

SUPPLEMENT TO LIMITED OFFERING MEMORANDUM DATED SEPTEMBER 25, 2006

**TEXAS PUBLIC FINANCE AUTHORITY
CHARTER SCHOOL FINANCE CORPORATION
Education Revenue Bonds
(Burnham Wood Charter School Project)
\$8,360,000 Education Revenue Bonds, Series 2006A
\$165,000 Taxable Education Revenue Bonds, Series 2006B**

The Limited Offering Memorandum dated September 25, 2006 (the "Limited Offering Memorandum") relating to the \$8,360,000 Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Burnham Wood Charter School Project), Series 2006A and the \$165,000 Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Burnham Wood Charter School Project), Series 2006B is hereby supplemented as follows. All capitalized terms used in this Supplement shall have the respective meanings ascribed to them in the Limited Offering Memorandum.

The Limited Offering Memorandum is supplemented by deleting the definition of "Record Date" under the heading "DEFINITIONS OF CERTAIN TERMS" and replacing it with the following:

"Record Date" means the date which is the first day of the calendar month immediately preceding any Interest Payment Date for a series of Bonds, unless a different Record Date is specified in the form of such series of Bonds.

This Supplement is dated October 3, 2006.

THE DELIVERY OF THE BONDS IS SUBJECT TO THE OPINION OF DELGADO, ACOSTA, BRADEN & JONES, PC., BOND COUNSEL, TO THE EFFECT THAT INTEREST ON THE SERIES 2006A BONDS (described below) IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW AND IS NOT AN ITEM OF TAX PREFERENCE THAT IS INCLUDABLE IN CALCULATING THE ALTERNATIVE MINIMUM TAX IMPOSED ON INDIVIDUALS. INTEREST ON THE SERIES 2006B BONDS (described below) IS NOT EXEMPT FROM FEDERAL INCOME TAX. SEE "TAX MATTERS" HEREIN FOR A DISCUSSION OF BOND COUNSEL'S OPINION, INCLUDING A DESCRIPTION OF ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS AND OTHER FEDERAL TAX CONSEQUENCES.

**TEXAS PUBLIC FINANCE AUTHORITY
CHARTER SCHOOL FINANCE CORPORATION**

Education Revenue Bonds

(Burnham Wood Charter School Project)

\$8,360,000 Education Revenue Bonds, Series 2006A

\$165,000 Taxable Education Revenue Bonds, Series 2006B

Dated: Date of Delivery

Due: September 1 (as on the inside cover page)

Interest on the \$8,360,000 Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Burnham Wood Charter School Project), Series 2006A (the "Series 2006A Bonds") and the \$165,000 Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Burnham Wood Charter School Project), Series 2006B (the "Series 2006B Bonds") (collectively, the "Bonds") accrues from the Dated Date and is payable March 1, 2007, and each September 1 and March 1 thereafter until the earlier of maturity or redemption. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Trustee, initially, Wells Fargo Bank, National Association, Houston, Texas, to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds. See "Book-Entry-Only System" herein.

The Bonds are being issued by, and are special and limited obligations of, the Texas Public Finance Authority Charter School Finance Corporation (the "Issuer"), and the proceeds thereof will be loaned to the El Paso Education Initiative Inc. (the "Borrower"), a nonprofit corporation organized and existing under the laws of the State of Texas (the "State"), operating two campuses consisting of the Burnham Wood Charter School and the Da Vinci School for Science and Arts (together the "Schools"), open enrollment charter schools under the laws of the State, to finance the cost of certain educational facilities (as this term is defined within Chapter 53, Texas Education Code, as amended), including financing the costs of a project consisting of certain land, buildings, equipment, facilities and improvements located on campuses of the Schools in the City of El Paso, Texas, and to pay the costs of issuing the Bonds (the "Project").

THE BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM REVENUES RECEIVED BY THE ISSUER PURSUANT TO A LOAN AGREEMENT BY AND BETWEEN THE ISSUER AND THE BORROWER, AS FURTHER SECURED BY A DEED OF TRUST AND SECURITY AGREEMENT FROM THE BORROWER ON CERTAIN REAL PROPERTY OF THE BORROWER SECURING PAYMENTS UNDER SUCH LOAN AGREEMENT. THE BONDS ARE NOT OBLIGATIONS OF THE CITY OF EL PASO, TEXAS (THE "CITY"), THE STATE, OR ANY OTHER ENTITY. NONE OF THE CITY, THE STATE, NOR ANY POLITICAL CORPORATION, SUBDIVISION, GOVERNMENTAL ENTITY OR AGENCY OF THE STATE SHALL BE OBLIGATED TO PAY THE BONDS OR THE INTEREST THEREON AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE, OR ANY OTHER POLITICAL CORPORATION, SUBDIVISION, GOVERNMENTAL ENTITY OR AGENCY OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

The purchase and ownership of the Bonds are subject to special risk factors and all prospective purchasers are urged to examine carefully this entire Limited Offering Memorandum with respect to the investment security of the Bonds, particularly the section captioned "RISK FACTORS." The initial owner of the Bonds will be required to execute and deliver to the Trustee an Investor Letter substantially in the form set forth as Appendix D hereto, with only such changes as may be acceptable to the Trustee, to evidence that such Bonds are owned by an investor that is an "accredited investor" under Regulation D of the Securities Act of 1933 or a "qualified institutional buyer" under Rule 144A promulgated by the Securities and Exchange Commission thereunder and that each such accredited investor or qualified institutional buyer has sufficient knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of an investment in the Bonds. See "THE BONDS - Transfer Restrictions" herein.

The Bonds are offered by Wells Fargo Brokerage Services, LLC, (the "Underwriter"), when, as and if issued by the Issuer and accepted by the Underwriter, subject, among other things, to the approval of the initial Bonds by the Attorney General of the State of Texas and the approval of certain legal matters by Delgado, Acosta, Braden & Jones, PC., El Paso, Texas, Bond Counsel. Certain other matters will be passed upon for the Borrower by Ainsa Hutson, LLP, El Paso, Texas, Borrower's Counsel, and for the Underwriter by Kline Alvarado Veio, P.C., Denver, Colorado. Delivery of the Bonds is expected on or about October 4, 2006.

WELLS FARGO BROKERAGE SERVICES, LLC

MATURITY SCHEDULE

**TEXAS PUBLIC FINANCE
Charter School Finance Corporation**

**EDUCATION REVENUE BONDS
(BURNHAM WOOD CHARTER SCHOOL PROJECT)**

EDUCATION REVENUE BONDS, SERIES 2006A

\$1,610,000 5.500% Term Bond Due September 1, 2018 Price 100% CUSIP© 88276P AU 0

\$6,750,000 6.250% Term Bond Due September 1, 2036 Price 100% CUSIP© 88276P AW 6

TAXABLE EDUCATION REVENUE BONDS, SERIES 2006B

\$165,000 6.750% Bond Due September 1, 2008 Price 100% CUSIP© 88276P AT 3

USE OF INFORMATION IN LIMITED OFFERING MEMORANDUM

The Trustee's duties and obligations to the Holders of the Bonds will commence only upon its acceptance of such duties and obligations by its execution and delivery of the Indenture. The Trustee assumes no responsibility for this Limited Offering Memorandum and has not reviewed or undertaken to verify any information contained herein. The Trustee has not undertaken to investigate, nor is it responsible for, the validity of the execution by the Issuer and the Borrower of the documents to be executed by them or any supplements or amendments thereto or instruments of further assurance, or the validity, perfection, priority, continuation of any lien or the value or sufficiency of the security for the Bonds or intended to be secured by the Indenture and the Deed of Trust described herein.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Limited Offering Memorandum, and, if given or made, such other information or representation must not be relied upon as having been authorized by the Issuer.

This Limited Offering Memorandum is not to be used in an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Financing documents, resolutions, contracts, engineering and other related reports referenced or described in this Limited Offering Memorandum are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the Issuer or from Delgado, Acosta, Braden & Jones, P.C.

The Underwriter has provided the following sentence for inclusion in this Limited Offering Memorandum. The Underwriter has reviewed the information in this Limited Offering Memorandum in accordance with its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. Neither the Issuer nor the Underwriter makes any representation as to the accuracy, completeness or adequacy of the information supplied by The Depository Trust Company for use in this Limited Offering Memorandum.

This Limited Offering Memorandum contains forward-looking statements which may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from the future results, performance or achievements expressed or implied by such forward-looking statements. Any statements are subject to such risks, uncertainties, and other factors. Some assumptions used to develop statements may not be realized and unanticipated events or circumstances may occur. **Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.**

This Limited Offering Memorandum contains, in part, estimates, assumptions and matters of opinion that are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice and neither the delivery of this Limited Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, the Borrower or other matters described herein since the date hereof.

Investors must rely on their own examination of the Borrower and the terms of the offering, including the merits and risks involved. An investment in the Bonds involves a high degree of risk. Certain risks involved with investment in the Bonds are discussed in "INVESTMENT CONSIDERATIONS AND RISK FACTORS" herein. The initial owner of the Bonds will be required to execute and deliver to the Trustee an investor letter substantially in the form set forth as Appendix D hereto, with only such changes as may be acceptable to the Trustee to evidence that such Bonds are owned by an investor that is an "accredited investor" under Regulation D of the Securities Act of 1933 or a "qualified institutional buyer" under Rule 144A promulgated by the Securities and Exchange Commission thereunder and that each such accredited investor or qualified institutional buyer has sufficient

knowledge and experience in financial and business matters, as to be capable of evaluating the merits and risks of an investment in the Bonds. See "THE BONDS – Transfer Restrictions" herein.

THE PRICES AT WHICH THE BONDS ARE OFFERED TO THE PUBLIC BY THE UNDERWRITER (AND THE YIELDS RESULTING THEREFROM) MAY VARY FROM THE INITIAL PUBLIC OFFERING PRICES OR YIELDS APPEARING ON THE COVER PAGE HEREOF. IN ADDITION, THE UNDERWRITER MAY ALLOW CONCESSIONS OR DISCOUNTS FROM SUCH INITIAL PUBLIC OFFERING PRICES TO DEALERS AND OTHERS. IN ORDER TO FACILITATE DISTRIBUTION OF THE BONDS, THE UNDERWRITER MAY ENGAGE IN TRANSACTIONS INTENDED TO STABILIZE THE PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

SPECIAL DISCLOSURE STATEMENT: WELLS FARGO BROKERAGE SERVICES, LLC ("WELLS FARGO") IS A REGISTERED BROKER/DEALER AND A MEMBER OF THE NASD AND SPIC. WELLS FARGO IS NOT A BANK OR THRIFT AND IS SEPARATE FROM ANY WELLS FARGO BANK OR OTHER AFFILIATED BANK OR THRIFT. WELLS FARGO IS SOLELY RESPONSIBLE FOR ITS CONTRACTUAL OBLIGATIONS AND COMMITMENTS.

NONDEPOSIT INVESTMENT PRODUCTS OFFERED BY WELLS FARGO ARE NOT FDIC INSURED, ARE NOT DEPOSITS, ARE NOT OBLIGATIONS OF, OR GUARANTEED BY, ANY BANK, AND ARE SUBJECT TO INVESTMENT RISKS, INCLUDING THE POSSIBLE LOSS OF THE PRINCIPAL INVESTED.

FROM TIME TO TIME WELLS FARGO BANK, NATIONAL ASSOCIATION AND OTHER BANKS AFFILIATED WITH WELLS FARGO MAY LEND MONEY TO A BORROWER OF PROCEEDS OF SECURITIES THAT ARE UNDERWRITTEN OR DEALT IN BY WELLS FARGO. WITHIN THE PROSPECTUS OR OTHER DOCUMENTATION PROVIDED WITH EACH SUCH UNDERWRITING OR DEALING, THERE WILL BE A DISCLOSURE OF ANY MATERIAL LENDING RELATIONSHIP BY AN AFFILIATE OR WELLS FARGO WITH SUCH A BORROWER AND WHETHER THE PROCEEDS OF SUCH AN ISSUANCE OF SUCH SECURITIES WILL BE USED BY THE BORROWER TO REPAY ANY OUTSTANDING INDEBTEDNESS TO ANY WELLS FARGO AFFILIATE.

TABLE OF CONTENTS

USE OF INFORMATION IN LIMITED OFFERING MEMORANDUM.....	i	BOOK-ENTRY ONLY SYSTEM.....	30
LIMITED OFFERING MEMORANDUM.....	1	STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS.....	32
PLAN OF FINANCING.....	2	Recent Litigation Relating to the Texas School Finance System	32
Purpose	2	Funding Changes in Response to West Orange-Cove II	33
The Facilities	2	Recent Litigation Relating to HB1	33
The Project	2	Possible Effects of Litigation and Changes in Law on Borrower Obligations	34
Sources and Uses of Funds	3	THE SYSTEM OF CHARTER SCHOOLS IN TEXAS.....	38
THE BONDS.....	3	General	38
Description	3	Limitation on Number of Charters Granted	39
Redemption Provisions	3	Authority Under Charter	39
Limited Offering	6	State Funding	39
SECURITY AND SOURCE OF PAYMENT.....	6	Local Funding	40
Security for the Bonds	6	Provisions of Open-Enrollment Charters	40
The Trust Estate	7	Basis for Modification, Placement on Probation, Revocation, or Denial of Renewal	41
Establishment of Funds for the Bonds; Assignment of State Payments	7	Annual Evaluation	41
Facility Revenue Fund	7	Changes in Funding	42
Debt Service Fund	8	THE ISSUER.....	43
Debt Service Reserve Fund	8	THE BORROWER AND THE SCHOOLS.....	43
Construction and Acquisition Fund	9	El Paso Education Initiative Inc.	43
Rebate Fund	9	The Schools	43
Deed of Trust	10	Management	43
DEFINITIONS OF CERTAIN TERMS.....	10	Grant and Fundraising	44
SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT.....	16	Educational Programs	45
Loan	16	Students' Resident District	45
Loan Payments	16	Enrollment History	46
Corporate Existence	17	Student Demographics	46
Tax Covenants of the Borrower	18	Student Waiting List	47
Defaults	18	Student and School Achievement	47
Remedies Upon an Event of Default	18	Fort Bliss Growth Due to Base Realignment and Closure (BRAC)	49
Notice of Default; Opportunity of the Issuer and the Borrower to Cure Default	19	Debt Service Requirements on the Bonds	51
Amendment	19	Audited Financial Information	54
Additional Indebtedness	19	LEGAL MATTERS.....	54
SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE.....	20	Legal Proceedings	54
Investment of Moneys; Allocation and Transfer of Investment Income	20	No-Litigation Certificates	54
Events of Default	21	FORWARD-LOOKING STATEMENTS.....	55
Acceleration	21	TAX MATTERS.....	55
Other Remedies for Events of Default	21	THE SERIES 2006A BONDS	55
The Trustee	22	Collateral Tax Consequences	56
RISK FACTORS.....	22	THE SERIES 2006B BONDS	57
General	23	In General	57
Limited Obligations	23	Payments of Interest	57
Dependence on the State	23	Acquisition Premium	57
Dependence on the Borrower	23	Market Discount	58
Tax-Exempt Status on the Series 2006A Bonds	26	Amortizable Premium	58
Tax-Exempt Status of the Borrower	26	SALE AND DISTRIBUTION OF THE BONDS.....	60
State and Local Tax Exemption	27	The Underwriter	60
Unrelated Business Income	27	Prices and Marketability	60
Risk of Catastrophic Loss	28	Securities Laws	60
Limited Remedies After Default	28	LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS.....	61
Ability to Sell or Lease the Project if an Event of Default Occurs	28	CONTINUING DISCLOSURE OF INFORMATION.....	61
Potential Environmental Liability	29	NO RATINGS.....	61
Risk of Bankruptcy	29	PREPARATION OF LIMITED OFFERING MEMORANDUM.....	61
Risk of Increased Debt	29	Sources and Compilation of Information	61
Risk of Failure to Comply with Certain Covenants	29	MISCELLANEOUS.....	62
Limited Marketability of the Bonds	29		
Suitability and Transfer Restrictions	30		

APPENDIX A - AUDITED FINANCIALS OF BORROWER FOR YEAR ENDED AUGUST 31, 2005.....	A-1
APPENDIX B - UNAUDITED FINANCIALS OF BORROWER AS OF AUGUST 31, 2006	B-1
APPENDIX C - FORM OF OPINION OF BOND COUNSEL	C-1
APPENDIX D - FORM OF INVESTOR LETTER.....	D-1
APPENDIX E - FORM OF CONTINUING DISCLOSURE AGREEMENT	E-1

LIMITED OFFERING MEMORANDUM

**Texas Public Finance Authority
Charter School Finance Corporation
Education Revenue Bonds
(Burnham Wood Charter School Project)**

**\$8,360,000 Education Revenue Bonds, Series 2006A
\$165,000 Taxable Education Revenue Bonds, Series 2006B**

This Limited Offering Memorandum provides certain information in connection with the issuance by the Texas Public Finance Authority Charter School Finance Corporation (the "*Issuer*") of its \$8,360,000 Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Burnham Wood Charter School Project), Series 2006A (the "*Series 2006A Bonds*") and \$165,000 Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Burnham Wood Charter School Project), Series 2006B (the "*Series 2006B Bonds*") (collectively, the "*Bonds*").

The Bonds are being issued pursuant to a Trust Indenture, dated as of September 1, 2006 (the "*Indenture*"), by and between the Issuer and Wells Fargo Bank, National Association, as trustee (the "*Trustee*"), and a resolution of the Issuer (the "*Resolution*"). Pursuant to a Loan Agreement dated September 1, 2006 by and between the Issuer and the Borrower (the "*Loan Agreement*"), proceeds from the sale of the Bonds will be loaned to the El Paso Education Initiative Inc. (the "*Borrower*"), a 501(c)(3) nonprofit corporation organized and existing under the laws of the State of Texas (the "*State*") operating two campuses consisting of the Burnham Wood Charter School and the Da Vinci School for Science and Arts (together the "*Schools*"), open enrollment charter schools operating under the laws of the State, to finance (i) the acquisition of the land and site improvements located at 7310 Bishop Flores, El Paso, Texas 79912, as more particularly described on Exhibit "A" to the Deed of Trust, and construction of additional improvements thereon; (ii) the acquisition of the land and site improvements located at 785 Southwestern Drive, El Paso, Texas 79912, as more particularly described on Exhibit "A" to the Deed of Trust, and construction of additional improvements thereon; and (iii) the acquisition, equipping, improving, renovating and/or remodeling of certain educational facilities of the Borrower, including construction, demolition, and design and possible acquisition of adjacent land, and (iv) to pay the costs of issuing the Bonds (the "*Project*").

The Bonds are limited obligations of the Issuer payable solely from revenues received by the Issuer pursuant to the Loan Agreement, as evidenced by a Promissory Note of the Borrower to the Issuer and endorsed by the Issuer to the Trustee (the "*Promissory Note*"). Upon purchase by the Borrower of the real property comprising the facilities financed hereunder, the payments under the Loan Agreement will be further secured by a Deed of Trust, Security Agreement and Financing Statement dated as of September 1, 2006 (the "*Deed of Trust*"), from the Borrower on such real property. See "RISK FACTORS – Value of Land and Improvements."

This Limited Offering Memorandum includes descriptions of, among other items, the Indenture, the Resolution, the Bonds, the Loan Agreement, the Promissory Note, the Deed of Trust, the Issuer, the Borrower and the system of charter schools under State law. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of the Indenture, the Loan Agreement, the Deed of Trust, the Resolution and the Promissory Note are available from Delgado, Acosta, Braden & Jones, P.C., 221 N. Kansas Street, Suite 2000, El Paso, Texas 79901.

Any capitalized term used herein and not otherwise defined will have the meaning set forth for such term in the forms of Indenture and Loan Agreement.

PLAN OF FINANCING

Purpose

The Borrower is a nonprofit corporation created and operating under the Texas Nonprofit Corporation Act operating open enrollment charter schools under Chapter 12, Texas Education Code, as amended. The Issuer is a nonprofit charter school finance corporation created by the Texas Public Finance Authority (the "Authority") under Chapter 53, Texas Education Code, as amended. The Issuer will issue the Bonds and loan the proceeds thereof to the Borrower for the purpose of financing the costs of a project consisting of certain land, buildings, equipment, facilities and improvements located on campuses of the Borrower in the City of El Paso, Texas.

The Facilities

The Borrower leases a 10,000+ square foot classroom building and owns a 4,000+ square foot modular building at 7310 Bishop Flores in El Paso, Texas. The single-story leased classroom building was constructed in 1995, and a single-story addition was built in 1997. The modular building was installed in 2002 and is being replaced with an approximate 10,000 square foot permanent structure financed with proceeds of the Bond issue. In addition, the Borrower leases space at 785 Southwestern Drive which it will purchase with proceeds of the Bond issue.

The campus facilities are currently used to serve grades kindergarten through seventh. At the Burnham Wood Charter School campus there are 12 available classrooms in the classroom building, including a multi-purpose room, library/media room and offices. At the Da Vinci School for Science and Arts campus there are currently 11 available classrooms with additional classrooms becoming available after the purchase of 785 Southwestern Drive.

The Project

The proceeds from the Bonds will be used to (i) purchase the land and the classroom building that is currently leased by the Borrower and located at 7310 Bishop Flores, El Paso, Texas; (ii) remove the temporary modular building and build a ten-classroom permanent building on its site at 7310 Bishop Flores; (iii) purchase a 27,000 + square foot facility on a 4.5 acre site located at 785 Southwestern Drive in El Paso, Texas, that offers an auditorium with a 730 seating capacity, a half-size basketball court, recreation room, approximately ten fully useable classrooms and office space; and (iv) build a 20,000 square foot building on the newly acquired site (785 Southwestern Drive) that will contain regular classrooms and specialty rooms such as science laboratories, art rooms and physical education lockers.

The classroom building at 7310 Bishop Flores which is being purchased with a portion of the proceeds of the Bonds is being sold to the Borrower by the building's owner, Iris Burnham. Mrs. Burnham, and her daughter, Esther Furrer, are both members of the Board of Directors (the "Board") of the Schools. Neither Mrs. Burnham nor Mrs. Furrer participated in the action by the Board approving the purchase of the building. The Board obtained an appraisal from an independent, certified appraiser with respect to the value of the building, and set the purchase price for the building based on such appraisal.

Sources and Uses of Funds

Sale proceeds of the Bonds are anticipated to be applied as follows:

	Tax-Exempt Bonds	Taxable Bonds	Total
Sources of Funds			
Bond Proceeds	\$8,360,000.00	\$165,000.00	\$8,525,000.00
Total Sources	\$8,360,000.00	\$165,000.00	\$8,525,000.00
Uses of Funds*			
Costs of Issuance including Underwriter's Discount	167,200.00	152,536.96	319,736.96
Deposit to Debt Service Reserve Fund	638,150.00	12,463.04	650,613.04
Purchase Da Vinci School for Science and Arts Campus	2,800,000.00	--	2,800,000.00
Purchase Burnham Wood Charter School Campus	1,250,000.00	--	1,250,000.00
Renovate Burnham Wood Charter School Campus	1,500,000.00	--	1,500,000.00
Addition to Da Vinci School for Science and Arts Campus	2,000,000.00	--	2,000,000.00
Rounding Amount	4,650.00	--	4,650.00
Total Uses	\$8,360,000.00	\$165,000.00	\$8,525,000.00

THE BONDS

Description

The Bonds will be issued in the aggregate principal amounts and will mature on the dates and in the amounts, and will bear interest at the rates per annum set forth on the inside cover page of this Limited Offering Memorandum. Interest on the Bonds will accrue from their date of initial delivery to the Underwriters and be calculated on the basis of a 360-day year of twelve 30-day months. Interest on the Bonds is payable on the dates set forth on the cover page of this Limited Offering Memorandum.

The Bonds will be initially issued in book-entry-only form, as discussed under "BOOK-ENTRY-ONLY SYSTEM" herein, but may be subsequently issued in fully registered form only, without coupons, and in any case, will be issued in the denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof.

The principal of, premium, if any, and interest on the Bonds are payable in lawful money of the United States of America. Amounts due on the Bonds will be paid by check mailed to the owner thereof at its address as it appears on the Bond Registration Books on the first day of the month in which such payment date occurs (the "Record Date"), or at the request and expense of any owner of at least \$1,000,000 principal amount of the Bonds, by wire transfer to a location in the United States of which the Trustee has received 15 days notice. While the Bonds are held in book-entry-only form, interest, principal, and redemption premium, if any, will be paid through The Depository Trust Company, New York, New York ("DTC") as described under "BOOK-ENTRY-ONLY SYSTEM."

Redemption Provisions

Mandatory Sinking Fund Redemption. The Series 2006A Bonds maturing on September 1, 2018 and September 1, 2036 are subject to mandatory sinking fund redemption in part prior to maturity with funds from the Debt Service Fund at a redemption price equal to the principal amount thereof plus interest accrued thereon to the redemption date, without premium, on September 1 in each of the years, and in the principal amounts, respectively, as set forth in the following schedule:

Term Bonds Maturing September 1, 2018

<u>Mandatory Redemption Date</u>	<u>Principal Amount (\$)</u>
2009	\$125,000
2010	130,000
2011	140,000
2012	145,000
2013	155,000
2014	165,000
2015	175,000
2016	180,000
2017	190,000
2018	205,000

Term Bonds Maturing September 1, 2036

<u>Mandatory Redemption Date</u>	<u>Principal Amount (\$)</u>
2019	\$215,000
2020	225,000
2021	240,000
2022	255,000
2023	270,000
2024	290,000
2025	305,000
2026	325,000
2027	345,000
2028	370,000
2029	390,000
2030	415,000
2031	440,000
2032	470,000
2033	500,000
2034	530,000
2035	565,000
2036	600,000

The principal amount of the Series 2006A Bonds required to be redeemed pursuant to the operation of such mandatory sinking fund redemptions shall be reduced by the principal amount of any Series 2006A Bonds of the same series and maturity date which, at least 45 days prior to the mandatory sinking fund redemption date: (a) shall have been purchased and delivered to the Trustee for cancellation; (b) shall have been purchased and canceled by the Trustee with funds furnished for such purpose, in each case at a purchase price not exceeding the principal amount of such Series 2006A Bonds plus accrued interest to the date of purchase thereof; or (c) shall have been redeemed pursuant to the extraordinary optional redemption provisions described below.

Optional Redemption. The Series 2006A Bonds are subject to optional redemption prior to scheduled maturity, in whole or in part, on September 1, 2016 and on any date thereafter, at the option of the Borrower, upon written notice of the exercise of the option to redeem delivered to the Trustee by the Borrower not later than the 45th day prior to the date of redemption, on the dates and at the redemption prices (stated as a percentage of the principal amount of the Series 2006A Bonds to be redeemed) set forth below:

<u>Redemption Dates</u>	<u>Redemption Price</u>
September 1, 2016 through February 28, 2017	102.00%
March 1, 2017 through August 31, 2017	101.50%
September 1, 2017 through February 28, 2018	101.00%
March 1, 2018 through August 31, 2018	100.50%
September 1, 2018 and thereafter	100.00%

The Series 2006B Bonds are not subject to optional redemption.

