of April 1, 2017 and as may be further restated, supplemented or amended, between the Borrower, the Initial Members (as defined therein) and UMB Bank, National Association, as trustee (the “Master Trustee”). The Master Indenture of Trust, as supplemented and amended in accordance with its terms, is hereinafter called the “Master Indenture.”

Principal hereof, interest hereon and any applicable redemption premium, are payable in any coin or currency of the United States of America which on the payment date is legal tender for the payment of public and private debts semiannually on [June 25th and December 25th] in an amount equal to the amount necessary for the Series 2017 Bond Trustee to make the transfers and deposits required pursuant to Section 5.02 of the Series 2017 Bond Indenture.

The Members shall receive credit for payment on Obligation No. 2, in addition to any credits resulting from payment or prepayment from other sources, as follows: (i) on installments of interest of Obligation No. 2 in an amount equal to moneys deposited in the Interest Account created under the Series 2017 Bond Indenture which amounts are available to pay interest on the Bonds and to the extent such amounts have not previously been credited against payments

on Obligation No. 2; (ii) on installments of principal of Obligation No. 2 in an amount equal to moneys deposited in the Principal Account created under the Series 2017 Bond Indenture which amounts are available to pay principal on the Bonds and to the extent such amounts have not previously been credited against payments on Obligation No. 2; (iii) on installments of principal and interest, respectively, on Obligation No. 2 in an amount equal to the principal amount of Bonds for the redemption or payment of which sufficient amounts (as determined by Section 10.03 of the Series 2017 Bond Indenture) in cash or securities are on deposit as provided in Section 10.03 of the Series 2017 Bond Indenture, to the extent such amounts have not previously been credited against such payments on Obligation No. 2, and the interest on such Bonds from and after the date fixed for payment at maturity or redemption thereof. Such credits shall be made against the installments of principal and interest on Obligation No. 2 which would have been used, but for such call for payment or redemption, to pay principal of and interest on such Bonds when due; (iv) on installments of principal and interest, respectively, on Obligation No. 2 in an amount equal to the principal amount of Bonds acquired by any Member and surrendered to the Series 2017 Bond Trustee for cancellation or purchased by the Series 2017 Bond Trustee and canceled, and the interest on such Bonds from and after the date interest thereon has been paid prior to cancellation. Such credits shall be made against the installments of principal of and interest on Obligation No. 2 which would have been used, but for such cancellation, to pay principal of and interest on such Bonds when due; and (v) on amounts deposited with the Series 2017 Bond Trustee to satisfy any other payment obligations under the Series 2017 Loan Agreement.

The Borrower, as Obligated Group Representative, further acknowledges itself and the other Members obligated to, and promises to pay to the Authority, all amounts required to be paid by the Borrower to the Series 2017 Bond Trustee for deposit in the Bond Reserve Account established under the Series 2017 Bond Indenture. The Members shall receive credit for payment pursuant to this paragraph in an amount equal to moneys deposited with the Series 2017 Bond Trustee pursuant to the Series 2017 Bond Indenture.

Upon payment by the Members of a sum, in cash or securities (as specified in Article X of the Series 2017 Bond Indenture), or both, sufficient, together with any other cash and securities permitted by the Series 2017 Bond Indenture to be held by the Trustee and available for such purpose, to cause all outstanding Bonds to be deemed to have been paid within the meaning of Article X of the Series 2017 Bond Indenture and to pay all other amounts referred to in Article X of the Series 2017 Bond Indenture, accrued and to be accrued to the date of discharge of the Series 2017 Bond Indenture, Obligation No. 2 shall be deemed to have been paid and to be no longer outstanding under the Master Indenture.

Copies of the Master Indenture and the Supplemental Indenture are on file at the corporate trust office of the Master Trustee, in [IDENTIFY APPLICABLE CITY, STATE FOR UMB CORPORATE TRUST OFFICE] and reference is hereby made to the Master Indenture for the provisions, among others, with respect to the nature and extent of the rights of the holders of Obligations issued under the Master Indenture, the terms and conditions on which, and the purposes for which Obligations are to be issued and the rights, duties and obligations of the Members and the Master Trustee under the Master Indenture, to all of which the holder hereof, by acceptance of this Obligation No. 2, assents.

The Master Indenture permits the issuance of additional Obligations under the Master Indenture to be secured by the provisions of the Master Indenture, all of which, regardless of the times of issue or maturity, are to be of equal rank without preference, priority or distinction of any Obligations issued under the Master Indenture over any other such Obligations except as expressly provided or permitted in the Master Indenture.

To the extent permitted by and as provided in the Master Indenture, modifications or changes to the Master Indenture, of any indenture supplemental thereto, and of the rights and obligations of the Members and of the holders of Obligations in any particular may be made by the execution and delivery of an indenture or indentures supplemental to the Master Indenture or any supplemental indenture. Certain modifications or changes that would affect the rights of the holder of this Obligation No. 2 may be made only with the consent of the holders of not less than a majority in aggregate principal amount of Obligations then outstanding under the Master Indenture. No modification or change shall be made which will (i) extend the stated maturity of or time for paying interest on any Obligation or reduce the principal amount of or the redemption premium or rate of interest payable on any Obligation without the consent of the holder of such Obligation; (ii) modify, alter, amend, add to or rescind any of the terms or provisions contained in Article IV of the Master Indenture in any manner which would materially and adversely affect the interests of holders of any Obligations in default as to payment to compel the Master Trustee to declare the principal of all Obligations to be due and payable, without the consent of the holders of all Obligations then outstanding; or (iii) reduce the aggregate principal amount of Obligations then outstanding the consent of the holders of which is required to authorize such modifications or changes without the consent of the holders of all Obligations then outstanding. Any such consent by the holder of this Obligation No. 2 shall be conclusive and binding upon such holder and all future holders and owners hereof irrespective of whether or not any notation of such consent is made upon this Obligation No. 2, unless such consent is revoked as provided in the Master Indenture.

Upon the occurrence of certain “Events of Default” (as defined in the Master Indenture), the principal of all Obligations then outstanding may be declared, and thereupon shall become, due and payable as provided in the Master Indenture.

The Holder of this Obligation No. 2 shall have no right to enforce the provisions of the Master Indenture, or to institute any action to enforce the covenants therein, or to take any action with respect to any default under the Master Indenture, or to institute, appear in or defend any suit or other proceeding with respect to any default under the Master Indenture, or to institute, appear in or defend any suit or other proceeding with respect thereto, except as provided in the Master Indenture.

Obligation No. 2 is issuable only as a registered Obligation without coupons.

Unless the principal of all Obligations then outstanding has been declared immediately due and payable, no transfer of this Obligation No. 2 shall be permitted except for transfers to a successor trustee under the Series 2017 Bond Indenture. This Obligation No. 2 shall be registered on the register to be maintained by the Master Trustee as registrar for the Members for that purpose at the principal corporate trust office of the Master Trustee and this Obligation No. 2 shall be transferable only upon presentation of this Obligation No. 2 at said office by the

Holder or by the Holder's duly authorized attorney and subject to the limitations, if any, set forth in the Supplemental Indenture. Such transfer shall be without charge to the Holder hereof, but any taxes or other governmental charges required to be paid with respect to the same shall be paid by the holder requesting such transfer as a condition precedent to the exercise of such privilege. Upon any such transfer, the Borrower, as Obligated Group Representative, shall execute and the Master Trustee shall authenticate and deliver in exchange for this Obligation No. 2 a new registered Obligation without coupons, registered in the name of the transferee.

Prior to due presentment hereof for registration of transfer, the Members, the Master Trustee, any paying agent and any registrar with respect to this Obligation No. 2 may deem and treat the Person in whose name this Obligation No. 2 is registered as the absolute owner hereof for all purposes; and neither the Members, any paying agent, the Master Trustee nor any Obligation registrar shall be affected by any notice to the contrary. All payments made to the registered owner hereof shall be valid, and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for moneys payable on this Obligation No. 2.

No covenant or agreement contained in this Obligation No. 2 or the Master Indenture shall be deemed to be a covenant or agreement of any officer, agent or employee of any Member or of the Master Trustee in his individual capacity, and no incorporator, member, officer or member of the Governing Body of any Member shall be liable personally on this Obligation No. 2 or be subject to any personal liability or accountability by reason of the issuance of this Obligation No. 2.

This Obligation No. 2 shall not be entitled to any benefit under the Master Indenture, or be valid or become obligatory for any purpose, until this Obligation No. 2 shall have been manually authenticated by the execution by an authorized officer of the Master Trustee, or its successor as Master Trustee, of the Certificate of Authentication inscribed hereon.

IN WITNESS WHEREOF, the Borrower, as Obligated Group Representative, has caused this Obligation No. 2 to be executed in its name and on its behalf by the signature of an Authorized Representative all as of April 1, 2017.

MAGNOLIA PROPERTIES MANAGEMENT,
INC.,
as Obligated Group Representative

By _____
Authorized Representative

MASTER TRUSTEE'S AUTHENTICATION CERTIFICATE

The undersigned Master Trustee hereby certifies that this Obligation No. 2 is one of the Obligations described in the within-mentioned Master Indenture.

