CALIBRE ACADEMY

CTDS: 13-89-09-000

FINANCIAL PERFORMANCE FRAMEWORK RESPONSE

MARCH 28, 2014

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Going Concern/Net Income

Calibre Academy has received the designation of a going concern in the prior financial audit. This designation is the result of a few factors but primarily relates to the 2012 issuance of revenue bonds (see Appendix A) coupled with increased operational costs of a new facility in Surprise, Arizona and also continued struggling enrollment at the Glendale campus.

While revenues increased $604,094 in FY2013 for Calibre Academy, expenses also increased $1,080,722. This is largely attributable to interest expense increasing $559,990 due to FY2013 being the first full fiscal year of interest on the 2012 Series Bonds. The remainder of the expense increase of $520,732 is the result of the opening of the new campus. This caused increases in expense items that included utilities, textbooks, instructional supplies, wages, employee benefits and depreciation. While enrollment continues to improve at the Surprise campus, it did not increase at a pace significant enough to cover the increases in operational expenses associated with the new location (see Appendix B) and the debt service expenses that were felt this past fiscal year. This, coupled with a continuing struggling Glendale campus that resides in a market that is continuing to become saturated with other charter schools, has led to a decrease in net assets for the FY2013 of $1,313,495. The below table is a summary of the Net Income for FY2011 - FY2013.

NET INCOME(LOSS) PER YEAR ANALYSIS

	2011	2012	2013
TOTAL REVENUE	4,493,890	4,700,541	5,304,635
TOTAL EXPENSES	(3,601,596)	(6,939,107)	(6,618,130)
NET INCOME/LOSS	892,294	(2,238,566)	(1,313,495)
LESS DEPRECIATION	143,790	188,001	345,129
LESS ONE TIME EXPENSES	0	1,401,699	0
TOTAL NET INCOME/LOSS	1,036,084	(648,866)	(968,366)

For the current fiscal year 2014, Calibre Academy is projecting a revenue increase of approximately $893,287. The Surprise campus has seen a healthy ADM increase this year resulting in an increase of State Equalization payments of $393,287. Also, the Glendale location currently leases space to

E-Institute Charter School, Inc. which has resulted in rental income of $500,000 for FY2014, an increase of $435,000 from FY2013. This increase in revenue, coupled with a forecasted decrease in expenses, has Calibre Academy projecting financial improvement of approximately $1,200,757 for FY2014. The table below demonstrates the improvement.

FY2014 NET INCOME INCREASE	
Revenues:	
State Equalization Increase	$ 393,287
Rental Income	$ 435,000
Total	$ 878,827
Expenses:	
Management Fee Decrease	$ 136,391
Teacher Salaries Decrease – Glendale	$ 146,002
Teacher Salaries Decrease – Surprise	$ 58,501
Principal Salaries Decrease – Surprise	$ 31,036
Total	$ 371,930
Total FY2014 Net Income Increase	$1,200,757

In an on-going effort to remedy the going concern situation and improve the financial health of the organization, Calibre Academy has been evaluating all potential options for further financial improvement for FY2015. This includes closing the struggling Glendale location (see Appendix C). The projected loss in revenues from closing the Glendale campus is $1,263,416 offset by expense decreases of $1,209,660. The rental income of the Glendale facility to E-Institute Charter Schools, Inc will remain at $500,000 and will be offset by operating costs of the facility of $145,068, which is a conservative estimate of the operating costs. This will result in net rental income of $354,932 for the Glendale facility in FY2015 with the potential of renting out additional vacant space. Management is currently in discussions with the Bond Attorney to figure out what the options will be for that property going forward.

The Surprise campus will undergo reorganization for FY2015. This includes a recommended reduction of instructional positions in an effort to realign student/teacher ratios to maximize cost-effectiveness while maintaining educational excellence. This is estimated to result in the reduction of 4 FTE's for estimated savings of $160,000. Enrollment at the Surprise campus is currently forecasted to increase by 81 students in FY2015 (See Appendix D for marketing literature), E, F and G) thereby increasing revenues by $534,283 which is a conservative estimate calculated using the FY2014 revenue worksheets. It is Calibre Academy's belief that these additional

steps will lead the school towards a brighter future for FY2015.

Fixed Charge Coverage Ratio

Calibre Academy's Fixed Charge Coverage Ratio was .23 for FY2013. As explained above, the school is projecting a revenue increase for FY2014 due to increased enrollment at the Surprise campus and E-Institute Charter School, Inc. leasing space at the Glendale location. This has precipitated a much improved forecasted change in net assets for FY2014 thereby increasing the Estimated Fixed Charge Coverage Ratio to 1.30 for FY2014.

As explained above, the enrollment numbers are looking healthy for FY2015 at the Surprise campus and management has decided to close the Glendale campus.

Below is the estimated fixed charge coverage ratio for FY2014 based on current projections.

Anticipated FY13-14 Fixed Charge Coverage Ratio	
Change in Net Assets	$ (112,738)
Depreciation	645,672
Interest Expense	1,336,152
Lease Expense	3,327
Total	1,872,413
Fixed Obligations	1,439,479
Fixed Charge Coverage Ratio	1.30

Unrestricted Days Liquidity

Calibre Academy's Unrestricted Days Liquidity was 17.42 days for FY2013 which is less than the 30 days requirement. As described earlier, Calibre Academy has endured significant debt service costs related to the 2012 Series Bond Issuance. This has caused a significant increase in interest expense to $1,338,108 in FY2013 and, in turn, increased overall net expenses. While this interest expense is not expected to decrease in FY2015, overall expenses are expected to decrease with the reorganization of the Surprise campus and the closing of the Glendale campus.

Calibre Academy also has access to other sources of liquidity. The school is

related to E-Institute Charter Schools, Inc. through common directors. The school is able to receive operating assistance from E-Institute Charter Schools, Inc.

Cashflow

Calibre Academy does not meet for cashflow because FY2011 and FY2013 are negative. FY2013's cashflow was ($51,585). The negative cashflow is largely due to the interest payments of $1,338,108 on the 2012 Series Bonds, with FY2013 being the first full year of the interest payments. Cashflow for FY2015 is expected to improve based upon increased enrollment at the Surprise campus and reduced expenses at the Surprise campus and the savings demonstrated by closing the Glendale campus. It is management's intention to use the improved position to create cash reserves as a preventative measure to secure the future of Calibre Academy.

APPENDIX A[3]

THE PROJECT, THE BORROWER AND THE GUARANTOR

The Project

Carden Traditional School of Surprise, Inc. (the "*Borrower*") is an Arizona nonprofit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). The Borrower has requested that The Industrial Development Authority of the County of Pima, issue its Education Revenue Refunding Bonds (Carden Traditional Schools Project) Series 2011 (the "*Series 2011 Bonds*"), in the aggregate principal amount of $16,250,000, and loan the proceeds of the Series 2011 Bonds to the Borrower (the "*Loan*"). The Borrower will use the proceeds of the Loan to: (i) redeem an approximately $2,150,000 obligation incurred by the Borrower during 2001 (the "*2001 Obligation*"); (ii) refund an approximately $4,295,000 obligation incurred by the Borrower in 2004 (the "*2004 Obligation*"); (iii) acquire and improve approximately 7.6 acres of land located at 15739 West Custer Lane, Surprise, Arizona (the "*Custer Lane Property*"); (iv) finance or refinance the cost of expanding, constructing, improving and equipping its existing K-8 school campuses located at 15688 West Acoma Road, Surprise, Arizona (the "*Surprise Campus*") and 4744 West Grovers Avenue, Glendale, Arizona (the "*Glendale Campus*")(the Surprise Campus and the Glendale Campus are referred to herein as the "*Existing Facilities*"); (v) finance the cost to acquire, construct, improve and equip additional charter school facilities on the Custer Lane Property (the "*Additional Facilities*" and together with the Existing Facilities, the "*Series 2011 Facilities*"); (vi) fund a debt service reserve; (vii) pay capitalized interest on the Series 2011 Bonds; and (viii) pay associated transaction costs.

E-Institute Charter School, Inc. (the "*Guarantor*") is also an Arizona nonprofit corporation and an organization described in Section 501(c)(3) of the Code. The Guarantor is a separate and distinct nonprofit corporation, although it is affiliated with the Borrower through the same founders and a common board of directors.

Security

As security for the Loan, the Borrower will pledge its Pledged Revenues[1], including its State Payments, and grant a first-position lien on the Series 2011 Facilities. In addition, the Guarantor will guarantee the Loan by pledging its Guarantor Pledged Revenues for the guarantee. See "APPENDIX B - CHARTER SCHOOLS IN ARIZONA" in the Official Statement for a discussion of historical and projected levels of State Payments per pupil and other related matters. See also "BONDHOLDERS' RISKS – Changes in Law; Annual Appropriation; Inadequate State Payments" in the Official Statement.

Student Enrollment

The Borrower currently operates two charter schools (the "*Borrower's Schools*") that serve students grades kindergarten through 8 pursuant to a charter contract with the Arizona State Board for Charter Schools (the "*ASBCS*"). The Guarantor currently operates seven charter schools (the "*Guarantor's Schools*") that serve students grades 9 through 12 pursuant to a charter contract with the ASBCS. As of October 21, 2011, the current student ADM-enrollment[2] for the Borrower's Schools is

[1] All capitalized terms used herein and not otherwise defined herein have the meanings defined in the Loan Agreement.
[2] "ADM" is the State acronym for "**A**verage **D**aily **M**embership," and means the total student enrollment (whether full-time or fractional), minus withdrawals, of each school day through the first forty days, one hundred days or two hundred days, as applicable, in session for the current year. State Payments made to the Borrower and the Guarantor are based upon ADM.
[3] This analysis was completed in September 2011 as part of the bond project and may not reflect current board and staff members.

764 and the current ADM-enrollment for the Guarantor's Schools is 791. The 40-day ADM report, published by the State of Arizona (the "*State*"), is anticipated in December 2011. This report will aggregate student enrollment, withdrawals, additions and absences to determine the official ADM-enrollment for the first 40 days of the 2011-2012 school year.

The Existing Campuses

The Borrower currently operates the Borrower's Schools at two campus locations: (1) the Surprise Campus; and (2) the Glendale Campus. The Guarantor currently operates the Guarantor's Schools at seven campus locations: (1) 3515 West Union Hills, Glendale, Arizona (the "*Deer Valley Campus*"); (2) 4744 West Grovers Avenue, Glendale, Arizona (the "*Grovers Campus*"); (3) 9201 North 29th Avenue, Suite 26, Phoenix, Arizona (the "*Metro Campus*"); (4) 16578 West Greenway Road, Suite 204, Surprise, Arizona (the "*Surprise Greenway Campus*"); (5) 6213 South Miller Avenue, Buckeye, Arizona (the "*Buckeye Campus*"); (6) 1435 North Eliseo C. Felix Jr. Way, Avondale, Arizona (the "*Avondale Campus*"); and (7) 1815 East Southern Avenue, Tempe, Arizona (the "*Tempe Campus*"). Please see the "Map Reference" in Table 1.