Mandatory Redemption Upon Determination of Taxability of the Bonds. The Series 2006A Bonds will be redeemed in whole prior to maturity on a date selected by the Borrower which is not more than one hundred twenty (120) days following the occurrence of a Determination of Taxability (as hereinafter defined) at a redemption price equal to 103% of the principal amount thereof plus interest to the redemption date.

As used herein, “*Determination of Taxability*” means a determination that the interest income on any of the Series 2006A Bonds does not qualify as interest excluded from gross income of the recipient thereof for the purpose of federal income taxation (“*exempt interest*”) under Section 103 of the Code (in the case of a private activity bond, for a reason other than that a registered owner is or a former registered owner was a substantial user within the meaning of Section 147 of the Code), which determination will be deemed to have been made upon the first to occur of any of the following: (a) the date on which the Trustee is notified that an opinion of counsel is unable to be delivered to the effect that the interest on the Series 2006A Bonds qualifies as such exempt interest; or (b) the date on which any change in law or regulation becomes effective or on which the Internal Revenue Service (the “*IRS*”) issues any public or private ruling, technical advice memorandum or any other written communication or on which there shall occur a ruling or decision of a court of competent jurisdiction, with or to the effect that the interest income on any of the Series 2006A Bonds does not qualify as such exempt interest; or (c) the date on which the Borrower shall receive notice from the Trustee in writing that the Trustee has been notified by the IRS, or has been advised by the Issuer, the Borrower or any owner or former owner of a Series 2006A Bond that the IRS has issued a notice of deficiency or similar notice which asserts that the interest on any of the Series 2006A Bonds does not qualify as such exempt interest.

Mandatory Redemption With Excess Proceeds. The Bonds will be redeemed in whole or in part prior to maturity as a result of a deposit of amounts transferred from the Construction and Acquisition Fund to the Debt Service Fund as excess proceeds upon the earlier of September 1, 2009 or one hundred twenty (120) days following completion of the Project. Bonds redeemed as described in this paragraph will be redeemed within 45 days of such deposit at a redemption price equal to the unpaid principal amount of the Bonds being redeemed, without premium, plus accrued interest to the redemption date (and if the redemption date is other than an Interest Payment Date, interest shall be calculated on the basis of a 360-day year).

Extraordinary Optional Redemption. The Bonds are subject to extraordinary redemption, at the option of the Issuer upon request of a Borrower Representative, at a redemption price of par plus interest accrued thereon to the redemption date, without premium, on any date, in the event the Project is damaged, destroyed or condemned or threatened to be condemned: (i) in whole, if, in accordance with the terms of the Loan Agreement, the Project is not reconstructed, repaired or replaced, from insurance proceeds transferred from the Construction and Acquisition Fund to the Debt Service Fund which, together with an amount required to be paid by the Borrower pursuant to the Loan Agreement, will be sufficient to pay the Bonds in full; or (ii) in part, after reconstruction, repair or replacement of the Project in accordance with the terms of the Loan Agreement, from excess insurance proceeds transferred from the Construction and Acquisition Fund to the Debt Service Fund for such purpose.

Redemption in Part. If less than all of the Series 2006A Bonds are called for redemption, the particular Series 2006A Bonds or portions thereof to be redeemed will be selected by the Trustee in accordance with the written direction of the Borrower; provided, however, that portions of the Series 2006A Bonds will be redeemed in Authorized Denominations; provided, that no redemption will result in the Series 2006A Bond being held in less than an Authorized Denomination.

In case part, but not all, of a Series 2006A Bond is selected for redemption, the owner thereof or his attorney or legal representative must present and surrender the Series 2006A Bond to the Trustee for payment of the redemption price, and the Issuer will cause to be executed, authenticated and delivered to or upon the order of such owner or his attorney or legal representative, without charge therefor, in exchange for the unredeemed portion of the principal amount of such Series 2006A Bond so surrendered, a Series 2006A Bond of the same maturity and bearing interest at the same rate.

Notice of Redemption. At least 30 days prior to the date fixed for any redemption of the Bonds but not more than 60 days prior to any redemption date, the Trustee will cause a written notice of such redemption to be mailed by first-class mail, postage prepaid, to each owner of Bonds to be redeemed, at its address appearing on the Bond Registration Books on the date such notice is mailed by the Trustee. Any notice mailed as provided herein will be conclusively presumed to have been given, irrespective of whether received. By the date fixed for any such redemption, due provision will be made with the Trustee and the Paying Agent for the payment of the appropriate redemption price. If such written notice of redemption is made and if due provision for payment of the redemption price is made, all as provided above and in the Indenture, the Bonds which are to be redeemed thereby automatically will be deemed to have been redeemed prior to their scheduled maturity, and they will not bear interest after the date fixed for redemption, and they will not be regarded as being Outstanding except for the right of the owner to receive the redemption price out of the funds provided for such payment. If any Bond is not paid upon the surrender thereof at the maturity or redemption date thereof, such Bond will continue to be Outstanding and will continue to bear interest until paid at the interest rate borne by such Series 2006A Bond.

Limited Offering

The initial owner of any Bonds will be required to deliver to the Trustee an executed Investor Letter, substantially in the form set forth as Appendix D hereto, with only such changes as may be acceptable to the Trustee, to evidence that such Bonds are owned by an investor that is an "accredited investor" under Regulation D of the Securities Act of 1933 or a "qualified institutional buyer" under Rule 144A promulgated thereunder and that each such accredited investor or qualified institutional buyer has sufficient knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of an investment in the Bonds.

SECURITY AND SOURCE OF PAYMENT

Security for the Bonds

THE BONDS AND ANY ADDITIONAL BONDS HEREAFTER ISSUED ARE LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM REVENUES RECEIVED BY THE ISSUER PURSUANT TO THE LOAN AGREEMENT BY AND BETWEEN THE ISSUER AND THE BORROWER, AS EVIDENCED BY THE PROMISSORY NOTE, AS FURTHER SECURED BY A DEED OF TRUST FROM THE BORROWER ON CERTAIN REAL PROPERTY (UPON PURCHASE OF SUCH REAL PROPERTY) SECURING PAYMENTS UNDER THE LOAN AGREEMENT. THE BONDS ARE NOT OBLIGATIONS OF THE CITY OF EL PASO, TEXAS, THE STATE OF TEXAS, OR ANY OTHER ENTITY. NONE OF THE CITY, THE STATE, NOR ANY POLITICAL CORPORATION, SUBDIVISION, GOVERNMENTAL ENTITY OR AGENCY OF THE STATE IS OBLIGATED TO PAY THE BONDS OR THE INTEREST THEREON AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE, OR ANY OTHER POLITICAL CORPORATION, SUBDIVISION, GOVERNMENTAL ENTITY OR AGENCY OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

Chapter 1208, Texas Government Code, applies to the issuance the Bonds and the pledge of the revenues described herein, and such pledge is, therefore, valid, effective, and perfected. Should State law be amended at any time while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge securing the Bonds is

to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, in order to preserve to the registered owners of the Bonds a security interest in such pledge, the Issuer agrees to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

The Trust Estate

Under the Indenture, the Issuer grants to Wells Fargo Bank, National Association, as Trustee, a security interest in the following:

(a) All right, title, and interest of the Issuer in the Loan Agreement, including a lien on all Revenues (except the Issuer's rights under Sections 7.10, 8.6 and 9.11 of the Loan Agreement), including all extensions and renewals of the term of the Indenture, including the present and continuing right to: (a) make claim for, collect, receive, and make receipt for: (i) Loan Payments (as defined in the Indenture); (ii) other sums of money payable or receivable thereunder, whether payable as Loan Payments thereunder or otherwise; and (iii) any and all security granted or held for the payment of Loan Payments; (b) bring any actions and proceedings thereunder or for the enforcement thereof; and (c) do any and all other things which the Issuer or any lender is or may become entitled to do under the Loan Agreement;

(b) All right, title, and interest of the Issuer in and to the Notes and the Deed of Trust (as defined in the Indenture);

(c) All right, title, and interest of the Issuer in all moneys and securities from time to time held by the Trustee under the terms of the Indenture (except moneys held in the Rebate Fund);

(d) Any and all property of every kind or description which may from time to time hereafter be sold, transferred, conveyed, assigned, hypothecated, endorsed, deposited, pledged, mortgaged, granted or delivered to, or deposited with the Trustee as additional security by the Issuer or anyone on its part or with its written consent, or which pursuant to any of the provisions of the Indenture or of the Loan Agreement may come into the possession of or control of the Trustee or a receiver appointed pursuant to the Indenture, as such additional security; and

(e) Any and all proceeds (including any interest in real property) acquired by the Trustee as a result of its exercise of any remedies under the Deed of Trust.

The foregoing is collectively referred to as the "*Trust Estate*."

Establishment of Funds for the Bonds; Assignment of State Payments

Under the Indenture, the following funds are established and maintained by the Trustee for the benefit of the Bonds:

- (a) Facility Revenue Fund;
- (b) Debt Service Fund;
- (c) Debt Service Reserve Fund;
- (d) Construction and Acquisition Fund; and
- (e) Rebate Fund.

Facility Revenue Fund

There shall be deposited into the Facility Revenue Fund as and when received, all Revenues required to be deposited therein pursuant to the Loan Agreement including Sections 5.2(b), 6.1 and 6.8 thereof. On or before the first Business Day of each month, the Trustee shall withdraw and pay or deposit from the amounts on deposit in the Facility Revenue Fund the following amounts in the order of priority indicated:

- FIRST: to the Trustee for payment of any fees or expenses which are then due and payable;
- SECOND: to the Debt Service Fund, an amount sufficient to make all deposits to the Debt Service Fund required to be made for such month under the Loan Agreement which relate to the Debt Service on the Notes or which are necessary to remedy any prior deficiencies relating to previously required deposits to the Debt Service Fund under the Loan Agreement;
- THIRD: to the Debt Service Reserve Fund, amounts, as required in the Indenture, sufficient to make the balance in the Debt Service Reserve Fund equal the Debt Service Reserve Fund Requirement for the Bonds; and
- FOURTH: to the Borrower, the balance of such moneys after making the payments or deposits required under items (i) through (iii) above.

Any balance remaining in the Facility Revenue Fund after the Bonds have been paid in full or payment thereof has been provided for in accordance with the Indenture and provided all other obligations of the Borrower under the Bond Documents shall have been fully performed, shall be paid to the Borrower. Upon the acceleration of the principal of all Bonds Outstanding pursuant to an Event of Default under the Indenture, the Trustee shall immediately transfer all amounts in the Facility Revenue Fund over to the Debt Service Fund.

Debt Service Fund

There will be deposited into the Debt Service Fund:

- (1) amounts representing accrued interest received on the Closing Date, if any;
- (2) all amounts required to be deposited therein from the Facility Revenue Fund;
- (3) all amounts required to be transferred from the Debt Service Reserve Fund in accordance with the provisions of the Indenture; and
- (4) any other amounts paid to or recovered by the Trustee for deposit in the Debt Service Fund which are not specifically required to be credited to any other fund or account established pursuant to the Indenture.

In addition, the Borrower will make loan payments as provided for under the Loan Agreement and in accordance with the Indenture directly to the Trustee, through the Debt Service Fund, as follows:

- (1) in equal monthly installments, for deposit in the Debt Service Fund, amounts sufficient to provide for the payment of interest which is due on the next ensuing date for payment of such interest with respect to the Bonds; and
- (2) in equal monthly installments, for deposit in the Debt Service Fund, amounts sufficient to provide for the payment of the principal of or sinking fund payment on the Bonds which is next due for payment of such principal or for such sinking fund redemption payment.

Except as otherwise provided in the Indenture, the money in the Debt Service Fund will be used solely for the payment of Debt Service and, during the continuance of an Event of Default, payment of the fees and expenses of the Trustee, in accordance with the provisions of the Indenture.

Debt Service Reserve Fund

There will initially be deposited in the Debt Service Reserve Fund from the proceeds of the Bonds an amount sufficient to cause the amount of deposit therein to equal the maximum annual debt service on the Bonds (the "*Debt Service Reserve Fund Requirement*"). Except as otherwise provided in the Indenture, the Debt Service Reserve Fund at all times will be maintained at an amount equal to the Debt Service Reserve Fund Requirement. If there are insufficient funds in the Debt Service Fund to pay the Debt Service on the Bonds by 12:00 noon (Central Time) two Business Days

prior to the day on which payment of the Debt Service on the Bonds is due, the Trustee will transfer from the Debt Service Reserve Fund to the Debt Service Fund amounts necessary to make such payments from the Debt Service Fund on the day on which payment of the Debt Service on the Bonds is due. If the amount in the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement because the Trustee has applied funds in the Debt Service Reserve Fund, the Trustee will promptly notify the Borrower in writing that a deficiency in the Debt Service Reserve Fund exists, and the Borrower will pay such deficiency to the Trustee for deposit into the Debt Service Reserve Fund to restore the amount in the Debt Service Reserve Fund to equal the Debt Service Reserve Fund Requirement in the 18 consecutive equal monthly installments, the first of which will be made within 30 days from the date of receipt of such notice. Notwithstanding the foregoing, moneys in the Debt Service Reserve Fund maybe applied to pay Debt Service during the 12 months immediately preceding and including the final maturity of the Bonds without violating the foregoing requirement to maintain the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Fund Requirement.

Upon any redemption or defeasance of the Bonds as a whole, the moneys on deposit in the Debt Service Reserve Fund will be transferred to the Debt Service Fund to be used for the purposes of such redemption or to an escrow fund for the purpose of defeasance, as the case may be. Upon final maturity of the Bonds, the Trustee will transfer the balance on deposit in the Debt Service Reserve Fund to the Debt Service Fund.

So long as any Bonds are outstanding, the Borrower will have no right, title or interest in or to the funds in the Debt Service Reserve Fund.

Construction and Acquisition Fund

The Trustee will deposit the balance of the proceeds of the issuance and delivery of the Bonds remaining after deposits to the Debt Service Fund and Debt Service Reserve Fund required by the Indenture in the Construction and Acquisition Fund. Moneys on deposit in the Construction and Acquisition Fund will be invested pursuant to written instructions from the Authorized Representative pursuant to the Indenture. The Construction and Acquisition Fund will have a separate account for each Series of Bonds from time to time authorized under the Indenture. Initially, the Construction and Acquisition Fund will have two subaccounts: (1) Series 2006 Construction and Acquisition Account; and (2) the 2006 Cost of Issuance Account. On the Closing Date, the Trustee will disburse funds from: (a) the Cost of Issuance Account for the payment of the costs associated with the issuance of the Bonds; and (b) the Series 2006 Construction and Acquisition Account for the payment of any outstanding mortgages, liens, notes, or obligations on the Project refinanced with the proceeds of the Bonds. The Trustee is authorized and directed to disburse moneys on deposit in the Construction and Acquisition Fund as provided in the Indenture and Loan Agreement. Upon delivery to the Trustee of a Completion Certificate, the Trustee shall transfer any remaining principal and interest earned from moneys on deposit in the Construction and Acquisition Fund to the Debt Service Fund to be used to redeem the applicable Series of Bonds as provided in the Indenture.

The Construction and Acquisition Fund will be in the custody of the Trustee but in the name of the Issuer, and the Issuer has authorized and directed the Trustee to withdraw sufficient funds from the Construction and Acquisition Fund for Construction Costs requisitioned by the Borrower.

Rebate Fund

There will be deposited into the Rebate Fund as and when received each amount delivered to the Trustee by the Borrower for deposit thereto and each amount directed by the Borrower to be transferred. Within five days after each receipt or transfer of funds to the Rebate Fund, the Trustee will forward amounts on deposit in the Rebate Fund to the United States Treasury at the times and in the amounts set forth in the Borrower's direction pursuant to the Loan Agreement.

Within the Rebate Fund, there will be a separate account for each series of Bonds from time to time authorized, authenticated, and delivered under the Indenture, including the 2006A Rebate Account. The Rebate Fund will be in the custody of the Trustee but in the name of the Issuer and the Issuer has authorized and directed the Trustee to withdraw funds from the Rebate Fund for the purposes set forth in the Indenture.

Deed of Trust

The Borrower has granted to Wells Fargo Bank, National Association, and any substitute or successor Trustee under the Indenture, for the use and benefit of the holders of the Bonds (collectively the Trustee and such Holders are referred to as the "*Beneficiary*"), a first deed of trust lien and security interest in the Project pursuant to the Deed of Trust. The deed of trust lien and security interest will secure the indebtedness evidenced by the Bonds, any and all amounts, liabilities, and obligations for which or for the performance of which the Borrower may become indebted or obligated under the terms of the Loan Agreement or the Deed of Trust, including, but not limited to, the fees and expenses of the Beneficiary; any sum or sums constituting other indebtedness (whether now existing or hereafter arising) of the Borrower to the Beneficiary related to the Project, and any and all renewals, rearrangements, and extensions of the foregoing items of indebtedness and obligations.

Pursuant to the Deed of Trust, the Borrower have granted a first lien and security interest to the Trustee in, among other property, the tract(s) of land (the "*Land*") described in the Deed of Trust, all improvements upon the Land now or hereafter attached to or placed, erected, constructed, or developed thereon, and all fixtures, materials, equipment, portable buildings, apparatus, furniture, furnishings, building materials, supplies, and other property, real and personal, now or hereafter installed or used thereon or upon the improvements thereon (the "*Improvements*"), and all rents, revenues, profits, income, damages, awards, and proceeds from or attributable to all or any portion of the Land and the Improvements.

DEFINITIONS OF CERTAIN TERMS

The following are definitions of certain of the words and terms used in this Official Statement:

"Act" means Chapter 53 of the Texas Education Code, as amended, including particularly Section 53.351 of such Chapter.

"Additional Bonds" means the additional parity revenue bonds permitted to be authorized by the Agreement.

"Additional Indebtedness" means any Additional Bonds or any other notes, obligations or instruments of indebtedness payable from and secured by an irrevocable lien on and pledge of the Revenues in the same manner and to the same extent as, and be on a parity with, all then Outstanding Bonds and Additional Indebtedness.

"Additional Security" means assets of the Borrower, if any, pledged by the Borrower or any affiliate of the Borrower as additional security for the Bonds, including a mortgage of any of the facilities of the Borrower.

"Agreement" means the Loan Agreement by and between the Issuer and the Borrower, dated as of September 1, 2006, and any amendments and supplements thereto.

"Authority" means the Texas Public Finance Authority.

"Applicable Percentage" means at least 51% in aggregate principal amount of the Bonds then Outstanding.

"Authorized Denominations" means \$100,000 and any integral multiple of \$5,000 in excess thereof until such time as the Series 2006 Bonds are rated "investment grade" by either Fitch, Moody's, or S&P, and upon receipt of such rating and satisfaction of all conditions and notices in Section 2.10 of the Indenture, \$5,000 and integral multiples thereof.

"Authorized Representative" means the Superintendent or the President of the Board of Directors of the Borrower, or any other person duly appointed by the Board of Directors of the Borrower to act on behalf of the Borrower.

"Bond Counsel" means Delgado, Acosta, Braden & Jones, P.C., or such other attorney or firm of attorneys which are nationally recognized as having expertise in the practice of tax-exempt municipal finance law as approved by the Issuer.

“Bond Documents” means the Financing Documents and all other agreements, certificates, documents and instruments delivered at any time in connection with any of the Financing Documents.

“Bondholders’ Representative” means any representative for the Bondholders, as evidenced by written notice to the Trustee from the Holders of the Applicable Percentage of Outstanding Bonds.

“Bond Registrar” means the Trustee acting as such pursuant to Section 3.7 of the Indenture.

“Bond Registration Books” means the bond registration books of the Issuer, kept by the Trustee, as Bond Registrar, for the registration of Bonds and for the registration of transfers of Bonds as provided in the Indenture.

“Bonds” or “Bond” means the Issuer’s Education Revenue Bonds (Burnham Wood Charter School Project) payable from the Trust Estate and issued from time to time in series and authenticated by the Trustee pursuant to the Indenture and all substitute and replacement bonds issued pursuant to the Indenture, including the Series 2006 Bonds and any Additional Bonds.

“Borrower” means the El Paso Education Initiative, Inc. *d/b/a* “Burnham Wood Charter School”, a nonprofit corporation organized and existing under the laws of the State, and its successors and assigns, including any surviving, resulting, or transferee entity as permitted in the Agreement.

“Borrower Representative” means the Superintendent or the Chairman of the Board of Directors of the Borrower, of any other person duly appointed by the Board of Directors of the Borrower to act on behalf of the Borrower.

“Business Day” means any day which is not a Saturday, Sunday, legal holiday, or a day on which banking institutions in The City of New York, New York or in the city where the Corporate Trust Office of the Trustee designated in Section 9.4 of the Indenture is located are authorized by law or executive order to close.

“Closing Date” means the date of physical delivery of the Series 2006 Bonds in exchange for the purchase price therefore, which is October 4, 2006.

“Code” means, with respect to the Bonds, the Internal Revenue Code of 1986, as amended, or such other successor federal income tax law, to the extent applicable.

“Construction and Acquisition Fund” means the special fund established in the name of the Issuer with the Trustee pursuant to Section 4.3 of the Indenture and designated as the “Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Burnham Wood Charter School Project) - Construction and Acquisition Fund.”

“Corporate Trust Office” means, with respect to the Trustee, the office of the Trustee set out in Section 9.4 of the Indenture.

“Debt Service” means as of any particular date of computation, with respect to the Bonds and with respect to any period, the aggregate of the amounts to be paid or set aside by the Issuer as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on the Bonds; assuming in the case of Bonds required to be redeemed or prepaid as to principal prior to maturity that the principal amounts thereof will be redeemed prior to maturity in accordance with the mandatory redemption provisions applicable thereto.

“Debt Service Fund” means the special fund established in the name of the Issuer with the Trustee pursuant to Section 4.3 of the Indenture and designated as the “Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Burnham Wood Charter School Project) - Debt Service Fund.”

“Debt Service Reserve Fund” means the special fund established in the name of the Issuer with the Trustee pursuant to Section 4.3 of the Indenture and designated as the “Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Burnham Wood Charter School Project) - Debt Service Reserve Fund.”

“Debt Service Reserve Fund Requirement” means an amount equal to the Series 2006 Debt Service Reserve Fund Requirement plus any amounts set as debt service reserve fund requirements for any Additional Indebtedness.

“Deed of Trust” means that certain Deed of Trust, Security Agreement and Financing Statement, any supplement thereto, and the Security Agreement from the Borrower to the Mortgage Trustee, for the benefit of the Trustee (for the benefit of the Bondholders).

“Default” or “Event of Default” means any occurrence or event specified in Section 6.1 of the Indenture.

“Facility Revenue Fund” means the special fund established in the name of Issuer with the Trustee pursuant to Section 4.3 of the Indenture and designated as the “Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Burnham Wood Charter School Project) - Facility Revenue Fund.”

“Final Payment Date” means the date on which all amounts of Proceeds payable with respect to the acquisition and construction of the Project have been paid and the Borrower is no longer required to maintain amounts in the Construction and Acquisition Fund.

“Financing Documents” means the Agreement, the Bonds, the Indenture, the Notes and any Deed of Trust.

“Fiscal Year” means the twelve-month accounting period used with respect to the operations of the Borrower ending August 31 of each year; provided, however, the Borrower, by resolution duly passed, may change such accounting period to end on another date if such change is found and determined to be necessary or appropriate for budgetary or other fiscal purposes.

“Fiscal Quarter” means each three-month period ending on the last day of August, November, February and May, in each year so long as the Bonds are Outstanding.

“Fitch” means Fitch Ratings or its legal successor.

“Force Majeure” means any cause or event not reasonably within the control of the Borrower, including without limitation the following: acts of God; strikes, lockouts, or other disturbances; acts of public enemies; orders of any kind of the government of the United States or of the State or of the City of El Paso, Texas or of El Paso County, Texas, or of any of their departments, agencies, or officials, or civil or military authorities; insurrections; civil disturbances; epidemics; plagues; pestilence; famines; landslides; lightning; earthquakes; fires; hurricanes; tornadoes; blue northers; storms; typhoons; cyclones; waterspouts; volcanic eruptions; floods; washouts; droughts; arrests; explosions; breakage or accident to machinery and transmission lines or pipes; or partial or entire failure of utility services.

“Fund” or “Funds” means any of the Funds established with the Trustee under Section 4.3 of the Indenture.

“Government Obligations” means direct noncallable obligations of, or obligations on which the timely payment of principal of and interest are fully and unconditionally guaranteed by, the United States of America.

“Highest Lawful Rate” means the maximum rate of nonusurious interest allowed from time to time by law as is now in effect or, to the extent allowed by law, such higher rate as may hereafter be in effect.

“Indenture” means the Trust Indenture dated as of even date with the Agreement, by and between the Issuer and the Trustee, and all amendments and supplements thereto.

“Initial Disbursement” means the initial deposits of the Bond proceeds into the Funds (and any accounts or subaccounts thereof), as more fully described within Section 3.3 of the Agreement.

“Interest Payment Date” means any date on which an interest installment is due on the Bonds; specifically, with respect to the Series 2006 Bonds, the dates set forth in Section 2.3 of the Indenture.

"Issuer" means Texas Public Finance Authority Charter School Finance Corporation, a nonstock, nonprofit higher education facilities corporation, organized and existing under the Act.

"Issuer Representative" means the person or persons designated from time to time to act on behalf of the Issuer by a written certificate furnished to the Borrower and the Trustee containing the specimen signature or signatures of such person or persons and signed on behalf of the Issuer by the Vice President of the Issuer.

"Loan Payments" means those payments required to be paid by the Borrower pursuant to Section 6.1 of the Agreement.

"Maturity" means, when used with respect to any Bond, the date on which the principal thereof becomes due and payable as provided in the Indenture, whether at Stated Maturity, by optional redemption, mandatory redemption, declaration of acceleration or otherwise.

"Maximum Annual Debt Service" means, as of any date of calculation, the highest principal and interest payment (excluding the final maturity payment for the Bonds) requirements with respect to all Outstanding Bonds for any succeeding Fiscal Year.

"Moody's" means Moody's Investors Service, Inc. or its legal successor.

"Mortgage Trustee" means the party named as such on the first page of the Deed of Trust.

"Net Revenues" means, for any period of time for which it is calculated, the total amount of Revenues less the Borrower's operating costs (excluding depreciation), determined in accordance with generally accepted accounting principles.

"Note" means each note, whether one or more, executed and delivered by the Borrower to the Issuer evidencing the loans made by the Issuer to the Borrower pursuant to the Agreement and all extensions, renewals and replacements thereof.

"Outstanding" or "Bonds Outstanding" or "Bonds then Outstanding" or "Bonds to be Outstanding" means, as of the time in question, all Bonds which have been executed and delivered by the Issuer under the Indenture, except:

(a) Bonds theretofore canceled or delivered to the Trustee for cancellation after purchase in the open market or because of payment at or redemption prior to maturity.

(b) Bonds for which the payment or redemption of moneys sufficient, or Government Obligations the principal of, premium, if any, and interest on which, when due, will be sufficient, to pay the Debt Service on such Bonds, to the date fixed for payment or redemption, shall have been theretofore or shall be concurrently deposited with the Trustee (whether upon or prior to the maturity or redemption date of any such Bonds); provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Trustee shall have been filed with the Trustee.

(c) Bonds in lieu of which other Bonds have been authenticated and delivered under the Indenture.