Dated: _____

UMB BANK, NATIONAL ASSOCIATION,
as Master Trustee

By _____
Responsible Officer

**AMENDED AND
RESTATED LEASE
AGREEMENT**

AMENDED AND RESTATED LEASE AGREEMENT

by and between

MPM SHERMAN WAY LLC,
a California limited liability company

and

**MAGNOLIA EDUCATIONAL &
RESEARCH FOUNDATION,**
a California nonprofit public benefit corporation

dated as of _____, 2017

for the use and occupation of certain premises by

MAGNOLIA SCIENCE ACADEMY 1

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AMENDED AND RESTATED LEASE AGREEMENT

1. **Basic Provisions.**

1.1 **Parties.** This Amended and Restated Lease Agreement (“**Lease**”) dated, for reference purposes only, as of _____, 2017, is made by and between MPM SHERMAN WAY LLC, a California limited liability company (“**Lessor**”), and MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION, a California nonprofit public benefit corporation (“**Lessee**”) (Lessor and Lessee being sometimes referred to herein collectively as the “**Parties**” and individually a “**Party**”). Lessee is entering into this Lease to provide for the use and occupation of the Premises (as defined below) by MAGNOLIA SCIENCE ACADEMY 1, also known as MAGNOLIA SCIENCE ACADEMY (the “**School**”), a California public charter school operated by Lessee. This Lease amends and restates that certain Lease Agreement dated as of June 1, 2014 by and between the parties (the “**Existing Lease**”).

1.2 **Premises.** The real property and improvements commonly referred to as 18228, 18214 and 18238 Sherman Way, Reseda, California, 91135, located in the County of Los Angeles, State of California and marked on the attached Exhibit A constitute the “**Premises**.” (See also Section 2 below.)

1.3 **Term.** The term of this Lease shall commence on _____, 2017 (the “**Commencement Date**”) and shall end on July 1, 2037 (the “**Initial Term**”) (or such other later date if Lessee exercises its extension option) (such date, as it may be extended, the “**Expiration Date**”). (See also Section 3 below.) Until the Commencement Date of this Lease, the Existing Lease remains in full force and effect. Based upon the occurrence of any of the events described in Section 4.06(b) and (c) of the Loan Agreement, this Lease may be terminated by Lessee by depositing with the Bond Trustee (as defined in Section 1.5 below) sufficient cash or securities to defease the principal amount of the Bonds (as defined in Section 1.5 below).

1.4 **Extension Option.** Lessee shall have two (2) options to extend the Initial Term, each for five (5) years as of the funding of the Loan described in Section 1.5 below (such extension terms collectively, the “**Extension Term**” and, collectively with the Initial Term, the “**Term**”) with the Rent during the Extension Term to be set at an amount no less than the Fair Market Rent of the Premises at the date the option becomes exercisable. “**Fair Market Rent**” for purposes of this Section 1.4 shall be determined pursuant to Section 5 below.

1.5 **Base Rent.**

(a) **Obligated Group.** Lessor and Lessee acknowledge that Lessor is a member (a “**Member**”) of an obligated group (the “**Obligated Group**”) under a Master Trust Indenture dated as of _____, 2017 (the “**Master Indenture**”), by and among Magnolia Properties Management, Inc., a California nonprofit public benefit corporation, as the Obligated Group representative (the “**Obligated Group Representative**”), certain other Obligated Group Members as identified in the Master Indenture (together with the Member, the “**Members**”), and UMB Bank, National Association, as master trustee (the “**Master Trustee**”). The Obligated Group Representative, on behalf of the Members, obtained a loan (the “**Loan**”) from the California School Finance Authority (the “**Issuer**”) as evidenced by a Loan Agreement

dated as of _____, 2017, by and between the Issuer and the Obligated Group Representative (the "**Loan Agreement**," under which the Obligated Group Representative is sometimes referred to as "**Borrower**"). The Loan will be funded by the proceeds of the Issuer's Charter School Revenue Bonds (Magnolia Public Schools - Obligated Group), Draw Down Series 2017A and Charter School Revenue Bonds (Magnolia Public Schools - Obligated Group), Series 2017B (collectively, the "**Bonds**") pursuant to an Indenture dated as of _____, 2017 (the "**Indenture**") by and between the Issuer and UMB Bank, National Association, as bond trustee (the "**Bond Trustee**"). So long as the Loan is outstanding, the "**Base Rent**" shall be payable in accordance with the schedule set forth in Exhibit B attached hereto, subject to downward adjustment in the event of any prepayment of all or a portion of the Loan related to the Premises and the redemption or defeasance of all or a portion of the Bonds related to the Premises. Hamlin Capital Management, LLC is currently acting as the Bondholder Representation (the "**BHR**"). In the event of the prepayment of the Loan in its entirety and the redemption or defeasance of all of the Bonds prior to the Expiration Date or termination of this Lease such that no Bonds remain outstanding under the Indenture, the Base Rent shall be payable based upon the average of the debt service payments during the five (5) years immediately preceding such defeasance or prepayment.

(b) Intercept Notice. Simultaneously with the execution and delivery of the Bonds, Lessee shall deliver or cause to be delivered the Intercept Notice, substantially in the form set forth in Exhibit E attached hereto (the "**Intercept Notice**"), to the State Controller (as defined in Exhibit E hereto) to indicate transfers to the Master Trustee to pay the amounts due under this Lease as they come due. Amounts specified in the Intercept Notice for transfer to the Bond Trustee shall be limited to funding apportioned for purposes of the charter school block grant or the local control funding formula pursuant to Section 42238.02 of the Education Code of the State of California (the "**State Apportionments**"). Lessee shall, with Lessor's and BHR's prior written consent, amend, supplement or restate the Intercept Notice and deliver such to the State Controller from time to time as necessary or appropriate (including without limitation as a result of redemption prior to maturity) to indicate transfers to the Bond Trustee to pay the amounts due under this Lease as they come due and to cure any delinquency in payment of such amounts. Lessee will cooperate with the Bond Trustee in any manner the Bond Trustee may request in connection with amending, supplementing or restating the Intercept Notice. If at any time the Intercept Notice is amended, supplemented or restated for any reason, Lessee shall promptly provide the Issuer, the Department of Education of the State of California, the BHR, the Bond Trustee and the Master Trustee with a copy of such amended, supplemented or restated Intercept Notice. The Intercept Notice may provide additional amounts payable to the Bond Trustee for purposes set forth in the Master Indenture or to any other payee or payees for any other costs necessary or incidental to the Bonds; provided, that Lessee shall not grant preference or any prior right of funding access or security in respect of the State Apportionment to any other payment indicated in the Intercept Notice or any other notice delivered pursuant to Section 17199.4 of the Education Code of the State of California. All deposits of moneys derived from the Intercept Notice hereunder shall be made at the corporate trust office of the Bond Trustee or such other payee as set forth in the Intercept Notice. Lessee shall timely amend, supplement or restate the Intercept Notice to require transfers to such other location as shall be designated in writing by the Bond Trustee or such other payee to Lessee.

1.6 **Refinancing of Loan.** For purposes of this Lease, “**Lender**” shall be deemed to refer to the Issuer under the Loan Agreement, its successors and assigns, including Master Trustee and Bond Trustee. Upon any refinancing of the Loan, the term “**Loan Agreement**” thereafter shall refer to the agreement for the refinancing of the Loan, the term “**Loan**” thereafter shall refer to the refinancing loan, and the term “**Lender**” thereafter shall refer to the lender making the refinancing loan, but otherwise all of the terms, covenants and conditions of this Lease shall remain unmodified and in full force and effect.

1.7 *(Reserved)*

1.8 **Real Estate Brokers.** None.

2. **Premises.**

2.1 **Letting.** Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the Term, at the Rent (as defined below) and upon and subject to all of the terms, covenants and conditions set forth in this Lease.

2.2 **Condition of Premises.** Lessee acknowledges that Lessor may construct improvements to the Premises (the “**Improvements**”), including the Buildings as described in Section 2.3 below, pursuant to the terms of the Loan Agreement described in Section 1.5. Lessee hereby acknowledges and agrees that it has reviewed and approved the Loan Agreement and agrees to accept the Improvements in their as-is condition, following completion of construction. All references in this Lease to the “Premises” shall be deemed to include the Improvements. Subject to the terms of Section 6.2(f) of this Lease, Lessee accepts the Premises in their current as-is condition. Lessee hereby acknowledges that the Premises have not undergone an inspection by a certified access specialist.

2.3 **Compliance.** Following completion of the Improvements, if the applicable building codes, applicable laws, covenants or restrictions of record, regulations, and ordinances (the “**Applicable Requirements**”) require, during the Term, the construction of an addition to or an alteration of the Premises or any portion of the buildings on the Premises (the “**Buildings**”), the remediation of any Hazardous Substance, or the reinforcement or other physical modification of the Premises and/or the Buildings, Lessee hereby agrees to undertake and complete such construction, alteration, remediation, reinforcement or other modification (each, a “**Capital Expenditure**”), and the costs therefor shall be incurred solely by Lessee.

2.4 **Parking.** Lessee shall be provided with such number of parking spaces as Lessor and Lessee shall from time to time determine. For the avoidance of doubt, all parking spaces allocated to Lessee hereunder shall be deemed a part of the Premises leased hereunder and shall be subject to the terms hereof and any special rules and regulations promulgated by Lessor which relate specifically to parking.