Map of the Borrower's Schools and the Guarantor's Schools

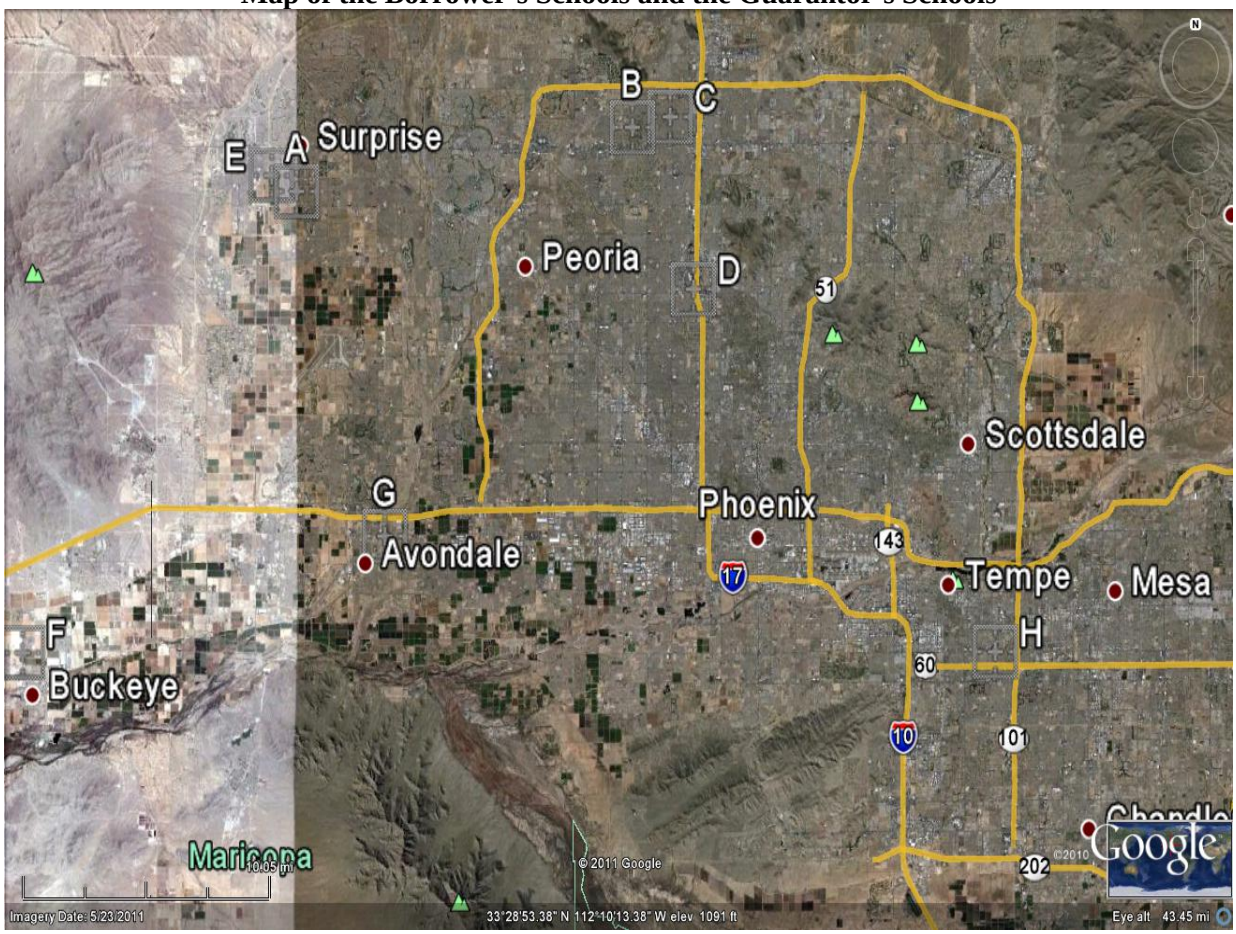


Table 1: Campus Information before Completion of the Project

Map Ref	Operated By	Campus	Campus Opening Date	Building Square Footage	Student Capacity	Grade Levels Served	Property Ownership
A	Borrower	Surprise Campus	2000	30,000	650	K-8	Owned
B	Borrower	Glendale Campus	1996	26,000	500	K-8	Owned
C	Guarantor	Deer Valley Campus	2000	4,150	N/A	9-12	Leased
B	Guarantor	Grovers Campus	2009	700	N/A	9-12	Leased
D	Guarantor	Metro Campus	2008	11,248	N/A	9-12	Leased
E	Guarantor	Surprise Greenway Campus	2003	8,008	N/A	9-12	Leased
F	Guarantor	Buckeye Campus	2011	5,000	N/A	9-12	Leased
G	Guarantor	Avondale Campus	2011	3,966	N/A	9-12	Leased
H	Guarantor	Tempe Campus	2011	1,920	N/A	9-12	Leased

The Borrower purchased the Glendale Campus during 2001, with the proceeds of the 2001 Obligation. The Borrower purchased the Surprise Campus during 2004, with the proceeds of the 2004 Obligation.

The Guarantor leases its various campuses as follows:

Table 2: Lease Information Related to the Guarantor's Campuses

Campus	Landlord	Date of Lease	Lease Expiration Date	Annual Rent	Right to Extend
Deer Valley Campus	Capital Realty	10/01/2001	01/31/2012	$72,181	None[3]
Grovers Campus	Borrower	08/01/2011	07/31/2016	$7,000	None
Metro Campus	Centro NP LLC	10/15/2008	10/31/2013	$135,931	None
Surprise Greenway Campus	Buttrum Greenway Crossings, LLC	09/14/2009	10/31/2014	$179,370	Two 5 Year Options
Buckeye Campus	Miller Plaza Shops, LLC	3/11/2010	10/31/2018	$105,653	Three 5 Year Options
Avondale Campus	B&W Rio Estrella Plaza, LLC	09/01/2011	09/30/2016	$20,616	One 3 Year Option
Tempe Campus	Cheyenne Properties	09/01/2011	03/31/2017	$17,472	None

<u>The Series 2011 Facilities</u>

The Borrower will purchase the Custer Lane Property (approximately 7.6 acres of land) for a purchase price of $800,000.00. The current owners of the Custer Lane Property are Timothy and Shannon Smith. The Smiths are also on the Board (as defined below) of the Borrower and serve as Co-Executive Directors of the Borrower. Due to this relationship, and a formal finding of conflict by Board, the Board engaged separate legal counsel to negotiate the purchase agreement for the Custer Lane Property, received independent advice from such legal counsel, obtained an independent appraisal for the Custer Lane Property and required both Timothy Smith and Shannon Smith to recuse themselves from the vote on the matter and to leave the boardroom during discussion and deliberations regarding the matter. Only disinterested Directors on the Board voted to approve the purchase of the Custer Lane Property.

[3] The Guarantor has a long-term relationship with Capital Realty and has previously renewed this lease. The Borrower is currently negotiating with the landlord and does not anticipate any difficulties renewing this lease.

After purchasing the Custer Lane Property, the Borrower intends to dispose of four modular buildings, relocate and upgrade four modular buildings and construct five new buildings comprising approximately 45,000 square feet. The total cost of new construction is $6,000,600. Upon completion of the Series 2011 Facilities, the Additional Facilities will include 24 classrooms, one gymnasium/auditorium, a new cafeteria and administrative offices.

The Borrower has entered into an architectural agreement with HDA Architects ("HDA"). HDA is one of the leading architectural firms in Arizona for designing school facilities and has completed more than a billion dollars in school-design work.

The Borrower has also entered into a guaranteed-maximum-price construction contract with respect to construction for the Project with D. L. Withers Construction, LC ("DL Withers"). DL Withers is the leading school contractor in Arizona and has completed hundreds of school campuses throughout Arizona for both traditional district public schools and charter schools. In accordance with the terms of the construction contract, DL Withers will provide performance and payment bonds in the full amount of the contract sum and will furnish and install all of the materials and labor and perform all of the work for the construction required by the Borrower in connection with the Project. The construction contract requires completion of the Project on or before July 20, 2012.

Table 3: Campus Information after Completion of the Project

Operated By	Campus	Campus Opening Date	Building Square Footage	Student Capacity	Grade Levels Served	Property Ownership
Borrower	Surprise Campus	2000	75,000	1,300	K-8	Owned
Borrower	Glendale Campus	1996	26,000	500	K-8	Owned
Guarantor	Deer Valley Campus	2009	4,150	N/A	9-12	Leased
Guarantor	Grovers Campus	2000	700	N/A	9-12	Leased
Guarantor	Metro Campus	2008	11,248	N/A	9-12	Leased
Guarantor	Surprise Greenway Campus	2003	8,008	N/A	9-12	Leased
Guarantor	Buckeye Campus	2011	5,000	N/A	9-12	Leased
Guarantor	Avondale Campus	2011	3,966	N/A	9-12	Leased
Guarantor	Tempe Campus	2011	1,920	N/A	9-12	Leased

Appraisals

In connection with the issuance of the Series 2011 Bonds, the Borrower obtained appraisals for the Surprise Campus, the Glendale Campus and the Custer Lane Property. The results of the appraised valuations are contained in the table below.

Table 4: Appraised Values

Property Appraised	"AS IS" Value	"AS IF COMPLETED"	"INVESTMENT" Value	Date of Appraisal
Custer Lane Property	$800,000	N/A	N/A	October 14, 2011
Surprise Campus	$6,200,000	13,400,000[4]	13,920,000[4]	October 18, 2011/ November 7, 2011
Glendale Campus	$2,200,000	N/A	$2,400,000	October 18, 2011
Combined Value:	$9,200,000	13,400,000	16,320,000	

[4] This value includes the Custer Lane Property, the Surprise Campus and all proposed improvements.

There is no requirement that the value of the Custer Lane Property or the combined value of all the properties equal the amount of the Loan. See "BONDHOLDERS' RISKS – Risks of Real Estate Investment" in the Official Statement.

Environmental Assessments

The Borrower obtained a Phase I Environmental Site Assessment for the Custer Lane Property, dated October 18, 2011 (the "Custer Lane ESA"), and updates for the Environmental Site Assessments for the Surprise Campus and the Glendale Campus, dated October 18, 2011, and October 24, 2011, respectively, each prepared by Western Technologies, Inc. Neither of the updated assessments for the Surprise Campus and the Glendale Campus revealed any indications of recognized environmental conditions associated with the campuses and no additional assessments or remediation of the sites are recommended.

The Custer Lane ESA identified a small area of "slightly discolored soil" and a "slight petroleum odor in that area." In addition, the assessment identified an "approximate 3-foot circular depression" in the same area. The Custer Lane ESA considered these two findings "suspect environmental conditions" and recommended further evaluation. Accordingly, the Borrower commissioned a Phase II Environmental Site Assessment from Western Technologies, Inc., dated October 31, 2011, to evaluate the initial findings. The Phase II Environmental Site Assessment concluded that the "discolored soil and the circular depression showed no evidence of impacts to the Property" and, therefore, "do not represent a REC to the Property." No further investigation was recommended.

The Borrower

Formation and Charter Contract

The Borrower incorporated as an Arizona nonprofit corporation on October 10, 2000, and received a determination letter from the Internal Revenue Service ("*IRS*"), dated October 24, 2003, indicating that the Borrower qualified as an organization described in Section 501(c)(3) of the Code. It entered into its charter contract for with the Arizona State Board for Charter Schools (*"ASBCS"*) on June 20, 2000.

The process of obtaining charter school sponsorship included the development of a charter application, a review of the application by the ASBCS and final approval by the ASBCS for the Borrower to operate the Borrower's Schools. Subject to capacity limits, the Borrower's Schools are open to all students in the State.

The ASBCS is responsible for oversight of the Borrower and for the ongoing oversight of the Borrower's fiscal management and academic acceptability. The initial term of each Arizona charter contract is 15 years from a school's first date of operation. If not renewed, the Borrower's current charter contract expires June 30, 2015. However, the Borrower's charter contract may be renewed for successive 20-year periods if the ASBCS deems that the Borrower is in compliance with the charter contract and State statutory provisions. The ASBCS may revoke (or not renew) the Borrower's charter contract if the Borrower: (i) violates its charter contract; (ii) violates State or federal law; (iii) violates its accounting and reporting requirements; or (iv) causes conditions that threaten the health, safety or welfare of its students or staff or the general public. The Borrower is not in violation of such requirements.

The Borrower's charter contract provides that the Borrower can educate up to 2,000 students. The Borrower's charter contract also provides that, upon receipt of standard regulatory approvals and notice to the ASBCS, the Borrower may increase the number of students served and add new school sites. Because the Additional Facilities are an expansion of the Surprise Campus, approval for a new school site is not required.

Background

The Borrower's founders started their first charter school, International Studies Academy ("ISA"), during 1996 in what is now the Glendale Campus in Glendale, Arizona. ISA opened with 100 students in grades 7-12, with enrollment doubling the second year. The curriculum combined a traditional college-preparatory program with increased focus on global issues. ISA's program proved successful, and parent demand resulted in the opening of the second school to serve lower grade levels. Over time, the lower school expanded while high school enrollment declined. During 2006 management made the decision to drop grades 9-12 due to the declining enrollment and the relatively high cost of operating the high school. During 2010, management decided to eliminate grades 7 and 8.

Carden Elementary Charter School received its charter in 2000, opening in the Glendale Campus (the original site for ISA), which was expanded to accommodate up to 300 students in grades K-12.

At the same time, E-Institute Charter High School was created to better serve students for whom ISA's college preparatory program was not a good fit. E-Institute's program allows students to work at their own pace on an individualized learning plan. The program offers a hybrid between online learning and classroom-based instruction. Teacher-student relationships are maintained through small group instruction, and approximately a 25:1 student-teacher ratio. The program measures success on students passing the Arizona's Instrument to Measure Standards (AIMS) test and obtaining their high school diplomas.