"Owner" or "Bondholder" or "Bond Owner" or "Holder" means, with respect to any Bond, the Person appearing on the registration books of the Trustee as the registered holder of such Bond.

"Paying Agent" means any bank or trust company designated pursuant to the Indenture to serve in addition to the Trustee as paying agent or place of payment of the Debt Service, and any successors designated pursuant to the Indenture.

"Permitted Investments" means, to the extent permitted by law:

- (a) Government Obligations;
- (b) Obligations issued or guaranteed by the following instrumentalities or agencies of the United States of America:
 - (i) senior debt obligations of the Federal Home Loan Bank System;
 - (ii) certificates of beneficial interest of the Export-Import Bank of the United States;
 - (iii) mortgage-backed bonds and guaranteed pass-through obligations of the Government National Mortgage Association;
 - (iv) guaranteed Title XI financing of the U.S. Maritime Administration;
 - (v) mortgage-backed securities and debt obligations of the Federal Home Loan Mortgage Corporation;
 - (vi) debentures of the Federal Housing Administration; and
 - (vii) Federal National Mortgage Association;
- (c) Commercial paper rated at least "P-1" by Moody's, "A-1" by S&P, or "F-1" by Fitch;
- (d) Deposits of any bank or savings and loan association which has combined capital and undivided profits of not less than \$100,000,000, provided such deposits are fully insured by the Federal Deposit Insurance Corporation;
- (e) Money market funds (including those for which the Trustee or any affiliate of the Trustee receives compensation with respect to such investment) with a rating in the highest rating category of S&P, Moody's or Fitch or which invests only in the investments described in paragraphs (a) or (b) above;
- (f) Bankers' acceptances guaranteed by any bank having a combined capital, surplus and undivided profits of not less than \$100,000,000; and
- (g) Prime commercial paper of a United States corporation, finance company or banking institution, with a maturity of 270 days or less, rated in the highest generic short-term rating category by a Rating Agency.

For the purposes of this definition, obligations issued or held in the name of the Trustee (or in the name of Issuer and payable to the Trustee) in book-entry form on the books of the Department of Treasury of the United States shall be deemed to be deposited with the Trustee.

"Person" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or agency or political subdivision thereof.

"Premium" or "premium" means any amounts in addition to the principal of and interest on any Bond required to be paid in the event of the exercise of an option to pay the principal of any Bond prior to maturity as permitted thereby.

"Project" means (i) the acquisition of the land and site improvements located at 7310 Bishop Flores, El Paso, Texas 79912, as more particularly described on Exhibit "A" to the Deed of Trust, and construction of additional improvements thereon; (ii) the acquisition of the land and site improvements located at 785 Southwestern Drive, El Paso, Texas 79912, as more particularly described on Exhibit "A" to the Deed of Trust, and construction of additional improvements thereon; and (iii) the acquisition, equipping, improving, renovating and/or remodeling of certain

educational facilities of the Borrower, including construction, demolition, and design and possible acquisition of adjacent land.

“Project Costs” means to the extent authorized by the Code, the Regulations, and the Act, all costs incurred by the Issuer or the Borrower with respect to the acquisition, construction, reconstruction, improvement, and expansion, as the case may be, of the Project, whether paid or incurred prior to or after the date of the Agreement, including the cost of the acquisition of all land, rights-of-way, property rights, easements, and interests; the cost of all machinery and equipment; interest prior to and during construction not in excess of two years’ interest on the Bonds whether or not capitalized; necessary reserve funds; the cost of engineering and legal services; plans, specifications, surveys, and estimates of cost and of revenue; other expenses necessary or incident to determining the feasibility and practicability of acquiring, constructing, reconstructing, improving, and expanding the Project; administrative expenses; the Issuer’s and Trustee’s charges and expenses in connection with issuance of the Bonds; and such other expenses as may be necessary or incident to the acquisition, construction, reconstruction, improvement, and expansion thereof, the placing of the same in operation, and the financing or refinancing of the Project.

“Projected Net Revenues” means, for any period of time for which calculated, the projected Net Revenues as certified by an Authorized Representative of the Borrower.

“Rating Agency” means Fitch, Moody’s or S&P and any successor thereto.

“Real Property” means collectively the land and site improvements more commonly referred to as 7310 Bishop Flores Drive, El Paso, Texas and 785 Southwestern Drive, El Paso, Texas (each as more particularly described on Exhibit A to the Deed of Trust) which are being acquired by the Borrower as part of the Project.

“Rebate Fund” means the special fund established in the name of the Issuer with the Trustee pursuant to Section 4.3 of the Indenture and designated as the “Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Burnham Wood Charter School Project) - Rebate Fund.”

“Record Date” means the date which is the first of the month in which an Interest Payment Date for a series of Bonds occurs, unless a different Record Date is specified in the form of such series of Bonds.

“Regulations” means the applicable proposed, temporary or final Income Tax Regulations promulgated under the Code or, to the extent applicable to the Code, under the Internal Revenue Code of 1954, as such regulations may be amended or supplemented from time to time.

“Resolution” means the resolutions of the Issuer including amendments thereto, authorizing a series of Bonds.

“Revenues” means, for any period of time for which calculated, the total of all receipts, operating revenues and gains derived by the Borrower during such period, determined in accordance with generally accepted accounting principles, including but not limited to State Revenues, and also including interest earnings on all Funds and Accounts (except the Rebate Fund) held by the Trustee under the Indenture. Revenues shall not, however, include (i) any charitable contribution, grant (excluding grants by the State) or gift made to the Borrower or (ii) any income derived from the investment of any such contribution, grant or gift.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies.

“Series 2006A Bonds” means that issue of Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Burnham Wood Charter School Project) Series 2006A, in the principal amount set forth in Section 2.1 of the Indenture, issued pursuant to the Resolution of the Issuer and Article II of the Indenture.

“Series 2006B Bonds” means that issue of Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Burnham Wood Charter School Project) Series 2006B, in the principal amount set forth in Section 2.1 of the Indenture, issued pursuant to the Resolution of the Issuer and Article II of the Indenture.

"Series 2006 Bonds" means, collectively, the Series 2006A Bonds and the Series 2006B Bonds.

"Series 2006 Debt Service Reserve Fund Requirement" means (i) with respect to the Series 2006A Bonds an amount equal to \$638,150 which is equal to the least of (A) maximum annual principal and interest requirements of the Bonds, (B) 125% of the average annual principal and interest requirements of the Bonds, or (C) 10% of the original principal amount of the Bonds; and (ii) with respect to the Series 2006B Bonds, an amount equal to \$12,463.04.

"State" means the State of Texas.

"State Revenues" means, for any period of time for which calculated, the total of all moneys received by the Borrower from the State during such period.

"Stated Maturity" means when used with respect to any Bond or any installment of interest thereon, the date specified in such Bond as the fixed date on which the principal of such Bond or such installment of interest is due and payable.

"Trustee" means the trustee at the time serving as such under the Indenture.

"Trust Estate" means the property described in Granting Clauses First, Second, Third, Fourth and Fifth of the Indenture, together with any Additional Security.

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

The following is a brief summary of certain portions of the Loan Agreement. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Loan Agreement, copies of which are on file with the Issuer and the Trustee. Capitalized terms used in this section and not otherwise defined in this Limited Offering Memorandum shall have the meanings assigned thereto in the Loan Agreement.

Loan

The proceeds of the sale of the Bonds which are deposited into the Funds and Accounts pursuant to the Indenture will be loaned by the Issuer to the Borrower under the Loan Agreement; provided, that upon such deposit the Borrower's rights to such proceeds will be determined by and limited as provided in the Indenture. The Borrower's obligation to repay such loan will be evidenced by the Promissory Note. At the time the proceeds of the Bonds are loaned to the Borrower, it will deliver or cause to be delivered to the Issuer or its designee the Promissory Note, fully authorized, executed and authenticated. Each Promissory Note will be in an original principal amount equal to the aggregate principal amount of the series of Bonds to which it relates, will bear interest at the rate or rates borne by the series of Bonds to which it relates, and will be payable as to principal, premium, if any, and interest at the times and places and in the manner set out in the Loan Agreement and the Bonds. To the extent that any amounts paid on the Promissory Note are utilized to pay, or with respect to payment of, principal of the Bonds, such payments shall be credited toward the principal balance of the Promissory Note. Any amount paid as Debt Service on the Bonds shall be a credit against corresponding amounts due on the Promissory Note.

Loan Payments

Under the Loan Agreement, the Borrower agrees, subject to the limitations of the Loan Agreement, to make Loan Payments in accordance with the Indenture and the Loan Agreement directly to the Trustee as follows:

(i) in equal monthly installments, for deposit in the Debt Service Fund, amounts sufficient to provide for the payment of interest which is due on the next ensuing date for payment of such interest with respect to the Bonds;

(ii) in equal monthly installments, for deposit in the Debt Service Fund, amounts sufficient to provide for the payment of the principal of or sinking fund payment on the Bonds which is next due for payment of such principal or for such sinking fund redemption payment; and

(iii) for deposit into the Debt Service Reserve Fund, such amounts as are required by the Indenture to reestablish the Debt Service Reserve Fund Requirement.

The Trustee is required to make monthly transfers of funds on deposit in the Facility Revenue Fund in accordance with the Indenture. To the extent funds in the Facility Revenue Fund are transferred by the Trustee in accordance with the requirements of the Indenture and are sufficient for such purposes, the transfer and application of such funds for the purposes described in certain provisions of the Indenture shall be considered to satisfy the related Loan Payment obligations of the Borrower described in the paragraph above. To the extent funds in the Facility Revenue Fund are ever insufficient to satisfy the transfer requirements of the Indenture, the Borrower will make the related Loan Payments from funds other than the Revenues.

Under the Loan Agreement, the Borrower agrees that its obligations under the Bond Documents will be absolute and unconditional, irrespective of any rights of set-off, diminution, abatement, recoupment or counterclaim the Borrower might otherwise have against any Person, and the Borrower will perform and observe all its obligations under the Bond Documents without suspension and, except in connection with a discharge of the Indenture, the Borrower will not terminate the Bond Documents for any cause. The Borrower covenants not to seek and waives, to the extent permitted by applicable law, the benefits of any rights which it may have at any time to any stay or extension of time for performance or to terminate, cancel or limit its liability under the Bond Documents except through payment of the Bond Obligations as provided in the Bond Documents. The Holders of the Bonds will be entitled to rely upon the agreements and covenants in these provisions of the Loan Agreement regardless of the validity of the remainder of the Loan Agreement or any other agreement.

Corporate Existence

The Borrower covenants to comply fully and in all respects with the provisions of the Act and the Borrower's charter so long as any Bonds remain Outstanding. The Borrower also covenants that while any of the Bonds remains Outstanding and no Event of Default shall have occurred and be continuing, the Borrower shall not merge or consolidate with any other corporation or entity or sell or dispose of all or substantially all of its assets in any manner now or hereafter authorized by Chapters 12 or 45 of the Education Code, as amended, unless: (a) either the Borrower will be the surviving corporation in the case of a merger, or the surviving, resulting, or transferee corporation, as the case may be, will expressly and unconditionally assume, in a written instrument delivered to the Issuer, and the Trustee, the punctual performance and observance of all of the covenants and conditions of the Loan Agreement and the Bond Documents to be performed by the Borrower; (b) the Borrower or such surviving, resulting, or transferee corporation, as the case may be, will not, immediately after such merger or consolidation, or sale or disposition, be in default in the performance of any covenant or condition under the Loan Agreement or under any other Bond Documents; (c) the surviving, resulting, or transferee corporation, as the case may be, will be duly authorized to transact business in the State; (d) the Borrower or such surviving, resulting, or transferee corporation, as the case may be, will have a net worth at least equal to the net worth of the Borrower immediately preceding such merger or consolidation, or sale or disposition, with net worth being determined in accordance with generally accepted accounting principles; and (e) the Trustee shall have received, to their reasonable satisfaction, such other information, documents, certificates and opinions as the Trustee may reasonably require. Prior to the consummation of any such merger, sale, conveyance or transfer, (y) the Borrower shall deliver to the Issuer and the Trustee an opinion of Bond Counsel to the effect that such merger, sale, conveyance or transfer will not adversely affect the exclusion of interest on the Series 2006A Bonds from gross income for federal income tax purposes and does not violate the Act or the Code and (z) the surviving, resulting, or transferee entity's certification of the Issuer and the Trustee to the effect that each of the conditions stated in clauses (a) through (f) of the preceding sentence is and will remain satisfied as of the date of such consummation and that such consummation will not cause any such condition to not be satisfied. Furthermore, the Borrower or any surviving, resulting or transferee corporation will, at all times during the term of the Loan Agreement, qualify as an "accredited primary or secondary school" or "authorized charter school" as such terms are defined in Section 53.02, Texas Education Code.

Except as provided above, the Loan Agreement may not be assigned, as a whole or in part, by the Borrower.

Tax Covenants of the Borrower

The Borrower covenants that the Borrower will not, through any act or omission, adversely affect the exclusion from gross income for federal income tax purposes of interest paid on the Bonds, and, in the event of such action or omission, it will use all reasonable efforts to cure the effect of such action or omission. Without limiting the generality of the foregoing, in the Loan Agreement, the Borrower specifically covenants and agrees to take or refrain from taking certain actions that might affect the exclusion from gross income for federal income tax purposes of interest paid on the Bonds. Reference is made to the Loan Agreement for a complete description of the Borrower's tax covenants.

Defaults

Under the Loan Agreement, the following are "Events of Default":

(a) Failure by the Borrower to pay the Loan Payments within five (5) Business Days after such Loan Payments were due.

(b) Any representation or warranty made or deemed made by the Borrower under the Bond Documents is false, misleading or erroneous in any material respect when made or deemed made, or failure by the Borrower to observe and perform any covenant, condition, or agreement on its part to be observed or performed under the Loan Agreement or the Indenture (other than payment of Loan Payments as outlined in (a) above), for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, is given to the Borrower by the Issuer or the Trustee.

(c) The dissolution or liquidation by the Borrower or the filing by the Borrower of a voluntary petition for relief, or the entry of an order or decree for relief in an involuntary case, or the entry of an order or decree for dissolution, liquidation or winding up of the affairs of the Borrower under any applicable bankruptcy, insolvency, or similar law now or hereafter in effect, and such order or decree remains unstayed and in effect for a period of 60 consecutive days, or the Borrower consents to or a competent court decrees or orders the appointment of and taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator, or other similar official of the Borrower, of any substantial part of its property or the Project, or the Borrower shall make any general assignment for the benefit of creditors or shall fail generally to pay its debts as they become due or shall take any corporate action in furtherance of any of the foregoing. The term "dissolution or liquidation," will not be construed to include the cessation of the corporate existence of the Borrower or the combination or merger of the Borrower into or with another corporation or a dissolution or liquidation of the Borrower following the transfer of all or substantially all of its assets as an entirety, under the conditions permitting such action set out in the Loan Agreement.

(d) The occurrence and continuance of any "Events of Default" specified in the Indenture that has not been waived.

(e) The occurrence and continuance of any "Event of Default" specified in the Deed of Trust that has not been waived.

The foregoing provisions (except (a) above) are subject to the following limitations: If by reason of Force Majeure the Borrower is unable in whole or in part to carry out its agreements contained in the Loan Agreement, other than the obligations on the part of the Borrower regarding Loan Payments and special covenants, the Borrower will not be deemed in default during the continuance of such inability. The Borrower agrees, however, to remedy with all reasonable dispatch the cause or causes preventing the Borrower from carrying out its agreements by reason of such Force Majeure.

Remedies Upon an Event of Default

Whenever any Event of Default shall have happened and be continuing, the Issuer, or the Trustee as assignee of the Issuer, may take any one or more of the following remedial steps:

(a) By written notice to the Borrower, declare all unpaid indebtedness under the Loan Agreement to be immediately due and payable, whereupon the same will become immediately due and payable. The term "all unpaid indebtedness" means Loan Payments in an amount equal to the Debt Service on all Bonds then Outstanding and interest to accrue thereon to the date of receipt by the Trustee of such moneys, and other payments due or to become due under the Loan Agreement, including without limitation, any unpaid fees and expenses of the Trustee and any Paying Agent, for the Bonds which are then or will become due prior to the time that the Bonds are paid in full.

(b) From time to time take whatever action at law or in equity or under the terms of the Bond Documents as necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement, or covenant of the Borrower under the Loan Agreement or any other Bond Document.

(c) From time to time take whatever actions at law or in equity as necessary or desirable to enforce the obligations of the Borrower regarding indemnification, payment of attorneys' fees, and payment of Issuer's fees.

(d) Provide a Notice of Exclusive Control to the Borrower's depository bank.

No remedy conferred upon or reserved to the Trustee or the Issuer by the Loan Agreement is exclusive of any other available remedy or remedies, but each and every such remedy is cumulative and is in addition to every other remedy given under the Loan Agreement or now or hereafter existing at law or in equity or by statute.

Notice of Default; Opportunity of the Issuer and the Borrower to Cure Default

No default under the Loan Agreement or the Indenture shall constitute an Event of Default until actual notice of such default by registered or certified mail shall be given to the Issuer and the Borrower by the Trustee or by the Owners of not less than 25% in aggregate principal amount of all Bonds Outstanding, and the Issuer and the Borrower shall have had 60 days after receipt such notice to correct said default or to cause said default to be corrected, and shall not have corrected said default or caused said default to be corrected within the applicable period; provided, however, if said default is of a type that can be corrected but is such that it cannot be corrected within the applicable period, it shall not constitute an Event of Default if corrective action is instituted by the Issuer or the Borrower within the applicable period and diligently pursued until the default is corrected.

Amendment

Subsequent to the issuance of Bonds and prior to their payment in full (or provision for the payment thereof having been made in accordance with the provisions of the Indenture), the Loan Agreement may not be amended except in accordance with the procedures set forth in the Indenture. Notwithstanding the foregoing, the Loan Agreement may not be amended, without the consent of the Owner of each Outstanding Bond affected thereby, so as to alter the obligation of the Borrower to pay Loan Payments when due, alter certain other obligations of the Borrower set out in the Loan Agreement, terminate or cancel the Loan Agreement, or decrease the minimum percentage of the principal amount of the Bonds the owners of which must consent to any amendment.

Additional Indebtedness

The Borrower reserves the right from time to time to issue or incur Additional Indebtedness upon such terms and conditions as it may determine.

The Borrower may incur any Additional Indebtedness payable from the Revenues for the purposes provided in the Loan Agreement and/or for the purpose of refunding any Outstanding Bonds if the following conditions are met:

- (i) this Agreement is in effect and no Event of Default is then existing under the Loan Agreement;
- (ii) such Additional Indebtedness shall be on a parity with respect to the Trust Estate and shall be payable by the Borrower solely from the Revenues and other amounts derived pursuant to the

Loan Agreement (except to the extent paid out of moneys attributable to the proceeds derived from the Additional Indebtedness or to income from the temporary investment thereof);

- (iii) the Revenues for the twelve-month period next preceding the month of the date of the Additional Indebtedness then to be issued, or for the Borrower's completed fiscal year next preceding the date of such Additional Indebtedness, are equal to at least 1.5 times the maximum annual principal and interest requirements of all Bonds to be Outstanding after the issuance of the Additional Indebtedness;
- (iv) the State Revenues for the twelve-month period next preceding the month of the date of the Additional Indebtedness then to be issued, or for the Borrower's completed fiscal year next preceding the date of such Additional Indebtedness, are equal to at least 1.25 times the maximum annual principal and interest requirements of all Bonds to be Outstanding after the issuance of Additional Indebtedness;
- (v) the Net Revenues for the twelve-month period next preceding the month of the date of the Additional Indebtedness then to be issued, or for the Borrower's completed fiscal year next preceding the date of such Additional Indebtedness, are equal to at least 1.10 times the maximum annual principal and interest requirements of all Bonds to be Outstanding after the issuance of the Additional Indebtedness; and
- (vi) the Projected Net Revenues for the twelve-month period following the month of the date of the Additional Indebtedness then to be issued, or for the Borrower's full fiscal year next following the date of such Additional Indebtedness, are equal to at least 1.10 times the maximum annual principal and interest requirements of all Bonds to be Outstanding after the issuance of the Additional Indebtedness.

The Additional Bonds of each such series will be authenticated by the Trustee and/or registered by the Comptroller of Public Accounts of the State and, upon payment to the Trustee of the proceeds of said sale of Additional Bonds, they will be delivered by the Trustee to the purchasers thereof, but only upon there being filed with the Trustee certain items.

Any Additional Indebtedness issued pursuant to the Loan Agreement will be equally and ratably secured under the Indenture with respect to the Trust Estate and any Additional Security with the Bonds and any series of Additional Bonds issued pursuant to the Indenture, without preference, priority, or distinction of any Bonds over any other Bonds. Each series of Additional Bonds shall be approved by the Attorney General of the State to the extent required by applicable State law at the time of the issuance thereof.

If Additional Bonds are being issued for the purpose of refunding less than all previously issued Bonds which are outstanding, certain requirements of the Loan Agreement shall not apply so long as the annual Debt Service in any fiscal year after the issuance of such bonds will not exceed the scheduled Debt Service in the same fiscal year prior to the issuance of the Bond.

SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE

The following is a brief summary of the Indenture pursuant to which the Bonds will be issued. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Indenture, copies of which are on file with the Issuer and the Trustee. Capitalized terms used in this section and not otherwise defined in this Limited Offering Memorandum shall have the meanings assigned thereto in the Trust Indenture.

Investment of Moneys; Allocation and Transfer of Investment Income

Moneys in each of the Funds held under the Indenture shall be invested and reinvested by the Trustee at the written direction of the Borrower in Permitted Investments; provided, however, that prior to the Initial Disbursement all monies in the Construction and Acquisition Fund shall be invested only in the Wells Fargo 100% U.S. Treasury Fund. If

not otherwise directed, the Trustee shall invest cash balances in an investment of the type described in the Indenture under the definition of Permitted Investments. The Trustee is specifically authorized to implement its automated cash investment system to assure that cash on hand is invested and to charge its normal cash management fees, which may be deducted from income earned on investments.

The Trustee may make any and all such investments through its own investment or securities department or the investment or securities department of any affiliate of the Trustee. Any obligations acquired by the Trustee as a result of such investment or reinvestment shall be held by or under the control of the Trustee. The Trustee may commingle moneys among all Funds other than the Rebate Fund for purposes of investment, but all moneys invested shall be deemed at all times a part of the fund for which such investments were made. Moneys from the Rebate Fund shall remain segregated for investment purposes. The interest accruing thereon and any profit realized from such investments shall be credited pro rata to the fund from which such investments were made, and any loss resulting from such investment shall be charged pro rata to such fund. The Trustee shall sell and reduce to cash a sufficient amount of such investments credited to the Debt Service Fund whenever the cash balance in the Debt Service Fund is insufficient to pay the Debt Service when due. The Trustee shall not be responsible for any loss resulting from any investment of moneys in any fund hereunder or for keeping such moneys fully invested at all times, except for its negligence or willful misconduct in failing to follow written directions from the Borrower as to the investment of such funds. The Trustee shall have no liability in connection with early liquidation penalties.

Events of Default

Each of the following is deemed an "Event of Default" under the Indenture:

- (a) Failure by the Issuer to make due and punctual payment of the Debt Service on any Outstanding Bond, whether at the Stated Maturity thereof, at the date fixed for redemption, upon proceedings for redemption, or otherwise upon the maturity thereof.
- (b) Failure by the Issuer to perform or observe any other of the covenants, agreements, or conditions to be performed or observed on its part contained in the Indenture or in the Outstanding Bonds and continuance thereof for the period after notice is given as specified in Section 6.12 of the Indenture.
- (c) The occurrence of an "Event of Default" under Section 8.1 of the Loan Agreement.

Acceleration

Upon the occurrence of an Event of Default, the Trustee may, and upon the written request of the Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding shall, by notice in writing delivered to the Issuer and the Borrower, declare the principal of all Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable, anything in the Bonds, the Loan Agreement, the Notes, or the Indenture to the contrary notwithstanding.

Other Remedies for Events of Default

Upon the occurrence of an Event of Default, before or after declaring the principal of the Bonds immediately due and payable, the Trustee may proceed to pursue any available remedy by suit at law or in equity, including, without limitation, the following:

- (a) By mandamus, or other suit, action, or proceeding at law or in equity, as the Trustee shall deem most effective to protect and enforce all rights of the Owners, require the Issuer and the Borrower to carry out their respective covenants, agreements, and obligations under the Indenture, the Loan Agreement, the Notes, or the Act.
- (b) Bring suit upon the Indenture and the Bonds.
- (c) Bring suit upon the Loan Agreement and the Notes.

- (d) By action, suit, or proceeding at law or in equity require the Issuer to account as if it were the trustee of an express trust for the Owners.
- (e) By action, suit, or proceeding at law or in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners.

Any judgment against the Issuer will be enforceable only against the Trust Estate. There will not be authorized any deficiency judgment against any assets of, or the general credit of, the Issuer.

If an Event of Default has occurred and be continuing, and if requested to do so by the Owners of not less than 25% in aggregate principal amount of all Bonds then Outstanding and if indemnified as provided in Section 7.1(m) of the Trust Indenture, the Trustee will be obligated to exercise one or more of the lawful rights and powers conferred by the Indenture, as the Trustee, being advised by counsel, deems in the interests of the Owners.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee (or to the Owners) is intended to be exclusive of any other remedy, but each and every such remedy will be cumulative and will be in addition to any other remedy given to the Trustee or the Owners under the Indenture or now or hereafter existing at law, in equity, or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default will impair any such right or power or will be construed to be a waiver of any such default or Event of Default or acquiescence therein; and every such right and power may be exercised from time to time as often as may be deemed expedient by the Trustee or the Owners as the case may be.

No waiver of any default or Event of Default hereunder, whether by the Trustee or the Owners will extend to or will affect any subsequent default or Event of Default or will impair any right or remedies consequent thereon.

The Trustee

In the Indenture, the Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Indenture. The Indenture provides that no implied covenants or obligations are to be read into the Indenture against the Trustee. In case an Event of Default has occurred (which has not been cured or waived) and after the Trustee takes notice thereof as provided in the Indenture, the Trustee agrees to exercise such of the rights and powers vested in it by the Indenture, and to use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of its own affairs.

The Trustee may execute any of the trusts or powers under the Indenture and perform any of its duties by or through attorneys, agents, receivers, or employees, but the Trustee will not be answerable for the conduct of the same provided that the Trustee uses reasonable care in selecting such representative. The Trustee shall be entitled to advice of counsel concerning all matters of trust and the duties under the Indenture, and in all cases may pay such reasonable compensation to all such attorneys, agents, receivers, and employees as may reasonably be employed or retained in connection with the trust created by the Indenture. The Trustee may act upon the opinion or advice of any attorneys and shall not be responsible for any loss or damage resulting from any action or non-action exercised in good faith in reliance upon such opinion or advice.

RISK FACTORS

Prospective purchasers of the Bonds should consider carefully, along with other matters referred to herein, the following risks of investment. The ability of the Borrower to meet the debt service requirements of the Bonds is subject to various risks and uncertainties which are discussed throughout this Limited Offering Memorandum. Certain of such investment considerations are set forth below. This section of this Limited Offering Memorandum does not purport to summarize all of the risks. Investors should read this Limited Offering Memorandum in its entirety.