2.5 **Energy Use Disclosure Program.** Lessee hereby acknowledges that Lessor may be required to disclose certain information concerning the energy performance of the Building (the “**Energy Disclosure Information**”) pursuant to California Public Resources Code Section 25402.10 and the regulations adopted pursuant thereto (collectively the “**Energy Disclosure Requirements**”). If and to the extent not prohibited by applicable laws, Lessee hereby waives

any right Lessee may have to receive the Energy Disclosure Information, including, without limitation, any right Lessee may have to terminate this Lease as a result of Lessor's failure to disclose such information. Further, Lessee hereby releases Lessor from any and all losses, costs, damages, expenses and/or liabilities relating to, arising out of and/or resulting from the Energy Disclosure Requirements, including, without limitation, any liabilities arising as a result of Lessor's failure to disclose the Energy Disclosure Information to Lessee prior to the execution of this Lease. Lessee's acknowledgment of the AS-IS condition of the Premises pursuant to the terms of this Lease shall be deemed to include the energy performance of the Building. Lessee further acknowledges that pursuant to the Energy Disclosure Requirements, Lessor may be required in the future to disclose information concerning Lessee's energy usage to certain third parties, including, without limitation, prospective purchasers, lenders and lessees of the Building (the "**Energy Use Disclosure**") and Lessee agrees to provide Lessor with all such information as Lessor may require in order to satisfy the Energy Disclosure Requirements. Lessee hereby (A) consents to all such Energy Use Disclosures, and (B) acknowledges that Lessor shall not be required to notify Lessee of any Energy Disclosure Information. Further, Lessee hereby releases Lessor from any and all losses, costs, damages, expenses and liabilities relating to, arising out of and/or resulting from any Energy Use Disclosure. The terms of this Section shall survive the expiration or earlier termination of this Lease.

2.6 CASp Inspection for Accessibility. Lessor hereby notifies Lessee that the Premises have not undergone an inspection by a Certified Access Specialist ("**CASp**"). A CASp can inspect the Premises and determine whether the Premises comply with all of the applicable construction related accessibility standards under California state law. Although California state law does not require a CASp inspection of the Premises, the Lessor may not prohibit Lessee from obtaining a CASp inspection of the Premises for the occupancy or potential occupancy of Lessee, if requested by Lessee. The Parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction related accessibility standards within the Premises.

3. Term.

3.1 Term. The Commencement Date, Expiration Date and Term of this Lease are as specified in Section 1.3, provided that the commencement of rent shall commence on the later of (the "**Rent Commencement Date**"): (a) the Commencement Date and (b) following Lessor's completion of any Improvements in accordance with the Loan Agreement, the issuance of a temporary Certificate of Occupancy for the Premises.

4. Rent and Expenses.

4.1 Rent Defined. Subject to the terms of this Lease, Base Rent, Expenses (as defined below), Additional Rent (as defined below) and all other monetary obligations of Lessee to Lessor or to third parties arising under the terms of this Lease are deemed to be rent ("**Rent**").

4.2 Expenses. Lessee shall be responsible for all Expenses (as defined below) which Lessee shall pay to Lessor within thirty (30) days after receiving a statement from Lessor itemizing (with reasonable description) all charges included thereon.

“**Expenses**” shall mean all costs and expenses of the ownership, operation, maintenance, repair or replacement, and insurance of the Premises, as determined by standard accounting practices, including, by way of illustration only, and not by way of limitation, to the extent they apply to the Premises:

- (i) Gross receipts taxes, whether assessed against Lessor or assessed against Lessee and collected by Lessor;
- (ii) Water, sewage, and waste or refuse removal charges;
- (iii) Gas, electricity, telephone and other utilities;
- (iv) Reasonable costs incurred in the day-to-day management (if any), including the cost of management personnel;
- (v) Air conditioning and heating;
- (vi) Elevator maintenance (if any);
- (vii) Supplies, materials, labor, equipment, and utilities used in or related to the operation and maintenance of the Premises;
- (viii) All maintenance, replacement and repair costs including, without limitation, janitorial, cleaning and repair services relating to the Premises and all improvements thereon, including, without limitation, air conditioning systems, landscaping, service areas, building exteriors (including painting), signs and directories, repairing and replacing roofs, walls, janitorial (if any is supplied) and upgrades, and cost of compliance with applicable laws;
- (ix) Capital improvements made to the Premises (whether funded in full or amortized with reasonable financing charges) which may be required by any government authority or which will improve the operating efficiency of the Premises;
- (x) Real Property Taxes (as defined in Section 10.1 below) and personal property taxes (as described in Section 10.3 below), if any; and
- (xi) Any other costs or expenses incurred by Lessor under this Lease and not otherwise reimbursed by Lessee or any other lessee of the Premises. Expenses shall not include depreciation on the Buildings of which the Premises are a part.

4.3 Additional Rent. In addition to Base Rent and Expenses, Lessee shall be responsible for the payment of Additional Rent. Additional Rent shall be paid to Lessor on demand or, if such Additional Rent is ongoing and can be calculated on a periodic basis, on a monthly basis pursuant to a written schedule from time to time delivered by Lessor.

“**Additional Rent**” shall include but not be limited to the following:

(i) All amounts required to reimburse Lessor, or satisfy Lessor’s obligations, for any fees, expenses, taxes, indemnities, assessments or other payments that it pays under the terms of the Loan Agreement to or on behalf of the Lender;

(ii) Amounts necessary to reimburse Lessor, or satisfy Lessor’s obligations, for any payments, other than debt service, that Lessor makes as may be required under the Loan Agreement or this Lease; and

(iii) Amounts necessary to reimburse Lessor for payments it makes with respect to Lessor’s reasonable general operating expenses, including Lessor’s payment of Lessor’s share of the reasonable general operating expenses of Lessor’s sole member.

4.4 Extraordinary Monthly Rent. In the event that Lessee receives a notice (each an “**Extraordinary Monthly Rent Notice**”) from either Lessor or the Master Trustee, stating the Master Trustee has not received the payment of rent with respect to a Related Project (as defined in the Master Indenture) on or before the date that such required payment is due, then Lessee shall pay the Extraordinary Monthly Rent to the Master Trustee within three (3) business days after Lessee’s receipt of the Extraordinary Monthly Rent Notice. Lessor covenants to immediately provide Lessee with a copy of any Extraordinary Monthly Rent Notice received by Lessor pursuant to the terms of the Master Indenture. The “**Extraordinary Monthly Rent**” shall mean the amount set forth in such Extraordinary Monthly Rent Notice, which shall be Lessee’s Proportionate Share of the Extraordinary Monthly Rent. “**Proportionate Share**” shall mean the amount required to be paid by Lessee to ensure that all of the required rent with respect to all of the Related Projects have been timely made.

4.5 Payment. Lessee’s obligation to pay Rent shall commence on the Rent Commencement Date. Lessee shall cause all Rent payable to Lessor under this Lease to be received by Lessor in lawful money of the United States on or before the day on which it is due, without offset or deduction. Rent for any period during the Term hereof which is for less than one full calendar month shall be prorated based upon the actual number of days of said month. Payment of Rent due to Lessor shall be made to Lessor at its address stated herein or to such other persons or place as Lessor may from time to time designate in writing. Subject to the terms of the Indenture, and so long as any of the Bonds or the Loan remains outstanding, Lessee shall: (a) through the Intercept Notice, cause the Los Angeles County Office of Education to transfer the portion of the State Apportionment attributable to the School to the Bond Trustee for deposit in the Revenue Fund (as defined in the Indenture); and (b) cause the Trustee to pay from the Revenue Fund the Rent due to Lessor under the terms of this Lease.

4.6 Budgeting Rent. Lessee covenants to take such action as may be necessary to include all such payments of Rent due hereunder in its annual budgets, to make, as necessary, annual appropriations for all such payments and to take such action annually as shall be required to provide funds in such year for such payments of Rent.

4.7 **Accounting.** If Lessor so requests in writing, Lessee agrees to provide Lessor with an annual, or more frequent, accounting of the Expenses paid for the just-completed calendar year.

4.8 **Limitation of Recourse.** Notwithstanding any other terms or provisions of this Lease to the contrary, Lessee's liability under this Lease will be limited to the Gross Revenues of the School and the Lessee Management Fees, and under no circumstances shall Lender have recourse to any revenues or assets (other than Lessee Management Fees) attributable to, or designated by any third party for, any other school operated by Lessee or pledged by Lessee to secure loans to or financings or leases for such other school. Such other school's moneys, assets and revenues would include income and revenues directly or indirectly derived by Lessee's operation of the other school, including without limitation per pupil revenues and other funding received from the State of California or by virtue of the charter granted to Lessee for the other school and all gifts, grants, bequests and contributions (including income and profits therefrom) to the extent specifically restricted by the donor or Lessee thereof to the other school and such moneys would also include net insurance or condemnation proceeds received or payable to Lessee on account of damage or destruction of the other school or its property or other loss incurred by Lessee with respect to its operation of the other school or its property. Nothing contained in this Section 4.8 shall be construed to release Lessor from the performance of any of the agreements on its part herein contained, and in the event Lessor shall fail to perform any such agreements on its part, Lessee may institute such action against Lessor as Lessee may deem necessary to compel performance so long as such action does not abrogate the obligations of Lessee contained in the first sentence of this Section 4.8. Lessee may, however, at Lessee's own cost and expense and in Lessee's own name or in the name of Lessor prosecute or defend any action or proceeding or take any other action involving third persons which Lessee deems reasonably necessary in order to secure or protect Lessee's right of possession, occupancy and use hereunder, and in such event Lessor hereby agrees to cooperate fully with Lessee and to take such action necessary to effect the substitution of Lessee for Lessor in such action or proceeding if Lessee shall so request.