In 2002, Carden Elementary Charter School opened a new location in Surprise (this is now the Surprise Campus). Enrollment was 300 students in 2003. In response to growing demand, Carden Elementary Charter School financed a new 500 student permanent facility in Surprise in 2004 with proceeds of the 2004 Obligation. The facility quickly reached capacity, and the proposed Series 2011 Bond financing will include funds to expand the facilities to accommodate another 500 students.

The three schools (ISA, Carden Elementary and E-Institute) all underwent name changes in 2005. ISA became Carden Traditional School of Glendale, Inc., Carden Elementary became Carden Traditional School of Surprise, Inc., and E-Institute became E-Institute Charter High Schools, Inc. In 2011, the two Carden Schools were consolidated under a single charter, leaving two legal entities, Carden Traditional Schools of Surprise, Inc. and E-Institute Charter High Schools, Inc.[5] There are currently two charters with seven campuses, all of which are managed by LMEG (as described under "Management" below). In addition to the Carden and E-Institute names, an online-only program, Taylion Virtual Academy, operates under the same two charters.[6]

[5] Carden Traditional School of Glendale, Inc. exists as an Arizona corporation, but no longer holds a charter contract or operates a charter school.

[6] Note that another entity operates under the Taylion Virtual Academy name in California under a separate 501(c)(3) and California charter. LMEG is contracted to run this school as well, but it is completely independent of the Arizona schools.

Table 5: Campus Opening Dates

Campus	Campus Opening Date
Glendale Campus	August 1996
Surprise Campus	August 2000

Teaching Philosophy

Carden's program is based on the work of Mae Carden, which brings a holistic approach to teaching, including character development. Carden schools are independent schools that utilize the curriculum published and taught by the Carden Educational Foundation, a non-profit organization dedicated to training teachers in the Carden method and publishing the materials used in the classroom.

The Borrower's Schools welcome students into a daily routine of structure, acceptance and high standards for student achievement. The Carden Program has enjoyed more than 65 years of success with roots in a traditional educational program designed to foster enriching learning experiences. The Borrower's Schools help students prepare to meet the challenges of life with confidence. Students are encouraged to learn problem solving strategies and critical thinking habits; critical skills for future productive members of society.

The Carden educational environment promotes development and growth of the whole child by integrating principals of character development with a challenging academic curriculum. All students, regardless of their individual backgrounds, talents, abilities and personal tastes, are encouraged to achieve their personal best at every level. Responsibility for oneself as well as for the community of learners within the school is taught and reinforced daily through learning activities and educational opportunities.

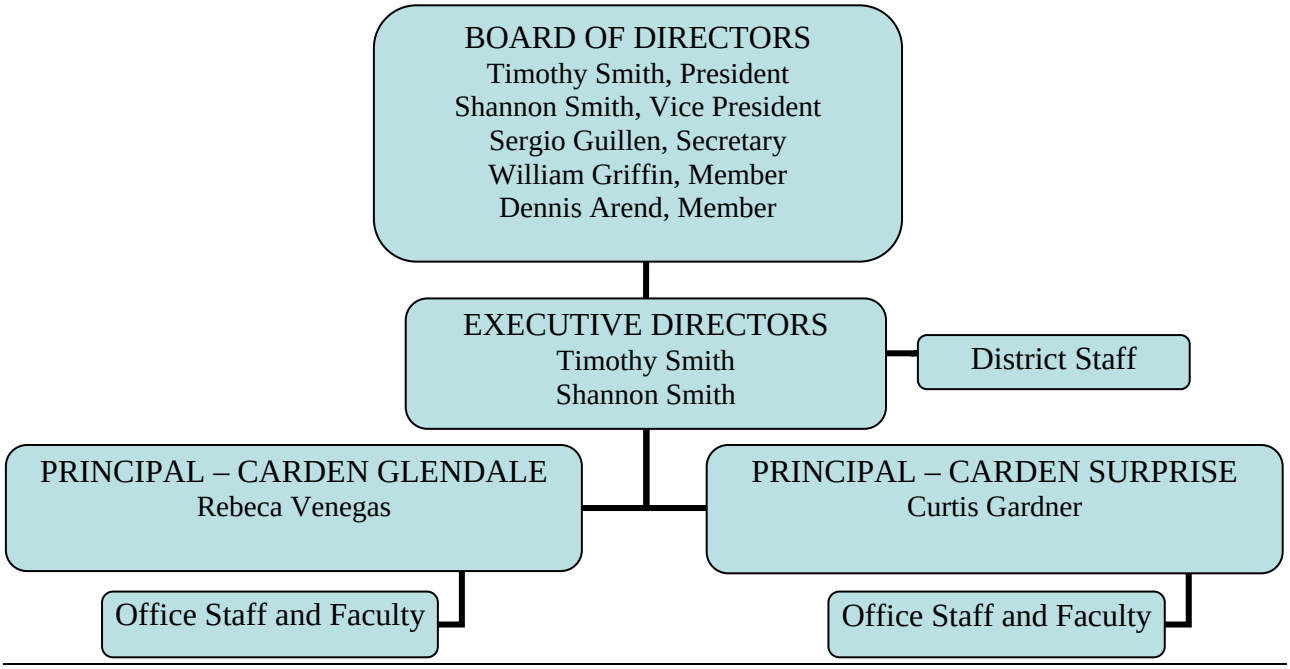
Students are guided through the growing and learning experience by positive adult role-modeling and effective instructional practices. Maintaining a professional, warm and invigorating environment for our students is a daily expectation of staff members.

The Borrower's faculty and staff members encourage high standards for academic achievement, personal responsibility and efficient study habits for all learners. Through early and on-going assessment and evaluation, educational needs are identified and appropriate instructional placements designed to meet learning styles and learning needs. The Borrower's students represent a diverse wealth of abilities, talents and cultural heritage. Therefore, students are introduced to challenging programs designed to meet a wide range of academic and developmental needs. Instruction that provides the appropriate remediation, intervention or enrichment needed by each student is an integral part of The Borrower's School's program. Academic programs are built to meet students at their individual instructional levels. A gifted/talented program offers additional enrichment experiences for qualifying students.

The Borrower's Schools use the Math Connects from McGraw Hill program, designed to promote mastery of mathematical concepts. By distributing instruction, practice and assessment throughout the academic year, the Math Connects from McGraw Hill curriculum enables students to benefit from the continual stream of skill development. This steady approach provides the instruction and practice students need to learn and retain basic math concepts for proficiency in mathematics. Opportunities for problem-solving and higher levels of thinking are integrated into other curriculum areas at Carden through the framework developed by Math Connects from McGraw Hill math materials. A combination of the basic math facts and real life problem solving provides students with a balanced mathematical foundation.

Respected reading research strongly points to the need for a balanced literacy program containing five key components needed for effective reading instruction. Phonemic awareness, phonics, fluency, reading comprehension and vocabulary are vital skills which contribute to successful reading ability. The Open Court Reading Program provides a balanced literacy approach in kindergarten through grade 6 to incorporate these skills with challenging and inviting reading selections which include fiction and non-fiction as well as other forms of literature. Students progressively develop, build, and maintain reading skills while developing the habit of reading for enjoyment as well as to gain information. Critical skills such as reading, writing, spelling and language development are integrated into a uninterrupted academic block of time each day. Hands-on projects and activities help children learn to develop oral and written communication skills.

The Borrower's Organizational Chart



Board of Directors

The Borrower's five-member Board of Directors (the "*Board*") is elected by a majority vote of the members of the Board to serve a one year term. The members of the Board are:

- Mr. Timothy Smith, Co-Executive Director of the Borrower's Schools, who currently serves as the President of the Board;
- Ms. Shannon Smith, Co-Executive Director of the Borrower's Schools; who currently serves as Secretary of the Board;
- Mr. Sergio Guillen, Finance Director for American Express, who currently serves as a member of the Board;
- Mr. William Griffin, Community Relations Director for the Borrower's Schools, who currently serves as a member of the Board; and
- Mr. Dennis Arend, Retired Engineer, who currently serves as a member of the Board.

The Board is responsible for adopting and directing policies and procedures for the Borrower's Schools, assuring that policies and procedures are implemented and keeping the Borrower in compliance with the Borrower's charter contract, applicable State and federal laws and the Borrower's accounting requirements.

Management

Mr. Timothy Smith is the co-founder of the Borrower's Schools and has served as the Co-Executive Director of the Borrower's Schools since their inception during 1996. He holds a Bachelor of Arts degree in Asian Studies from Brigham Young University (1990) and a Masters of Business Administration degree from Thunderbird Global School of Management (1994). In addition, Mr. Smith has completed substantial coursework for an Educational Doctorate from Arizona State University, leaving only his dissertation to complete before graduation.

Ms. Shannon Smith is also a co-founder of the Borrower's Schools and has served as the Co-Executive Director of the Borrower's Schools since their inception during 1996. She earned an associate degree in Elementary Education from Brigham Young University (1989) and a Bachelor of Arts in Elementary Education from Ottawa University (2004).

Ms. Rebeca Venegas has served as the principal for the Glendale Campus since 2008. From 1999 until she was promoted in 2008, she taught Spanish and math for the Borrower's Schools. Ms. Venegas holds a Bachelor of Accounting degree from Universidad La Salle, Mexico City, Mexico (1991).

Mr. Curtis Gardner has served as the principal of the Surprise Campus since 2008. Prior to his current position, he worked as an art teacher. Mr. Curtis holds a Bachelor's degree in Art Education from Arizona State University (1999) and a Master's Degree in Education from the University of Phoenix (2001).

During 1999, Mr. and Ms. Smith formed Learning Matters Educational Group, LLC ("LMEG"), a for-profit, administrative and support service provider for charter schools. Both Mr. and Ms. Smith are the principal owners of LMEG. Both Mr. and Ms. Smith, although still members of the Borrower's Board of Directors, abstain from voting on any board action that involves a conflict of interest. The Board of Directors of the Borrower is and remains responsible for the management and oversight of the Borrower.

However, to continue utilizing the expertise, knowledge and skills of Mr. and Ms. Smith the Borrower has entered into services agreements with LMEG to provide administrative and support services for the Borrower's Schools and the Guarantor's Schools. As principals of LMEG, Mr. and Ms. Smith continue to serve as Co-Executive Directors of the Borrower's Schools and the Guarantor's Schools to provide their respective educational and management skills and to continue their exceptional leadership, assuring operational continuity and quality.

All of the Borrower's Schools and the Guarantor's Schools are currently managed by LMEG and the service agreement between the Borrower and LMEG recently renewed for a term expiring during November 2014. LMEG provides comprehensive management and oversight of the schools, including accounting and budgeting services, curriculum development, IT services, grant writing and personnel training. All teachers contract directly with LMEG, which leases the teachers to the respective schools. LMEG's management fees are calculated annually based on a review of services provided and estimated service hours. The fees are reflective of the amount of work completed by LMEG employees at each school, and can fluctuate year-to-year. While fees generally tend to increase as schools grow, this is due to the additional personnel-hours required to run a larger school. LMEG projects 1-2% increases year-over year for inflation, while total management fee growth is projected to be 12-14%, the majority of this

is due to enrollment growth at the schools. Each of the schools maintains the ability to replace LMEG with another service provider. The service contracts require any school doing so to provide adequate notice and to go through a competitive bid process.

Students

The numerical student enrollment of the Borrower's Schools is currently 804 and its current ADM-enrollment is 764, grades kindergarten through 8. The following tables provide enrollment for the Borrower's Schools since the 2005-2006 school year and projected increases for each for the succeeding five years.

Table 6: Student ADM Enrollment

Fiscal Year	ADM Enrollment		
	Glendale Campus	Surprise Campus	Total
Actual			
2006	196	393	589
2007	109	403	512
2008	121	430	551
2009	118	434	552
2010	127	495	622
2011	152	518	670
Projected			
2012	185	650	835
2013	225	825	1,050
2014	257	938	1,195
2015	280	1,000	1,280
2016	320	1,020	1,340

Table 7: Historical Student Enrollment by Grade Level

Grade Level	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12[7]	Current Wait List
K	113	113	114	115	154	135	149	36
1	108	83	114	92	102	133	124	7
2	93	82	84	102	90	85	121	2
3	74	74	65	73	84	93	88	3
4	67	52	66	67	66	73	86	3
5	56	44	40	49	58	67	72	5
6	44	38	35	36	58	45	69	4
7	39	39	42	43	35	62	47	4
8	36	31	37	27	42	33	48	1
Total Headcount	**630**	**556**	**597**	**604**	**689**	**726**	**804**	**65**
Total ADM[8]	**589**	**512**	**552**	**552**	**622**	**670**	**764**	

[7] The enrollment numbers in this column represent student headcount enrollment as of November 21, 2011.