The Bonds are offered only to Accredited Investors and Qualified Institutional Buyers in minimum denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof, will not receive a credit rating from any source, and are not suitable investments for all investors. Each prospective purchaser is responsible for assessing the merits and risks of an investment in the Bonds and must be able to bear the economic risk of such investment in the Bonds. By purchasing the Bonds, each purchaser represents that it is an Accredited Investor or a Qualified Institutional Buyer with sufficient knowledge and experience in financial and business matters, including the purchase and ownership of tax-exempt obligations, to evaluate the merits and risks of an investment in the Bonds.

General

THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS.

Limited Obligations

The Bonds are special and limited obligations of the Issuer. They are secured by and payable solely from funds payable by the Borrower under the terms and conditions of the Loan Agreement and as otherwise described herein. The obligations of the Issuer under the Indenture are not general obligations of the Issuer and neither the Trustee nor the registered or beneficial owners of the Bonds will have any recourse to any property, funds or assets of the Issuer (other than the property granted the Trustee as part of the Trust Estate) with respect to such obligations. See "SECURITY AND SOURCE OF PAYMENT."

Dependence on the State

State Payments Subject to Biennial Appropriation. Repayment of Debt Service on the Bonds depends principally on receipt by the Borrower of payments by the State and by the school district that the student would otherwise attend for each student in average daily attendance. The State legislature meets each odd-numbered biennium, and failure of the State legislature to appropriate sufficient amounts to pay its share of the per student cost to the Borrower could result in failure of the Issuer to make timely payments of Debt Service on the Bonds. See "THE SYSTEM OF CHARTER SCHOOLS IN TEXAS."

Changes in the School Finance System. Because Texas charter schools are ultimately funded from the same sources as Texas public school districts, changes in the system of school finance could significantly affect how charter schools, including the Borrower, are funded. Neither the Issuer nor the Borrower can make any representation or prediction concerning how or if the State Legislature may change the current public school finance system, and how those changes may affect the funding or operations of charter schools. See "THE SYSTEM OF CHARTER SCHOOLS IN TEXAS" AND "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS."

Changes in the System of Charter Schools. Continued operation could be adversely affected if the State makes changes in the legislative provisions governing operation of charter schools. The system of charter schools in State was first enacted in 1995, and unforeseen operational or management issues could cause the State to significantly alter the statutory provisions governing charter schools in the future. See "THE SYSTEM OF CHARTER SCHOOLS IN TEXAS" and "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS."

Revocation or Non-renewal of Charter. The School's charter has been renewed and will expire on July 31, 2013. In addition, the School's charter may be revoked or the State may refuse to renew the charter if the person operating the Schools commits a material violation of the charter, including failure to satisfy accountability provisions prescribed by the charter, failure to satisfy generally accepted accounting standards of fiscal management, or failure to comply with the provisions of Chapter 12, Texas Education Code or other applicable laws or rules. See "THE SYSTEM OF CHARTER SCHOOLS IN TEXAS."

Dependence on the Borrower

Dependence on Per Student Revenues. The Borrower derived approximately 86% of its revenues during the 2005-2006 school year from payments by the State and/or by the school district that a student would otherwise attend

for each student in average daily attendance at the Schools. The timely payment of principal and interest on the Bonds depends on operations of the Schools attracting and retaining the number of students that are needed to provide sufficient revenues to make timely payment of Loan Payments securing payment of the Debt Service on the Bonds. See "FINANCIAL AND OPERATIONS INFORMATION-Projections by the Borrower."

Growth of Student Population. The principal source of repayment of the Bonds is monthly amounts paid by the State and local district to the Schools on the basis of average daily attendance. The Borrower's total per student funding for 2005-2006 was approximately \$6,000 per student in average daily attendance, but such amount may vary from year to year. See "THE SYSTEM OF CHARTER SCHOOLS IN TEXAS-State Funding" and "-Local Funding". The student population for the 2005-2006 fiscal year was 293. Current enrollment (2006-2007 School Year) is 429 as of August 24, 2006. At current levels of enrollment, State and local payments are sufficient to provide revenues to make timely payment of Loan Payments securing payment of the Debt Service on the Bonds. However, any failure to retain students at current enrollment levels could adversely affect the School's ability to provide sufficient revenues to make timely payment of Loan Payments securing payment of the Debt Service on the Bonds. See "FINANCIAL AND OPERATIONS INFORMATION-Projections by the Borrower."

Accuracy of Borrower Projections of Growth. The Borrower is not making projections with regard to future growth. Its current level of enrollment provides sufficient revenue for debt service on the Bonds, financial commitments to students and staff, repair of facilities and growth in general fund balance. Currently, there are approximately 10 applications on the waiting list for admission. **Pro-forma revenue and expenditure projections are from the Borrower, and neither the Issuer nor the Underwriter has commissioned an independent feasibility analysis of any of the projected student attendance figures upon which the Borrower's projections are based. No independent confirmation of the Borrower's projections has been made, and while the Borrower believes its projections of growth of average daily attendance are reasonable, such growth may or may not occur and may be affected by a variety of factors, including continued provision for funding of the Schools by the State at adequate levels, operations and maintenance of the Schools, and competition from other public or private schools in the El Paso area.** See "FINANCIAL AND OPERATIONS INFORMATION-Projections by the Borrower."

Risks Associated with a New Venture. The likelihood of success of the Borrower must be viewed in light of the problems, expenses, difficulties, delays, and complications often encountered in the formation of a new enterprise. The Borrower has been operating the Schools since June 1, 1998. As a new venture, a potential investor should anticipate that operational difficulties would exist for the Borrower that might not exist for traditional public schools or for established private schools.

Further, the system of charter schools in the State is recent, having only been established in 1995. Potential purchasers should therefore be aware that in addition to the Schools themselves being a new venture, the system under which the Schools operate is also new, and future operations of the Schools could be significantly affected by unforeseen problems arising from the statutory provisions governing charter schools in the State or future changes therein. See "-Dependence on the State-Changes in the System of Charter Schools" and "THE SYSTEM OF CHARTER SCHOOLS IN TEXAS". An evaluation of the first four years of operation of the State's charter schools was commissioned by the State Board of Education, and is available from the Division of Charter Schools, Texas Education Agency, 1701 N. Congress Ave., Austin, TX 78701-1494, 512-463-9732, or at www.tasb.org/tcer/schools/yr4-exec-sum.doc.

Market Demand; Competition. The Schools are located in the 79912 zip code in the El Paso area. Unlike school districts, the Borrower must attract students from other schools, both public and private, within the El Paso area. No students are required to attend the Schools, and students at the Schools may subsequently transfer to other public or private schools at will. There are numerous public and private schools in the El Paso area, many of which may be closer to the homes of present or prospective students of the Schools. Failure by the Borrower to provide facilities or academics at a level acceptable to students and their parents would presumably cause the Borrower to fail to attract or maintain students, and would negatively affect the ability of the Borrower to make Loan Payments in an amount sufficient to pay the Bonds.

The Schools are two of five charter schools established in the El Paso area. There are nine (9) public elementary schools and two (2) middle schools within the 79912 zip code. Currently 68% of the School's students reside in the 79912 zip code.

El Paso Independent School District Elementary and Middle Schools in Proximity to the Schools

<u>School</u>	<u>2006 Accountability Rating</u>	<u>Student Population</u>	<u>Proximity to The Schools</u>
Morehead Middle	Academically Acceptable	1,162	5.40
Hornedo Middle	Recognized	1,786	2.14
Putnam Elementary	Recognized	565	2.72
Western Hills Elementary	Recognized	466	2.81
Johnson Elementary	Academically Acceptable	728	3.99
Rivera Elementary	Academically Acceptable	577	2.05
Polk Elementary	Exemplary	767	1.28
Green Elementary	Recognized	612	4.79
Guerrero Elementary	Recognized	940	.55
Kohlberg Elementary	Recognized	882	1.57
Tippin Elementary	Recognized	632	2.01

Limited Assets of the Borrower. The Borrower's principal assets are the Schools. If the Schools do not generate sufficient revenues to pay all of the Borrower's loan obligations and operating expenses, the Borrower may have no other significant source of funds to make such payments. A failure by the Borrower to pay the Borrower's operating expenses would presumably ultimately result in the inability of the Borrower to attract or maintain sufficient revenues for payment of its Loan Payments.

No Taxing Power. The Borrower has no taxing power.

Factors Associated with Education

There are a number of factors affecting schools in general that could have an adverse effect on the School's financial position and ability to make Loan Payments. These factors include, but are not limited to, increasing costs of compliance with federal, state or local regulatory laws or regulations, including, without limitation, laws or regulations concerning environmental quality, work safety and accommodating persons with disabilities; any unionization of the School's work force with consequent impact on wage scales and operating costs of the Schools; the ability to attract a sufficient number of students; and changes in existing statutes pertaining to the powers and minimum funding levels for charter schools. Operation of schools also presents significant risks and operational and management issues not present in other enterprises. While State-law provides that the Schools are immune from liability to the same extent as a school district, and that its employees and volunteers are immune from liability to the same extent as employees and volunteers of a school district, a potential investor should anticipate that, because the Schools provides services to children, any failure in the Borrower's operation and management of the Schools could result in liability risks to the Borrower which would not be present for other enterprises not engaged in providing such services.

Non-Recourse Debt. The obligations of the Borrower under the Loan Agreement are non-recourse in nature. The Borrower is obligated to meet its obligations under the Loan Agreement except for certain reimbursement and indemnity obligations. Should the Borrower be unable to meet its obligations under the Loan Agreement, the Trustee's remedies will be limited to foreclosure upon the Deed of Trust and recovery against the funds and accounts held by the Trustee (other than the Rebate Fund) pursuant to the Indenture.

Payment of State Funds to Trustee

The Indenture provides that all of the Revenues will be deposited into the Facility Revenue Fund held by the Trustee, and the Borrower will covenant and agree in the Loan Agreement that, without demand by the Trustee, it will deliver or cause to be delivered to the Trustee within one Business Day from the day of receipt of the Revenues to be so deposited. The only remedy available to the Trustee or Bondholder would be a suit against the Borrower to enforce the provisions of the Loan Agreement.

Legal Opinions

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

Related Party Transactions

The Borrower has numerous transactions with affiliated or related parties. The Borrower is related or affiliated with Iris Burnham, who is the initiator and superintendent of the Schools as well as President of the Board and mother to Esther Furrer. Ms. Burnham owns the 10,000+ square foot building on the Burnham Wood Charter School campus.

The Borrower has been leasing the 10,000+ square foot building on the Burnham Wood Charter School campus from Iris Burnham under the terms of a lease agreement. The Schools are required to pay real property taxes and common maintenance expenses in addition to rent. Total rent expense included in the statement of activities for fiscal year ending August 31, 2005 was \$86,916. During fiscal year ended August 31, 2005, the Schools paid \$65,809 to Ms. Burnham for building leases. Part of the proceeds of the Bonds are being used to purchase these facilities from Ms. Burnham for a purchase price of \$1,250,000. See "PLAN OF FINANCING – The Project".

Conclusion

FROM THE ABOVE, IT IS EVIDENT THAT AN INVESTMENT IN THE BONDS INVOLVES A HIGH DEGREE OF RISK AND IS SPECULATIVE IN NATURE. The relatively high interest rate borne by these Bonds (as compared to prevailing interest rates on more secure bonds such as those which constitute general obligations of fiscally sound municipalities or states or creditworthy borrowers) is intended to compensate the investor for assuming this element of risk. Each prospective investor should carefully examine this Limited Offering Memorandum and the Appendices hereto and such investor's own financial condition in order to make a judgment as to whether the Bonds are an appropriate investment for such investor.

Tax-Exempt Status on the Series 2006A Bonds

The Internal Revenue Code of 1986, as amended (the "Code") imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Series 2006A Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds, limitations on the investment earnings of bond proceeds prior to expenditure, a requirement that certain investment earnings on bond proceeds be paid periodically to the United States, and a requirement that issuers file an information report with the IRS. The Borrower has agreed that they will comply with such requirements. Failure to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of the interest on the Series 2006A Bonds as taxable. Such adverse treatment may be retroactive to the date of issuance. See also "TAX MATTERS."

In December 1999, as a part of a larger reorganization of the IRS, the IRS commenced operation of its Tax-Exempt and Government Entities Division (the "TE/GE Division") as the successor to its Employee Plans and Exempt Organizations division. The TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. The number of tax-exempt bond examinations has increased significantly under the new TE/GE Division.

The Borrower has not sought to obtain a private letter ruling from the IRS with respect to the Series 2006A Bonds, and the opinion of Bond Counsel is not binding on the IRS. The existence of related party transactions may increase the likelihood of an IRS examination. See "RISK FACTORS – Related Party Transactions". There is no assurance that any IRS examination of the Bonds will not adversely affect the market value of the Series 2006A Bonds. See "TAX MATTERS" below.

Tax-Exempt Status of the Borrower

The tax-exempt status of the Series 2006A Bonds depends upon the Borrower having maintained and continuing to maintain its status as an organization described in section 501(c)(3) of the Code. The maintenance of this

status depends on compliance with general rules regarding the organization and operation of tax-exempt entities, including operation for charitable and educational purposes and avoidance of transactions that may cause earnings or assets to inure to the benefit of private individuals, such as the private benefit and inurement rules.

Tax-exempt organizations are subject to scrutiny from and face the potential for sanction and monetary penalties imposed by the IRS. One primary penalty available to the IRS under the Code with respect to a tax-exempt entity engaged in inurement or unlawful private benefit is the revocation of tax-exempt status. Although the IRS has not frequently revoked the tax-exempt status of non-profit organizations, it could do so in the future. Loss of tax-exempt status by the Borrower could result in loss of tax exemption of the 2006A Bonds and defaults in covenants regarding the Bonds and other obligations would likely be triggered. Loss of tax-exempt status by the Borrower could also result in substantial tax liabilities on its income. For these reasons, loss of tax-exempt status of the Borrower could have material adverse consequences on the financial condition of the Borrower.

With increasing frequency, the IRS has imposed substantial monetary penalties and future charity or public benefit obligations on tax-exempt entities in lieu of revoking tax-exempt status, as well as requiring that certain transactions be altered, terminated or avoided in the future and/or requiring governance or management changes. These penalties and obligations typically are imposed on the tax-exempt organization pursuant to a "closing agreement," a contractual agreement pursuant to which a taxpayer and the IRS agree to settle a disputed matter. Given the exemption risks involved in certain transactions, the Borrower may be at risk for incurring monetary and other liabilities imposed by the IRS. These liabilities could be materially adverse.

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

The Borrower may be audited by the IRS. Because of the complexity of the tax laws and the presence of issues about which reasonable persons can differ, an IRS audit could result in additional taxes, interest and penalties. An IRS audit ultimately could affect the tax-exempt status of the Borrower, as well as the exclusion from gross income for federal income tax purposes of the interest on the Series 2006A Bonds and any other tax-exempt debt issued for the Borrower.

State and Local Tax Exemption

The State has not been as active as the IRS in scrutinizing the tax-exempt status of nonprofit organizations. It is possible that legislation may be proposed to strengthen the role of the Attorney General of the State in supervising nonprofit organizations. It is likely that the loss by the Borrower of federal tax exemption also would trigger a challenge to the state or local tax exemption of the Borrower. Depending on the circumstances, such event could be adverse and material.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation for not-for-profit corporations. There can also be no assurance that future changes in the laws and regulations of federal, state or local governments will not materially adversely affect the operations and financial conditions of the Borrower by requiring the Borrower to pay income or local property taxes.

Unrelated Business Income

The IRS and state, county and local tax authorities may undertake audits and reviews of the operations of tax-exempt organizations with respect to the generation of unrelated business taxable income ("*UBTI*"). The Borrower may participate in activities that generate UBTI. An investigation or audit could lead to a challenge that could result in taxes, interest and penalties with respect to UBTI and, in some cases, ultimately could affect the tax-exempt status of the Borrower as well as the exclusion from gross income for federal income tax purposes of the interest payable on the Series 2006A Bonds. In addition, 95% of the facilities financed with proceeds of the Bonds must be used exclusively in a trade or business related to the Borrower's exempt purposes. Any unrelated trade or business (whether or not it is also UBTI) would not count toward that 95% requirement.

Risk of Catastrophic Loss

In the event a natural or man-made disaster, such as a hurricane, fire, earthquake, tornado, or war destroyed the Schools, the revenues of the Borrower would be drastically reduced. Moreover, the market value of the property pledged under the Deed of Trust would also be drastically reduced.

While the Bonds are outstanding, the Borrower has agreed to insure or cause insurance to be carried for its buildings and contents, including the Project, against such losses and in such amounts as is customary for persons engaged in the same business as the Borrower and operating facilities similar to its buildings and other facilities, including the Project. The Borrower has additionally covenanted in the Loan Agreement to provide general liability, comprehensive professional liability, workers compensation, and business interruption insurance. The business interruption insurance is required to cover actual losses in gross revenues from the Project resulting directly from necessary interruption of the operation of the Borrower caused by damage to or destruction (resulting from fire and lightning, accident to a fire pressure vessel or machinery, and other perils as further set forth in the Loan Agreement) to real or personal property constituting part of the Project, less charges and expenses which do not necessarily continue during the interruption, for such length of time as may be required with the exercise of due diligence and dispatch to rebuild, repair, or replace such properties as have been damaged or destroyed (but in no event less than 12 months). In the event of insurance proceeds in an amount greater than \$250,000 from damage or destruction, or proceeds from condemnation in an amount greater than \$250,000, the Loan Agreement requires transfer of such amounts to the Trustee under the conditions set forth in the Loan Agreement. Nevertheless, there can be no assurance that a casualty loss will be covered by insurance (certain casualties are excepted), that the insurance company will fulfill its obligation to provide insurance proceeds, that insurance proceeds to rebuild the Schools will be sufficient, or that a sufficient number of students would wish to attend the Schools following rebuilding. Even if insurance proceeds are available and the Schools are rebuilt, there could be a lengthy period in which there would be little or no revenues.

Limited Remedies After Default

Remedies available to owners of Bonds in the event of a default by the Issuer in one or more of its obligations under the Bonds or the Indenture or the Borrower under the Agreement or the Note are limited to the terms of such instruments, and may prove to be expensive, time-consuming, and difficult to enforce. Further, as noted above, the Bonds are limited obligations of the Issuer and existence of any remedy does not guarantee sufficient assets of the Borrower pledged to payment of the Bonds to secure such payment. See "RISK FACTORS –Limited Obligations."

Remedies with respect to foreclosure under the Deed of Trust may be further limited by State constitutional and statutory limitations on foreclosure, including the right of redemption of foreclosed property granted to debtors under the Texas Constitution.

The enforceability of the rights and remedies of the Bondholders may further be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors such as the Issuer or the Borrower. See "RISK FACTORS –Risk of Bankruptcy" below.

Ability to Sell or Lease the Project if an Event of Default Occurs

Upon the occurrence of any event of default under the Indenture, a remedy available to the Trustee, or a majority in principal amount of the Owners of the Bonds then outstanding, is to attempt to sell or lease the Project. There can be no assurances that the Trustee or the Holders of the Bonds will be able to find a willing purchaser or lessee for the Project. The failure to sell or lease the Project for payments that would generate amounts, after payment of certain costs and expenses, substantially equal to the principal and interest due with respect to the Bonds, will make it impossible for the Trustee to pay the Bonds in full. Any sale or lease of the Project may require compliance with laws of the State applicable thereto. Such compliance may be difficult, time-consuming, and/or expensive. The Project may not be adaptable to other revenue general uses.

Additionally, as the Project will constitute special-purpose school facilities, in the event of a foreclosure pursuant to the Deed of Trust, the number of uses which could be made of the Project and the number of entities which would be interested in purchasing the Project may be limited, and the sale price might thus be materially reduced or

adversely affected. Even if the Trustee should acquire title to the Project pursuant to its foreclosure remedies, the ability of the Trustee to lease or resell the Project to third parties, thereby liquidating the investment, may be limited as a result of the nature of the Project. For these reasons no assurance can be made that the amount realized upon any forced sale of the Project will be fully sufficient to pay and discharge the Bonds.

Potential Environmental Liability

There are potential risks relating to environmental liability associated with the ownership of, or secured lending with respect to, any property. If hazardous substances are found to be located on property, owners of, or secured lenders regarding such property may be held liable for costs and other liabilities relating to such hazardous substances. In the event of a foreclosure pursuant to the Deed of Trust or participation in the management of the Project by the Holders of the Bonds, the Holders may be held liable for costs or other liabilities relating to hazardous substances, if any, on the Land on a strict liability basis and such costs might exceed the value of such property.

Risk of Bankruptcy

There is a risk that the Borrower may file for bankruptcy and afford itself the protection of the federal Bankruptcy Code. In that case, the Borrower receives the benefit of the automatic stay and creditors, such as the owners of the Bonds, cannot pursue their remedies against it without the permission of the Bankruptcy Court. The Borrower has a right to reorganize and adjust its debts with the approval of the Bankruptcy Court. While the Borrower is a nonprofit corporation, the Schools are a part of the public school system. Consequently, it is not clear whether the Borrower would properly file as a corporate debtor or under chapter nine of the United States Bankruptcy Code governing government subdivisions. If the Borrower is properly a corporate debtor, it may be possible for the Borrower to be forced into involuntary bankruptcy by one or more creditors. A bankruptcy filing by or against the Borrower could adversely affect the receipt of principal and interest on the Bonds.

Risk of Increased Debt

The Issuer has reserved the right to incur Additional Indebtedness which is secured under the Indenture on an equal basis with the Bonds. The incurrence of Additional Indebtedness may adversely affect the investment security of the Bonds. For a description of the circumstances under which Additional Bonds may be incurred, see "SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT—Additional Indebtedness."

Risk of Failure to Comply with Certain Covenants

Failure of the Issuer to comply with certain covenants contained in the Indenture or the Borrower with covenants in the Loan Agreement on a continuing basis prior to the maturity of the Series 2006A Bonds could result in interest on the Series 2006A Bonds becoming taxable retroactive to the date of original issuance. See "TAX MATTERS."

Limited Marketability of the Bonds

The Issuer has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price may be greater than the bid and asked price of bonds of comparable maturity and quality issued by more traditional issuers as such bonds are more generally bought, sold or traded in the secondary market.

The purchase of the Bonds is suitable only for participants of substantial financial means who have no need for liquidity in their investment and who understand and can afford the financial and other risks of this investment. To help prevent purchase of Bonds by investors who may not be appropriate investors, the Issuer has restricted denominations of the Bonds to \$100,000 and integral multiples of \$5,000 in excess thereof. Resale of the Bonds to beneficial owners in lesser denominations is not authorized except as provided for under the terms of the Indenture. The Indenture provides that at such time as the Bonds are rated "investment grade" by either Fitch, Moody's, or S&P, and upon receipt of such

rating and satisfaction of all conditions and notices set forth in the Indenture, the authorized denominations of the Bonds will be reduced to \$5,000.

Suitability and Transfer Restrictions

The initial Owner of any Bonds will be required to deliver to the Trustee an investor's letter, substantially in the form set forth as Appendix D hereto, with only such changes as may be acceptable to the Trustee (the "*Investor's Letter*"), to evidence that such Bonds are owned by an investor that is an "accredited investor" under Regulation D of the Securities Act of 1933 or a "qualified institutional buyer" under Rule 144A promulgated by the Securities and Exchange Commission thereunder and that each such accredited investor or qualified institutional buyer has sufficient knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of an investment in the Bonds. See "THE BONDS – Transfer Restrictions" herein.

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC, Cede & Co. and the Book-Entry System has been furnished by DTC for use in disclosure documents such as this Limited Offering Memorandum. The Issuer and the Underwriter believe such information to be reliable, but neither the Issuer nor the Underwriter takes any responsibility for the accuracy or completeness thereof.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond certificate per maturity will be issued for each stated maturity of each Series of the Bonds, each in the aggregate principal amount of such stated maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

Use of Certain Terms in Other Sections of this Limited Offering Memorandum. In reading this Limited Offering Memorandum it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Limited Offering Memorandum to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Indenture will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the Issuer or the Underwriter.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Recent Litigation Relating to the Texas School Finance System

On April 9, 2001, four property wealthy districts filed suit in the 250th District Court of Travis County, Texas (the "District Court") against the Texas Education Agency, the Texas State Board of Education, the Texas Commissioner of Education (the "Commissioner") and the Texas Comptroller of Public Accounts in a case styled West Orange-Cove Consolidated Independent School District, et al. v. Neeley, et al. The plaintiffs alleged that the \$1.50 maximum maintenance and operations tax rate had become in effect a State property tax, in violation of article VIII, section 1-e of the Texas Constitution, because it precluded them and other school districts from having meaningful discretion to tax at a lower rate. Forty school districts intervened in two groups, six with Edgewood ISD and thirty-four with Alvarado ISD. The intervenors alleged that the Texas public school finance system (the "Finance System") was inefficient, inadequate, and unsuitable, in violation of article VII, section 1 of the Texas Constitution, because the State of Texas (the "State") did not provide adequate funding. As described below, this case has twice reached the Texas Supreme Court (the "Supreme Court"), which rendered decisions in the case on May 29, 2003 ("West Orange-Cove I") and November 22, 2005 ("West Orange-Cove II"). After the remand by the Supreme Court back to the District Court in West Orange-Cove I, 285 other school districts were added as plaintiffs or intervenors. The plaintiffs joined the intervenors in their article VII, section 1 claims that the Finance System is inadequate and unsuitable, but not in their claims that the Finance System is inefficient.

On November 30, 2004, the final judgment of the District Court was released in connection with its reconsideration of the issues remanded to it by the Supreme Court in West Orange-Cove I. In that case, the District Court rendered judgment for the plaintiffs on all of their claims and for the intervenors on all but one of their claims, finding that (1) the Finance System is unconstitutional in that the Finance System violates article VIII, section 1-e of the Texas Constitution because the statutory limit of \$1.50 per \$100.00 of taxable assessed valuation on property taxes levied by school districts for operation and maintenance purposes has become both a floor and a ceiling, denying school districts meaningful discretion in setting their tax rates; (2) the constitutional mandate of adequacy set forth in article VII, section 1, of the Texas Constitution exceeds the maximum amount of funding that is available under the current funding formulas administered by the State; and (3) the Finance System is financially inefficient, inadequate, and unsuitable in that it fails to provide sufficient access to revenue to provide for a general diffusion of knowledge as required by article VII, section 1, of the Texas Constitution.

The final judgment of the District Court included an injunction (the "Prospective Injunction") prohibiting the distribution of State money for school district operations under the current Finance System until the Legislature of the State (the "Legislature") has conformed the Finance System to meet Texas constitutional standards. The final judgment of the District Court stayed the effect of the Prospective Injunction until October 1, 2005 in order to give the Legislature a reasonable opportunity to cure the constitutional deficiencies in the Finance System. The Supreme Court granted a direct appeal filed by the State. Oral argument on West Orange-Cove II was held on July 6, 2005, with the Supreme Court rendering its decision with respect to such case on November 22, 2005. The Texas Supreme Court upheld the District Court's ruling that State constitutional mandates of adequacy, efficiency, and sufficiency under Article VII, Section of the Texas Constitution were violated by the Finance System because the \$1.50 cap on maintenance and operation taxes amounted to an unconstitutional State property tax. The Texas Supreme Court, however, reversed the District Court's ruling that constitutional mandates of adequacy, efficiency, and sufficiency under Article VII, Section 1 of the Texas Constitution were violated by the Finance System. The Texas Supreme Court's judgment extended the Prospective Injunction from October 1, 2005, to June 1, 2006, in order to give the Legislature a reasonably opportunity to cure the identified constitutional deficiencies in the Finance System.