As used herein, "**Gross Revenues of the School**" means all income and revenues directly or indirectly derived by Lessee's operation of the School described in Section 1.1 of this Lease, including without limitation, per-pupil revenues and other funding received from the State of California or by virtue of the charter granted to Lessee for the School and all gifts, grants, bequests and contributions (including income and profits therefrom) specifically restricted by the donor or maker thereof to the School or the Premises, to the extent not specifically restricted by the donor or maker thereof to a particular purpose inconsistent with their use for the payments required under this Lease. Gross Revenues of the School also includes net insurance or condemnation proceeds received or payable to Lessee on account of damage or destruction of the Premises or other loss incurred by Lessee with respect to its operation of the School or the Premises.

As used herein, "**Lessee Management Fees**" means the internal management fees charged by Lessee to the public charter schools operated by Lessee, including but not limited to the School, for the administrative services provided by the Lessee central office staff to such schools, calculated as if each such school and the Lessee central office operations were operated as separate legal entities.

5. **Option to Extend.** Lessor hereby grants to Lessee two (2) options to extend the Term of this Lease, each for a period of five (5) years (each, an “**Extension Option**”). Each respective Extension Option shall be deemed exercised unless Lessee provides Lessor with written notice, on or before one year prior to the then scheduled Expiration Date, of Lessee’s election not to exercise the respective Extension Option, provided that so long as Lessor has any obligations under the Loan Agreement, Lessee will exercise each Extension Option. In the event the Term of this Lease shall be extended under this Section, then all of the terms, covenants and conditions of this Lease shall remain unmodified and in full force and effect, except that:

(i) Each Extension Term shall commence immediately upon the expiration of the Initial Term or prior Extension Term, as applicable.

(ii) The Base Rent for the Extension Term shall be determined as follows. Within thirty (30) days after the exercise or deemed exercise of the Extension Option, Lessor shall notify Lessee in writing as to Lessor’s determination, in Lessor’s good faith judgment, of the fair market rent of comparable space (including square footage, location and quality of the Premises) to the Premises (the “**Fair Market Rent**”) together with reasonable back-up material supporting Lessor’s determination. Lessee shall have twenty (20) days from receipt of Lessor’s determination of the Fair Market Rent accept or reject Lessor’s determination.

(iii) Notwithstanding any terms herein to the contrary, so long as the Loan is outstanding, in no event shall the Base Rent payable during any Extension Term be less than the debt service of the Loan, plus Issuer and Trustee Fees, or the Base Rent payable during the month preceding the commencement of the applicable Extension Term. Until the Fair Market Rent has been agreed upon, the initial Base Rent for the Extension Term shall be the Base Rent payable during the month preceding the commencement of the applicable Extension Term. In the event the Fair Market Rent is determined to be greater than such amount, then Lessee shall promptly pay Lessor any balance due.

(iv) If Lessee timely objects to Lessor’s determination of Fair Market Rent, Lessor and Lessee shall diligently attempt in good faith to agree on the Fair Market Rent within ten (10) days of Lessee’s notice of objection (“**Outside Agreement Date**”). If Lessor and Lessee fail to reach agreement by the Outside Agreement Date, each shall make a separate determination of the Fair Market Rent within five (5) days of the Outside Agreement Date. Such determination shall then be submitted to arbitration in accordance with (v) below.

(v) Within fifteen (15) days of the Outside Agreement Date, the Parties shall agree upon an arbitrator who shall decide whether the Parties will use Lessor’s or Lessee’s submitted Fair Market Rent and shall promptly notify Lessor and Lessee of its decision. If the Parties are unable to agree upon the arbitrator within fifteen (15) days of the Outside Agreement Date, within five (5) days thereafter, Lessor and Lessee shall each appoint an arbitrator and give notice to the other Party of such arbitrator’s name and business address. The arbitrator must be a licensed real estate broker or appraiser who has been active in the leasing or appraising of commercial

properties in the Central Los Angeles area for at least five years. If each Party appoints an arbitrator, the two appointed arbitrators shall, within ten (10) days after the appointment of the second arbitrator, agree on and appoint a third similarly qualified arbitrator and promptly provide notice to Lessor and Lessee of such arbitrator's name and business address. Within thirty (30) days after the appointment of the third arbitrator, the three (3) arbitrators shall decide whether the Parties will use Lessor's or Lessee's submitted Fair Market Rent and shall promptly notify Lessor and Lessee of their decision. The decision of the majority of the three (3) arbitrators shall be binding on Lessor and Lessee.

(vi) Such Base Rent as so determined shall be paid during the Extension Term in installments at the times and in the manner specified in this Lease.

6. Use.

6.1 **Use.** Lessee shall use and occupy the Premises only for "educational facilities" as defined in Section 17173(f) of the Education Code of the State of California in order to operate a charter school that is exempt from federal income taxation under Section 501(a) of the Internal Revenue Code (the "**Code**") as an organization described in Code Section 501(c)(3) and that qualifies as an "educational organization" as described under Code Section 170(b)(1)(A)(ii) (the "**Agreed Use**"), and for no other purpose, provided that Lessee shall not rent the Premises as residential rental property to others, or permit any subtenant to rent the Premises as residential rental property to others. Lessee shall not use or permit the use of the Premises in a manner that is unlawful, creates damage, waste or a nuisance, or that disturbs other tenants on the Premises or causes damage to neighboring premises or properties. Subject to the foregoing, Lessee may, without Lessor's prior written consent, operate the School with such grade levels as Lessee may from time to time determine in its reasonable judgment and, if so requested by Lessee, Lessor will cooperate with Lessee, and execute any applications or other documentation reasonably required, for the purpose of obtaining a change in any zoning or other use restriction, including any conditional use permit currently or thereafter applicable to the Premises, to permit Lessee to use or operate the Premises for additional or different grades, provided, that Lessee shall reimburse Lessor for any reasonable expenses incurred in connection therewith.

6.2 Hazardous Substances.

(a) **Reportable Uses Require Consent.** The term "**Hazardous Substance**" as used in this Lease shall mean (a) any oil, flammable substance, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other wastes, materials or pollutants which (i) pose a hazard to the Premises or to persons on or about the Premises or (ii) cause the Premises to be in material violation of any Environmental Regulation (as defined herein); (b) asbestos in any form which is or could become friable, urea formaldehyde foam insulation, transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls, or radon gas; (c) any chemical, material or substance defined as or included in the definition of "waste," "hazardous substances," "hazardous wastes," "hazardous materials," "extremely hazardous waste," "restricted hazardous waste," or "toxic substances" or words of similar import under any Environmental Regulation including, but not limited to, the Comprehensive Environmental Response, Compensation and

Liability Act (“**CERCLA**”), 42 U.S.C. § 9601 *et seq.*; the Resource Conservation and Recovery Act (“**RCRA**”), 42 U.S.C. § 6901 *et seq.*; the Hazardous Materials Transportation Act, 49 U.S.C. § 1801 *et seq.*; the Federal Water Pollution Control Act, 33 U.S.C. § 1251 *et seq.*; the California Hazardous Waste Control Law (“**HWCL**”), Cal. Health & Safety Code § 25100 *et seq.*; the Hazardous Substance Account Act (“**HSAA**”), Cal. Health & Safety Code § 25300 *et seq.*; the Underground Storage of Hazardous Substances Act, Cal. Health & Safety Code § 25280 *et seq.*; the Porter-Cologne Water Quality Control Act (the “**Porter-Cologne Act**”), Cal. Water Code § 13000 *et seq.*; the Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65); and Title 22 of the California Code of Regulations, Division 4, Chapter 30; (d) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority or agency or may or could pose a hazard to the health and safety of the occupants of the Premises or the owners and/or occupants of property adjacent to or surrounding the Premises, or any other person coming upon the Premises or adjacent property; or (e) any other chemical, materials or substance which may or could pose a hazard to the environment. The term “**Environmental Regulations**” shall mean any federal, state or local law, statute, code, ordinance, regulation, requirement or rule relating to dangerous, toxic or hazardous pollutants, Hazardous Substances or chemical waste, materials or substances. Lessee shall not engage in any activity in or on the Premises which constitutes a Reportable Use of Hazardous Substances without the express prior written consent of Lessor and BHR if Bonds are outstanding and timely compliance (at Lessee’s expense) with all Applicable Requirements. “**Reportable Use**” shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority, and/or (iii) the presence at the Premises of a Hazardous Substance with respect to which any Applicable Requirements requires that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing or anything herein to the contrary, Lessee may use any ordinary and customary materials reasonably required to be used in the normal course of the Agreed Use, ordinary office supplies (copier toner, liquid paper, glue, etc.) and common household cleaning materials, so long as such use is in compliance with all Applicable Requirements, is not a Reportable Use, and does not expose the Premises or neighboring property to any meaningful risk of contamination or damage or expose Lessor, Lender or Lessee to any liability therefor. In addition, Lessor and BHR may condition their consent to any Reportable Use upon receiving such additional assurances as Lessor and BHR reasonably deem necessary to protect itself, the public, the Premises and/or the environment against damage, contamination, injury and/or liability, including, but not limited to, the installation (and removal on or before Lease expiration or termination) of protective modifications (such as concrete encasements).

(b) **Duty to Inform Lessor.** If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises, other than as previously consented to by Lessor and BHR, Lessee shall immediately give written notice of such fact to Lessor and BHR, and provide Lessor and BHR with a copy of any report, notice, claim or other documentation which it has concerning the presence of such Hazardous Substance.