[8] The "Total Headcount" is an actual, physical count of students enrolled at the Borrower's schools. The "Total ADM" is the number of students for which the State pays the Borrower after aggregating the student average daily membership. Please see Footnote 2.

Student Demographics

Table 8: Student Race/Ethnicity

School	Year	Ethnicity							Totals
		Asian	Black	Hispanic	White	Native	Pacific	Multiple	
Glendale Campus	**2009**	12	17	22	61	0	0	0	112
Glendale Campus	**2010**	19	14	33	75	0	0	0	141
Glendale Campus	**2010**	18	19	27	110	0	0	2	176
Surprise Campus	**2009**	27	49	66	342	4	0	0	488
Surprise Campus	**2010**	18	38	92	393	3	8	7	559
Surprise Campus	**2011**	25	37	90	392	4	7	14	569

Faculty and Other Employees

Forty-five full-time teachers and 13 instructional aides are currently assigned to the Borrower's two campuses.[9] Salaries for full-time teachers range from $30,000 per year to $42,117 per year, which management believes is consistent with teacher salaries at district schools. The Borrower employs six full time administrative staff, including two Principals, one Assistant Principal, one Special Education Administrator and two full-time administrative assistants. The Borrower also utilizes two bus drivers, four maintenance/custodial staff and three extended care staff. In addition to salaries, full-time employees also have a benefits package that includes health insurance, dental insurance, group AFLAC and a retirement plan.

Table 9: Student/Faculty Ratios

Grade Levels	Student-to-Faculty Ratio
K-8	13:1

School Accountability; Standardized Test Scores and Adequate Yearly Progress

Arizona Revised Statutes § 15-241 (the "*School Accountability Statute*") prescribes that school performance be evaluated and publicly reported based upon certain data sets including, for schools offering grades kindergarten through 8, the Arizona Measure of Academic Progress and the Arizona Instrument to Measure Standards ("AIMS") standardized tests and for schools offering grades 9 through 12, standardized test scores, dropout rates and graduation rates.

Under the current School Accountability Statute, each school is classified as one of the following: an "excelling" school, a "highly performing" school, a "performing plus" school, a "performing" school or an "under performing" school.[10] The School Accountability Statute (as modified by the Arizona Board of Education) requires schools with "under performing" classifications to take certain remedial measures. These school achievement profiles are made available to the public.

In May 2010, the State Legislature amended the School Accountability Statute, altering the current achievement profiles to a letter-grade system, as follows: 1. A letter grade of "A" shall demonstrate an excellent level of performance. 2. A letter grade of "B" shall demonstrate an above average level of performance. 3. A letter grade of "C" shall demonstrate an average level of performance.

[9] The Borrower leases all of its employees from LMEG under the services agreement with LMEG.

[10] The School Accountability Statute currently states that: "The achievement profile shall be used to determine a school classification that designates each school as one of the following: 1. An excelling school. 2. A highly performing school. 3. A performing school. 4. An under performing school. 5. A school failing to meet academic standards." However, during August 2005, the Arizona State Board of Education adopted a resolution dropping the "failing" school language and adding the additional category of "performing plus."

4. A letter grade of "D" shall demonstrate a below average level of performance. 5. A letter grade of "F" shall demonstrate a failing level of performance. This new letter-grade system was to become effective September 1, 2011, but due to technical problems with implementing the letter-grade system the Arizona Department of Education delayed implementing the new system until October 12, 2011. Arizona schools are currently labeled under the accountability system prescribed by the School Accountability Statute prior to the 2010 amendment and under the new letter-grade system.

For the 2010-2011 academic year, the Glendale Campus was classified as "***performing plus***" school and the Surprise Campus was classified as "***highly performing.***"[11] Under the letter-grade system, The Borrower's Schools are classified "B," meaning that they are performing at an above average level of performance. In addition, each year the State assesses whether the State's public schools have met the Adequate Yearly Progress ("*AYP*")[12] measurements developed by the State. For the 2010-2011 academic year (the most recent year for which school report cards are reported), both of the Borrower's Schools ***met*** the required AYP.

Competitive Schools and Market Demand

Competitive Schools

Within a two-mile radius of the Surprise Campus there are eight district public schools, no private schools and three public charter schools. The following table provides a summary of these competing schools.

Table 10-1: Competitive Schools – The Surprise Campus[13]

School Name	School Type	Grades Served	Enrollment	Distance in Miles	AZ LEARNS Label	Letter Grade
Imagine Middle School at Surprise	Charter	6-8	300	0.1	Performing	D
Paradise Education Center	Charter	K-12	1,386	0.9	Highly Performing	B
Countryside Elementary School	District	K-8	905	1.0	Performing Plus	C
Ashton Ranch Elementary School	District	K-8	1,031	1.0	Highly Performing	B
Parkview Elementary School	District	K-8	830	1.1	Performing Plus	C
Marley Park Elementary School	District	K-8	806	1.2	Highly Performing	A
Kingswood Elementary School	District	K-8	778	1.7	Performing Plus	B
Cimarron Springs Elementary	District	K-8	1,054	1.7	Performing Plus	B
Imagine Charter Elementary School at Rosefield	Charter	K-5	726	2.0	Highly Performing	C
Rancho Gabriela	District	K-8	931	2.0	Excelling	A
Sonoran Heights Elementary	District	K-8	515	2.0	Excelling	A

Within a two-mile radius of the Glendale Campus there are 10 district public schools, three private schools and four public charter schools. The following table provides a summary of these competing schools.

[11] See the 2008 AZ LEARNS Achievement Profiles, available at the ADE's website (http://www.ade.az.gov).
[12] Under the federal No Child Left Behind Act of 2001, each state receiving federal education funds must develop and implement measurements for determining whether the state's schools are making "adequate yearly progress" or "AYP." AYP is an individual state's measure of progress toward the goal of 100 percent of students achieving state academic standards in at least reading and math. It sets the minimum level of proficiency that the state, its school districts and schools must achieve each year on annual tests and related academic indicators.
[13] Source: greatschools.org and earth.google.com (for distances only).

Table 10-2: Competitive Schools – The Glendale Campus[13]

School Name	School Type	Grades Served	Enrollment	Distance in Miles	AZ LEARNS Label	Letter Grade
Bellair Elementary School	District	1-6	588	0.1	Performing Plus	C
Foothills Elementary School	District	K-6	345	0.4	Performing Plus	C
Canyon Pointe Academy	Charter	K-6	311	0.5	Performing Plus	B
Desert Sky Middle School	District	7-8	850	0.5	Performing Plus	B
Starshine St. John's	Charter	K-12	43	0.9	Performing Plus	N/A[15]
Mirage Elementary School	District	K-6	604	1.0	Performing Plus	B
Mountain Shadows Elementary	District	K-6	645	1.1	Performing Plus	B
Northwest Christian School	Private	PK-12	1,466	1.2	N/A[14]	N/A[15]
Arrowhead Christian Academy	Private	K-12	130	1.3	N/A[14]	N/A[15]
Canyon Elementary School	District	K-8	522	1.3	Performing Plus	B
Challenge Charter School	Charter	K-6	629	1.4	Excelling	A
Desert Heights Charter School	Charter	K-9	480	1.6	Performing Plus	B
Atonement Lutheran	Private	PK-4	200	1.7	N/A[14]	N/A[15]
Greenbrier Elementary School	District	K-6	508	1.9	Highly Performing	B
Park Meadows Elementary	District	K-6	653	1.9	Highly Performing	A
Sunrise Elementary School	District	K-6	601	2.0	Performing Plus	B
Highland Lakes School	District	K-8	907	2.0	Highly Performing	C

Market Demand

The Borrower's Schools have outperformed most other public schools in their respective geographic regions and are well regarded by parents. The Borrower's management believes that the Carden educational philosophy, traditional curriculum, strong music and sports programs, parent involvement and, with respect to the Surprise Campus, the International Baccalaureate program, will continue to generate demand for the Borrower's Schools.

The Surprise Campus is located near three major arterial streets (Reems Road to the east, Waddell Road to the south and Greenway Road to the north), approximately three miles from State Route 60 and less than two miles from the new Loop 303, in an easily accessible, heavily-populated area of Surprise, Arizona.

Similarly, the Glendale Campus is located near three major arterial streets (51st Avenue to the west, Bell Road to the south and Union Hills Drive to the north) and approximately one and one half miles from the Agua Fria Freeway (Loop 101), in an easily accessible, heavily-populated area of Glendale, Arizona.

Many of the families of students enrolling at the Borrower's Schools live and work in the immediate areas. However, for those that do not, these major arterial streets and access to freeways make these locations convenient for their commute to and from work each day.

See "BONDHOLDERS' RISKS – Other Schools/Competition For Students" in the Official Statement.

[14] The Arizona Department of Education did not report AZ LEARNS profiles for these schools.
[15] The Arizona Department of Education did not report letter grades for these schools.

Expansion/New Facilities

The Borrower does not have any immediate plans for further expansion or the need for further funding to finance such expansion. However, the Borrower may incur additional parity Indebtedness if, among other conditions, the Borrower is not in default under the Indenture, the Loan Agreement, or any other Loan document. See APPENDIX E - "SUMMARIES OF FINANCING DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT – Limitations on Incurrence of Additional Indebtedness" in the Official Statement.

The Guarantor

Formation and Charter Contract

The Guarantor incorporated as an Arizona nonprofit corporation on June 8, 2000, and received a determination letter from the IRS, dated October 27, 2003, indicating that the Guarantor qualified as an organization described in Section 501(c)(3) of the Code. It entered into its charter contract for with the Arizona State Board for Charter Schools (*"ASBCS"*) on June 21, 2000.

The process of obtaining charter school sponsorship included the development of a charter application, a review of the application by the ASBCS and final approval by the ASBCS for the Guarantor to operate the Guarantor's Schools. Subject to capacity limits, the Guarantor's Schools are open to all students in the State.

The ASBCS is responsible for oversight of the Guarantor and for the ongoing oversight of the Guarantor's fiscal management and academic acceptability. The initial term of each Arizona charter contract is 15 years from a school's first date of operation. If not renewed, the Guarantor's current charter contract expires June 30, 2015. However, the Guarantor's charter contract may be renewed for successive 20-year periods if the ASBCS deems that the Guarantor is in compliance with the charter contract and State statutory provisions. The ASBCS may revoke (or not renew) the Guarantor's charter contract if the Guarantor: (i) violates its charter contract; (ii) violates State or federal law; (iii) violates its accounting and reporting requirements; or (iv) causes conditions that threaten the health, safety or welfare of its students or staff or the general public. The Guarantor is not in violation of such requirements.

The Guarantor's charter contract provides that the Guarantor can educate up to 2,000 students. The Guarantor's charter contract also provides that, upon receipt of standard regulatory approvals and notice to the ASBCS, the Guarantor may increase the number of students served and add new school sites.

Background

As described above, the first charter school founded by the Smiths in 1996, International Studies Academy, has been successful. However, after several years of operation, management came to realize that a college-preparatory model did not serve the needs of all students. To broaden the impact on education in Arizona, the founders formed E-Institute Charter High School to serve students that are not successful in traditional high school settings. At the Guarantor's Schools, students work at their own pace on an individualized learning plan, which permits recovery of lost credits and an accelerated graduation schedule.

Since opening its first school site in 2000, the Guarantor's Schools have grown to seven campuses for the 2011-2012 school year. E-Institute Charter High School is now an accredited institution through the North Central Association Commission on Accreditation and School Improvement.