As stated above, in West Orange-Cove I the plaintiff school districts asserted that the \$1.50 per \$100.00 of taxable assessed valuation tax that is generally authorized by State law to be levied for school operation and maintenance purposes (the "O&M Tax"), though imposed locally, has become in effect a State property tax prohibited by article VIII, section 1-e of the Texas Constitution. The intervening school district groups contended that funding for school operations and facilities is inefficient in violation of article VII, section 1 of the Texas Constitution, because children in property-poor districts do not have substantially equal access to education revenue. The school districts asserted that the Finance System cannot achieve "[a] general diffusion of knowledge" as required by article VII, section 1 of the Texas Constitution, because the system is underfunded. The State, represented by the Texas Attorney General, made a number of arguments opposing the positions of the school districts, as well as asserting that school districts did not have standing to challenge the State in these matters.

In *West Orange-Cove II*, the Supreme Court's holding was twofold: (1) that the local O&M Tax had become a State property tax in violation of article VIII, section 1-e of the Texas Constitution and (2) the deficiencies in the Finance System do not amount to a violation of article VII, section 1 of the Texas Constitution. In reaching its first holding, the Supreme Court relied on evidence presented to the District Court to conclude that school districts do not have meaningful discretion in levying the O&M Tax. In reaching its second holding, the Court, using a test of arbitrariness, determined that: the public education system is "adequate," since it is capable of accomplishing a general diffusion of knowledge; the Finance System is not "inefficient," because school districts have substantially equal access to similar revenues per pupil at similar levels of tax effort, and efficiency does not preclude supplementation of revenues with local funds by school districts; and the Finance System does not violate the constitutional requirement of "suitability," since the present system is suitable for adequately and efficiently providing a public education.

In reversing the District Court's holding that the Finance System was unconstitutional under article VII, section 1 of the Texas Constitution, the Supreme Court stated:

Although the districts have offered evidence of deficiencies in the public school finance system, we conclude that those deficiencies do not amount to a violation of article VII, section 1. We remain convinced, however, as we were sixteen years ago, that defects in the structure of the Finance System expose the system to constitutional challenge. Pouring more money into the system may forestall those challenges, but only for a time. They will repeat until the system is overhauled.

In response to the intervenor districts' contention that the Finance System is constitutionally inefficient, the *West Orange-Cove II* decision states that the Texas Constitution does not prevent the Finance System from being structured in a manner that results in gaps between the amount of funding per student that is available to the richest districts as compared to the poorest district, but reiterated its statements in *Edgewood Independent School District v. Meno*, 893 S.W.2d 450 (Tex. 1995) ("*Edgewood IV*") that such funding variances may not be unreasonable. The Supreme Court further stated that "[t]he standards of article VII, section 1 - adequacy, efficiency, and suitability - do not dictate a particular structure that a system of free public schools must have." The Supreme Court also noted that "[e]fficiency requires only substantially equal access to revenue for facilities necessary for an adequate system," and the Supreme Court agreed with arguments put forth by the State that the plaintiff school districts had failed to present sufficient evidence to prove that there is an inability to provide for a "general diffusion of knowledge" without additional facilities.

As noted above, in *West Orange-Cove II* the Supreme Court modified the effective date of the Prospective Injunction from October 1, 2005 to June 1, 2006. With the passage of the Reform Legislation (as described below) by the Legislature in response to the Supreme Court's decision in *West Orange-Cove II*, the District Court dissolved the Prospective Injunction on May 26, 2006.

Funding Changes in Response to West Orange-Cove II

The Governor called a third special session of the 79th Legislature to address the deficiencies in the Finance System that were identified in *West Orange-Cove II*. The special called session began on April 17, 2006 and ended on May 15, 2006 (the "Third Called Session"). In the Third Called Session, the Legislature enacted House Bill 1 ("HB 1"), which makes substantive changes in the way the Finance System is funded, as well as House Bill 2 ("HB 2"), which establishes a special fund in the State treasury to be used to collect new tax revenues that are dedicated under certain conditions for appropriation by the Legislature to reduce O&M Tax rates. Through enactment of House Bills 3, 4 and 5 the Legislature has, respectively, broadened the State business franchise tax, modified the procedures for assessing the State motor vehicle sales and use tax and increased the State tax on tobacco products (House Bills 1 through 5 are collectively referred to as the "Reform Legislation"). The Governor has signed all of the Reform Legislation into law, which generally became effective at the beginning of the 2006-07 fiscal year of each district. For a description of the changes to the Finance System effected by HB 1, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2006 Reform Legislation."

Recent Litigation Relating to HB1

On June 14, 2006, an entity called Citizens Lowering Our Unfair Taxes PAC ("CLOUT") filed a lawsuit (case number GN602156) in the 345th District Court (the "District Court") in Travis County, Texas against the Texas Lieutenant Governor, the Speaker of the Texas House of Representatives, the Texas Comptroller of Public Accounts,

the State of Texas and the Legislative Budget Board ("LBB") (collectively, the "State Defendants") in a case styled Edd Hendee, individually and as Executive Director of C.L.O.U.T. v. Dewhurst, et al. (the "CLOUT Lawsuit"). The plaintiffs allege that various violations of Article VIII, Section 22(a) of the Texas Constitution and Chapter 316 of the Texas Government Code have occurred and have resulted in unconstitutional and illegal spending by the Texas State government, including the appropriations made for the Texas public school Finance System under HB 1. (See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2006 Reform Legislation" for a discussion regarding HB 1). Among other things, the plaintiffs challenge the methodology used to establish the maximum amount of non-dedicated revenues that may be spent in the 2006-2007 State biennium under Article VIII, Section 22(a) and the delegation of the determination of such amount to the LBB. The plaintiffs have requested, among other things, a declaratory judgment that the appropriation for the Finance System in HB 1 is unconstitutional on the basis that it exceeds the maximum amount of appropriations authorized by Article VIII, Section 22(a). The State Defendants timely filed an answer to the suit with the 345th District Court. The answer includes a general denial of the allegations of the plaintiffs and, in addition, asserts certain affirmative defenses to the suit. On August 7, 2006, the District Court granted a motion filed by the State Defendants to dismiss the suit on the grounds that the issues raised by the suit are strictly within the province of the Legislature and the LBB. The plaintiffs filed a notice of accelerated appeal with the District Court on August 8, 2006. In accordance with such notice, the appeal of the dismissal is expected to be made to the State's Third Court of Appeals. The Borrower can make no representation or prediction concerning the outcome of the CLOUT Lawsuit or its effects on HB 1 and, consequently, its impact on the financial condition of the District. However, the Borrower does not anticipate that the security for the payment of the Bonds would be affected as a result of the outcome of the CLOUT Lawsuit.

Possible Effects of Litigation and Changes in Law on Borrower Obligations

The Borrower has not fully assessed the impact of the Reform Legislation on the Borrower or the CLOUT Lawsuit. However, as a result of the Reform Legislation, the District Court dissolved the Prospective Injunction. For a discussion on the security of the Bonds, reference is made, in particular, to "SECURITY AND SOURCE OF PAYMENT."

In Edgewood IV, the Supreme Court stated that any future determination of unconstitutionality "would not, however, affect the district's authority to levy the taxes necessary to retire previously issued bonds, but would instead require the Legislature to cure the Finance System's unconstitutionality in a way that is consistent with the Contract Clauses of the U.S. and Texas Constitutions" (collectively, the "Contract Clauses"). Consistent with the Contract Clauses, in the exercise of its police powers, the State may make such modifications in the terms and conditions of contractual covenants related to the payment of the Bonds as are reasonable and necessary for the attainment of important public purposes.

Although, as a matter of law, the Bonds, upon issuance and delivery, will be entitled to the protections afforded previously existing contractual obligations under the Contract Clauses, the District can make no representations or predictions concerning the effect of future legislation or litigation, or how such legislation or future court orders may affect the Borrower's financial condition, revenues or operations.

While the disposition of any possible future litigation or the enactment of future legislation could substantially adversely affect the financial condition, revenues or operations of the Borrower, as noted herein, the Borrower does not anticipate that the security for payment of the Bonds would be adversely affected by any such litigation or legislation that may be enacted in the future to address school funding in Texas. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM."

PUBLIC SCHOOL FINANCE SYSTEM PRIOR TO THE 2006-07 FISCAL YEAR

State Funding for Local School Districts

The current Finance System provides for (1) State guaranteed basic funding allotments per student ("Tier One") and (2) State guaranteed revenues per student for each cent of local tax effort to provide operational funding for an "enriched" educational program ("Tier Two"). In addition, to the extent funded by the Legislature, the Finance System includes, among other funding allotments, an allotment to subsidize qualifying districts' existing debt service up to certain limits ("EDA"), the Instructional Facilities Allotment ("IFA"), and an allotment to pay operational expenses associated with the opening of a new instructional facility. Tier One, Tier Two, EDA and IFA are generally referred to as the Foundation School Program. Tier One and Tier Two allotments represent the State funding share of the cost of

maintenance and operations of school districts and supplement local ad valorem O&M Taxes levied for that purpose. Tier One and Tier Two allotments and prior year IFA allotments are generally required to be funded each year by the Legislature. EDA and future year IFA allotments supplement local ad valorem taxes levied for debt service on bonds issued by districts to construct, acquire and improve facilities and are generally subject to appropriation by the Legislature. State funding allotments may be altered and adjusted to penalize school districts with high administrative costs and, in certain circumstances, to account for shortages in State appropriations or to allocate available funds in accordance with wealth equalization goals.

Tier One allotments are intended to provide a basic program of education rated academically acceptable and meeting other applicable legal standards. If needed, the State will subsidize local tax receipts to produce an amount known as the basic allotment (the "Basic Allotment") per student in average daily attendance. Prior to the 2006-07 fiscal year, to receive the State subsidy, a school district had to levy an effective property tax of at least \$0.86 per \$100 of assessed valuation. In 2005, the Legislature appropriated funds providing for the Basic Allotment for Tier One at \$2,537 per student in average daily attendance (the same as for the 2004-05 State fiscal biennium).

Tier Two allotments are intended to guarantee each school district an opportunity to provide a basic program and to supplement that program at a level of its own choice; provided, however Tier Two allotments may not be used for the payment of debt service or capital outlay. Prior to the 2006-07 fiscal year, each school district was guaranteed an amount (the "Foundation Program Guaranteed Yield") per weighted student in State and local funds for each cent of tax effort (excluding the district's bond debt service tax effort) that a school district levied above the effective rate of \$0.86 required for its Tier One local share, not to exceed \$0.64 per \$100 of assessed valuation.

The IFA guarantees each school district a specified amount per student (the "IFA Guaranteed Yield") in State and local funds for each cent of tax effort to pay principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. To receive an IFA, a school district must apply to the Commissioner in accordance with rules adopted by the Commissioner before issuing the bonds to be paid with State assistance. The total amount of debt service assistance over a biennium for which a district may be awarded is limited to the lesser of (1) the actual debt service payments made by the district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in average daily attendance. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. If the total amount appropriated by the State for IFA in a year is less than the amount of money school districts applying for IFA are entitled to for that year, districts applying will be ranked by the Commissioner by wealth per student, and State assistance will be awarded to applying districts in ascending order of adjusted wealth per student beginning with the district with the lowest adjusted wealth per student. In determining wealth per student for purposes of IFA, adjustments are made to reduce wealth for certain fast growing districts. Once a district receives an IFA award for bonds, it is entitled to continue receiving State assistance without reapplying to the Commissioner and the guaranteed level of State and local funds per student per cent of tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued.

State financial assistance is provided for certain existing debt issued by school districts (referred to herein as EDA) to produce a guaranteed yield (the "EDA Yield"), which for the 2006-07 State Biennium is \$35.00 (subject to adjustment as described below) in State and local revenue per student for each cent of debt service tax levy; however, for bonds that became eligible for EDA funding after August 31, 2001, and prior to August 31, 2005, EDA assistance for such eligible bonds may be less than \$35 in revenue per student for each cent of debt service tax, as a result of certain administrative delegations to the Commissioner under State law. Effective September 1, 2003, the portion of the local debt service rate that has qualified for equalization funding by the State has been limited to the first 29 cents of debt service tax or a greater amount for any year provided by appropriation by the Legislature. In general, a district's bonds are eligible for the allotment if, during the 2004-05 fiscal year, the district (i) made payments on such bonds or (ii) levied and collected debt taxes for the payment of principal and interest on such bonds.

A district may also qualify for an allotment for operational expenses associated with opening new instructional facilities. This funding source may not exceed \$25,000,000 in one school year on a State-wide basis. For the first school year in which students attend a new instructional facility, a district is entitled to an allotment of \$250 for each student in average daily attendance at the facility. For the second school year in which students attend that facility, a district is entitled to an allotment of \$250 for each additional student in average daily attendance at the facility. The

new facility operational expense allotment will be deducted from wealth per student for purposes of calculating a district's Tier Two State funding.

Local Revenue Sources - Property Tax Authority

The primary source of local funding for school districts is ad valorem taxes levied against the local tax base. Prior to the 2006-07 fiscal year, school districts were authorized, subject to voter approval, to levy an annual ad valorem O&M Tax at a rate, subject to limited exceptions, not to exceed \$1.50 per \$100 assessed valuation. Many school districts, however, voted their O&M Tax under prior law and may be subject to other limitations on this tax rate. School districts are also authorized to levy a bond debt service tax that may be unlimited in rate. The governing body of a school district cannot adopt an annual tax rate which exceeds the district's "rollback tax rate" without submitting such proposed tax rate to the voters at a referendum election.

Wealth Transfer Provisions

Under the Finance System, districts are required, with certain limited exceptions, to effectively adjust taxable property wealth per weighted student ("wealth per student") for each school year to no greater than the "equalized wealth level". Prior to the 2006-07 fiscal year, the equalized wealth level was \$305,000. A district may effectively reduce its wealth per student either by reducing the amount of taxable property within the district relative to the number of weighted students, by transferring revenue out of the district or by exercising any combination of these remedies.

A district has four options to reduce its wealth per student so that it does not exceed the equalized wealth level: (1) A district may consolidate by agreement with one or more districts to form a consolidated district. All property and debt of the consolidating districts vest in the consolidated district. (2) Subject to approval by the voters of all affected districts, a district may consolidate by agreement with one or more districts to form a consolidated taxing district solely to levy and distribute either O&M Taxes or both O&M Taxes and debt service taxes. (3) A district may detach property from its territory for annexation by a property-poor district. (4) A district may educate students from other districts who transfer to the district without charging tuition to such students.

A district has three options to transfer tax revenues from its excess property wealth. First, a district with excess wealth per student may purchase "attendance credits" by paying the tax revenues to the State for redistribution under the Foundation School Program. Second, it can contract to disburse the tax revenues to educate students in another district, if the payment does not result in effective wealth per student in the other district to be greater than the equalized wealth level. Both options to transfer property wealth are subject to approving elections by the transferring district's qualified voters. Third, a wealthy district may reduce its wealth by paying tuition to a non-wealthy district for the education of students that reside in the wealthy district.

A district may not adopt a tax rate until its effective wealth per student is the equalized wealth level or less. If a final court decision holds any of the preceding permitted remedial options unlawful, districts may exercise any remaining option under a revised schedule approved by the Commissioner.

If a district fails to exercise a permitted option, the Commissioner must reduce the district's property wealth per student to the equalized wealth level by detaching certain types of property from the district and annexing the property to a property-poor district or, if necessary, consolidate the district with a property-poor district. Provisions governing detachment and annexation of taxable property by the Commissioner do not provide for assumption of any of the transferring district's existing debt.

2006 Reform Legislation

The Reform Legislation is generally effective at the beginning of the 2006-07 fiscal year of each district. The structural changes made to the Finance System by the Reform Legislation are generally included in HB 1. The basic structure of the Finance System was not modified, and the funding elements continue to include the Tier One guaranteed basic funding allotment per student, the Tier Two guaranteed yield of revenues per student for each cent of local tax effort to provide operational funding for an "enriched" educational program, the EDA allotments to subsidize existing debt service up to certain limits, and the IFA as described above. HB 1 modifies the timing and method of allocations made to school districts by the State to fund Tier One and Tier Two portions of the State's Foundation School Program. In particular, the Tier One basic allotment (currently \$2,537 per student in average daily attendance)

and the Tier One guaranteed yield (currently \$27.14 per weighted student), would now be determined by a formula set forth in HB 1, which relies, as do other provisions of HB 1, on the use of a "state compression percentage," as discussed below. Based upon the formulas in HB 1 and using information provided by the Texas Legislative Budget Board (the "LBB"), the basic allotment for the 2006-07 fiscal year is estimated to be \$2,748, and the guaranteed yield for each cent of tax effort is estimated to be \$31.95. HB 1 is intended to reduce local O&M Tax rates by one third over two years, with O&M Tax levies declining by approximately 11% in fiscal year 2006-07 and approximately another 22% in fiscal year 2007-08. Additional State funding needed to offset local tax rate reductions must be generated by the modified State franchise, motor vehicle and tobacco taxes or any other revenue source appropriated by the Legislature. The LBB has projected that the Reform Legislation will be underfunded from the Reform Legislation revenue sources by a cumulative amount of \$25 billion over fiscal years 2006-2007 through 2010-2011, although current State surpluses are expected to offset the revenue shortfall in fiscal years 2006-07 and 2007-2008, and the shortfall could be further reduced if the Reform Legislation, particularly the ad valorem tax compression measures of HB 1, should prove to be an economic stimulus for the State.

Under HB 1, school districts are guaranteed to receive State funding necessary to provide the district the greater of (A) the amount of State and local revenue per student for the district in the 2005-06 fiscal year, (B) the amount of State and local revenue per student the district would have been entitled to for the 2006-07 fiscal year based on the funding elements in place prior to the Reform Legislation using the O&M Tax rate the district adopted for the 2005-06 fiscal year, or (C) the amount of State and local revenue per student the district would have been entitled to for the 2006-07 fiscal year based on the funding elements in place prior to the Reform Legislation using an O&M Tax rate that would allow the district to maintain total revenue per student under the funding elements in place prior to the Reform Legislation. In addition to the greater of (A), (B) or (C), school districts are guaranteed to receive a \$2,000 across-the-board salary increase for teachers and certain other employees funded by the State, a \$500 stipend for school district employee health insurance and a high school student allotment of \$275 per student in average daily attendance for dropout prevention and college readiness programs. State funds appropriated to provide districts the guaranteed amount may only be used for operating and maintenance purposes and not to fund facilities, debt service or other purposes. If a district adopts an O&M Tax rate in any fiscal year below a rate equal to the state compression percentage for the district in that year multiplied by the O&M Tax rate adopted by the district for the 2005-06 fiscal year, the district's guaranteed amount is reduced in a proportionate amount. If a district receives more State and local revenue from the Tier One and Tier Two allotments and wealth equalization than the guaranteed amount described above, the amount of State funding will be reduced by the excess revenue. According to the LBB, the average result to school districts in the State as a consequence of the enactment of HB 1 will be an approximately 4% increase in funding for the 2006-07 fiscal year.

In general terms, HB 1 allocates funds to districts in a manner that requires districts to "compress" their tax rates in order to receive increased State funding at a level that equalizes local tax wealth at the 88th percentile yield for the 2006-07 fiscal year. A basic component of the funding formulas in HB 1 is the "state compression percentage". The state compression percentage is 88.67% for fiscal year 2006-07 and 66.67% for fiscal year 2007-08. For fiscal year 2008-09 and thereafter, the Commissioner is required to determine the state compression percentage for each fiscal year based on the percentage by which a district is able to reduce its O&M Tax rate for that year, as compared to the district's adopted O&M Tax rate for the 2005-06 fiscal year, as a result of State funds appropriated for distribution for the current fiscal year from the property tax relief fund established under HB 2, or from any other funding source made available by the Legislature for school district property tax relief.

The primary source of local funding for school districts remains ad valorem taxes levied against the local tax base. HB 1 replaces the former provision of the Education Code, Section 45.003, that in general limited the O&M Tax rate to \$1.50 per \$100 of taxable assessed value, with a formula using the state compression percentage so that the maximum tax rate that may be adopted by a district in any fiscal year is limited based on the amount of State funds to be received by the District in that year. In addition, HB 1 amended the definition of "rollback tax rate" to take into account the new State funding structure under the Reform Legislation. A district generally cannot adopt an O&M Tax rate exceeding the district's "rollback tax rate" without approval of a majority of the voters voting at an election approving the higher rate. For the 2006-07 and 2007-08 fiscal years, HB 1 provides that districts may generate additional local funds by raising their O&M Tax rate by four cents above the compressed tax rates (without taking into account changes in taxable valuation) under HB 1 without voter approval, and such amounts will generate equalized funding dollars from the State under the Tier Two program. In fiscal year 2008-09 and thereafter, districts may, in general, increase their tax

rate by an additional two or more cents and receive State equalization funds for such taxing effort so long as the voters approve such tax rate increase.

The Reform Legislation retains the concept of wealth equalization among school districts in the State, but the amount of local funds that may be retained by relatively property wealthy school districts has been increased, thereby reducing the amount of funds generated by "recapture" of local funds from high wealth districts. Under current law, a district is defined as "property wealthy" if its wealth per student in average daily attendance exceeds \$305,000. HB 1 replaces that test with a new formula. According to the LBB, the wealth level for fiscal year 2006-07 that will require wealth reduction measures is estimated at \$319,500 per student in average daily attendance. That change is expected to substantially reduce the number of districts that are subject to "recapture." Property wealthy districts may also be able to levy up to an additional four cents (six cents beginning with fiscal year 2009-10) per \$100 of assessed valuation of O&M Taxes to provide revenue above the equalized wealth level that is not subject to recapture. The Reform Legislation did not modify the procedures that property wealthy districts may take for the purpose of reducing property wealth (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Public School Finance System Prior to the 2006-07 Fiscal Year Wealth Transfer Provisions"). Additional funding was provided by the Legislature in HB 1 for low wealth districts that exercise all or part of the local option enrichment tax.

In addition to making changes to the Finance System that are generally described above, HB 1 modifies other laws including provisions mandating that all public schools in the State start the school year on a uniform date; establishing a statewide electronic student records system; requiring the Commissioner and the Texas Higher Education Coordinating Board to align high school and college curriculums; and establishing approximately \$300 million in incentive pay programs for campus and teacher incentive programs. A constitutional amendment that would have reduced the amount of taxes for taxpayers 65 years of age or older that are "frozen" so that the frozen tax amount will be proportionate to the reduction in local ad valorem taxes failed to pass during the Third Called Session, but could be reintroduced in future legislative sessions.

The Borrower can make no representation or prediction concerning whether the public school finance system as modified by the Reform Legislation will be determined to be constitutional. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS - Possible Effects Of Litigation And Changes In Law On Borrower Obligations."

2006-2007 IFA and EDA Funding

In 2005, the Legislature renewed the IFA allotment program and appropriated funds for outstanding school district bonds that qualified in prior budget cycles for IFA allotments and for additional IFA funding for the State's 2006-07 fiscal biennium. In 2005, the Legislature also appropriated funds for outstanding school district bonds that qualified in prior budget cycles for EDA allotments and provided additional EDA funding for the State's 2006-07 fiscal biennium. A district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the district receives overlapping IFA funding.

Possible Effects On The Borrower's Financial Condition

As described under "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" changes made by the State Legislature could affect the financial condition of the Borrower.

THE SYSTEM OF CHARTER SCHOOLS IN TEXAS

General

The State legislature adopted the charter school system in 1995 to offer publicly funded choices to parents within the public school system. State law provides for three types of charters: home-rule school district charters, campus or campus program charters, and open-enrollment charters. The Borrower's Charter Schools operate under an open enrollment charter.

The apparent benefit for operating as an open enrollment charter school is greater control and autonomy at the school level. Under current statutes, the charter system effectively provides the same per student public funding for education (but not necessarily for capital needs) as is available to other public schools.

The State Board of Education may grant a charter on the application of an eligible entity for an open-enrollment charter school to operate in a facility of a commercial or nonprofit entity or a school district, including a home-rule school district. "Eligible entity" includes certain institutions of higher education, certain private or independent institutions of higher education, an organization (such as the Borrower) that is exempt from taxation under Section 501(c)(3) of the Code or a governmental entity.

Limitation on Number of Charters Granted

The State Board of Education may, at this time, grant a total of not more than 215 charters for open-enrollment charter schools. An open-enrollment charter school granted a charter to serve students eligible for public education grants may serve other students.

Authority Under Charter

An open-enrollment charter school must provide instruction to students at one or more elementary or secondary grade levels as provided by the charter; must be governed under the governing structure described by the charter; will retain authority to operate under the charter contingent on satisfactory student performance as provided by statute; and does not have authority to impose taxes.

An open-enrollment charter school is subject to federal and State laws and rules governing public schools, but is subject to the Texas Education Code and rules adopted under the Texas Education Code only to the extent the applicability of a provision of the Texas Education Code or a rule adopted under the Code to an open-enrollment charter school is specifically provided.

An open-enrollment charter school has the powers granted to schools under Title 2, Texas Education Code, as amended, ("*Title 2*"), which generally governs public primary and secondary education in the State. An open-enrollment charter school is subject to any provisions of Title 2 establishing a criminal offense; prohibitions, restrictions, or requirements, as applicable, imposed by Title 2 or a rule adopted under Title 2, relating to specific provisions governing the Public Education Information Management System ("*PEIMS*"), criminal history records; high school graduation; special education programs; bilingual education; prekindergarten programs; extracurricular activities; health and safety; and public school accountability (including testing requirements).

An open-enrollment charter school is part of the public school system of the State. The governing body of the school is considered a governmental body for purposes of Chapters 551 and 552, Texas Government Code, as amended, governing open meetings and open records. The school is immune from liability to the same extent as a school district, and its employees and volunteers are immune from liability to the same extent as school district employees and volunteers. An employee of an open-enrollment charter school who qualifies for membership in the Teacher Retirement System of Texas shall be covered under the system to the same extent a qualified employee of a school district is covered. For each employee of the school covered under the system, the school is responsible for making any contribution that otherwise would be the legal responsibility of the school district, and the State is responsible for making contributions to the same extent it would be legally responsible if the employee were a school district employee.

An open-enrollment charter school must provide transportation to each student attending the school to the same extent a school district is required by law to provide transportation to district students.

State Funding

Prior to August 31, 2001, an open-enrollment charter school is entitled to the distribution from the available school fund for a student attending the open-enrollment charter school to which the district in which the student resides would be entitled. A student attending an open-enrollment charter school who is eligible under Section 42.003, Texas Education Code, as amended, is entitled to the benefits of the Foundation School Program. The Commissioner of

Education will distribute from the foundation school fund to each charter school an amount equal to the cost of a Foundation School Program provided by the program for which the charter is granted, including the transportation allotment, for the student that the district in which the student resides would be entitled to, less an amount equal to the sum of the school's tuition receipts from the local district plus the school's distribution from the available school fund. This prior law provides the basis for a portion of the State Funding available to charter schools and more fully described under "The System of Charter Schools in Texas – Changes in Funding".