(c) **Lessee Remediation.** Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under, or about the Premises (including through the

plumbing or sanitary sewer system) and shall promptly, at Lessee's expense, comply with all Applicable Requirements and take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of the Premises or neighboring properties, that was caused or materially contributed to by Lessee, or pertaining to or involving any Hazardous Substance brought onto the Premises during the Term of this Lease, by or for Lessee, or any third party.

(d) **Lessee Indemnification.** Lessee shall indemnify, defend and hold Lessor and its sole member, Lender and BHR, and the agents, employees, officers, and directors of such parties, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, claims, expenses, penalties, and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee (provided, however, that Lessee shall have no liability under this Lease with respect to underground migration of any Hazardous Substance under the Premises from adjacent properties not caused or contributed to by Lessee). No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Lessor and BHR in writing at the time of such agreement. The provisions of this subdivision (d) of Section 6.2 shall survive the termination of this Lease.

(e) **Lessor Indemnification.** Lessor shall indemnify, defend and hold Lessee, Lender and BHR, and their agents, employees, officers, and directors, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, claims, expenses, penalties, and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises (by a party other than Lessee) prior to the Commencement Date (provided, however, that Lessor shall have no liability under this Lease with respect to underground migration of any Hazardous Substance under the Premises from adjacent properties not caused or contributed to by Lessor). No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessor from its obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Lessee and BHR in writing at the time of such agreement.

(f) **Hazardous Substance Condition Remediation.** If Lessee becomes aware of a Hazardous Substance Condition occurring during the Term of this Lease, then Lessee shall notify Lessor and BHR, and Lessor shall make the investigation and remediation thereof required by the Applicable Requirements, the costs relating thereto constituting an Expense for which Lessee is responsible and this Lease shall continue in full force and effect, but subject to Lessor's rights under Section 6.2(d); provided, however, that if a Hazardous Substance Condition occurs as a result of Hazardous Materials that are brought on the Premises (by a party other than Lessee) prior to the Commencement Date, then Lessor shall be solely responsible for making the investigation and remediation thereof at its sole cost and expense, and this Lease shall continue in full force and effect. "**Hazardous Substance Condition**" shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by, a Hazardous Substance as defined in Section 6.2(a), in, on, or under the Premises which requires repair, remediation, or restoration.

6.3 Lessee's Compliance with Applicable Requirements. Except as otherwise provided in this Lease, Lessee shall, at Lessee's sole expense, fully, diligently and in a timely manner, materially comply with all Applicable Requirements, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants which relate in any manner to such Applicable Requirements, without regard to whether such Applicable Requirements are now in effect or become effective after the Commencement Date. Lessee shall, within ten (10) days after receipt of Lessor's written request, provide Lessor with copies of all permits and other documents, and other information evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall immediately upon receipt, notify Lessor and BHR in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving the failure of Lessee or the Premises to comply with any Applicable Requirements.

7. Maintenance; Repairs.

7.1 Lessee's Obligations. Subject to the provisions of Sections 7.2 (Lessor's Obligations), 9 (Damage or Destruction) and 13 (Condemnation), Lessee shall, at Lessee's sole expense, keep the interior, exterior and structural elements of the Premises in good order, condition and repair; and keep the exterior, structural and major utility components of the Premises and other portions of the Premises in good order, condition and repair, including, but not limited to, all equipment or facilities, such as plumbing, HVAC equipment, electrical, lighting facilities, boilers, pressure vessels, fire protection system, fixtures, walls (interior and exterior), ceilings, floors, windows, doors, plate glass, skylights, landscaping, driveways, parking lots, fences, retaining walls, signs, sidewalks and parkways located in, on, or adjacent to the Premises. Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair. Subject to the provisions of Sections 9 (Damage or Destruction) and 13 (Condemnation) and to the provisions of Section 5.09 of the Indenture (governing funds relating to, among other things, insurance and condemnation proceeds and charter revocation), it is intended by the Parties hereto that Lessor have no obligation, in any manner whatsoever, to repair and maintain the Premises, or the equipment therein, all of which obligations are intended to be that of Lessee. It is the intention of the Parties that the terms of this Lease shall govern the respective obligations of the Parties as to maintenance and repair of the Premises, and they expressly waive the benefit of any statute now or hereafter in effect to the extent it is inconsistent with the terms of this Lease.

7.2 Lessor's Obligations. Subject to the provisions of Section 2.2 (Condition), 2.3 (Compliance), 9 (Damage or Destruction) and 13 (Condemnation), Lessor shall keep the other portions of the Premises not covered in Section 7.1 above in good order, condition and repair. All costs and expenses incurred by Lessor in connection with the aforesaid maintenance and repair shall be deemed "Expenses" hereunder. Lessor's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair, and the costs relating thereto shall be deemed an "Expense" hereunder.

7.3 Utility Installations; Trade Fixtures; Alterations.

(a) **Definitions.** The term “**Utility Installations**” refers to all floor and window coverings, air and/or vacuum lines, power panels, electrical distribution, security and fire protection systems, communication cabling, lighting fixtures, HVAC equipment, plumbing, and fencing in or on the Premises. The term “**Trade Fixtures**” shall mean Lessee’s machinery and equipment that can be removed without doing material damage to the Premises. The term “**Alterations**” shall mean any modification of the improvements, other than Utility Installations or Trade Fixtures, whether by addition or deletion. “**Lessee Owned Alterations and/or Utility Installations**” are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Section 7.4(a).

(b) **Consent.** Lessee shall not make any Alterations or Utility Installations to the Premises without Lessor’s and BHR’s prior written consent, except as provided herein. Lessee may make non-structural Alterations or Utility Installations and may make structural Alterations or Utility Installations to the interior of the Premises (excluding the roof) without such consent but upon notice to Lessor and BHR, as long as they are not visible from the outside, do not involve puncturing, relocating or removing the roof or any existing walls, and will not affect the electrical, plumbing, HVAC, and/or life safety systems. Notwithstanding the foregoing, Lessee shall not make or permit any roof penetrations and/or install anything on the roof without the prior written approval of Lessor and BHR. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of Lessor and BHR shall be presented to Lessor and BHR in written form with detailed plans. Consent shall be deemed conditioned upon Lessee’s: (i) acquiring all applicable governmental permits, (ii) furnishing Lessor and BHR with copies of both the permits and the plans and specifications prior to commencement of the work, and (iii) compliance with all conditions of said permits and other Applicable Requirements in a prompt and expeditious manner. Any Alterations or Utility Installations shall be performed in a workmanlike manner with good and sufficient materials. Lessee shall promptly upon completion furnish Lessor and BHR with as-built plans and specifications.

(c) **Liens.** Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanic’s or materialmen’s lien against the Premises or any interest therein. Lessee shall give Lessor and BHR not less than ten (10) days’ notice prior to the commencement of any work in, on or about the Premises, and Lessor shall have the right to post notices of non-responsibility. If Lessee shall contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof.

7.4 Ownership; Removal; Surrender; and Restoration.

(a) **Ownership.** All Alterations and Utility Installations made by Lessee shall be the property of Lessee. All Lessee Owned Alterations and Utility Installations shall, at the expiration or termination of this Lease, at the option of Lessor, (i) be removed by Lessee or (ii) become the property of Lessor and be surrendered by Lessee with the Premises.

(b) **Surrender and Restoration.** Lessee shall surrender the Premises by the Expiration Date or any earlier termination date, with all of the improvements, parts and surfaces thereof broom clean and free of debris, and in good operating order, condition and state of repair, ordinary wear and tear excepted. “**Ordinary wear and tear**” shall not include any damage or deterioration that would have been prevented by good maintenance practice. Lessee shall repair any damage occasioned by the installation, maintenance or removal of Trade Fixtures, furnishings, and equipment as well as the removal of any storage tank installed by or for Lessee. Lessee shall completely remove from the Premises any and all Hazardous Substances brought onto the Premises by or for Lessee (except Hazardous Substances which were deposited via underground migration from areas outside of the Premises), even if such removal would require Lessee to perform or pay for work that exceeds statutory requirements. Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee. Any personal property of Lessee not removed on or before the Expiration Date or any earlier termination date shall be deemed to have been abandoned by Lessee and may be disposed of or retained by Lessor as Lessor may desire. The failure by Lessee to timely vacate the Premises pursuant to this Section 7.4(b) without the express written consent of Lessor shall constitute a holdover under the provisions of Section 23 below.

8. **Insurance; Indemnity.**

8.1 **Liability.** Lessee shall keep in force such liability insurance policies in such amounts as set forth in Exhibit C attached hereto. The premium for such insurance shall be deemed an “Expense” hereunder.

8.2 **Premises.** Lessee shall obtain and keep in force a policy or policies of property insurance in the name, and for the benefit, of Lessor, with loss payable to Lessor and to Lender insuring loss or damage to the Premises. The amount of such insurance shall be as set forth in Exhibit C attached hereto. The premium for such insurance shall be deemed an “Expense” hereunder.

8.3 **Rental Interruption.** Lessee shall also obtain and keep in force, for the benefit of Lessor, rental interruption insurance insuring Lessor for the amounts of Base Rent arising from an interruption of the payment of the Base Rent, Expenses and Additional Rent otherwise payable by Lessee hereunder, as set forth in Exhibit B attached hereto. The premium for such insurance shall be deemed an “Expense” hereunder.