Table 11: Campus Opening Dates

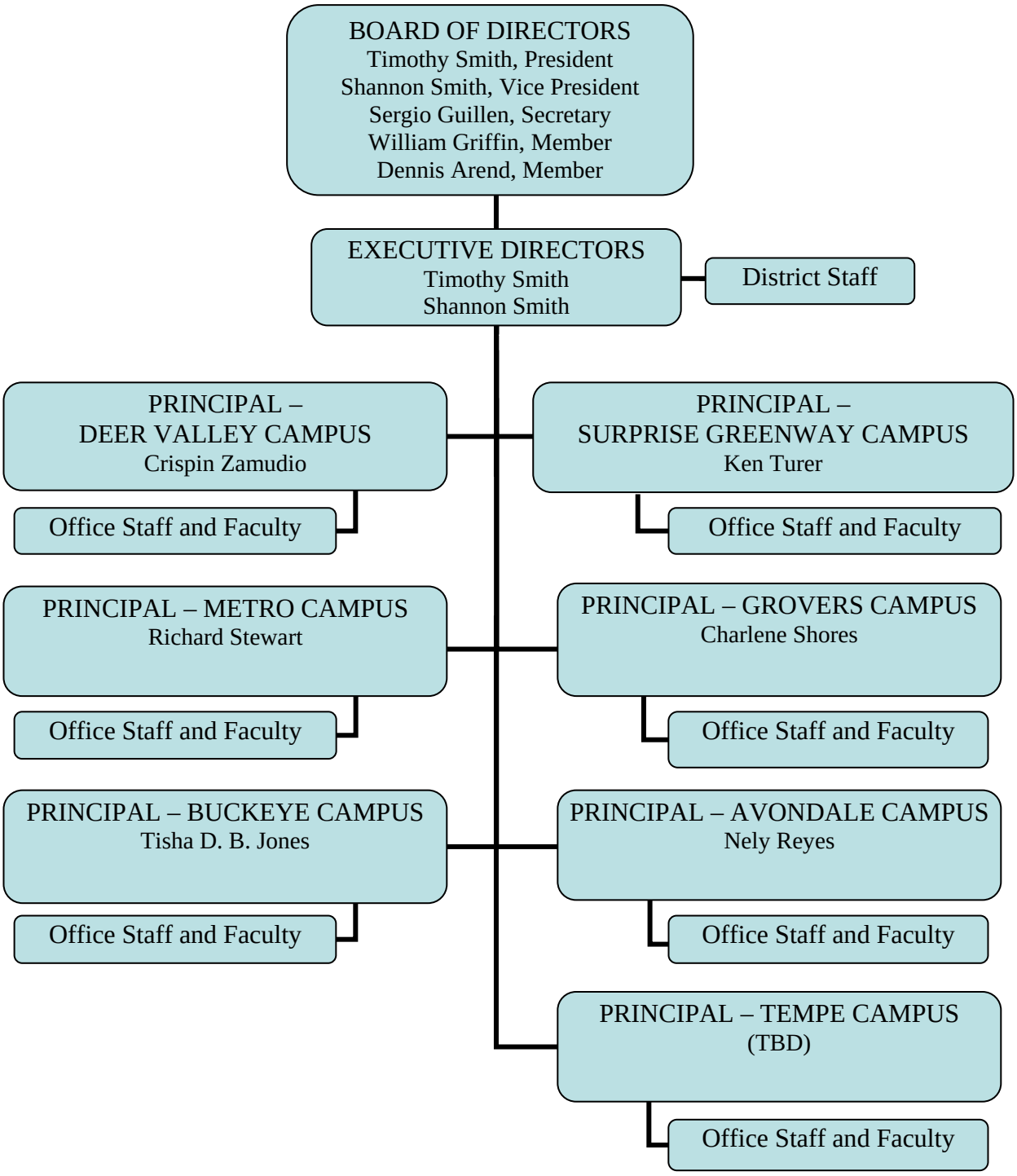
Campus	Campus Opening Date
Deer Valley Campus	August 2000
Surprise Greenway Campus	August 2003
Metro Campus	August 2008
Grovers Campus	August 2009
Buckeye Campus	August 2011
Avondale Campus	August 2011
Tempe Campus	August 2011

During 2010, the Guarantor added Taylion Virtual Academy and Taylion Virtual High School to one of its E-Institute locations. Taylion virtual schools offer customized online education for students in grades K-12 using proven methodologies and highly-effective curriculum, all of which meets or exceeds Arizona state standards. At Taylion, the Guarantor strives to develop each student's potential by providing an engaging learning environment with the flexibility to reach individual goals beyond the walls of a traditional classroom environment. At Taylion virtual schools, students can work at their own pace from any location with the assistance of highly-qualified, caring teachers. The curriculum is rigorous and interactive and the schools offer many traditional amenities such as clubs, field trips and other social events and activities.

Teaching Philosophy

The Guarantor's Schools serve the needs of "at-risk" high school students in an alternative environment and work with a large majority of students that have not had success in a traditional high school environment. The Guarantor's Schools offer students a unique, flexible and rewarding high-school opportunity. The computer Advanced Learning System + facilitates a self-paced curriculum ideal for students who desire to speed up or slow down the traditional high school experience. Students get immediate feedback on academic progress using computer-enhanced instruction. Each student is assisted by their teacher and academic advisor in outlining and completing their course of study leading to graduation. Students are provided individualized assistance and time to master each academic subject.

The Guarantor's Organizational Chart



The Guarantor's Board of Directors

The members of the Borrower's Board also serve as the Guarantor's Board of Directors (the "*Guarantor's Board*"). The Guarantor's Board is elected by a majority vote of the members of the Guarantor's Board to serve one year terms.

The Guarantor's Board is responsible for adopting and directing policies and procedures for the Guarantor's Schools, assuring that policies and procedures are implemented and keeping the Guarantor in compliance with the Guarantor's charter contract, applicable State and federal laws and the Guarantor's accounting requirements.

The Guarantor's Management

Mr. Timothy Smith is the co-founder of the Guarantor's Schools and, as with the Borrower, has served as the Co-Executive Director of the Guarantor's Schools since their inception during 2000.

Ms. Shannon Smith is also a co-founder of the Guarantor's Schools and also serves as the Co-Executive Director of the Guarantor's Schools.

Mr. Crispin Zamudio has served as the principal for the Deer Valley Campus since 2007. Prior to his current position, he worked as a principal and assistant principal of other charter schools and as a math teacher and an inclusion teacher for district public schools. Mr. Zamudio holds a Bachelor of Science in Mathematics from Arizona State University (1996), a Bachelor of Arts in Spanish from Arizona State University (1996) and a Master of Education – Educational Leadership, Northern Arizona University (2000). He also earned a Principal's Certificate from Northern Arizona University in 2006.

Mr. Ken Turer has served as the principal of the Surprise Greenway Campus since 2008. Prior to his current position, he worked as teacher and coach for traditional district schools and an adjunct instructor for a community college. Mr. Turer holds a Bachelors of Arts in Secondary Education and History from Arizona State University and a Masters in Educational Leadership from Northern Arizona University.

Mr. Richard Stewart has served as the principal for the Metro Campus since 2010. Prior to his current position he worked in construction and teaching English and writing at the high school and university levels. Mr. Stewart holds a Bachelor of Journalism from the University of South Carolina (1983) and a Master of Arts from the University of Binghamton, New York (1990).

Ms. Charlene Shores has served as the principal of the Grovers Campus since 2009. Prior to her current position, she worked as a computer teacher and student counselor at the Guarantor's Schools. Ms. Shores holds a Bachelor of Arts in American Studies from Arizona State University (2001) and a Master's Degree in Education from Ottawa University (2004).

Ms. Tisha D. B. Jones has served as the principal for the Buckeye Campus since 2011. Prior to her current position, she worked as a classroom teacher, curriculum coordinator, reading interventionist and gender specialist, as well as serving in the United States Air Force. Ms. Jones holds a Bachelor of Science in Elementary Education from McMurry University, a Master's Degree in Technology in Education from the American Intercontinental University and a Masters in Educational Leadership from the University of Nevada, Las Vegas.

Ms. Nely Reyes has served as the principal of the Avondale Campus since 2011. Prior to her current position, she worked as coach and taught bilingual education, Spanish, language arts and economics at traditional district schools. Ms. Reyes also served as a curriculum coach, testing coordinator, ESL program facilitator, corporate trainer and an assistant principal. She holds a Bachelor of Arts in Liberal Studies from California State University, a Master of Science in Education Curriculum and Leadership from National University and a Masters in Business Administration from the University of Phoenix.

The principal for the Tempe Campus has not yet been selected.

Students

The numerical student enrollment of the Guarantor's Schools is currently 845 and its average daily membership ("ADM") is 791, grades 9 through 12. The following tables provide enrollment for the Guarantor's Schools since the 2005-2006 school year and projected increases for each for the succeeding five years.

Table 12: Student ADM Enrollment

		ADM Enrollment											
Fiscal Year: Campus		**2006**	**2007**	**2008**	**2009**	**2010**	**2011**		**2012**	**2013**	**2014**	**2015**	**2016**
Deer Valley		116	140	149	173	187	174		200	200	200	200	200
Surprise Greenway		28	61	75	107	163	181		220	220	230	225	225
Metro		0	0	16	16	79	111		175	180	190	195	200
Grovers		13	13	13	13	21	52		55	55	65	60	60
Buckeye	***Actual***	N/A	N/A	N/A	N/A	N/A	N/A	***Projected***	125	160	170	170	180
Avondale		N/A	N/A	N/A	N/A	N/A	N/A		75	80	110	110	130
Tempe		N/A	N/A	N/A	N/A	N/A	N/A		50	75	100	105	125
Phoenix[16]		N/A	N/A	N/A	N/A	N/A	N/A		N/A	40	75	90	100
Goodyear[16]		N/A	N/A	N/A	N/A	N/A	N/A		N/A	40	80	95	110
Mesa[17]		N/A	N/A	N/A	N/A	N/A	N/A		N/A	N/A	40	60	95
Yuma[17]		N/A	N/A	N/A	N/A	N/A	N/A		N/A	N/A	40	70	100
Gilbert[18]		N/A	N/A	N/A	N/A	N/A	N/A		N/A	N/A	N/A	35	75
Flagstaff[18]		N/A	N/A	N/A	N/A	N/A	N/A		N/A	N/A	N/A	35	70
Scottsdale[19]		N/A	N/A	N/A	N/A	N/A	N/A		N/A	N/A	N/A	N/A	40
Tucson[19]		N/A	N/A	N/A	N/A	N/A	N/A		N/A	N/A	N/A	N/A	40
TOTAL		**157**	**214**	**253**	**309**	**450**	**518**		**900**	**1,050**	**1,300**	**1,450**	**1,750**

[16] This campus is planned for opening during August 2013. If the campus fails to open timely, it may adversely impact these projections.
[17] This campus is planned for opening during August 2014. If the campus fails to open timely, it may adversely impact these projections.
[18] This campus is planned for opening during August 2015. If the campus fails to open timely, it may adversely impact these projections.
[19] This campus is planned for opening during August 2016. If the campus fails to open timely, it may adversely impact these projections.

Table 13: Historical Student Enrollment by Grade Level

Grade Level	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
9	23	20	26	39	62	74	98
10	45	41	53	84	98	117	163
11	52	96	100	118	152	176	249
12	51	94	88	98	183	198	335
Total Headcount	**171**	**251**	**267**	**339**	**495**	**565**	**845**
Total ADM[20]	**156**	**214**	**253**	**309**	**450**	**518**	**791**

Student Demographics

Table 14: Student Race/Ethnicity

School	Year	Ethnicity							Totals
		Asian	Black	Hispanic	White	Native	Pacific	Multiple	
Deer Valley Campus	**2009**	4	10	52	123	2	0	0	191
Deer Valley Campus	**2010**	3	11	51	105	6	0	0	176
Deer Valley Campus	**2010**	0	8	59	103	6	0	5	181
Metro Campus	**2009**	0	2	4	11	0	0	0	17
Metro Campus	**2010**	1	6	36	33	4	0	0	80
Metro Campus	**2011**	0	4	47	33	3	2	3	92
Grovers Campus	**2010**	0	2	3	27	0	1	0	33
Grovers Campus	**2011**	0	0	5	37	0	0	0	42
Surprise Greenway Campus	**2010**	2	7	40	115	5	0	0	169
Surprise Greenway Campus	**2011**	0	4	54	113	2	0	3	176
Buckeye Campus	**2011**	1	5	29	14	1	0	0	50

Faculty and Other Employees

The Guarantor currently employs 18 full-time teachers, 11 part-time teachers and seven instructional aides for the Guarantor's seven campuses. Salaries for full-time teachers range from $31,000 per year to $45,000 per year, which management believes is consistent with teacher salaries at district schools. The Guarantor has 18 full-time administrative positions, including principals, assistant principals, night directors, a special-education director and nine administrative assistants. In addition to salaries, full-time employees also have a benefits package that includes health insurance, dental insurance, group AFLAC and a retirement plan.

Table 15: Student/Faculty Ratios

Grades	Student-to-Faculty Ratio
9-12	26:1

School Accountability; Standardized Test Scores and Adequate Yearly Progress

For the 2009-2010 academic year, each of the Guarantor's Schools was classified as alternative "***performing***" schools, which indicates that State performance goals were met. Because alternative

[20] The "Total Headcount" is an actual, physical count of students enrolled at the Guarantor's schools. The "Total ADM" is the number of students for which the State pays the Guarantor after aggregating the student average daily membership. Please see Footnote 2.

schools do not receive letter grades from the ADE, the Guarantor's School do not have letter designations. Primarily due to their "alternative" school status, the Guarantor's Schools did not meet AYP for the current year.