Generally, a student is entitled to the benefits of the Foundation School Program if the student is 5 years of age or older and under 21 years of age on September 1 of the school year and has not graduated from high school. A student is also entitled to the benefits of the Foundation School Program if the student is enrolled in certain prekindergarten classes.

The Foundation School Program provides for: (1) State guaranteed basic funding allotments per student ("*Tier One*"); and (2) State guaranteed revenues per student per penny of local tax effort to provide operational funding for an "enriched" educational program ("*Tier Two*"). State funding allotments may be altered and adjusted in certain circumstances to account for shortages in State appropriations or to allocate available funds in accordance with wealth equalization goals. Tier One allotments are intended to provide a basic program of education rated academically acceptable and meeting other applicable legal standards. If needed, the State will subsidize local tax receipts to produce a basic allotment. The basic allotment is currently \$2,537 per student in average daily attendance. To receive the State subsidy, a local school district must levy an effective property tax of at least \$0.86 per \$100 of assessed valuation.

Tier Two allotments are intended to guarantee each school district an opportunity to provide a basic program and to supplement that program at a level of its own choice, however Tier Two allotments may not be used for the payment of debt service or capital outlay. Each school district is guaranteed \$27.14 per weighted student in State and local funds for each cent of tax effort (excluding a school district's bond debt service tax effort) that a school district levies above the effective rate of \$0.86 required for its Tier One local share, not to exceed \$0.64 per \$100 of assessed valuation.

Local Funding

Except as specifically provided, an open-enrollment charter school is entitled to receive payments (referred to as tuition) from the school district in which a student attending the charter school resides in an amount equal to the quotient of the tax revenue collected by the school district for maintenance and operations for the school year for which tuition is being paid divided by the sum of the number of students enrolled in the district as reported in the Public Education Information Management System (PEIMS), including the number of students for whom the district is required to pay tuition. The tuition to be paid by a school district with a wealth per student that exceeds the equalized wealth level under Chapter 41, Texas Education Code, as amended, will be based on the district's tax revenue after the district has acted to achieve the equalized wealth level under Chapter 41. Except for the payments received from the local school districts, an open-enrollment charter school may not generally charge tuition to its student.

Because the amount received by the charter school from the local district is based on the local district's per student tax revenue, per student revenue for the charter school will vary depending on the taxes levied by the student's home district.

The Borrower's total per student funding for 2005-2006, including both the State share and the local share described under this heading, was approximately \$5,500 per student.

Provisions of Open-Enrollment Charters

Under State statute, the State Board of Education has the authority to select applicants to establish open-enrollment charter schools. The Board has adopted an application form and procedures for applications to operate an open-enrollment charter school. The Board has also adopted criteria to use in selecting a charter.

Each charter granted describes the educational program to be offered, which must include the required curriculum as provided by statute, specify the period for which the charter or any charter renewal is valid; provide that

continuation or renewal of the charter is contingent on acceptable student performance on assessment instruments and on compliance with any accountability provision specified by the charter, by a deadline or at intervals specified by the charter; establish the level of student performance that is considered acceptable; specify any basis, in addition to a basis specified by statute, on which the charter may be placed on probation or revoked or on which renewal of the charter may be denied; prohibit discrimination in admission policy on the basis of sex, national origin, ethnicity, religion, disability, academic or athletic ability, or the district the child would otherwise attend in accordance with the Texas Education Code; specify the grade levels to be offered; describe the governing structure of the program; specify the qualifications to be met by professional employees of the program; describe the process by which the person providing the program will adopt an annual budget; describe the manner in which an annual audit of the financial and programmatic operations of the program is to be conducted, including the manner in which the person providing the program will provide information necessary for the school district in which the program is located to participate, as required by the Education Code or by State Board of Education rule, in PEIMS; describe the facilities to be used; describe the geographical area served by the program; and specify any type of enrollment criteria to be used. The charter may provide for the exclusion of a student who has a documented history of a criminal offense, a juvenile court adjudication, or certain discipline problems.

A charter for an open-enrollment charter school will be in the form of a written contract signed by the chair of the State Board of Education and the chief operating officer of the charter school. A revision of a charter of an open-enrollment charter school may be made only with the approval of the State Board of Education.

Basis for Modification, Placement on Probation, Revocation, or Denial of Renewal

The Commissioner may modify, place on probation, revoke, or deny renewal of the charter of an open-enrollment charter school if the Commissioner determines that the person operating the charter school committed a material violation of the charter, including failure to satisfy accountability provisions prescribed by the charter; failed to satisfy generally accepted accounting standards of fiscal management; or failed to comply with any applicable law or rule. An action the Commissioner takes with respect to modification, probation, revocation, or denial of renewal of a charter must be based on the best interest of the charter school's students, the severity of the violation, and any previous violation the school has committed. The Commissioner has adopted rules regarding modifying, placing on probation, revoking, or denying renewal of the charter of an open-enrollment charter school.

If the Commissioner revokes or denies the renewal of a charter of an open-enrollment charter school, or if an open enrollment charter school surrenders its charter, the school may not continue to operate or receive State funds except that an open-enrollment charter school may continue to operate and receive State funds for the remainder of a school year if the Commissioner denies renewal of the school's charter before the completion of that school year.

The Commissioner may take certain disciplinary actions available for public schools generally to the extent the Commissioner determines necessary, if an open-enrollment charter school commits a material violation of the school's charter, fails to satisfy generally accepted accounting standards of fiscal management, or fails to comply with this subchapter or another applicable rule or law. The Commissioner may temporarily withhold funding, suspend the authority of an open enrollment charter school to operate, or take any other reasonable action the Commissioner determines necessary to protect the health, safety, or welfare of students enrolled at the school based on evidence that conditions at the school present a danger to the health, safety, or welfare of the students. After the Commissioner so acts, the open-enrollment charter school may not receive funding and may not resume operating until a determination is made that, despite initial evidence, the conditions at the school do not present a danger of material harm to the health, safety, or welfare of students; or the conditions at the school that presented a danger of material harm to the health, safety, or welfare of the students have been corrected.

Annual Evaluation

The Commissioner must designate an impartial organization with experience in evaluating school choice programs to conduct an annual evaluation of open-enrollment charter schools. The evaluation must include consideration of students' scores on assessment instruments, student attendance, students' grades, incidents involving student discipline, socioeconomic data on students' families, parents' satisfaction with their children's schools, and students' satisfaction with their schools. The evaluation of open-enrollment charter schools must also include an evaluation of: the costs of instruction, administration, and transportation incurred by open-enrollment charter schools;

and the effect of open-enrollment charter schools on school districts and on teachers, students, and parents in those districts.

Changes in Funding

Commencing August 31, 2001, a charter holder is entitled to receive for the open-enrollment charter school funding as if the school were a school district without a tier one local share for purposes of Tier One and without any local revenue ("LR") for purposes of Tier Two. In determining funding for an open-enrollment charter school, adjustments under state law and the district enrichment tax rate ("DTR") are based on the average adjustment and average district enrichment tax rate for the state. An open-enrollment charter school is entitled to funds that are available to school districts from the agency or the commissioner in the form of grants or other discretionary funding unless the statute authorizing the funding explicitly provides that open-enrollment charter schools are not entitled to the funding. The commissioner may adopt rules to provide and account for state funding of open-enrollment charter schools.

Funds received from the State after September 1, 2001, by a charter holder are considered to be public funds for all purposes under State law and are held in trust by the charter holder for the benefit of the students of the open-enrollment charter school.

The change in State funding applied beginning with the 2001-2002 school year, except that an open-enrollment charter school operating on September 1, 2001, is funded as follows:

1. for the 2001-2002 and 2002-2003 school years, the school received funding according to the law in effect on August 31, 2001;
2. for the 2003-2004 school year, the school received 90 percent of its funding according to the law in effect on August 31, 2001, and 10 percent of its funding according to the change;
3. for the 2004-2005 school year, the school receives 80 percent of its funding according to the law in effect on August 31, 2001, and 20 percent of its funding according to the change;
4. for the 2005-2006 school year, the school receives 70 percent of its funding according to the law in effect on August 31, 2001, and 30 percent of its funding according to the change;
5. for the 2006-2007 school year, the school receives 60 percent of its funding according to the law in effect on August 31, 2001, and 40 percent of its funding according to the change;
6. for the 2007-2008 school year, the school receives 50 percent of its funding according to the law in effect on August 31, 2001, and 50 percent of its funding according to the change;
7. for the 2008-2009 school year, the school receives 40 percent of its funding according to the law in effect on August 31, 2001, and 60 percent of its funding according to the change;
8. for the 2009-2010 school year, the school receives 30 percent of its funding according to the law in effect on August 31, 2001, and 70 percent of its funding according to the change;
9. for the 2010-2011 school year, the school receives 20 percent of its funding according to the law in effect on August 31, 2001, and 80 percent of its funding according to the change;
10. for the 2011-2012 school year, the school receives 10 percent of its funding according to the law in effect on August 31, 2001, and 90 percent of its funding according to the change; and
11. for the 2012-2013 school year and subsequent school years, the school receives 100 percent of its funding according to the change.

THE ISSUER

The Issuer is a public non-profit corporation created by the Authority and existing as an instrumentality of the Authority pursuant to Section 53.351 of the Texas Education Code, as amended (the "Act"). Pursuant to the Act, the Issuer is authorized to issue revenue bonds and to lend the proceeds thereof to authorized charter schools for the purpose of aiding such school in financing or refinancing "educational facilities" (as such term is defined in the Act) and facilities which are incidental, subordinate, or related thereto or appropriate in connection therewith.

All of the Issuer's property and affairs are controlled by and all of its power is exercised by a board of directors (the "Board") consisting of three members, each of whom has been appointed by the governing body of the Authority (the "Authority Board"). Present members are Bob Schulman, president; Marina Bellantyne Walne, vice president; and Omar Garcia, secretary. Board members serve two-year terms, and each Board member may serve an unlimited number of two-year terms. Although Board members serve until their successors have been appointed as described above, any one or more Board members may be removed from office at any time, with or without cause, by the Authority Board. All vacancies on the Board, whether they occur as a result of resignation or removal, are filled by the Authority Board as described above.

Neither the Board members nor officers receive compensation for serving as such, but they are entitled to reimbursement for expenses incurred in performing such service.

The Issuer has no assets, property, or employees and does not intend to acquire any property or employ anyone. Other than legal counsel and financial advisor, the Issuer has not engaged any consultant or other professional. THE ISSUES HAS NO TAXING POWER.

The Issuer is receiving a fee in connection with the issuance of the Bonds, which amount will be paid to the Authority and may be used by the Authority for any lawful purpose.

Except for the issuance of the Bonds, the Issuer is not in any manner related to or affiliated with the Borrower. The Issuer has issued the Bonds and loaned the proceeds to the Borrower pursuant to the Loan Agreement solely to carry out the Issuer's statutory purposes as a charter school finance corporation, and the Issuer makes no representation or warranties as to the Borrower, including specifically the operations of the Borrower as an open-enrollment charter school or the Borrower's ability to make any payments under the Loan Agreement. The Borrower has agreed to indemnify the Issuer for certain matters under the Loan Agreement.

THE BORROWER AND THE SCHOOLS

El Paso Education Initiative Inc.

The Borrower is a Texas nonprofit corporation recognized by the Internal Revenue Service as an organization described under Section 501(c)(3) of the Internal Revenue Code on June 16, 1998. The Borrower operates two campuses consisting of the Burnham Wood Charter School and the Da Vinci School for Science and Arts.

The Schools

The Schools are located in northwestern El Paso and are accessible from two major traffic arteries, Interstate Highway 10 (east-west flow) and Mesa Street (flow from downtown to the northwest). In addition, they operate in close proximity to three public housing projects. The Schools currently offer a full-day kindergarten and accelerated first grade through seventh grade, and have a combined current enrollment of 429 students and 31 teachers. All of the teachers are highly qualified in terms of the No Child Left Behind criteria. There is a maximum 1:22 teacher/student ratio for grades K-4 and a 1:25 teacher student ratio for grades 5-7.

Management

The Schools are governed by a seven-member Board of Directors, as set forth below:

<u>Name</u>	<u>Role</u>	<u>Profession</u>
Iris Burnham	President	Superintendent, Burnham Wood Charter School
Leonard Lidiak	Vice President	Chairman Emeritus, State National Bank
Esther Furrer	Secretary/Treasurer	Financial Administrator/Development Director, Burnham Wood Charter School
Eric Braham	Trustee	United States Postal Service
Dr. Maceo C. Daily, Jr.	Trustee	Director of African American Studies, University of Texas
Carlos Kaplan	Trustee	Owner, First Finance Company
Henry Kellen	Trustee	Retired

Day to day operations of the School are managed by the following persons:

Iris Burnham – Superintendent, Burnham Wood Charter School. Iris Burnham has served as Superintendent of the Burnham Wood Charter School since its inception in 1998. Ms. Burnham oversees the operation of delivery of educational services and the budget planning, program planning and development of the District. Ms. Burnham has been involved in the creation and administration of other educational organizations including the founding and implementation of the School for Educational Enrichment, a fully accredited private school in El Paso, Texas; the Accreditation Commission of the Texas Alliance of Accredited Private Schools where she served as President and currently Treasure. In this capacity, Ms. Burnham evaluates and recommends private schools throughout Texas for accreditation status; ACT-NOW! (alternative teacher certification program in Texas) where Ms. Burnham serves as President; former Instructor at both the University of Texas at El Paso and the El Paso Community College; along with teaching positions and Life time professional certification in N.Y., California and Texas. Ms. Burnham is the founder and creator of the Burnham Wood Charter School.

Deborah Crinzi – Assistant Superintendent for Curriculum and Instruction, Burnham Wood Charter School. Ms. Crinzi has also held various other administrative positions such as the Principal of the School for Educational Enrichment; Co Founder/Curriculum Developer/Trainer for ACT-NOW! (an alternative teacher certification program in Texas); Assistant Principal of the Ysleta Independent School District and the Canutillo Independent School District; and District Program Director for severely behavior disordered students, Counselor; Coordinator for District Discipline Policies for the Topenish Independent School District. Ms. Crinzi also serves as the Principal of the Da Vinci School for Science and Arts.

Esther Furrer – Financial Administrator, Burnham Wood Charter School. Ms. Furrer oversees the bookkeeping department, the fiscal management of Federal entitlements, State Foundation School Program and Competitive State and local grants. Ms. Furrer also acts as the Director of Development at the Burnham Wood Charter School, the Grants Manager and the Liaison between the District and key personnel involved with grant projects. For more than ten years, Ms. Furrer has worked in budgeting, finance, and operations analysis in the public and private for- and non-profit sectors, including the Texas State Comptroller's Office, the Federal Reserve Bank of Dallas-El Paso Branch, the City of New York Mayor's Office of Operations, the Council on Foreign Relations, and KPMG, LLP.

Grant and Fundraising

The Schools raise funds through a combination of methods and initiatives.

The Schools apply for academic grants, such as those awarded by the Department of Education and the Texas Education Agency. Examples of public grant programs for which the School has applied are Reading First, Arts in Education, and Mentoring Partnership. The Schools also pursue funding opportunities from private foundations, such as the Jack Kent Cooke Foundation, which funds innovative education programs, and the Challenge grant program.

Funds awarded through these grant programs help underwrite staff, faculty, instructional and supply costs, and reduce the burden of such costs on the total School budgets.

John Lock, CEO of the Charter School Growth Fund, has invited the Schools to re-apply for grants to fund replication efforts. The Schools will re-apply for these funds to help cover its growing administrative and training costs.

The new Da Vinci School for Science and the Arts school model includes the performing arts and science, technology, engineering, and math (STEM), which will create a dual-emphasis curriculum, potentially increasing available resources and funding sources for the School. The arts are viewed as part of the design model, as well as a major enrollment incentive for El Paso's student population to the new STEM school. This STEM academy has been underwritten in part by a \$700,000 grant from the Texas Education Agency for Fiscal Year 2006-2007. The Schools can receive up to an additional \$700,000 for Fiscal Year 2007-2008 based on performance.

In 2004, the Schools completed the second year of a very successful two-year Charter Schools Dissemination Grant Program. Awarded in the summer of 2002 by the Texas Education Agency via a competitive application process, \$80,000 in federal grant funds were used to provide valuable training to El Paso area teachers. Several workshops were conducted under the leadership of the principal, with capable assistance from many of the Burnham Wood teaching staff. Workshop topics included Core Knowledge, Behavior Management, Writing, Calendar Math and Science. The School, through this grant, provided professional development sessions to teachers from both small and large districts and provided its own instructional staff with opportunities to lead and inform their colleagues.

The Schools have conducted and plan to continue to conduct successful local fundraisers.

Significant future plans will be tied to state and federal government initiatives to provide facilities funding for high performing charter schools.

Educational Programs

The educational programs of the Schools follow the state standards, the Texas Essential Knowledge and Skills (TEKS). The School also provides accelerated reading and math instruction; an enriched humanities curriculum, Core Knowledge Sequence, the Johnson & Johnson Cooperative Learning Model and a fine arts program. With a STEM emphasis on the elementary level, weekly Science laboratory programs are implemented at grades K-6. The educational model of the Burnham Wood Charter School is based on Learner-Center Principles that address development and improvement across three areas: (i) academics; (ii) behavior; and (iii) character. The School proposes that students learn best when teachers target each of these areas in every lesson.

The Da Vinci School for Science and Arts Program is represented by education rooted in culture, values, and needs of the greater community to establish a strong relevance to the dreams of its stakeholders: students, parents, teachers, business leaders, higher education institutions, social service agencies and the public at-large; acknowledgement of the need for an appropriate physical plant that aligns design principles with the effective delivery of instructional services; and presentation of an instructional curriculum and service delivery that is focused, innovative, integrated and expansive.

Students' Resident District

For the most recent school year, 2005-06, students came from the following El Paso area districts:

District Number	District Name	Number of Students
071902	El Paso ISD	246.53
071905	Ysleta ISD	3.52
071906	Anthony ISD	1.58
071907	Canutillo ISD	3.65

Enrollment History

HISTORICAL – TOTAL

Population:	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07*
Total Student Enrollment	141.1	173.6	220.8	193.0	199.5	255.3	429.0
Grades Served	K-4/9-12	K-5/9-12	K-5/9-12	K-5	K-6	K-6	K-7

Source: The Texas Public Education Information Management System Edit + Reports Data Review.

* As of August 24, 2006.

HISTORIC ENROLLMENT BY GRADE

Grade	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07*
Pre-K (3 and 4)	0	0	0	0	0	0	0
Kindergarten	31.2	27.6	53.5	25.7	28.6	51.7	49
1 st	25.4	34.8	35.2	50.4	30.2	38.9	64
2 nd	24.9	27.7	30.7	36.8	39.3	39.8	55
3 rd	17.60	19.9	36.3	32.0	34.6	39.7	44
4 th	13.6	22.5	21.9	29.3	22.2	35.2	53
5 th	0	14.5	18.2	18.7	29.5	27.3	59
6 th	0	0	0	0	15.0	22.6	47
7 th	0	0	0	0	0	0	58
8 th	0	0	0	0	0	0	0
9 th	9.9	13.6	14.5	0	0	0	0
10 th	6.0	7.7	7.5	0	0	0	0
11 th	8.0	1.0	2.3	0	0	0	0
12 th	<u>4.5</u>	<u>4.3</u>	<u>.7</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	141.1	173.6	220.8**	193.0	199.5	255.3	429.0

Source: The Texas Public Education Information Management System Edit + Reports Data Review.

Student Demographics

The student ethnicity for the most recent school year (2005-2006) is as follows:

Ethnicity	No. of Students	Percent of Total
Hispanic	180.92	70.8
White	45.67	17.9
Asian/Pacific Islander	16.96	6.7
Black	<u>11.85</u>	<u>4.6</u>
Total:	255.4	100

In accordance with federal and state guidelines for charter schools, the School serves students typical of the public school systems in El Paso County. For example, 43% of the School's students are categorized as economically

* School year for enrolled effective August 24, 2006. For the 2006-2007 school year, the Borrower will add approximately 20,000 square feet to its facilities enabling them to serve a maximum of 700 students in grades 6-12. The School plans to add one grade each year for the next five years, serving grades K-12 in year 2011.

** The Burnham Wood Charter High School opened its doors in August 1998. The high school's mission was to provide a college-preparatory curriculum with high standards and adequate supports for students who were at risk of dropping out and not performing to their potential. Because the District could not expand its high school facility to accommodate enrollment growth, the Board decided to close it in 2003.

disadvantaged, 12% as Limited English Proficient (LEP), and 23% as At-risk, while 14% of the students require special education services.

Student Waiting List

For the 2006-2007 academic year, the Schools added 10 classrooms filling approximately 136 available spots. The School is currently updating their waiting list for this upcoming year.

Student and School Achievement

In 1993, the Texas Legislature enacted statutes that mandated the creation of the Texas public school accountability system to rate school districts and evaluate campuses. A viable and effective accountability system was able to be developed in Texas because the state already had the necessary supporting infrastructure in place: a pre-existing student-level data-collection system; a state-mandated curriculum; and a statewide assessment tied to the curriculum. The State categorizes schools into three Accountability Ratings; Academically Acceptable, Recognized and Exemplary.

The system initiated with the 1993 legislative session remained in place through the 2001-02 school year. The ratings issued in 2002 were the last under that system. Beginning in 2003, a new assessment, the Texas Assessment of Knowledge and Skills (TAKS), was administered. This assessment includes more subjects and grades, and is more difficult than the previous statewide assessment. With such fundamental changes, the accountability system needed to be redesigned. As soon as results from the 2003 TAKS were available and analyzed, development of the new accountability system began in earnest. Ratings established using the newly designed system were first issued in the fall of 2004.

For the 2003-2004 and 2004-2005 school years, this Charter School was one of only three charter schools in the State ranked "Exemplary". On August 1st 2006, the Texas Education Agency notified the School that for 2005-2006 its Accountability Rating will be one level below Exemplary to its current ranking of "Recognized" due to a drop in testing scores for one subject at one of the grades in the School. However, all the other test results at all grade levels remained at exemplary levels. There is one schools ranked "Exemplary" and seven schools ranked "Recognized" in the surrounding school area.

Comparison of 2005 and 2006

The ratings issued in 2006 mark the third year of the new system. Many components of the 2006 system are the same as those that were in effect in 2005. However, there are a few differences between 2005 and 2006. These include:

- a significant increase in the rigor of the TAKS standards for all subjects in order to achieve or maintain a rating of Academically Acceptable;
- an increase in the rigor of the underreported students indicator, which can prevent a district from being rated Exemplary or Recognized;
- completion of phasing in the passing standard on the TAKS (now at Panel Recommendation for all grades and subjects);
- the use of Completion Rate I, which does not count GED recipients as completers;
- additional Required Improvement opportunities for SDAA II;
- adjustments to the accountability subset as well as adjustments to ratings in situations where Hurricanes Katrina and Rita adversely affected schools and districts.
- an increase in the rigor of the Recommended High School Program/Distinguished Achievement Program (RHSP/DAP) indicator for Gold Performance Acknowledgment (GPA);
- replacement of the TAAS/TASP Equivalency indicator with the Texas Success Initiative (TSI) - Higher Education Readiness Component indicator for GPA.

2005 State Accountability Ratings for the School and surrounding schools based on standardized test scores:

Zone/School	2005 Accountability Rating	Percent Passing TAKS ⁽¹⁾ Spring 2005					SDAAII ⁽²⁾
		Read/ELA	Writing	Social Studies	Math	Science	
Burnham Wood Charter School ⁽³⁾	Exemplary	98%	99%	--	91%	90%	--
Morehead Middle	Academically Acceptable	75%	83%	74%	45%	--	64%
Hornedo Middle ⁽⁴⁾	Academically Acceptable	88%	91%	89%	66%	--	--
Putnam Elem. ⁽⁵⁾	Academically Acceptable	87%	96%	--	86%	59%	94%
Western Hills Elem.	Recognized	90%	97%	--	87%	82%	92%
Johnson Elem.	Academically Acceptable	80%	83%	--	73%	41%	94%
Rivera Elem.	Academically Acceptable	91%	97%	--	88%	63%	--
Polk Elem. ⁽⁶⁾	Recognized	97%	99%	--	95%	84%	--
Green Elem. ⁽⁷⁾	Academically Acceptable	92%	99%	--	91%	73%	88%
Guerrero Elem.	Recognized	94%	99%	--	91%	74%	97%
Kohlberg Elem.	Recognized	94%	98%	--	93%	82%	--
Tippin Elem.	Recognized	97%	97%	--	95%	74%	--

(1) TAKS evaluates all students and subgroups – African American, Hispanic, White, and Economically Disadvantaged – that meet minimum size requirement.

(2) SDAA II evaluates the performance of all students only. “Actual Change” for SDAA II is not shown because 2005 was the first year it was administered.

(3) Reflects the ranking for the Burnham Wood Charter School. In 2006 the School’s Accountability Ranking was changed to “Recognized”.

(4) In 2006 the School’s Accountability Ranking was changed to “Recognized”.

(5) In 2006 the School’s Accountability Ranking was changed to “Recognized”.

(6) In 2006 the School’s Accountability Ranking was changed to “Exemplary”.

(7) In 2006 the School’s Accountability Ranking was changed to “Recognized”.

Zone/School	Actual Change Expressed in Percentage Points, Spring 2005 Over Spring 2004				
	Read/ELA	Writing	Social Studies	Math	Science
Burnham Wood Charter School	+2	--	--	-3	+2
Morehead Middle	+4	-4	+7	-4	--
Hornedo Middle	+2	-2	+4	-4	--
Putnam Elem.	+14	+9	--	+2	+10
Western Hills Elem.	+5	+14	--	+8	+25
Johnson Elem.	+13	+2	--	+15	+12
Rivera Elem.	+2	-1	--	+6	+25
Polk Elem.	+3	+6	--	+3	+2
Green Elem.	+5	+7	--	+5	+12
Guerrero Elem.	+9	+4	--	+12	+29
Kohlberg Elem.	+4	+2	--	+4	+9
Tippin Elem.	--	--	--	--	--

Fort Bliss Growth Due to Base Realignment and Closure (BRAC)

Expected growth as a result of increases in military dependents and dependents of civilian support personnel new to the area will increase the student population of the El Paso Independent School District beyond the historical 0.5% growth rate of the last ten years. Dependent information provided by the United States Army on October 14, 2005, indicated the following number of school age dependents.

Year	Enrollment	Military	Historical Growth	Total Enrollment
2005	63,870	--	--	--
2006	63,870	1,636	328	65,834
2007	65,834	746	333	66,912
2008	66,912	4,015	355	71,282
2009	71,282	1,541	364	73,187
2010	73,187	1,840	375	75,402

The predicted enrollment above does not include dependents of civilian support personnel that will be moving to the area. It is not currently possible to predict this additional civilian growth. These high grow rates will require the El Paso Independent School District to more fully utilize existing facilities and to acquire additional facilities. There will be a need to have new facilities in northeast El Paso by September 2008 or September 2009 at the latest. The military has indicated that the 2008 and 2009 troop movements might be delayed by one year.