8.4 **Waiver of Subrogation.** Without affecting any other rights or remedies, Lessee and Lessor each hereby releases and relieves the other, and waives their entire right to recover damages against the other, for loss of or damage to its property arising out of or incident to the perils required to be insured against herein. The effect of such releases and waivers is not limited by the amount of insurance carried or required, or by any deductibles applicable hereto. The Parties agree to have their respective property damage insurance carriers waive any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

8.5 **Indemnity.** Except for Lessor’s negligence or willful misconduct, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor, Lender and their agents,

partners, members, directors, and officers, from and against any and all claims, loss of rents and/or damages, liens, judgments, penalties, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the use and/or occupancy of the Premises by Lessee. If any action or proceeding is brought against Lessor and/or Lender by reason of any of the foregoing matters, Lessee shall upon notice defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and/or Lender, as applicable, and Lessor and/or Lender, as applicable, shall cooperate with Lessee in such defense. Lessor and/or Lender, as applicable, need not have first paid any such claim in order to be defended or indemnified. The provisions of this Section 8.5 shall survive the termination of this Lease.

8.6 Exemption of Lessor from Liability. Lessor shall not be liable for injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, or from any other cause, whether the said injury or damage results from conditions arising upon the Premises or from other sources or places.

8.7 Loan Agreement. The foregoing notwithstanding, for so long as the Loan is outstanding, Lessee shall be deemed to meet its insurance obligations as set forth in this Section 8 if it carries, and it hereby agrees to carry, the insurance required under the terms of Section 4.03 of the Loan Agreement, as such requirements may change from time to time as provided in the Loan Agreement. For so long as the Loan is outstanding, Lessee shall cause the Master Trustee and Lessor to be named as additional insureds on Lessee's liability and property insurance policies.

9. Damage or Destruction.

9.1 Definitions "Damage" shall mean damage or destruction to the improvements on the Premises.

(b) **"Insured Loss"** shall mean Damage which was caused by an event required to be covered by the insurance described in Section 8.2, irrespective of any deductible amounts or coverage limits involved.

(c) **"Replacement Cost"** shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of Applicable Requirements, and without deduction for depreciation.

9.2 Damage—Insured Loss. Subject to the terms of the Loan Agreement, Lessor shall be entitled to any and all insurance proceeds that are available as a result of the Damage. If Damage that is an Insured Loss occurs, then Lessee shall be entitled to use the insurance proceeds that are actually collected as a result of the Damage to repair the Damage as soon as reasonably possible and this Lease shall continue in full force and effect. Notwithstanding the foregoing, if the required insurance was not in force or the insurance proceeds are not sufficient

to affect such repair, Lessee shall promptly contribute the shortage in proceeds as and when required to complete said repairs.

9.3 **Damage—Uninsured Loss.** If Damage that is not an Insured Loss occurs, Lessee shall repair such damage as soon as reasonably possible at Lessee's expense, and this Lease shall continue in full force and effect.

9.4 **Waive Statutes.** Lessor and Lessee agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Premises with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent inconsistent herewith.

10. **Real Property Taxes.**

10.1 **Definition.** As used herein, the term "**Real Property Taxes**" shall include any form of assessment; real estate, general, special, ordinary or extraordinary, or rental levy or tax (other than inheritance, personal income or estate taxes); improvement bond; and/or license fee imposed upon or levied against any legal or equitable interest of Lessor in the Premises, Lessor's right to other income therefrom; and/or Lessor's business of leasing, by any authority having the direct or indirect power to tax and where the funds are generated with reference to the address of the Premises and where the proceeds so generated are to be applied by the city, county or other local taxing authority of a jurisdiction within which the Premises is located. Real Property Taxes shall also include any tax, fee, levy, assessment or charge, or any increase therein: (i) imposed by reason of events occurring during the Term of this Lease, including but not limited to, a change in the ownership of the Premises, and (ii) levied or assessed on machinery or equipment provided by Lessor to Lessee pursuant to this Lease.

10.2 **Payment of Taxes.** Lessee shall timely file for exemption against any Real Property Taxes and shall maintain such exemption during the Term. In any event, Lessee shall pay, before the same become past due, the Real Property Taxes applicable to the Premises during the Term to the extent any such Real Property Taxes are charged, levied, assessed or imposed.

10.3 **Personal Property Taxes.** Lessee shall timely file for exemption against any taxes on Lessee Owned Alterations, Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee and shall maintain such exemption during the Term. Lessee shall pay, prior to delinquency, all such taxes to the extent they are charged, levied, assessed or imposed after an exemption for such taxes is filed as required hereunder.

11. **Assignment and Subletting.**

11.1 **By Lessee.** Lessee shall not sublease, assign, mortgage, pledge, hypothecate or encumber this Lease or any of Lessee's interest hereunder without the prior written consent of Lessor (which shall not be unreasonably withheld). Lessee acknowledges that, pursuant to the Loan Agreement, Lessor is required to obtain Lender's approval to a sublease, assignment or other transfer of Lessee's interest in the Lease and that Lessor's disapproval shall be deemed reasonable if based on Lender's disapproval. Lessee acknowledges that the financing of the Premises through the tax-exempt Bonds may restrict the assignees which could be approved by Lessor.

11.2 **By Lessor.** Lessee acknowledges that the Premises are subject to a deed of trust and assignment of rents in favor of the Master Trustee and that the Lease is assigned to the Master Trustee as security for the Loan.

12. **Default; Breach; Remedies.**

12.1 **Default; Breach.** A “**Default**” is defined as a failure by Lessee to comply with or perform any of the terms, covenants or conditions under this Lease. A “**Breach**” is defined as the occurrence of one or more of the following Defaults, and the failure of Lessee to cure such Default within any applicable grace period:

- (a) The abandonment of the Premises.
- (b) The failure of Lessee to make any payment of Rent required to be made by Lessee hereunder, whether to Lessor or to a third party, when due, to provide reasonable evidence of insurance or surety bond, or to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of 3 business days following written notice to Lessee.
- (c) Any representation or warranty made in this Lease, or in any report, certificate, financial statement, or instrument furnished in connection with this Lease, proves to have been false or misleading when made, in any material respect.
- (d) Lessee violates or fails to observe or perform any covenant contained in Section 3 of Exhibit D attached hereto.
- (e) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, other than those described in subparagraphs 12.1(a) through (d) above, where such Default continues for a period of thirty (30) days after written notice; provided, however, that if the nature of Lessee’s Default is such that more than 30 days are reasonably required for its cure, then it shall not be deemed to be a Breach if Lessee commences such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion, not to exceed ninety (90) days.
- (f) The occurrence of any of the following events: (i) the making of any general arrangement or assignment for the benefit of creditors; (ii) becoming a “**debtor**” as defined in 11 U.S.C. § 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within 90 days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee’s assets located at the Premises or of Lessee’s interest in this Lease, where possession is not restored to Lessee within sixty (60) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee’s assets located at the Premises or of Lessee’s interest in this Lease, where such seizure is not discharged within sixty (60) days; provided, however, in the event that any provision of this subparagraph (f) is contrary to any applicable law, such provision shall be of no force or effect, and not affect the validity of the remaining provisions.
- (g) The discovery that any financial statement of Lessee given to Lessor was materially false.

12.2 **Remedies.** If Lessee fails to perform any of its affirmative duties or obligations (other than compliance with covenants and financial reporting requirements pursuant to Section 28), within fifteen (15) days after written notice (or, in the case of those duties and obligations that cannot reasonably be performed within fifteen (15) days after notice, to commence and diligently prosecute such duties and obligations to completion), Lessor may, at its option, perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. Lessee shall pay to Lessor the costs and expenses incurred by Lessor in such performance upon receipt of an invoice therefor. In the event of a Breach, including Lessee's failure to comply with the covenants or financial reporting requirements set forth in Section 28, Lessor may, with or without further notice or demand, but with the consent of BHR, or shall, at BHR's direction, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the unpaid Rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid Rent for the balance of the term after the time of award exceeds the amount of such rental loss that Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees of Lessor and BHR, and that portion of any leasing commission paid by Lessor in connection with this Lease applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of the district within which the Premises are located at the time of award plus one percent. Efforts by Lessor to mitigate damages caused by Lessee's Breach of this Lease shall not waive Lessor's right to recover damages under Section 12. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding any unpaid Rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit. If a notice and grace period required under Section 12.1 was not previously given, a notice to pay rent or quit, or to perform or quit given to Lessee under the unlawful detainer statute shall also constitute the notice required by Section 12.1. In such case, the applicable grace period required by Section 12.1 and the unlawful detainer statute shall run concurrently, and the failure of Lessee to cure the Default within the greater of the two such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Lessee's right to possession and recover the Rent as it becomes due. Acts of maintenance, efforts to relet, and/or the appointment of a receiver to protect Lessor's interests, shall not constitute a termination of Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available under the laws or judicial decisions of the state wherein the Premises are located. The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under this Lease, including under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

12.3 **Interest.** Any monetary payment due Lessor hereunder not received by Lessor when due as to scheduled payments (such as Base Rent) or within thirty (30) days following the date on which it was due for non-scheduled payments, shall bear interest from the date when due as to scheduled payments, or the 31st day after it was due as to non-scheduled payments. The interest ("**Interest**") charged shall be computed at the rate of 10% per annum but shall not exceed the maximum rate allowed by law. Interest is payable in addition to any late charges and default rate interest under the Loan Agreement.