Competitive Schools and Market Demand

Competitive Schools

Within a two-mile radius of the Deer Valley Campus there are six district public schools, three private schools and four public charter schools. The following table provides a summary of these competing schools.

Table 16-1: Schools Competitive with the Deer Valley Campus[21]

School Name	School Type	Grades Served	Enrollment	Distance in Miles	AZ LEARNS Label	Letter Grade
Rancho Solano Preparatory School	Private	9-12	40	0.1	N/A[22]	N/A[23]
Starshine St. John's	Charter	K-12	43	0.7	Performing Plus	N/A[23]
Arrowhead Christian Academy	Private	K-12	130	.09	N/A[22]	N/A[23]
Ombudsman – Charter West	Charter	9-12	99	1.0	Performing	N/A[23]
Arizona Conservatory for Arts	Charter	6-12	329	1.5	Excelling	B
Northwest Christian School	Private	PK-12	1,466	1.5	N/A[22]	N/A[23]
Barry Goldwater High School	District	9-12	1,804	1.8	Highly Performing	C
West-Mec Barry Goldwater High School	District	9-12	N/A[24]	1.8	N/A[22]	N/A[23]
Greenway High School	District	9-12	1,320	1.9	Excelling	A
West-Mec Greenway High School	District	9-12	67	1.9	N/A[22]	N/A[23]
Deer Valley High School	District	9-12	2,027	2.0	Highly Performing	C
West-Mec Deer Valley High Sch	District	9-12	N/A[24]	2.0	N/A[22]	N/A[23]
Deer Valley Academy	Charter	9-12	N/A[24]	2.0	Performing	N/A[23]

Within a two-mile radius of the Surprise Greenway Campus there are four district public schools, no private schools and two charter schools. The table below provides a summary of these schools.

Table 16-2: Schools Competitive with the Surprise Greenway Campus[21]

School Name	School Type	Grades Served	Enrollment	Distance in Miles	AZ LEARNS Label	Letter Grade
Imagine Preparatory High School at Surprise	Charter	9-12	107	1.2	Performing Plus	C
Paradise Education Center	Charter	K-12	1,386	1.2	Highly Performing	B
Valley Vista High School	District	9-12	2,313	1.8	Highly Performing	B
West Mec – Valley Vista High Sch	District	9-12	N/A[24]	1.8	N/A[22]	N/A[23]
Willow Canyon High School	District	9-12	2,170	1.8	Highly Performing	C
West Mec – Willow Canyon High School	District	9-12	N/A[24]	1.8	N/A[22]	N/A[23]

[21] Source: greatschools.org and earth.google.com (for distances only).
[22] The Arizona Department of Education did not report AZ LEARNS profiles for these schools.
[23] The Arizona Department of Education did not report letter grades for these schools.
[24] Enrollment information is not reported for this school.

Within a two-mile radius of the Metro Campus there are five district public schools, two private schools and six charter schools. The table below provides a summary of these schools.

Table 16-3: Schools Competitive with the Metro Campus[21]

School Name	School Type	Grades Served	Enrollment	Distance in Miles	AZ LEARNS Label	Letter Grade
West-Mec Metrocenter Academy	District	9-12	N/A[24]	0.4	N/A[22]	N/A[23]
Metrocenter Academy	District	10-12	62	0.4	Performing	N/A[23]
Cortez High School	District	9-12	1,001	0.5	Highly Performing	B
West-Mec Cortez High School	District	9-12	95	0.5	N/A[22]	N/A[23]
Intelli-School Metro Center	Charter	9-12	189	0.9	Performing	N/A[23]
Accel	Private	PK-12	143	1.0	N/A[22]	N/A[23]
Life Skills Center of Arizona	Charter	9-12	385	1.3	Performing	N/A[23]
Westwind Preparatory Academy	Charter	9-12	292	1.5	Performing	D
North Pointe Preparatory	Charter	7-12	720	1.9	Performing Plus	B
Moon Valley High School	District	9-12	1,359	2.0	Excelling	A
Cornerstone Charter School	Charter	9-12	192	2.0	Performing	N/A[23]
Accommodation School	Private	10-12	N/A[24]	2.0	N/A[22]	N/A[23]
Ombudsman – Charter Metro	Charter	9-12	83	2.0	Performing	N/A[23]

Within a two-mile radius of the Grovers Campus there are four district public schools, three private schools and five charter schools. The table below provides a summary of these schools.

Table 16-4: Schools Competitive with the Grovers Campus[21]

School Name	School Type	Grades Served	Enrollment	Distance in Miles	AZ LEARNS Label	Letter Grade
Deer Valley High School	District	9-12	2,027	0.6	Highly Performing	C
West-Mec Deer Valley High Sch	District	9-12	N/A[24]	0.6	N/A[22]	N/A[23]
Deer Valley Academy	Charter	9-12	N/A[24]	0.6	Performing	N/A[23]
Starshine St. John's	Charter	K-12	43	0.9	Performing Plus	N/A[23]
Northwest Christian School	Private	PK-12	1,466	1.2	N/A[22]	N/A[23]
Arrowhead Christian Academy	Private	K-12	130	1.3	N/A[22]	N/A[23]
Hope High School Online	Charter	9-12	85	1.3	N/A[22]	N/A[23]
Phoenix Special Programs Acad	Private	7-12	2,770	1.4	N/A[22]	N/A[23]
Ombudsman – Charter West	Charter	9-12	99	1.5	Performing	N/A[23]
Desert Heights Charter School	Charter	K-9	480	1.6	Performing Plus	B
Greenway High School	District	9-12	1,320	1.8	Excelling	A
West-Mec Greenway High School	District	9-12	67	1.8	N/A[22]	N/A[23]

Within a two-mile radius of the Buckeye Campus, there are four district public schools, no private schools and no charter schools. The table below provides a summary of these schools.

Table 16-5: Schools Competitive with the Buckeye Campus[21]

School Name	School Type	Grades Served	Enrollment	Distance in Miles	AZ LEARNS Label	Letter Grade
The Buckeye Academy	District	9-12	N/A[24]	1.2	N/A[22]	N/A[23]
Buckeye Union High School	District	9-12	1,550	1.4	Performing	B
Youngker High School	District	9-12	606	2.0	Performing	B
West Mec – Youngker High Sch	District	9-12	17	2.0	N/A[22]	N/A[23]

Within a two-mile radius of the Avondale Campus, there are two district public schools, no private schools and one charter school. The table below provides a summary of these schools.

Table 16-6: Schools Competitive with the Avondale Campus[21]

School Name	School Type	Grades Served	Enrollment	Distance in Miles	AZ LEARNS Label	Letter Grade
Agua Fria High School	District	9-12	1,688	0.8	Highly Performing	B
West-Mec Agua Fria High School	District	9-12	N/A[24]	0.8	N/A[22]	N/A[23]
Estrella High School	Charter	9-12	464	1.0	Performing	N/A[23]

Within a two-mile radius of the Tempe Campus, there are two district public schools, one private school and nine charter schools. The table below provides a summary of these schools.

Table 16-7: Schools Competitive with the Tempe Campus[21]

School Name	School Type	Grades Served	Enrollment	Distance in Miles	AZ LEARNS Label	Letter Grade
McClintock High School	District	9-12	1,585	0.3	Excelling	A
Tempe Preparatory Academy	Charter	6-12	347	0.7	Excelling	A
EdOptions High School	Charter	7-12	N/A[24]	0.8	N/A[22]	N/A[23]
Tempe Accelerated High School	Charter	9-12	32	1.2	Performing	N/A[23]
Humanities and Science Institute – Tempe	Charter	9-12	N/A[24]	1.3	Performing	N/A[23]
Humanities and Sciences Academy Arizona	Charter	9-12	33	1.3	N/A[22]	N/A[23]
International Commerce Institute – Tempe	Charter	9-12	178	1.4	Performing	B
The Aces - East	Private	K-12	121	1.5	N/A[22]	N/A[23]
James Madison Preparatory School	Charter	7-12	178	1.6	Excelling	A
New School for the Arts	Charter	9-12	248	1.7	Highly Performing	D
Marcos De Niza High School	District	9-12	1,682	2.0	Performing	B
Pinnacle Charter High School	Charter	K-12	92	2.0	Performing	N/A23

Note that, because the Guarantor's Schools are computer-based, online high schools, all other online high schools in Arizona can be considered competitive with the Guarantor's Schools regardless of physical location.

Expansion/New Facilities

The Guarantor will continue to seek out great opportunities to offer its academic model to more students. Currently, the Guarantor intends to expand its educational program to include approximately eight new campuses in Arizona during the next five years. The current plan is that each of these campuses will be leased. However, the Guarantor may incur additional parity Indebtedness if, among other conditions, the Guarantor is not in default under the Indenture, the Loan Agreement, or any other Loan document. See APPENDIX D - "SUMMARIES OF FINANCING DOCUMENTS – THE LOAN AGREEMENT – Limitations on Additional Indebtedness" in the Official Statement.

Market Demand

The Guarantor's management believes that the Guarantor's Schools offer students educational options and flexibility in completing their high school requirements. The Guarantor's Schools offer students the ability to recover credits, small class sizes with personalized instruction

and caring teachers. The Guarantor's Schools are accredited by the North Central Association Commission on Accreditation and School Improvement and graduation rates are much higher than schools offering similar programs. Accordingly, management believes that the Guarantor's Schools will continue with strong enrollment and high student demand.

Each of the Guarantor's Schools' campuses has been purposefully located on major arterial streets and near bus routes and freeways to assure easy accessibility. Many of the students enrolling at the Guarantor's Schools choose the schools because they live and work in the immediate areas. However, for those that need to commute, the major arterial streets, bus lines and access to freeways make each of these locations convenient for the students' access.

See "BONDHOLDERS' RISKS – Other Schools/Competition For Students" in the Official Statement.

Revenues

State Payments

Both the Borrower's and the Guarantor's principal source of revenue is State Payments, paid monthly. As security for the Loan, the Borrower will pledge the Pledged Revenues, including its State Payments. To guarantee the Borrower's performance under the Loan Agreement, the Guarantor will pledge the Guarantor Pledged Revenues, including its State Payments. See "APPENDIX B - CHARTER SCHOOLS IN ARIZONA" in the Official Statement for a discussion of historical and projected levels of State allocation per pupil and other related matters. See also "BONDHOLDERS' RISKS – Changes in Law; Annual Appropriation; Inadequate State Payments" in the Official Statement.

Classroom Site Fund

Funds for performance-based teacher compensation increases and employment-related expenses, for maintenance and operations purposes and for teacher base salary increases are allocated to school districts and charter schools on a monthly basis, based upon student count and other factors specified by State statute. See "APPENDIX B - CHARTER SCHOOLS IN ARIZONA" in the Official Statement for further information.

In calculating funds available to the Borrower and the Guarantor, it has been assumed that statutorily allowable expenses (which do not include debt service on the Loan) will directly offset any revenues received from the Classroom Site Fund or Instructional Improvement Fund.

Other Income Received by the Borrower and the Guarantor

The Borrower and the Guarantor also receive income from federal programs, grants, pledges and other sources. This income is generally not considered "Pledged Revenues" in the section "Historical Revenues and Expenses" below. Such income is included within revenues to the Borrower or the Guarantor, as applicable, but is believed to be offset by comparable expenses that are also included below.

Historical Revenues and Expenses

The following table shows the Borrower's actual cash flows derived from the audited financial statements of the Borrower for the fiscal years 2008-2009 through 2010-2011.