The Da Vinci School for Science and Arts will serve middle and high school students primarily from the El Paso Independent School District. The District's 2006 Accountability Ratings are as follows:

El Paso ISD Middle Schools 2006 Accountability Rating

Henderson Middle	Academically Unacceptable
Ross Middle	Academically Acceptable
Canyon Hills Middle	Academically Acceptable
Guillen Middle	Academically Acceptable
Charles Middle	Academically Acceptable
Morehead Middle	Academically Acceptable
Magoffin Middle	Academically Unacceptable
Terrace Hills Middle	Academically Acceptable
Bassett Middle	Academically Unacceptable
Lincoln Middle	Academically Acceptable
Wiggs Middle	Academically Acceptable
*Hornedo Middle	Recognized
Cordova Middle	Academically Acceptable

*Hornedo Middle School is located approximately 2.14 miles from the Da Vinci School for Science and Arts campus and serves approximately 1,786 students.

El Paso ISD High Schools 2006 Accountability Rating

Andress H S	Academically Unacceptable
Austin H S	Academically Acceptable
Bowie H S	Academically Acceptable
Burges H S	Academically Acceptable
Coronado H S	Academically Acceptable
El Paso H S	Academically Acceptable
Irvin H S	Academically Acceptable
Jefferson H S	Academically Unacceptable
*Franklin H S	Academically Acceptable
Silva Health Magnet	Recognized
Chapin Hs	Academically Acceptable
School-Age Parent Ctr	Academically Acceptable
Sunset H S	Academically Unacceptable
Delta Academy	Academically Unacceptable

*Franklin High School is located approximately 1.40 miles from the Da Vinci School for Science and Arts campus and serves approximately 2,980 students

FINANCIAL AND OPERATIONS INFORMATION

Debt Service Requirements on the Bonds

Date	Principal	Interest	Total P+I
09/01/2006	-	-	-
09/01/2007	-	521,562.50	521,562.50
09/01/2008	165,000.00	521,562.50	686,562.50
09/01/2009	125,000.00	510,425.00	635,425.00
09/01/2010	130,000.00	503,550.00	633,550.00
09/01/2011	140,000.00	496,400.00	636,400.00
09/01/2012	145,000.00	488,700.00	633,700.00
09/01/2013	155,000.00	480,725.00	635,725.00
09/01/2014	165,000.00	472,200.00	637,200.00
09/01/2015	175,000.00	463,125.00	638,125.00
09/01/2016	180,000.00	453,500.00	633,500.00
09/01/2017	190,000.00	443,600.00	633,600.00
09/01/2018	205,000.00	433,150.00	638,150.00
09/01/2019	215,000.00	421,875.00	636,875.00
09/01/2020	225,000.00	408,437.50	633,437.50
09/01/2021	240,000.00	394,375.00	634,375.00
09/01/2022	255,000.00	379,375.00	634,375.00
09/01/2023	270,000.00	363,437.50	633,437.50
09/01/2024	290,000.00	346,562.50	636,562.50
09/01/2025	305,000.00	328,437.50	633,437.50
09/01/2026	325,000.00	309,375.00	634,375.00
09/01/2027	345,000.00	289,062.50	634,062.50
09/01/2028	370,000.00	267,500.00	637,500.00
09/01/2029	390,000.00	244,375.00	634,375.00
09/01/2030	415,000.00	220,000.00	635,000.00
09/01/2031	440,000.00	194,062.50	634,062.50
09/01/2032	470,000.00	166,562.50	636,562.50
09/01/2033	500,000.00	137,187.50	637,187.50
09/01/2034	530,000.00	105,937.50	635,937.50
09/01/2035	565,000.00	72,812.50	637,812.50
09/01/2036	600,000.00	37,500.00	637,500.00
Total	\$8,525,000.00	\$10,475,375.00	\$19,000,375.00

	<u>2004</u> <u>Total</u>	<u>2005</u> <u>Total</u>	<u>2006</u> <u>Total*</u>
Revenues and Other Support			
Local Support			
Contributions	\$151	\$154	\$--
Fundraising Activities	24,487	16,479	--
Interest Income	29	68	10,426
Other Revenues from Local Sources	<u>37,027</u>	<u>43,070</u>	<u>97,606</u>
Total Local Support	61,694	59,771	108,032
State Program Revenues			
Foundation School Program	1,139,344	1,202,822	1,554,383
Other State Aid	<u>23,585</u>	<u>17,268</u>	<u>21,381</u>
Total State Program Revenues	1,162,929	1,220,090	1,575,764
Federal Program Revenues			
ESEA Title I Part A	92,228	74,521	105,020
National School Breakfast and Lunch	6,437	--	--
ESEA Title IV, Safe & Drug Free Schools	1,626	1,509	1,332
ESEA Title II, Part A	12,180	14,582	11,891
IDEA-B Formula	28,684	29,273	15,056
IDEA-B Preschool	603	572	225
Title V, Part B, Sub 1	40,907	--	--
Title II, Part D	1,549	1,702	1,284
Teacher Reimbursement Grant	--	--	76
Title III, Part A, Sub 2	8,044	6,477	3,942
Title V, Part A – Innovative Programs	815	953	110
School Repair and Renovation Grant	--	<u>2,400</u>	--
Total Federal Program Revenues	193,073	131,989	138,936
Fees and Other Revenue			
On-Behalf Payments	--	--	--
Total Fees and Other Revenue	--	--	--
Total Revenue and Other Support	1,417,696	1,411,850	1,822,732
Expenses and Loss			
Program Services			
Instruction and Instruction-related Services	680,878	698,011	856,556
Instruction and School Leadership	50,150	80,420	150,613
Support Services			
Administration and General	295,460	216,908	277,551
Support Services – Non-Student Based	259,884	218,940	255,820
Support Services – Student (Pupil)	45,487	43,991	66,661
Fundraising	--	--	--
Total Expenses	<u>1,335,306</u>	<u>1,258,270</u>	<u>1,607,201</u>
Change in Net Assets	82,390	153,580	215,532
Net Assets, beginning of year	<u>314,236</u>	<u>396,626</u>	<u>550,206</u>
Net Assets, end of year	\$396,626	\$550,206	765,738

*Through August 31, 2006

The Borrower has prepared the following table for projected revenues and expenditures for the fiscal years ended 2005-2006 through 2011-2012, with fiscal year 2005-2006 incorporating actuals for the period through June 30, 2006 and projections for the remainder of that fiscal year. Revenue projections are based upon enrollment information and other revenues received as discussed herein. Expense projections are based upon historical operations and additional expenses associated with increased enrollment and new programs.

	Proposed Budget 2006-2007	Proposed Budget 2007-2008	Proposed Budget 2008-2009	Proposed Budget 2009-2010	Proposed Budget 2010-2011	Proposed Budget 2011-2012
REVENUE*						
Federal	136,580	299,250	365,000	415,000	511,500	592,250
States	3,220,000	3,780,000	4,380,000	4,980,000	5,635,800	6,241,800
Local	76,000	101,200	105,200	109,200	112,200	117,200
TOTAL REVENUE	3,432,580	4,180,450	4,850,200	5,504,200	6,259,500	6,951,250
EXPENSES **						
6100 Payroll	1,669,561	2,246,174	2,739,762	3,163,240	3,522,330	3,877,125
6200 Contracted Services	348,326	526,736	686,608	774,387	912,787	985,749
6300 Supplies	270,774	391,451	361,208	425,162	402,412	403,412
6400 Other Operating Costs (staff dev. Fees, travel, insurance, advertising)	83,663	94,725	118,903	140,881	154,239	167,432
6600 Capital Outlay	10,000	--	--	--	--	--
TOTAL EXPENSES	<u>2,382,324</u>	<u>3,259,086</u>	<u>3,906,481</u>	<u>4,503,670</u>	<u>4,991,768</u>	<u>5,433,718</u>
REVENUES OVER/(UNDER) EXPENDITURES						
	1,050,256	921,364	943,719	1,000,530	1,267,732	1,517,532
Debt Service Coverage⁽¹⁾	1.57x	1.37x	1.41x	1.49x	1.89x	2.26x
Expenses by Function:						
11 Instruction	1,370,810	1,843,193	2,133,658	2,471,139	2,664,226	2,962,846
12 Library and Media Services	25,000	112,234	109,116	132,130	142,182	141,912
13 Staff Development	30,000	28,000	31,000	35,000	36,000	38,000
21 Instructional Leadership	3,000	2,000	4,000	5,000	5,500	6,500
23 School Leadership	217,592	287,031	360,320	373,076	411,393	422,815
31 Guidance and Counseling	50,538	65,699	88,114	114,954	123,580	134,971
32 Social Work Services	--	--	37,992	40,158	61,660	63,562
33 Health Services	--	19,553	29,458	39,691	40,657	52,447
34 Transportation	8,000	80,986	84,436	47,187	49,489	50,333
35 Food Services	16,500	99,110	182,188	236,558	346,466	400,752
36 Co-curricular	23,000	32,500	37,500	55,500	58,500	62,500
41 General Administration	341,940	321,747	371,304	408,725	432,319	440,654
51 Maintenance	256,849	301,179	299,727	334,831	375,183	392,840
52 Security	15,880	31,639	36,840	44,484	46,675	49,265
53 Data Processing	4,000	10,000	44,093	102,910	102,347	104,999
61 Community	--	4,000	37,355	41,948	71,119	72,377
81 Fundraising	19,215	20,215	19,378	20,378	24,472	36,944
TOTAL EXPENSES	<u>2,382,324</u>	<u>3,259,086</u>	<u>3,906,481</u>	<u>4,503,670</u>	<u>4,991,768</u>	<u>5,433,718</u>

⁽¹⁾ Estimate based on maximum annual debt service of \$668,625.

*** Revenue Assumptions:**

Federal – Title 1 (primarily)

State - Assumes \$6,000 per student in Foundation School Program Support in FY 2007/2008, 2008/2009 and 2009/2010 and \$6,060 in FY 2010/2011 and 2011/2012 based on the following Enrollment Assumptions:

Burnham Wood Charter School – Assumes enrollment of 330 in FY 2007/2008-2011/2012

Da Vinci School for Science and Arts – Assumes enrollment of 300 in FY 2007/2008; 400 in FY 2008/2009; 500 in FY 2009/2010; 600 in FY 2010/2011; and 700 in FY 2011/2012.

Also assumes \$700,000 STEM Grant in FY 2006/2007. FY 2007/2008 does not assume Grant awarded, however, the Grant is potentially renewable in FY 2007/2008 based on performance and funding availability.

****Expenses Assumptions:**

Payroll assumptions based on:

Burnham Wood Charter School – 19 teachers for FY 2006/2007-2011/2012.

Da Vinci School for Science and Arts – 12.25 teachers for FY 2006/2007; 20 teachers for FY 2007/2008; 25 teachers for FY 2008/2009; 30 teachers for FY 2009/2010; 34 teachers for FY 2010/2011; and 39 teachers for FY 2011/2012.

Audited Financial Information

Audited financial statements for the Borrower for fiscal year 2005 are included herein as APPENDIX A. The Borrower has not sought or obtained the consent of its auditors for inclusion of the audited financial statements.

LEGAL MATTERS

Legal Proceedings

Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General of the State to the effect that the Bonds are valid and legally binding limited obligations of the Issuer under the Constitution and laws of the State payable from and secured by a lien on and pledge of the payments designated as Loan Payments to be paid, or caused to be paid, to the Trustee, pursuant to the Indenture and the Loan Agreement, as evidenced by the Promissory Note, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, and the approving legal opinion of Delgado, Acosta, Braden & Jones, P.C., El Paso, Texas, Bond Counsel, in substantially the form attached hereto as APPENDIX C. The Bonds are offered by Wells Fargo Brokerage Services, LLC, when, as and if issued by the Issuer and accepted by the Underwriter, subject, among other things, to the approval of the initial Bonds by the Attorney General of the State of Texas and the approval of certain legal matters by Bond Counsel. Certain other matters will be passed upon for the Borrower by Ainsa Hutson, LLP, El Paso, Texas, and for the Underwriter by Kline Alvarado Veio, P.C., Denver, Colorado.

Bond Counsel was not requested to participate and did not take part in the preparation of this Limited Offering Memorandum, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information appearing in this Limited Offering Memorandum under the captions “THE BONDS,” “THE ISSUER,” “SECURITY AND SOURCE OF PAYMENT,” “SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT,” “SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE,” “LEGAL MATTERS,” “TAX MATTERS,” “LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS” and “CONTINUING DISCLOSURE OF INFORMATION” solely to determine whether such information fairly summarizes the provisions of the documents referred to therein and is correct as to matters of law.

No-Litigation Certificates

The Issuer will furnish the Underwriter a certificate, executed by both the Vice-President and Secretary of the Issuer, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their

knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the collection of Loan Payments for the payment thereof, or the organization of the Issuer, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or nonencumbrance certificate submitted to the Attorney General of the State in connection with approval of the Bonds.

The Borrower will furnish the Underwriter a certificate, executed by both the President and Secretary of the Borrower, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the payment of Loan Payments for the payment thereof, or the organization of the Borrower, the granting of the Charter, the validity of the Loan Agreement, the Promissory Note, the Deed of Trust, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or nonencumbrance certificate submitted to the Attorney General of the State in connection with approval of the Bonds.

FORWARD-LOOKING STATEMENTS

This Limited Offering Memorandum contains statements relating to future results that are “forward-looking statements” as defined in the Private Litigation Reform Act of 1995. When used in this Limited Offering Memorandum, the words “estimate,” “intend,” “expect” and similar expressions identify forward-looking statements. Any forward-looking statement is subject to uncertainty and risks that could cause actual results to differ, possibly materially, from those contemplated in such forward-looking statements. Inevitably, some assumptions used to develop forward-looking statements will not be realized or unanticipated events and circumstances may occur. Therefore, investors should be aware that there are likely to be differences between forward-looking statements and actual results; those differences could be material.

TAX MATTERS

THE SERIES 2006A BONDS

In the opinion of Delgado, Acosta, Braden & Jones, P.C., Bond Counsel, assuming compliance with certain covenants and in reliance on the opinion of Borrower’s Counsel with respect to 501(c)(3) matters and based on certain representations of the Borrower, (i) interest on the Series 2006A Bonds is excludable from gross income for federal income tax purposes under existing law, and (ii) interest on the Series 2006A Bonds is not an item of tax preference that is includable in the alternative minimum taxable income for purposes of determining the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Series 2006A Bonds, to be excludable from gross income for federal income tax purposes. These requirements include a requirement that the owner of all the property financed be either a governmental entity or a qualified 501(c)(3) organization, a requirement that the Borrower be a tax-exempt organization described in section 501(c)(3) of the Code and the property be used in furtherance of the tax exempt purposes of the Borrower, limitations on the direct and indirect use and expenditure of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the Issuer file an information report with the IRS. The Borrower and the Issuer have covenanted in the Indenture and the Loan Agreement that they will comply with these requirements.

For purposes of their opinion, Bond Counsel will rely upon the opinion of Borrower’s Counsel, representations of the Issuer, the Borrower, and the Underwriter in the Tax Certificates, the Indenture and the Loan Agreement and will assume continuing compliance with the covenants of the Tax Certificates, the Indenture and the Loan Agreement pertaining to those sections of the Code which affect the status of the Borrower as an organization described in section 501(c)(3) of the Code and the exclusion from gross income of interest on the Series 2006A Bonds for federal income tax purposes. In addition, Bond Counsel will rely on representations by the Issuer, the

Borrower and the Underwriter with respect to matters solely within the knowledge of the Issuer, the Borrower and the Underwriter, respectively, which Bond Counsel has not independently verified.

If the Borrower or the Issuer should fail to comply with the covenants in the Tax Certificates, the Indenture and the Loan Agreement or the foregoing representations should be determined to be incorrect, inaccurate or incomplete, interest on the Series 2006A Bonds could become includable in gross income for federal income tax purposes from the date of delivery of the Series 2006A Bonds, regardless of the date on which the event causing such includability occurs.

The Code also imposes a 20% alternative minimum tax on the alternative minimum taxable income of a corporation (other than an S corporation, regulated investment company, REIT, REMIC or FASIT) if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, a corporation's alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, a corporation's alternative minimum taxable income includes 75% of the amount by which a corporation's adjusted current earnings exceeds the corporation's alternative minimum taxable income. Because interest on tax-exempt obligations, such as the Series 2006A Bonds, is included in a corporation's adjusted current earnings, ownership of the Series 2006A Bonds could subject a corporation to alternative minimum tax consequences.

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Series 2006A Bonds, received or accrued during the year. In addition, recent changes to the Tax Code now require the payor to report the amount of tax-exempt interest paid during the year.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Series 2006A Bonds.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the IRS. Rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions as of the date of the opinion and the representations and covenants of the Issuer and the Borrower that it deems relevant to such opinions. The IRS has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurances can be given whether or not the IRS will commence an audit of the Series 2006A Bonds. If an audit is commenced, in accordance with its current published procedures, the IRS is likely to treat the Issuer as the taxpayer and the Borrower and Owners of the Series 2006A Bonds may not have a right to participate in such audit. Bond Counsel observes that the Borrower has covenanted in the Loan Agreement not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in treatment of interest on the Series 2006A Bonds as includable in gross income for federal income tax purposes.

Collateral Tax Consequences

Prospective purchasers of the Series 2006A Bonds should be aware that the ownership of tax exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax exempt interest such as interest on the Series 2006A Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

THE SERIES 2006B BONDS

The following discussion describes the principal U.S. federal tax treatment of U.S. persons that are beneficial owners ("Owners") of the Series 2006B Bonds. This summary is based on the Code, published revenue rulings, judicial decisions, and existing and proposed Treasury regulations, including regulations concerning the tax treatment of debt instruments issued with original issue discount (the "OID Regulations"), changes to any of which subsequent to the date of this Limited Offering Memorandum may affect the tax consequences described herein.

This summary discusses only the Series 2006B Bonds held as capital assets within the meaning of section 1221 of the Code. It does not discuss all of the tax consequences that may be relevant to an Owner in light of its particular circumstances or to Owners subject to special rules, such as certain financial institutions, insurance companies, tax-exempt organizations, foreign taxpayers, taxpayers who may be subject to the alternative minimum tax on personal holding company provisions of the Code, dealers in securities or foreign currencies, or Owners whose functional currency (as defined in section 985 of the Code) is not the U.S. dollar. Except as stated herein, this summary describes no federal, state, or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Series 2006B Bonds. Investors who are subject to special provisions of the Code should consult their own tax advisors regarding the tax consequences to them of purchasing, holding, owning, and disposing of the Series 2006B Bonds, including the advisability of making any of the elections described below, before determining whether to purchase the Series 2006B Bonds.

For purposes of this discussion, a "U.S. person" means (i) an individual who, for U.S. federal income tax purposes, is a citizen or resident of the United States, (ii) a corporation, partnership, or other entity created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust whose administration is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust.

The term also includes nonresident alien individuals, foreign corporations, foreign partnerships, and foreign estates and trusts to the extent that their ownership of the Series 2006B Bonds is effectively connected with the conduct of a trade or business within the United States, as well as certain former citizens and residents of the United States who, under certain circumstances, are taxed on income from U.S. sources as if they were citizens or residents.

In General.

Income derived from a Series 2006B Bond by an Owner is subject to U.S. federal income taxation. In addition, a Series 2006B Bond held by an individual who, at the time of death, is a U.S. person is subject to U.S. federal estate tax.

Payments of Interest.

Stated interest paid (and other original issue discount) on each Series 2006B Bond will generally be taxable in each tax year held by an Owner as ordinary interest income without regard to the time it otherwise accrues or is received in accordance with the Owner's method of accounting for federal income tax purposes. Special rules governing the treatment of original issue discount, acquisition premium, market discount, or amortizable premium are described below.

Acquisition Premium

In the event that an Owner purchases a Series 2006B Bond at an acquisition premium (i.e., at a price in excess of its "adjusted issue price but less than or equal to its stated redemption price at maturity"), the amount includible in income in each taxable year as original issue discount is reduced by that portion of the acquisition premium properly allocable to such year. (For Series 2006B Bonds that are purchased at a price in excess of the stated redemption price at maturity, see the discussion below under the heading "TAX MATTERS - Amortizable Premium.") The adjusted issue price is defined as the sum of the issue price of the Series 2006B Bond and the aggregate amount of previously accrued original issue discount, less any prior payments of amounts included in its stated redemption price at maturity. Unless an Owner makes the accrual method election described below,

acquisition premium is allocated on a pro rata basis to each accrual of original issue discount (i.e. to each six-month accrual period), so that the Owner is allowed to reduce each accrual of original issue discount by a constant fraction.

Market Discount

An Owner that purchases a Series 2006B Bond at a "market discount" will be subject to provisions in the Code that convert certain capital gains on the redemption, sale, exchange or certain other dispositions of the Series 2006B Bond into ordinary income. A Series 2006B Bond will have market discount to the extent the "revised issue price" (as defined in section 1278 of the Code) of the Series 2006B Bond exceeds, by more than a de minimis amount, the Owner's tax basis in the Series 2006B Bond immediately after the Owner acquires the Series 2006B Bond. The "revised issue price" generally equals the issue price of the Series 2006B Bond plus the amount of the original issue discount (computed without regard to any "acquisition premium" described above) that had accrued on the Series 2006B Bond as the date the owner acquired the Series 2006B Bond and reduced by the stated interest previously paid with respect to the Series 2006B Bond as of such date.

An Owner may elect to include market discount in income as it accrues, but such an election will apply to all market discount bonds acquired by such Owner on or after the first day of the first taxable year to which such election applies and is revocable only with permission from the IRS. Unless an Owner elects to include market discounts in income as it accrues, any partial principal payments on, or any gain realized upon the sale, exchange, disposition, redemption, or maturity of a Series 2006B Bond will be taxable as ordinary income to the extent any market discount has accrued on such Series 2006B Bond. Market discount on a Series 2006B Bond would accrue ratably each day between the date an Owner purchases the Series 2006B Bond and the date of maturity. In the alternative, an Owner irrevocably may elect to use a constant interest accrual method under which marginally less market discount would accrue in early years and marginally greater amounts would accrue in later years.

If a Series 2006B Bond purchased with market discount is disposed of in a nontaxable transaction (other than a nonrecognition transaction described in section 1276(c) of the Code), accrued market discount will be includible as ordinary income to the Owner as if such Owner had sold the Series 2006B Bond at its then fair market value. An Owner of a Series 2006B Bond that acquired it at a market discount and that does not elect to include market discount in income on a current basis also may be required to defer the deduction for a portion of the interest expense on any indebtedness incurred or continued to purchase or carry the Series 2006B Bond until the deferred income is realized.

Amortizable Premium

An Owner that purchases a Series 2006B Bond for any amount in excess of its principal amount, or in the case of an OID Bond, its stated redemption price at maturity, will be treated as having premium with respect to the Series 2006B Bond in the amount of such excess. An Owner that purchases an OID Bond at a premium is not required to include in income any original issue discount with respect to the Series 2006B Bond.

If an Owner makes an election under section 171(c)(2) of the Code to treat such premium as "amortizable bond premium," the amount of interest that must be included in such Owner's income for each accrual period will be reduced by the portion of the premium allocable to such period based on the Series 2006B Bond's yield to maturity. If an Owner makes the election under section 171 (c)(2), the election also shall apply to all Series 2006B Bonds held by the Owner at the beginning of the first taxable year to which the election applies and to all such Series 2006B Bonds thereafter acquired by such Owner, and it is irrevocable without the consent of the IRS. If such an election under section 171 (c)(2) of the Code is not made, such an Owner must include the full amount of each interest payment in income in accordance with its regular method of accounting and will receive a tax benefit from the premium only in computing its gain or loss upon the sale or other disposition or retirement of the Series 2006B Bond. The existence of bond premium and the benefits associated with the amortization of bond premium vary with the facts and circumstances of each Owner. Accordingly, each Owner of a Series 2006B Bond should consult his own tax advisor concerning the existence of bond premium and the associated election.

Accrual Method Election

Under the OID Regulations, an Owner that uses an accrual method of accounting would be permitted to elect to include in gross income its entire return on a Series 2006B Bond (i.e., the excess of all remaining payments to be received on the Series 2006B Bond over the amount paid for the Series 2006B Bond by such Owner), based on the compounding of interest at a constant rate. Such an election for a Series 2006B Bond with amortizable bond premium (or market discount) would result in a deemed election for all of the Owner's debt instruments, with amortizable bond premium (or market discount) and could be revoked only with the permission of the IRS with respect to debt instruments acquired after revocation.

Disposition or Retirement

Upon the sale, exchange, or certain other dispositions of a Series 2006B Bond, or upon the retirement of a Series 2006B Bond (including by redemption), an Owner will recognize gain or loss equal to the difference, if any, between the amount realized upon the disposition or retirement and the Owner's basis in the Series 2006B Bond. An Owner's tax basis for determining gain or loss on the disposition or retirement of a Series 2006B Bond will be the cost of the Series 2006B Bond to such Owner, increased by the amount of any original issue discount and any market discount includible in such Owner's gross income with respect to the Series 2006B Bond, and decreased by the amount of any payments under the Series 2006B Bond that are part of its stated redemption price at maturity (i.e., all stated interest payments with respect to the Series 2006B Bonds previously paid) and by the portion of any premium applied to reduce interest payments as described above. Such gain or loss will be capital gain or loss (except to the extent the gain represents accrued original issue discount or market discount on the Series 2006B Bond not previously included in gross income, to which extent such gain would be treated as ordinary income). Any capital gain or loss will be long-term capital gain or loss if at the time of disposition or retirement the Series 2006B Bond has been held for more than one year.

Information Reporting and Backup Withholding

The Issuer is required to report to the IRS payments of interest and accruals of original issue discount (if any) on the Series 2006B Bonds held of record by U.S. persons other than corporations and other exempt holders. Such information will be filed each year with the IRS on Form 1099, which will reflect the name, address, and taxpayer identification number of the registered Owner. A copy of Form 1099 will be sent to each registered Owner of a Series 2006B Bond for federal income tax reporting purposes. The amount of original issue discount required to be reported by the Issuer may not be equal to the amount required to be reported as taxable income by an Owner of an OID Bond that acquired the Series 2006B Bond subsequent to its original issuance.

Interest paid to an Owner of a Series 2006B Bond ordinarily will not be subject to withholding of federal income tax if such Owner is a U.S. person. Backup withholding of federal income tax (currently at a rate of 28 percent, which rate is scheduled to increase to 31 percent for taxable years beginning on or after January 1, 2011) may apply, however, to payments made in respect of the Series 2006B Bonds, as well as payments of proceeds from the sale of the Series 2006B Bonds, to registered holders or Owners that are not "exempt recipients" and that fail to provide certain identifying information. This withholding generally applies if the Owner of a Series 2006B Bond (who is not an exempt recipient) (i) fails to furnish to the Issuer such Owner's social security number or other taxpayer identification number ("TIN"), (ii) furnishes the Issuer an incorrect TIN, (iii) fails to properly report interest, dividends or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the Issuer or such Owner's broker with a certified statement, signed under penalty of perjury, that the TIN provided to the Issuer is correct and that such Owner is not subject to backup withholding. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. To prevent backup withholding, each prospective holder will be requested to complete an appropriate form.