13. **Condemnation.** If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (collectively "**Condemnation**"), this Lease shall terminate as to the part taken as of the date the condemning authority takes title or possession, whichever first occurs, and Expenses thereafter shall be limited to those applying to the remaining Premises subject to this Lease. Subject to the terms of the Loan Agreement, in the event that there is a Condemnation of less than all of the Premises, and such portion so taken is material to Lessee's use and quiet enjoyment of the Premises as a whole, then all available Condemnation awards and/or payments shall be used first, to restore the remaining portion of the Premises to a usable whole, and second, to reduce the balance of any loan made to Lessor and secured by the Premises in proportion to the portion taken or sold. Any portion of the award and/or payment that remains after the foregoing purposes have been satisfied shall be the property of Lessor. Subject to the terms of the Loan Agreement, if the entirety of the Premises is taken, then the Condemnation awards and/or payments shall be the property of Lessor.

14. **Estoppel Certificates.** Each Party (as "**Responding Party**") shall within ten (10) days after written notice from the other Party (the "**Requesting Party**") execute, acknowledge and deliver to the Requesting Party a statement in writing in form similar to the then most current "**Estoppel Certificate**" form published by the AIR Commercial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

15. **Definition of Lessor.** The term "**Lessor**" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises. Upon any transfer of fee title to the Premises, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by Lessor shall be binding only upon Lessor as hereinabove defined.

16. **Severability.** The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

17. **Days.** Unless otherwise specifically indicated to the contrary, the word “**days**” as used in this Lease shall mean and refer to calendar days.

18. **Limitation on Liability.** The obligations of Lessor under this Lease shall not constitute personal obligations of Lessor, and Lessee shall look to the Premises, and to no other assets of Lessor, for the satisfaction of any liability of Lessor with respect to this Lease.

19. **Time of Essence.** Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

20. **No Prior or Other Agreements.** Subject to the terms of the Loan Agreement and other documents relating to the Bonds, this Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective. Each Party represents and warrants that the execution of this Lease will not, to the best of the Party’s knowledge, constitute a violation under any material agreements to which such Party is a party.

21. **Notices.**

21.1 **Notice Requirements.** All notices required or permitted by this Lease or applicable law shall be in writing and may be delivered in person (by hand or by courier) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission, and shall be deemed sufficiently given if served in a manner specified in this Section 21. The addresses for the Parties are set forth below and shall constitute the respective address for delivery or mailing of notices. Either Party may, by written notice to the others, specify a different address for notice. Upon Lessee’s taking possession of the Premises, the Premises shall constitute Lessee’s address for notice unless Lessee notifies Lessor otherwise. A copy of all notices to Lessor or Lessee shall be concurrently transmitted to such party or parties at such addresses as Lessor or Lessee, respectively, may from time to time hereafter designate in writing.

21.2 **Addresses.**

Lessor: MPM Sherman Way LLC
c/o Magnolia Properties Management, Inc.
13950 Milton Avenue, Suite 200B
Westminster, California 92683
Attention: Chief Financial Officer

Lessee: Magnolia Educational & Research Foundation
13950 Milton Avenue, Suite 200B
Westminster, California 92683
Attention: Chief Financial Officer

Lender (during the time the Loan is outstanding):
California School Finance Authority
State Treasurer's Office
304 S. Broadway, Suite 550
Los Angeles, California 90013
Attention: Executive Director
Telecopy: (213) 620-6309

BHR: Hamlin Capital Management, LLC
640 Fifth Avenue, 6th Floor
New York, New York 10019
Attention: Benjamin P. Kaufman
Telecopy: (212) 752-5698

21.3 **Date of Notice.** Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown; the postmark thereon. If sent by regular mail the notice shall be deemed given 48 hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantee next day delivery shall be deemed given 24 hours after delivery of the same to the Postal Service or courier. Notices transmitted by facsimile transmission or similar means shall be deemed delivered upon telephone confirmation of receipt (confirmation report from fax machine is sufficient), provided a copy is also delivered via delivery or mail. If notice is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

22. **Waivers.** No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or of any other term, covenant or condition hereof.

23. **No Right To Hold Over.** Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or termination of this Lease. In the event that Lessee holds over, then the Base Rent shall be increased to 110% of the Base Rent applicable immediately preceding the expiration or termination. Nothing contained herein shall be construed as consent by Lessor to any holding over by Lessee.

24. **Cumulative Remedies.** No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

25. **Covenants and Conditions; Construction of Agreement.** All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions. In construing this Lease, all headings and titles are for the convenience of the Parties only and shall not be considered a part of this Lease. Whenever required by the context, the singular shall include the plural and vice versa. This Lease shall not be construed as if prepared by one of the Parties, but rather according to its fair meaning as a whole, as if both Parties had prepared it.

26. **Binding Effect; Choice of Law.** This Lease shall be binding upon the Parties, their personal representatives, successors and assigns and be governed by the laws of the State of California. Any litigation between the Parties hereto concerning this Lease shall be initiated in the County of Los Angeles.

27. *(Reserved)*

28. **Mandatory Covenants.** For so long as the Loan is outstanding and has not been defeased or for so long as Lessor shall have obligations under the Loan Agreement, the provisions of Exhibit D shall be applicable for the benefit of Lessor and the Lender.

29. **Lessor's Access; Showing Premises; Repairs.** Lessor and BHR shall have the right to enter the Premises at any time in the case of an emergency, and otherwise at reasonable times after twenty-four hours' prior notice for the purpose of inspecting the Premises, verifying compliance by Lessee with this Lease, showing the Premises to prospective purchasers, lenders, or tenants, and making such alterations, repairs, improvements or additions to the Premises as Lessor may deem necessary or desirable and the erecting, using and maintaining of utilities, services, pipes and conduits through the Premises as long as there is no material adverse effect to Lessee's use of the Premises.

30. **Quiet Possession.** Subject to payment by Lessee of the Rent and performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession and quiet enjoyment of the Premises during the Term hereof.

31. **Counterparts.** This Lease may be executed by the Parties in counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

32. **Amendments.** Subject to the terms of the Indenture, this Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by a lender in connection with the obtaining of normal financing or refinancing of the Premises.

33. **Limitation of Rights to Parties.** Except as otherwise provided herein, nothing in this Lease is intended or shall be construed to give to any person other than Lessor and Lessee any legal or equitable right, remedy or claim under or in respect of this Lease or any covenant, condition or provision herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of Lessor and Lessee.

34. **Subordination of Management Agreements.** Lessee shall amend any management agreement for the School such that, so long as Bonds remain outstanding: (i) the obligation of Lessee to pay management fees relating to the School shall be subordinate to its payment of operating expenses of the School and rent payments to Lessor under this Lease; (ii) the obligation of Lessee to pay management fees relating to the School shall be suspended for any such time as the payment of management fees would cause Lessee to fail to meet any of the financial covenants contained in Sections 6 and 7 of Exhibit D to this Lease (concerning the days

cash on hand and the debt service coverage ratio); and (iii) during any period of time when management fees remain unpaid, such fees shall accrue without interest.

35. **Pledge and Security Interest.** To secure the payment and performance of its obligations hereunder, Lessee hereby pledges to Lessor and grants Lessor a security interest in the Gross Revenues of the School and in the Lessee Management Fees. From time to time, Lessee may own or hold funds or other assets subject to a statutory, regulatory, grantor-imposed or donor-imposed restriction on use that prohibits the use of such funds or assets to satisfy the obligations of Lessee under this Agreement and/or prohibits the encumbrance of such funds or assets to secure such obligations. The foregoing pledge and grant of security interest shall not encumber, attach to, or transfer, and the holder of any claims of Lessor under this Lease shall have no recourse under this Lease to, any funds or assets of Lessee to the extent that any transfer of such funds or assets to or for the benefit of such holder would violate any such restriction on the use of such funds or assets.

(Signatures on next page)

(Signature page of Lease Agreement)

The Parties hereto have executed this Lease as of the day and year first above written.

Lessor:

MPM SHERMAN WAY LLC,
a California limited liability company

By: Magnolia Properties Management, Inc.,
a California nonprofit public benefit
corporation,
its sole member

By: _____
Name:
Title:

Lessee:

**MAGNOLIA EDUCATIONAL & RESEARCH
FOUNDATION,**
a California nonprofit public benefit corporation

By: _____
Name:
Title: Chief Executive Officer

EXHIBIT A

Description of Premises

Real property in the City of Los Angeles (Reseda area), County of Los Angeles, State of California, described as follows:

PARCEL 1

LOT 1 AND ALL OF LOT 2, EXCEPT THE WESTERLY 62 FEET THEREOF AND ALL OF LOT 5, EXCEPT THE WESTERLY 62 FEET THEREOF, TRACT NO. 17598, IN THE CITY OF LOS ANGELES, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AS PER MAP RECORDED IN BOOK 530 PAGES 37 AND 38 OF MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

APN: 2125-036-095 and 2125-036-100

PARCEL 2

LOT(S) 1 AND 10 OF TRACT NO. 21799, IN THE CITY OF LOS ANGELES, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AS PER MAP RECORDED IN BOOK 617 PAGES 42-44 OF MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

APN: 2125-036-021, 2125-036-105, 2125-036-106

EXHIBIT B

Schedule of Base Rent Payments

(Remainder of page intentionally left blank)

EXHIBIT C

Insurance Coverage

Lessee shall obtain and maintain the following insurance coverages:

(a) Property insurance (including builder's all-risk insurance) against loss or damage to any structure constituting any part of the Premises by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. All insurance provided pursuant to this paragraph shall be in an amount equal to the lesser of (i) 100% of the replacement cost (without depreciation) of all improvements constituting any part of the Premises or (ii) the principal amount of the Loan then outstanding, and shall be subject to a deductible not to exceed \$5,000.