Table 17

Carden Traditional School of Surprise, Inc. Historical Income Statement

	Fiscal Year Ending June 30,			3 Months Ending	
	Audited 2009	**Audited 2010**	**Unaudited[1,2] 2011**	**Internal Sep-10**	**Internal Sep-11**
Revenues:					
AZ Equalization Funds	3,575,641	3,191,569	3,888,834	614,069	712,048
Classroom Site Funds	188,722	169,989	167,514	26,414	35,841
Grant Revenues	233,360	1,264,756	501,875	57,479	-
Preschool	59,720	63,775	65,288	20,681	6,905
Before/After School Program	41,527	31,150	105,803	10,868	15,236
Booster Club/Fundraising	20,067	14,206	949	1,061	6,273
Student Fees	14,233	52,710	52,651	11,126	5,142
Food Service	-	50,503	48,286	12,797	15,150
Rent	-	60,000	60,000	15,000	17,400
Interest Income	57,026	51,012	65,793	19,778	11,308
One-Time Items	-	-	2,932,592		
Other Revenues	126,830	61,831	817,600	5,320	93
Total Operating Revenues	**4,317,126**	**5,011,501**	**8,707,185**	**794,593**	**825,396**
					-
Expenses:					
Program Expenses	2,373,661	2,964,935	3,101,245	606,097	641,764
General & Administrative Expenses	2,329,010	2,130,725	2,606,355	787,765	561,603
Fundraising Expenses	25,086	44,716	27,861	-	-
Total Expenses	**4,727,757**	**5,140,376**	**5,735,461**	**1,393,862**	**1,203,367**
					-
Net Operating Income	**(410,631)**	**(128,875)**	**2,971,724**	**(599,269)**	**(377,971)**

1) Includes company-prepared statements for Carden Traditional School of Glendale and independently audited statements for Carden Traditional School of Surprise. Going forward, both entities will report under Carden Traditional School of Surprise.

2) FY 2011 revenues reflect a $3,205,709 one-time contribution from e-Institute. This reflects the aggregate amount payable to e-Institute by the Carden Glendale and Surprise Campuses that was forgiven by e-Institute in FY 2011.

The following table shows the Borrower's projected cash flows for the fiscal years 2012-2016.

Table 18

Carden Traditional School of Surprise, Inc. Projected Income Statement

	Projected Income Statements Fiscal Year Ending June 30,				
	2012	**2013**	**2014**	**2015**	**2016**
Revenues:					
AZ Equalization Funds	4,213,461	5,343,203	6,128,197	6,576,483	6,887,241
Classroom Site Funds	192,104	244,092	278,962	306,798	320,477
Grant Revenues	412,281	325,323	357,856	393,641	433,005
Preschool	101,000	106,050	111,353	116,920	122,766
Before/After School Program	45,000	56,250	67,500	81,000	97,200
Booster Club/Fundraising	24,000	30,000	36,000	43,200	51,840
Student Fees	35,400	53,100	63,720	76,464	91,757
Food Service	153,500	191,875	230,250	276,300	331,560
Interest Income	66,750	5,329	5,319	5,324	5,324
Other Revenues	70,000	73,500	77,175	81,034	85,085
Total Operating Revenues	**5,313,496**	**6,428,722**	**7,356,332**	**7,957,164**	**8,426,255**
					-
Expenses:					
Program Expenses	2,899,486	3,323,674	3,576,721	3,840,826	4,124,532
General & Administrative Expenses	1,562,547	1,962,763	2,183,700	2,331,112	2,464,584
Amortization of Bond Fees	20,946	19,567	19,567	19,567	19,567
Provision for Depreciation	157,537	336,217	353,028	353,381	353,734
Provision for Interest	451,058	1,220,312	1,214,241	1,208,200	1,196,238
Total Expenses	**5,091,574**	**6,862,533**	**7,347,256**	**7,753,086**	**8,158,655**
					-
Net Operating Income	**221,922**	**(433,811)**	**9,076**	**204,078**	**267,600**

Debt Service Coverage Ratio (MADS)[1]					
plus: Interest Expense	451,058	1,220,312	1,214,241	1,208,200	1,196,238
plus: Provision for Depreciation	157,537	336,217	353,028	353,381	353,734
plus: Provision for Amortization	20,946	19,567	19,567	19,567	19,567
Income Available for Debt Service [1]	**851,463**	**1,142,285**	**1,595,911**	**1,785,226**	**1,837,139**
Maximum Annual Debt Service (MADS) [1]	1,317,100	1,317,100	1,317,100	1,317,100	- 1,317,100
Debt Service Coverage Ratio [1]	**0.65**	**0.87**	**1.21**	**1.36**	**1.39**

[1] Calculated in accordance with the Loan Agreement

The following table shows the Guarantor's actual cash flows derived from the audited financial statements of the Guarantor for the fiscal years 2008-2009 through 2010-2011.

Table 19

e-Institute Historical Income Statement

	Fiscal Year Ending June 30,			3 Months Ending	
	Audited 2009	**Audited 2010**	**Audited[1] 2011**	**Internal Sep-10**	**Internal Sep-11**
Revenues:					
AZ Equalization Funds	2,231,618	2,190,045	3,830,048	539,895	795,661
Classroom Site Fund	139,350	140,726	160,734	22,821	34,542
Grant Revenues	70,118	642,056	261,506	29,207	-
Insurance Reimbursement	-	137,301	-		
Student Fees	13,416	13,494	18,308	8,197	7,458
Other Revenues	-	636	16,241	1,515	-
Total Operating Revenues	**2,454,502**	**3,124,258**	**4,286,837**	**601,635**	**837,661**
					-
Expenses:					
Program Expenses	648,861	904,276	4,425,230	256,447	483,665
General & Administrative Expenses	1,468,201	1,506,263	1,958,761	426,310	694,257
Total Expenses	**2,117,062**	**2,410,539**	**6,383,991**	**682,757**	**1,177,922**
					-
Net Operating Income	**337,440**	**713,719**	**(2,097,154)**	**(81,122)**	**(340,261)**

1) FY 2011 audited statements reflect a one-time contribution of $3,205,709 to Carden Traditional School of Surprise. This amount reflects the aggregate amount due from the Carden Glendale and Surprise Campuses that was forgiven in FY 2011.

The following table shows the Guarantor's projected cash flows for the fiscal years 2012 through 2016.

Table 20

e-Institute Projected Income Statement

	Projected Income Statements Fiscal Year Ending June 30,				
	2012	**2013**	**2014**	**2015**	**2016**
Revenues:					
AZ Equalization Funds	5,418,255	6,304,901	7,813,536	8,734,592	10,539,590
Classroom Site Fund	199,938	215,211	249,923	278,168	292,433
Grant Revenues	205,595	175,376	192,914	212,205	233,426
Student Fees	84,650	126,975	152,370	182,844	219,413
Other Revenues	1,000	1,100	1,210	1,331	1,464
Total Operating Revenues	**5,909,438**	**6,823,563**	**8,409,953**	**9,409,140**	**11,286,326**
Expenses:					**-**
Program Expenses	1,950,208	2,239,401	2,558,944	2,924,535	3,342,863
General & Administrative Expenses	2,468,593	2,990,614	3,676,387	4,362,095	5,717,670
Provision for Depreciation	125,000	156,250	195,313	244,141	305,176
Provision for Interest	68,500	89,050	106,860	117,546	129,301
Total Expenses	**4,612,301**	**5,475,315**	**6,537,504**	**7,648,317**	**9,495,010**
					-
Net Operating Income	**1,297,137**	**1,348,248**	**1,872,449**	**1,760,823**	**1,791,316**

The following table shows the consolidated historical debt service coverage for the fiscal years 2008-2009 through 2010-2011.

Table 21

Consolidated Historical Combined Debt Service Coverage Ratios

	Fiscal Year Ending June 30,		
	Audited 2009	**Audited 2010**	**Internal[2] 2011**
Combined Debt Service Coverage Ratio (MADS)[1]			
Total Support and Revenues	6,771,628	8,135,759	12,994,022
Total Expenses	6,844,819	7,550,915	12,119,452
Change in Net Assets:	**(73,191)**	**584,844**	**874,570**
plus: Interest Expense	492,717	470,880	461,786
plus: Provision for Depreciation	302,143	272,315	288,255
plus: Provision for Amortization	20,947	20,946	20,947
Income Available for Debt Service	**742,616**	**1,348,985**	**1,645,557**
Maximum Annual Debt Service (MADS)	1,317,100	1,317,100	1,317,100
Combined Debt Service Coverage Ratio[1]	**0.56**	**1.02**	**1.25**

1) Calculated in accordance with the Loan Agreement

2) FY 2011 Consolidated numbers reflect a $3,205,709 one-time contribution from e-Institute to Carden Traditional School of Surprise. The expense to e-Institute and revenue to Carden offset in the consolidated statement.

The following table shows the consolidated projected debt service coverage for the Borrower and the Guarantor combined for the fiscal years 2012 through 2016.

Table 22

Consolidated Projected Combined Debt Service Coverage Ratio

	Fiscal Year Ending June 30,				
	2012	**2013**	**2014**	**2015**	**2016**
Debt Service Coverage Ratio (Actual Debt Service)[1]					
Total Support and Revenues	11,222,934	13,252,285	15,766,285	17,366,304	19,712,581
Total Expenses	9,703,875	12,337,848	13,884,760	15,401,403	17,653,664
Change in Net Assets:	**1,519,059**	**914,437**	**1,881,525**	**1,964,901**	**2,058,917**
					-
plus: Interest Expense	451,058	1,220,312	1,214,241	1,208,200	1,196,238
plus: Provision for Depreciation	282,537	492,467	548,341	597,522	658,910
plus: Provision for Amortization	20,946	19,567	19,567	19,567	19,567
Income Available for Debt Service [2]	**2,273,600**	**2,646,782**	**3,663,674**	**3,790,189**	**3,933,631**
					-
Actual Debt Service [1]	-	715,748	1,112,447	1,317,242	1,315,752
Actual Debt Service Coverage Ratio	**N/A**	**3.70**	**3.29**	**2.88**	**2.99**
Combined Debt Service Coverage Ratio (MADS)[2]					
Income Available for Debt Service	**2,273,600**	**2,646,782**	**3,663,674**	**3,790,189**	**3,933,631**
					-
Maximum Annual Debt Service (MADS) [2]	1,317,100	1,317,100	1,317,100	1,317,100	1,317,100
Combined Debt Service Coverage Ratio [2]	**1.73**	**2.01**	**2.78**	**2.88**	**2.99**

[1] Calculated on actual debt service on the Series 2011 bonds for such fiscal year. Actual debt service includes the application of capitalized interest, earnings on the debt service reserve fund and all annual related bond expenses

[2] Calculated in accordance with the Loan Agreement

Neither the Borrower nor the Guarantor can represent or provide any assurance that the Borrower, the Guarantor or the combination of them both will realize revenues in amounts sufficient to make the required Loan payments. The realization of future Revenues is dependent upon, among other things, the matters described in the foregoing paragraph and future changes in economic and other conditions that are unpredictable and cannot be determined at this time. See "BONDHOLDERS' RISKS – Changes in Law; Annual Appropriation; Inadequate State Payments" in the Official Statement.

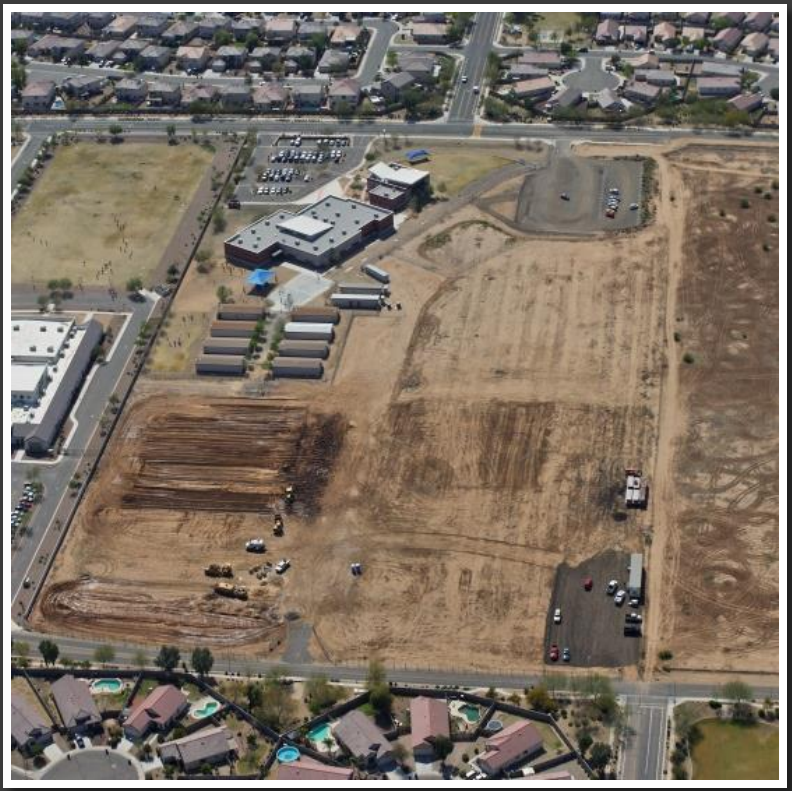
Maximum Annual Debt Service Requirements

The maximum annual debt service due on the Loan is estimated at $[_____].

No Litigation

On the date of this Official Statement, no action, suit, proceeding or investigation at law or in equity, before or by any court, governmental agency or public board or body is pending or, to the Borrower's knowledge, overtly threatened, affecting the validity of the Indenture, the Loan Agreement or the Series 2011 Bonds or contesting the corporate existence or powers of the Borrower. As of the date hereof, no material litigation is pending or, to the knowledge of the Borrower, overtly threatened against the Borrower.

On the date of this Official Statement, no action, suit, proceeding or investigation at law or in equity, before or by any court, governmental agency or public board or body is pending or, to the Guarantor's knowledge, overtly threatened, affecting the validity of the Guaranty Agreement or contesting the corporate existence or powers of the Guarantor. As of the date hereof, no material litigation is pending or, to the knowledge of the Guarantor, overtly threatened against the Guarantor.



CALIBRE ACADEMY OF SURPRISE

Start of construction March 2012

Second Month, April 2012

May and June 2012

End of Constructon
August 2012

CALIBRE ACADEMY OF SURPRISE

Photos from Building Dedication November 2012

APPENDIX C

Rationale for Closure of Calibre Academy Glendale Campus

According to an article in the Arizona Republic student enrollment in most northwest valley school districts has significantly declined in the past five years. Deer Valley School District, where Calibre Academy of Glendale is located, has consistently declined since 2007-08 dropping more than 2000 students. Peoria Unified and Glendale Elementary school districts have seen declines as well.

Deer Valley School District, in December 2012, considered closing one of the five elementary schools with the lowest enrollments. Bellair Elementary School, located right across the street from Calibre Academy of Glendale, was one of the schools considered for closure.

There are twenty five schools that serve students in the grades K-8 in the 85308 area code where Calibre Academy of Glendale is located. Reid Traditional School – Painted Rock Academy, Challenge Charter School, Canyon Pointe Academy, Starshine St. John's, Great Hearts Academies – Glendale Prep, Core Continental School, Desert Heights Preparatory Academy are all charter schools in this area code.

Joy Christian School, Arrowhead Christian Academy, Atonement Lutheran, Brite Future Academy are private schools serving K-8 students in the 85308 area code. There are also several Deer Valley District schools in this area code that have declining enrollments and are being considered for possible closure.

All of these schools are competing for students in an area with declining K-12 student enrollments, a declining economy and a maturing population with less school age children. There are also fewer new home projects in this area code than other parts of the northwest valley.

Despite these factors, Calibre Academy of Glendale has maintained a solid academic program with a great teaching staff. The school has maintained an "A" or "B" rating since the school was first open in 2000. Interventions such as bussing, before and after care, sports, all day kindergarten have not made any impact on increasing student growth. Due to increasing expenses to maintain high student achievement, Calibre Glendale for the last several years has not been able to meet enrollment targets that would allow the school to financially succeed without assistance.

Fortunately, Calibre Academy of Surprise is seeing enrollment growth. In the same Arizona Republic article that painted such a negative picture of the Deer Valley District enrollment, demand for school is high in Surprise and the Dysart School District. Surprise is a growing community with new construction and an increased demand for charter schools. Nearly 20 percent of students in Surprise attend a charter school, one of the highest percentages among Valley cities, according to the Republic.

Calibre Academy of Surprise has a great reputation in the community and has high academic achievement. In 2012 the campus opened phase II, which doubled the size of the school, adding 24 additional classrooms in two new buildings, new 14,927 square foot multi-purpose room and gymnasium, new cafeteria with indoor and outdoor dining areas, expanded and improved softball and football/soccer fields, and expanded parking. This new addition to the campus will allow Calibre Academy of Surprise to accommodate up to 1,000 students. Enrollment is growing at an increasing rate and Calibre Academy of Surprise is expected to enroll over 800 students in 2014-15, based on historical enrollment trends.

Expanding the sports program, adding to the music and band programs, summer school, and the CAPP gifted program are all new initiatives that should drive more enrollment. Consistently Calibre has great teachers, high student achievement, and a great PTA and parent program.

The closing of the Calibre Glendale campus will allow the school to reduce costs, without significantly impacting revenue. E-Institute Charter School has growing enrollment and has historically been able to support Calibre as a sister school with common management. The Calibre Glendale campus, currently has a small E-Institute site currently. The closing of the space will allow room for the E-Institute and Taylion Virtual Academy programs to expand without having to completely close the school site.

APPENDIX D

MARKETING PLAN

Community Outreach Ideas

- Fliers to be distributed by Learning Matters staff, PTA members, and parents.
- Fliers at all PTA partner businesses in the area, videos to advertise school on all businesses that run ads on TVs in the establishments
- Multiple fliers to be distributed to each family to give away to neighbors and friends (all data shows word of mouth works best in recruiting more families)
- Put article in paper every two weeks, so the readers become more familiar with the Calibre Academy name.
- Contact the surrounding HOA's to encourage them to use the facilities for block party programs/ get the word out about the school
- Weekly restaurant nights, every Wednesday, place an information/registration table manned by principal/ staff - this will accomplish more coverage of the community than a single weekend event
- Possible bus route for new students from west of 303 area- busing to Caibre Surprise from that area would be a good thing for the families in that area
- Ad in the local movie theater with an information/ registration table.
- Marketing – Direct contact – door hangers.
- Have an art show or band to attract people
- Have parking lot event sometime in May. Have a band.
- Get bus on a Saturday to shopping center, teacher canvas the neighborhoods with flyers regarding new bus route.
- Rent or purchase email address for specific areas to encourage new student enrollment
- Raffle for new students after the 40th day of attendance
- Study the address report to determine which surrounding areas are served or not served and target those that are not served by the school for registration outreach and bus route

School Site Activities

- Volunteer teachers or current parents could give tour of Calibre Surprise
- Continue with the current plan and develop Calibre Surprise –Get ready for next year
- Open gym nights for the entire community
- Promote brand new library with a kick-off event.
- Summer programs opened to entire community

    - Technology camp
    - Band camp
    - Sports camp
    - Summer day camp
    - Summer movie night in the gym.
- Spring Fair new family draw- receive a free game bracelet, park the bus in the parking lot with banner about bus route
- Very large banners on the fence advertising all the school programs
- Invite local schools and community members to learn about the <u>only</u> school garden in Surprise

Social Media

Calibre Academy believes building and maintaining a strong and positive Web presence is important to effectively serving our current students and families as well as successfully recruiting and enrolling prospective students.

Calibre's plan to utilize social media consists of four major components, School website, Facebook, Twitter and YouTube. These four social media platforms will be integrated to build a seamless and powerful community of students and their families, school personnel and community residents and businesses. Our social media plan will always focus first on providing relevant and timely service to our current students and their families. A good reputation and word of mouth are very influential in a parent's decision on what school their children will attend.

School website

Calibre's school website is currently being re-designed to make it more user-friendly and to work more efficiently with our other forms of social media. Our school website is the foundational piece of our social media plan. The main function of the website will be to provide comprehensive, accurate and up to date information regarding Calibre Academy. This will include school policy, student activities and achievements, school calendar, teacher/staff information, programs and curriculum, as well as enrollment information. Prospective students will be able to fill out an enrollment packet online. The school website will be able to provide in a clear and easy to understand manner, the answers to most questions parents and students may have concerning Calibre Academy. The website will also promote various clubs, sports teams, student activities and highlight student achievements and awards.

Facebook

Facebook is the key component in building a larger Calibre community. Our fan page is being re-designed to better complement our website. A well-organized page will allow visitors to find the information they need in a fast and friendly manner. Growing a larger community starts with building our Facebook audience. To do this we are first focusing on our current students and their families as well as current faculty and staff. From there we plan to reach out to neighbors and local business. The fan page will be monitored during business hours. Comments and inquiries will be handled quickly and thoroughly.

Current students and staff

Besides being a source of information, our fan page will also be engaging and entertaining. Current students and staff will be encouraged to “like” our fan page. This will make them eligible for regular raffles. Prizes would range from school supplies to school spirit items. Contests and trivia questions will be used to keep followers engage. Polls and surveys will be created to provide important feedback concerning the fan page as well as the effectiveness of school services. Student achievements, upcoming activities and school awards will be showcased on our fan page.

Neighbors and local business

The goal of our fan page is to attract and enroll new students in Calibre Academy. Our fan page will include special contests and raffles to encourage neighborhood families to “like” our fan page to participate. Student contests will be created that require friends and neighbors to cast a vote on our fan page to help the student win. Special drawings will be held for non-Calibre families who “like” our page and the winners will receive a family oriented prize like movie tickets or family games. Articles and videos, which provide support and advice on raising and educating children, will be posted on the fan page. Polls and surveys will be used to evaluate the effectiveness of our fan page. Our fan page will drive prospective families to our website where they will find all the information and help they need to enroll their children into Calibre Academy. Local businesses will be recruited to sponsor and promote activities and events at Calibre.

Twitter

Twitter will provide Calibre with the ability to instantly communicate with parents. Our website and Facebook fan page will provide the opportunity to follow us on Twitter. Our current families and staff will be encouraged through the use of incentives to follow us on Twitter. Regular broadcast will be made to promote our fan page. Followers will receive reminders about upcoming events, contests, student achievements and important information as it becomes available. These broadcasts will help drive traffic to our fan page and our website.

YouTube

Calibre is currently working on developing its own YouTube channel. This channel will be used to post videos that will help support and educate our current student as well as showcase our successes and promote our school to the community. Teachers will be able to post videos to supplement their classroom instruction.

Students can review material before an exam. Teachers will have access to professional development videos tailored to specific content areas. Student will be able to relive events and activities. Family and friends can watch award ceremonies and special performances that they missed. Parents will find how-to video topics relevant to parenting and educating their children. Prospective families will find videos promoting the vision and mission of Calibre Academy. They can watch videos of actual classroom instruction, the enrollment process, as well as videos regarding school policy and procedure. Video links will be featured on our fan page and website. As new videos are added we will broadcast their release over Twitter.

Conclusion

The four components of our social media plan, working together, will build a strong and positive Web presence for Calibre Academy. This presence will enable us to effectively serve our current families and provide them with an excellent educational experience. This presence will also assure prospective families that we can meet the educational needs of their children, thus increasing our student enrollment.

CALIBRE ACADEMY ATHLETIC PROGRAM

While most K-8 Charter Schools offer athletics for upper grade students (5th-8th grades), Calibre Academy has designed an athletic program to meet the needs of all students.

The Calibre Academy Mustangs currently compete in IYAC (Independent Youth Athletic Conference) for all upper level sports. Calibre offers flag football, volleyball, soccer, basketball, and cheer. For the 2014-15 school year, Calibre Academy will join CAA (Canyon Athletic Association). Through CAA, Calibre Academy will be able to provide additional sports such as girls fast pitch softball, boys baseball, track and field, and a two year goal of providing full contact football. Through CAA, athletes will be able to compete on a state level, which will better prepare them for high school. Athletes will also be able to build player profiles. These profiles allow the students to build portfolios for future educational pursuits.

Calibre Academy has begun a lower level program for K-5th grade. Lil Colts is an intramural school athletic program designed to prepare our younger students to play for the upper level squads by focusing on fundamentals, sportsmanship, and teamwork through competition. Lil Colts offers basketball, soccer, cheer, and flag football.

The overall goal of the Mustang Athletics program is success on the field which then leads to students' success in the classroom.

Calibre Academy Surprise

Calibre Academy Partnership Program, **CAPP**, began as a result of an unmet need. Calibre has effectively met the needs of students who need interventions, but has not done so well with students at the other end of the spectrum. Calibre has had a gifted and talented cluster program for years. There have been, however, a large percentage of students who are very bright, do not qualify for gifted services, and are not being challenged up to their potential. With that in mind, Calibre created a unique class, at grade levels 2-6, that is open, by application only, to meet the needs of those students.

The students who apply for CAPP are chosen based on a rubric designed with input from all stakeholders. Previous teachers write recommendations. Previous test scores and report cards are studied. Attendance is a strong factor. Classes are open to new students as well as continuing students. Calibre now has a CAPP class at each grade level 2nd through 6th, with a higher level class coming to 7th in 2014.

The teachers agree to further preparation in gifted and talented techniques, project and problem based learning, as well as Habits of the Mind. The students in these classes are stretched far beyond the other classes but are thriving in the challenge. A few students, who found the class too much, moved into other classes. For the first time, many of the CAPP students are finding school difficult. They are adjusting to rigorous assignments that require their best, rather than just “making due.” When asked what is different about this school year, one student said, “It is more exciting. I am working hard but it is exciting now.”

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*** Community Service Projects**

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