(b) Rental interruption insurance to cover loss, total or partial, of rental income to Lessor for any reason whatsoever, in an amount sufficient to pay the maximum Rent under the Lease for a period of at least 12 months.

(c) Liability insurance in amounts which are customarily carried and against such risks as are customarily insured against by other corporations in connection with the ownership and operation of facilities of similar character and size to the Premises.

(d) Workers' compensation insurance necessary to comply with California state law.

EXHIBIT D

Mandatory Covenants

[Note that these mandating covenants will be updated based on requirements of Master Trust Indenture]

For so long as the Loan is outstanding and has not been defeased or for so long as Lessor shall have obligations under the Loan Agreement, the following provisions of this Exhibit D shall be applicable for the benefit of Lessor, BHR and the Bond Trustee. Capitalized terms not otherwise defined in this Exhibit D shall have the meanings ascribed to such terms in the Lease and the Loan Agreement.

1. **General Covenants.** Lessee covenants and agrees:

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

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

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

(ii) of property, plant and equipment replaced by property, plant and equipment of similar type and/or of substantially equivalent function with a substantially equivalent value; or

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

2. **Financial Reporting.** Lessee agrees to provide Lessor and the Bondholder Representative, and upon written request, the Bond Trustee, the following information:

- (a) quarterly unaudited financial information of the School not later than 45 days from the end of each quarter,
- (b) annual budgets of the School within 30 days of their adoption,
- (c) financial information of the School within 30 days of approval by the governing board of Lessee of the School's audited financial statements, which shall include calculations of the Days Cash on Hand and the Debt Service Coverage Ratio as described in Sections 6 and 7 below,
- (d) the results of any federal or State of California testing within 45 days of receipt by the governing board of Lessee,
- (e) within 7 days of receipt, any notification or report of any potential or alleged violation of the Charter for the School, and
- (f) such other information as may be reasonably requested by Lessor, the Bondholder Representative or the Trustee.

3. Lessee Representations and Warranties. Lessee represents, warrants, and covenants that:

- (i) it is an organization described in Section 501(c)(3) and Section 170(b)(1)(A)(ii) of the Code, and except for unrelated business income taxable under Section 511 of the Code, it is exempt from federal income tax under Section 501(a) of the Code;
- (ii) it will not take any action or omit to take any action that, if taken or omitted, would cause: (x) it to lose its current federal income tax status as exempt from federal income taxation under Section 501(a) of the Code as an organization described in Code Section 501(c)(3) and as an organization described in Code Section 170(b)(1)(A)(ii), or (y) Lessor to be viewed, for federal income tax purposes, as other than disregarded as an entity separate from its sole member pursuant to Treasury Regulation Section 301.7701-3(b);
- (iii) it has not and will not divert a substantial part of its corpus or income for a purpose or purposes other than the purpose or purposes for which it is organized or operated and will use Bond proceeds solely for the charitable purposes of Lessee;
- (iv) it has not operated, and will not operate, in a manner that would result in it being classified as an "action" organization within the meaning of Section 1.501(c)(3) of the Treasury Regulations, including, but not limited to, promoting or attempting to influence legislation by propaganda or otherwise as a substantial part of its activities;
- (v) it shall not use any of the proceeds of the Bonds to: (A) carry on propaganda, or otherwise attempt to influence legislation, within the meaning of Section 4945(d)(1) or Section 501(c)(3) of the Code, or the corresponding provisions of any subsequent federal tax laws; or (B) participate in, or intervene in (including publishing or distributing of any statements), any political campaign on behalf of any political candidate for public office or attempt to influence the outcome of any specific public election, or to carry on, directly or indirectly, any voter

registration drive, within the meaning of Section 4945(d)(2) or Section 501(c)(3) of the Code, or corresponding provisions of any subsequent federal tax laws, and not make any grant which does not comply with the requirements of Section 4945(d)(3) or Section 4945(d)(4) of the Code, or corresponding provisions of any subsequent federal tax laws, or which violates the provisions of Section 4945(d)(5) of the Code, or corresponding provisions of any subsequent federal tax laws;

(vi) none of its directors, officers, organizers or incorporators, or any Person controlled by Lessee, or any other Person having a private or professional interest in the activities of Lessee has acquired or received nor will such Persons be allowed to acquire or receive, directly or indirectly, without due compensation, goods, or services therefore, or any of the income or assets of Lessee, in any form;

(vii) it is not a "private foundation" within the meaning of Section 509(a) of the Code;

(viii) it has not received any indication or notice to the effect that its exemption from federal income taxation under Section 501(a) of the Code has been revoked or modified, or that the Internal Revenue Service is considering revoking or modifying such exemption, and such exemption is still in full force and effect;

(ix) it will timely file with the Internal Revenue Service all requests for determination, reports, and returns required to be filed by it to maintain its status as organizations described in Section 501(c)(3) of the Code, and such requests for determination, reports, and returns have not omitted or misstated any material fact;

(x) it has not devoted nor will it devote more than an insubstantial part of its activities in furtherance of a purpose other than an exempt purpose within the meaning of Section 501(c)(3) of the Code;

(xi) its Charter is in full force and effect; and

(xii) to the best of its knowledge, it is in material compliance with the terms, including financial covenants, of all leases and loan agreements to which it is a party.

4. Assignment to Trustee; Deposit of Rental Payments. Lessee hereby acknowledges and consents to the assignment by Lessor of Lessor's rights hereunder to the Master Trustee under the Indenture and covenants and agrees to deposit all Base Rent and Additional Rent hereunder with the Master Trustee under the Master Indenture. Lessee hereby covenants to pay to the Master Trustee the Base Rent and Additional Rent due hereunder on or before the twenty-fifth (25th) day of each month. In accordance with the terms of Section 1.5 of the Lease, Lessee also agrees to provide an Intercept Notice to the State Controller requesting that the amounts specified therein be transferred to the Bond Trustee.

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

required by the Intercept Notice to be deposited with the Bond Trustee under the Indenture will continue to be so deposited. A security interest in the Gross Revenues of the School on parity with the lien created by this Lease may only be created in connection with the issuance of Additional Bonds under the Indenture and with the consent of the Bondholder Representative.

6. **Liquidity Covenant.**

[TBD]

7. **Coverage Ratio Covenant.**

[TBD]

8. **Change in Financial Accounting Under GAAP.** If any pending or future change in financial accounting under GAAP, including but not limited to a change in the treatment of leases, shall lead to a materially different result in a calculation under any financial covenant in this Exhibit D, then such financial covenant shall be calculated based on GAAP in effect as of the date of this Lease as if such change in financial accounting had never occurred.

9. **Other Covenants.**

[TBD]

EXHIBIT E

Form of Intercept Notice

This Notice shall be provided not later than the date of issuance of the Bonds.

Notice to the State Controller Pursuant to Education Code Section 17199.4

June __, 2017

Re: California School Finance Authority School Facility Revenue Bonds (Magnolia Public Schools – Obligated Group) Draw Down Series 2017A and Series 2017B (Taxable)

WHEREAS, MPM Sherman Way LLC (the “Borrower”) has entered into a Loan Agreement, dated as of _____, 2017, by and between the California School Finance Authority (the “Authority”) and the Borrower, providing for a loan (the “Loan”) for the acquisition and construction of charter school facilities to be owned by the Borrower and leased to Magnolia Educational & Research Foundation, a California nonprofit public benefit corporation, which operates Magnolia Science Academy 1, also known as Magnolia Science Academy, a school established pursuant to the Charter Schools Act of 1992, as amended, constituting Part 26.8 (commencing with Section 47600) of Division 4 of Title 2 of the Education Code of the State of California (the “Lessee”) (CDS# 19-64733-6119945); and

WHEREAS, the Authority has issued its above-referenced revenue bonds (the “Bonds”) to fund the Loan;

NOW THEREFORE, NOTICE IS HEREBY GIVEN PURSUANT TO SECTION 17199.4(a)(1) AND (4) OF THE EDUCATION CODE OF THE STATE OF CALIFORNIA TO THE STATE CONTROLLER OF THE STATE OF CALIFORNIA (the “State Controller”), that:

1. The governing board of the Lessee has elected, pursuant to a resolution adopted on _____, 2017 and Section 17199.4(A)(1) and (4) of the Education Code, to direct the State Controller to make transfers at the times and in the amounts (or such lesser amounts as are available to transfer) in the “State Intercept” column set forth on Schedule I attached hereto, directly to UMB Bank, National Association, as trustee (the “Trustee”), for the Bonds. If the amount transferred on any transfer date is less than the amount in the “State Intercept” column set forth on Schedule I attached hereto, then such deficiency shall be added to subsequent transfers until no deficiency remains.

2. Transfers pursuant to paragraph 1 above shall be paid by wire transfer of immediately available funds to:

UMB Bank, National Association

(Signature on next page)

(Signature page to intercept notice)

MAGNOLIA EDUCATIONAL & RESEARCH
FOUNDATION, as operator of Magnolia Science
Academy 1, also known as Magnolia Science Academy

By: _____
Name: _____
Title: _____

Schedule I

Intercept Payment Amounts and Dates

(Remainder of page intentionally left blank)