Any amounts withheld under the backup withholding rules from a payment to a person would be allowed as a refund or a credit against such person's U.S. federal income tax, provided that the required information is furnished to the IRS. Furthermore, certain penalties may be imposed by the IRS on a holder or Owner who is required to supply information but who does not do so in the proper manner.

Treasury Circular 230 Disclosure

THE FEDERAL TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON AN OWNER'S PARTICULAR SITUATION. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX IMPLICATIONS OF HOLDING AND DISPOSING OF THE SERIES 2006B BONDS UNDER APPLICABLE STATE OR LOCAL LAWS. FOREIGN INVESTORS SHOULD ALSO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES UNIQUE TO INVESTORS WHO ARE NOT U.S. PERSONS.

SALE AND DISTRIBUTION OF THE BONDS

The Underwriter

The Bonds are being purchased by the Underwriter, pursuant to a purchase contract with the Issuer, at a price of \$8,354,500, representing the principal amount of the Bonds less an underwriting discount of \$170,500. The Underwriter's obligation to purchase the Bonds is subject to certain conditions precedent, and the Underwriter will be obligated to purchase all of the Bonds if any are purchased. The Issuer has no control over the price at which the Bonds are subsequently sold and the initial yields at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Underwriter.

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the Issuer of a certificate executed and delivered by the Underwriter on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity have been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the Issuer has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time to time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the Underwriter may over-allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The Issuer has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of the Bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold or traded in the secondary market.

Securities Laws

No registration statement relating to the offer and sale of the Bonds has been filed with the SEC under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein, nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The Issuer assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Securities Procedures Act (Texas Government Code, Chapter 1201), the Bonds: (1) are negotiable instruments; (2) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies; and (3) are legal and authorized investments for: (A) an insurance company; (B) a fiduciary or trustee; or (C) a sinking fund of a municipality or other political subdivision or public agency of the State. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See "RATINGS" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

No review by the Issuer has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states. No representation is made that the Bonds will in fact be used as investments or security by any entity.

CONTINUING DISCLOSURE OF INFORMATION

The Borrower, on behalf of itself, and the School, will enter into a continuing disclosure agreement (the "Continuing Disclosure Agreement") for the benefit of the holders of the Bonds to provide certain information annually and to provide notice of certain events to certain information repositories pursuant to the requirements of Section (b)(5) of Rule 15c2-12 (the "Rule") adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934. In addition to providing certain annual financial and operating information for the School, the Borrower has agreed to provide, after each fiscal quarter of the School, unaudited financial statements of the School together with certain operating statistics of the Borrower. The Bond Trustee, in its capacity as dissemination agent, is required to provide such quarterly financial statements and operating statistics to any requesting holder of the Bonds. The information to be provided, the events which will be noticed on an occurrence basis and the other terms of the Continuing Disclosure Agreement, including termination, amendment and remedies, are set forth in APPENDIX E.

Neither the Borrower nor the Schools have made any prior undertakings under the Rule. Failure by the Borrower to comply with the Continuing Disclosure Agreement will not constitute an event of default under the Indenture or the Loan Agreement and holders of the Bonds are limited to the remedies described in the Continuing Disclosure Agreement. See APPENDIX E. Failure by the Borrower to comply with the Continuing Disclosure Agreement must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, any such failure may adversely affect the transferability and liquidity of the Bonds and their market price.

NO RATINGS

The Borrower has not applied to, is under no obligation to apply to, and does not plan to apply to any credit rating agency for a rating of the Bonds, and there is no reason to believe that, if applied for, any such rating could be obtained.

PREPARATION OF LIMITED OFFERING MEMORANDUM

Sources and Compilation of Information

The financial data and other information contained in this Limited Offering Memorandum has been obtained primarily from the Borrower and sources other than the Issuer. All of these sources are believed to be reliable, but no representation or guarantee is made by the Issuer as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation or guarantee on the part of the Issuer to such effect. Furthermore, there is no guarantee that any of the assumptions or

estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions and other related information set forth in this Limited Offering Memorandum are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

MISCELLANEOUS

All estimates, statements and assumptions in this Limited Offering Memorandum and the Appendices hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any statements in this Limited Offering Memorandum involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact, and no representation is made that any such statements will be realized.

This Limited Offering Memorandum was approved by the Board of Directors of the Issuer, as of the date shown on the cover page.

APPENDIX A

AUDITED FINANCIALS OF BORROWER

FOR YEAR ENDED AUGUST 31, 2005

[THIS PAGE INTENTIONALLY LEFT BLANK]

**El Paso Education Initiative, Inc.
d/b/a Burnham Wood Charter School
Financial Statements
For the year ended August 31, 2005
and
Auditors' Report**

CROUCHER HACKETT CALLEROS & CO.
C E R T I F I E D P U B L I C A C C O U N T A N T S
A P R O F E S S I O N A L C O R P O R A T I O N

**EL PASO EDUCATION INITIATIVE, INC.
d/b/a BURNHAM WOOD CHARTER SCHOOL
EL PASO, TEXAS**

TABLE OF CONTENTS

	Page No.
Certificate of Board	
Independent Auditors' Report	1
Basic Financial Statements	
Statement of Financial Position	2
Statement of Activities	3-4
Statement of Cash Flows.....	5
Notes to Financial Statements	6-12
Required Supplementary Information	
Statement of Activities Individual Charter School.....	14
Budgetary Comparison Schedule.....	15
Other Reports	
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	17-18

CROUCHER HACKETT CALLEROS & CO.
C E R T I F I E D P U B L I C A C C O U N T A N T S
A P R O F E S S I O N A L C O R P O R A T I O N
INDEPENDENT AUDITORS' REPORT

Board of Directors
El Paso Education Initiative, Inc.
d/b/a Burnham Wood Charter School
El Paso, Texas

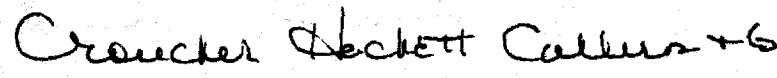
We have audited the statement of financial position of the El Paso Education Initiative, Inc., d/b/a Burnham Wood Charter School (Burnham Wood) as of August 31, 2005, and the related statements of activities and functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Burnham Wood management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Burnham Wood as of August 31, 2005, and the changes in net assets, and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated January 20, 2006 on our consideration of Burnham Wood's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The budgetary information and the statement of activities identified as required supplementary information in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Texas Education Agency. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.


CROUCHER HACKETT CALLEROS & CO.
Certified Public Accountants
El Paso, Texas

January 20, 2006

Members Texas Society of CPAs
Members American Institute of CPAs

7310 Remcon Circle, Suite B • El Paso, Texas 79912
915-585-3176 • FAX 915-585-9463

EL PASO EDUCATION INITIATIVE, INC.
d/b/a BURNHAM WOOD CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
August 31, 2005
(With Comparative Totals for 2004)

	2005	2004
ASSETS		
Current assets		
Cash	\$ 370,470	\$ 223,766
Accounts receivable	6,106	5,897
Due from state	56,306	58,178
	432,882	287,841
Property and equipment - net	185,081	211,521
Total assets	\$ 617,963	\$ 499,362
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 4,023	\$ 18,693
Accrued payroll liabilities	66,412	70,339
Teacher retirement	(2,678)	8,566
Due to state	-	5,138
Total liabilities	67,757	102,736
Net assets		
Unrestricted	359,707	148,179
Temporarily restricted	190,499	248,447
Total net assets	550,206	396,626
Total liabilities and net assets	\$ 617,963	\$ 499,362

The accompanying notes are an integral part of these statements.

EL PASO EDUCATION INITIATIVE, INC.
d/b/a BURNHAM WOOD CHARTER SCHOOL
STATEMENT OF ACTIVITIES
For the year ended August 31, 2005
(With Comparative Totals for 2004)

	Unrestricted	Temporarily Restricted	2005 Total	2004 Total
VENUES AND OTHER SUPPORT				
Local support				
Contributions	\$ 154	\$ -	\$ 154	\$ 151
Fund raising activities	16,479	-	16,479	24,487
Interest income	12	56	68	29
Other revenues from local sources	40,070	3,000	43,070	37,027
Total local support	56,715	3,056	59,771	61,694
State program revenues				
Foundation school program	1,202,822	-	1,202,822	1,139,344
Other state aid	-	17,268	17,268	23,585
Total state program revenues	1,202,822	17,268	1,220,090	1,162,929
Federal program revenues				
ESEA Title I, Part A	-	74,521	74,521	92,228
National School Breakfast and Lunch	-	-	-	6,437
ESEA Title IV, Part A	-	1,509	1,509	1,626
ESEA Title II, Part A	-	14,582	14,582	12,180
IDEA-B Formula	-	29,273	29,273	28,684
IDEA-B Preschool	-	572	572	603
Title V, Part B, Sub 1	-	-	-	40,907
ESEA Title II, Part D	-	1,702	1,702	1,549
Title III, Part A, Sub 2	-	6,477	6,477	8,044
ESEA Title V, Part A	-	953	953	815
Classroom Supply Teacher Reimbursement	-	2,400	2,400	-
Total federal program revenues	-	131,989	131,989	193,073
Net assets released from restrictions	210,261	(210,261)	-	-
Total revenue and other support	1,469,798	(57,948)	1,411,850	1,417,696

The accompanying notes are an integral part of these statements.

EL PASO EDUCATION INITIATIVE, INC.
d/b/a BURNHAM WOOD CHARTER SCHOOL
STATEMENT OF ACTIVITIES
For the year ended August 31, 2005
(With Comparative Totals for 2004)

	Unrestricted	Temporarily Restricted	2005 Total	2004 Total
EXPENSES AND LOSS				
Program services				
Instruction and instruction-related services	698,011		698,011	680,878
Instruction and school leadership	80,420		80,420	50,150
Support services				
Administrative and general	216,908		216,908	295,460
Support services - non-student based	218,940		218,940	259,884
Support services-student (pupil)	43,991		43,991	45,487
Fundraising	-		-	3,447
Total expenses	1,258,270		1,258,270	1,335,306
Change in net assets	211,528	(57,948)	153,580	82,390
Assets - beginning of year	148,179	248,447	396,626	314,236
Assets - end of year	\$ 359,707	\$ 190,499	\$ 550,206	\$ 396,626

The accompanying notes are an integral part of these statements.

EL PASO EDUCATION INITIATIVE, INC.
d/b/a BURNHAM WOOD CHARTER SCHOOL
STATEMENT OF CASH FLOWS
For the year ended August 31, 2005
(With Comparative Totals for 2004)

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2005</u>	<u>2004</u>
Cash received from contributors	\$ 154	\$ 56
Cash received from state foundation entitlements	1,214,294	1,119,242
Cash received from federal and state grant allotments	117,251	187,450
Cash received from services	39,857	20,268
Interest income	69	323
Miscellaneous receipts	36,750	41,018
Cash paid to suppliers for goods and services	(547,175)	(493,083)
Cash paid to employees for services	(714,496)	(809,022)
	<hr/>	<hr/>
Net cash provided by operating activities	146,704	66,252
	<hr/>	<hr/>
Net increase in cash and cash equivalents	146,704	66,252
Cash and cash equivalents at beginning of year	223,766	157,514
	<hr/>	<hr/>
Cash and Cash Equivalents at End of Year	\$ 370,470	\$ 223,766
	<hr/>	<hr/>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH		
CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 153,580	\$ 82,390
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	26,440	26,440
Increase in accounts receivable	(209)	(5,897)
Decrease (Increase) in due from state	1,872	(44,513)
(Decrease) Increase in accounts payable	(14,670)	726
(Decrease) Increase in payroll liabilities	(3,927)	12,119
Decrease in teacher retirement	(11,244)	(5,536)
Increase due to state	(5,138)	523
	<hr/>	<hr/>
Total Adjustments	(6,876)	(16,138)
	<hr/>	<hr/>
Total cash provided by operating activities	\$ 146,704	\$ 66,252
	<hr/>	<hr/>

The accompanying notes are an integral part of these statements.

**El Paso Education Initiative, Inc.
d/b/a Burnham Wood Charter School
Notes to Financial Statements
August 31, 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

El Paso Education Initiative, Inc. d/b/a Burnham Wood Charter School (Burnham Wood) is an open enrollment charter school dedicated to offering a humanities-based curriculum that stresses cooperative learning, and The Core Knowledge Sequence. Grades kindergarten through six were offered for the 2004-2005 school year. Burnham Wood operates under an open enrollment charter granted June 1, 1998 by the Texas State Board of Education for an initial contract period of five years. A charter renewal for a term of ten years with a contract ending date of July 31, 2013 was approved April 2003. Burnham Wood is part of the public school system of the State of Texas and is entitled to distributions from the state's available school fund. Burnham Wood does not have the authority to impose taxes or charge tuition.

Burnham Wood operates a single charter school and does not conduct any other charter or non-charter activities.

El Paso Education Initiative, Inc. was incorporated October 8, 1997. It was determined to be a non-profit organization exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code on June 16, 1998.

B. Accounting Policies

The financial statements have been prepared on the accrual basis of accounting. The accounting system is organized under the Special Supplement to Financial Accounting and Reporting Nonprofit Charter School chart of Accounts, a Module of the Texas Education Agency Financial Accountability Resource Guide. The significant accounting policies are as follows:

To ensure observance of limitations and restrictions placed on the use of resources available to Burnham Wood, the accounts are maintained in accordance with the principles of fund accounting during the year. Resources for various purposes are classified for accounting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, the accompanying statements of financial position and of activities focuses on the organization as a whole and reports the amounts of its total assets, liabilities, net assets and changes in net assets in accordance with Financial Accounting Standards Board Statement No. 117.

The statement of financial position reports the amounts of each of two classes of net assets: temporarily restricted and unrestricted net assets.

- Temporarily restricted net assets result from contributions and other inflows of assets that are limited by donor-imposed stipulations that can be fulfilled and removed by actions of Burnham Wood pursuant to those stipulations.

El Paso Education Initiative, Inc.
d/b/a Burnham Wood Charter School
Notes to Financial Statements
August 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

- Unrestricted net assets are the remaining part of Burnham Wood's net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

C. Cash and Cash Equivalents

For purposes of the statements of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less. At August 31, 2005 there were no cash equivalents.

D. Fixed Assets and Depreciation

All assets acquired with a unit value of \$5,000 or greater are recorded as fixed assets and are valued at cost or estimated cost. Donated assets are reported at fair market value at the time of acquisition. Depreciation is computed using the straight-line method of depreciation.

E. Revenues

Revenues from the state's available school fund are based on reported attendance.

Contributions received are recognized as revenue in the period received and are reported as either restricted or unrestricted support.

- Contributions with donor-imposed restrictions are reported as restricted support. Restricted support increases temporarily restricted net assets.
- Contributions without donor-imposed restrictions are reported as unrestricted support. Unrestricted support increases unrestricted net assets.

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Funds received but unearned are reflected as deferred revenues, and funds expended but not yet received are shown as receivables.

F. Compensated Absences

All full time employees earn five days of paid sick leave per year. However, the balance does not accumulate; therefore, there is no liability accrued on the financial statements.

**El Paso Education Initiative, Inc.
d/b/a Burnham Wood Charter School
Notes to Financial Statements
August 31, 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

G. Donated Goods and Services

Donated goods and services that can be measured are recorded in the financial statements as in-kind contribution and expenses of a like amount.

H. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. PROPERTY AND EQUIPMENT

Property and equipment at August 31, 2005 is as follows:

Buildings and Improvements	\$ 264,403
Less: Accumulated Depreciation	<u>(79,322)</u>
Property and Equipment - Net	<u>\$ 185,081</u>

Depreciation charged to operations for the year ended August 31, 2005 was \$26,440.

3. SCHEDULE OF CAPITAL ASSETS

As of August 31, 2005, the following disclosure of ownership interests in property and equipment is provided to address certain requirements discussed in House Bill 6, 77th Legislature (2001)

	Date Acquired	Ownership Interest		
		Local	State	Federal
Modular Building	8/31/2002			\$ 136,198
Building Completion Costs	12/31/2002			128,205
Total Property and Equipment		<u>-</u>	<u>-</u>	<u>\$ 264,403</u>

El Paso Education Initiative, Inc.
d/b/a Burnham Wood Charter School
Notes to Financial Statements
August 31, 2005

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily Restricted Net Assets at August 31, 2005 consist of the following:

IDEA Part B, Preschool	\$	2
School Repair and Renovation Grant		185,081
Technology Allotment		3,807
Supplemental Compensation		9
Southwest Bell Foundation - Chess Grant		1,600
	\$	190,499

5. NATURE OF OPERATIONS, RISKS, AND UNCERTAINTIES

Burnham Wood maintains cash balances in one bank. Accounts at this institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. At August 31, 2005, Burnham Wood had cash balances exceeding insurance coverage of \$281,402.

6. DEFINED BENEFIT PENSION PLAN

Plan Description

Burnham Wood Charter School contributes to the Teacher Retirement System of Texas (the System), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by Burnham Wood, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government Code, Title 8 Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. The System's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 877-0123.

**El Paso Education Initiative, Inc.
d/b/a Burnham Wood Charter School
Notes to Financial Statements
August 31, 2005**

6. DEFINED BENEFIT PENSION PLAN (CONT'D)

Funding Policy

Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6.0% of Burnham Wood's covered payroll. Burnham Wood's employees' contributions to the System for the year ending August 31, 2005 were \$28,844 equal to the required contributions for each year. Other contributions made from federal grants for the year ending August 31, 2005 were \$1,289, equal to the required contributions for each year. The amount contributed by the State of Texas on behalf of Burnham Wood was \$25,752 and has not been recorded either as revenue or expense by Burnham Wood.

Prior Period Restatement

The Statement of Activities for the year ended August 31, 2004 was restated without On-Behalf payments. Burnham Wood is not required to report these amounts. This restatement has no effect on net assets.

7. DUE FROM STATE

The following is a summary of the amounts due from the State of Texas:

State Grant Programs	\$ 9,965
Federal Grant Programs	46,341
	<u>\$ 56,306</u>

8. LEASES

Burnham Wood entered into a lease agreement with Iris Burnham (a related party) for the lease of facilities. The lease is considered operating and expires on July 31, 2006 with an option to renew. Burnham Wood is required to pay real property taxes and common maintenance expenses in addition to rent. Total rental expense included in the statement of activities for the years ended August 31, 2005 was \$ 86,916.

El Paso Education Initiative, Inc.
d/b/a Burnham Wood Charter School
Notes to Financial Statements
August 31, 2005

8. LEASES (CONT'D)

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of August 31, 2005, are:

Years ending August 30:	
2006	\$ 84,384
2007	84,384
2008	84,384
2009	84,384
2010	84,384
	<u>\$ 421,920</u>

9. COMMITMENTS AND CONTINGENCIES

Burnham Wood receives funds through state and federal grant programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses charged to the federal programs are subject to audit and adjustment by the grantor agency. The programs administered by Burnham Wood have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, Burnham Wood funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

10. RELATED PARTIES

Iris Burnham, Burnham Wood initiator and superintendent, owns facilities used for the Burnham Wood Charter School. During the year ended August 31, 2005, Burnham Wood paid \$65,809 to Iris Burnham for building leases.

11. HEALTH INSURANCE COVERAGE

During the year ended August 31, 2005, eligible employees of Burnham Wood were covered by TRS Active Care (the Plan) a comprehensive program provided by the Teacher Retirement System of Texas (TRS). Burnham Wood contributed \$225 per month per eligible employee to the plan. In addition, each full-time employee is eligible to receive \$41.66 a month in supplemental compensation from the State of Texas. The supplement can be used for plan coverage or taken as direct compensation. Coverage that exceeded the \$266.66 was paid by authorized payroll deduction. All premiums were submitted to TRS monthly.

El Paso Education Initiative, Inc.
d/b/a Burnham Wood Charter School
Notes to Financial Statements
August 31, 2005

12. MAINTENANCE OF EFFORT

The amount paid by the corporation for Burnham Wood employees for health care premiums was as follows:

A) Total charter school contributions for health care 2004-2005	<u>\$ 41,505</u>
B) Subtract any non-medical expenditures	<u>-</u>
C) 2004-2005 maintenance of effort	<u>\$ 41,505</u>

13. COMPARATIVE FINANCIAL INFORMATION

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Burnham Wood's financial statement for the year ended August 31, 2004 from which the summarized information was derived.

14. LITIGATION

Burnham Wood is currently the defendant in a litigation matter with a construction company (the company) involving the installation of a modular building. Burnham Wood has also filed a counterclaim against the company due to the company's failure to properly join the structural parts of the building, which may cause the structure to become unusable. Burnham Wood is seeking a refund of the cost of the modular building and the cost of removing it from the property.

Both matters are pending and the outcome is unknown. However, Burnham Wood does not believe either outcome will have a material effect on its financial position or changes in net assets.

**REQUIRED SUPPLEMENTARY
INFORMATION**

EL PASO EDUCATION INITIATIVE, INC.
d/b/a BURNHAM WOOD CHARTER SCHOOL
STATEMENT OF ACTIVITIES
For the year ended August 31, 2005
(With Comparative Totals for 2004)

	Unrestricted	Temporarily Restricted	Totals	
			2005	2004
Revenues				
Local support				
5740 Other Revenues from Local Sources	\$ 171	\$ 3,056	\$ 3,227	\$ 3,657
5750 Revenues from Co-curricular, Enterprising Services or Activities	56,544	-	56,544	60,465
Total Local Support revenues	56,715	3,056	59,771	64,122
State program revenues				
5810 Foundation School Program Act Revenues	1,202,822	-	1,202,822	1,139,344
5820 State Program Revenues Distributed by Texas Education Agency	-	7,440	7,440	12,394
5830 State Revenues from State of Texas Government Agencies (Other than Texas Education Agency)	-	9,828	9,828	11,704
Total State program revenues	1,202,822	17,268	1,220,090	1,163,442
Federal program revenues				
5920 Federal Revenues Distributed by the Texas Education Agency	-	131,989	131,989	190,132
Net assets released from restrictions:				
Restrictions satisfied by payments	210,261	(210,261)		
Total Revenues	1,469,798	(57,948)	1,411,850	1,417,696
Expenses				
11 Instruction	515,791		515,791	487,307
12 Instructional Resources and Media Services	44,783		44,783	18,418
13 Curriculum Development and Instructional Staff Development	137,437		137,437	175,153
21 Instructional Leadership	27,093		27,093	25,246
23 School Leadership	53,327		53,327	24,904
31 Guidance, Counseling and Evaluation Services	27		27	-
33 Health Services	-		-	173
35 Food Services	41,761		41,761	43,529
36 Co-curricular/Extracurricular Activities	2,203		2,203	1,785
41 General Administration	216,908		216,908	295,460
51 Plant Maintenance and Operations	205,573		205,573	217,945
52 Security and Monitoring Services	1,539		1,539	5,211
53 Data Processing Services	11,828		11,828	36,728
81 Fund Raising	-		-	3,447
Total Expenses	1,258,270	-	1,258,270	1,335,306
Change in Net Assets	211,528	(57,948)	153,580	82,390
Net Assets, beginning of year	148,179	248,447	396,626	314,236
Net Assets, ending of year	\$ 359,707	\$ 190,499	\$ 550,206	\$ 396,626

The accompanying notes are an integral part of these statements

EL PASO EDUCATION INITIATIVE, INC.
d/b/a BURNHAM WOOD CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended August 31, 2005

	<u>Budgeted Amounts</u>		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenues				
Local support				
5740 Other Revenues from Local Sources	\$ -	\$ -	\$ 4	\$ 4
5750 Revenues from Co-curricular, Enterprising Services or Activities	-	-	-	-
Total Local Support revenues	-	-	4	4
State program revenues				
5810 Foundation School Program Act Revenues	953,000	1,157,074	1,202,822	45,748
5820 State Program Revenues Distributed by Texas Education Agency	-	-	-	-
5830 State Revenues from State of Texas Government Agencies (Other than Texas Education Agency)	-	-	-	-
Total State program revenues	953,000	1,157,074	1,202,822	45,748
Total Revenues	953,000	1,157,074	1,202,826	45,752
Expenses				
11 Instruction	338,241	481,838	441,959	39,879
12 Instructional Resources and Media Services	41,126	46,087	42,078	4,009
13 Curriculum Development and Instructional Staff Development	32,789	30,741	32,347	(1,606)
21 Instructional Leadership	18,968	25,003	22,324	2,679
23 School Leadership	43,623	54,080	53,303	777
31 Guidance, Counseling and Evaluation Services	-	30	27	3
33 Health Services	-	403	382	21
35 Food Services	3,750	17	16	1
36 Co-curricular/Extracurricular Activities	-	1,620	1,611	9
41 General Administration	173,140	220,351	214,803	5,548
51 Plant Maintenance and Operations	162,109	185,663	178,331	7,332
52 Security and Monitoring Services	2,083	1,575	1,539	36
53 Data Processing Services	19,123	12,400	11,698	702
Total Expenses	834,952	1,059,808	1,000,418	59,390
Change in Net Assets	118,048	97,266	202,408	105,142
Net Assets, beginning of year	129,164	129,164	129,164	
Net Assets, ending of year	\$ 247,212	\$ 226,430	\$ 331,572	\$ 105,142

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

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

UNAUDITED FINANCIALS OF BORROWER

AS OF AUGUST 31, 2006

[THIS PAGE INTENTIONALLY LEFT BLANK]

El Paso Education Initiative, Inc.
d/b/a Burnham Wood Charter School
Statement of Activities
For the Twelve Months Ending August 31, 2006

	Unrestricted	Temporarily Restricted	2006 Total
REVENUES AND OTHER SUPPORT			
Local Support			
Contributions	0	0	0
Fund raising activities	0		0
Interest income	10,428		10,426
Other revenues from local source	97,606		97,606
Total local support	<u>108,032</u>	0	<u>108,032</u>
State program revenues			
Foundation school program	1,554,383		1,554,383
Other state aid		21,381	21,381
Total state program revenue	<u>1,554,383</u>	<u>21,381</u>	<u>1,575,764</u>
Federal program revenue			
ESEA Title I Part A		105,020	105,020
ESEA Title IV Safe & Drug Free Schools		1,332	1,332
ESEA Title II, Part A		11,891	11,891
IDEA-B Formula		15,056	15,056
IDEA-B Preschool		225	225
Title II, Part D		1,284	1,284
Teacher Reimbursement Grant		76	76
Title III, LEP		3,942	3,942
Title V, Part A Innovative Programs		110	110
Total federal program revenues		<u>138,936</u>	<u>138,936</u>
Net assets released from restrictions	<u>160,317</u>	<u>(160,317)</u>	
Total revenue and other support	<u>1,822,733</u>	<u>0</u>	
EXPENSES AND LOSS			
Program services			
Instruction and instruction-related services	856,556		856,556
Instruction and school leadership	150,613		150,613
Support services			
Administrative and general	277,551		277,551
Support services - non-student based	255,820		255,820
Support services - student (pupil)	66,661		66,661
Total expenses	<u>1,607,201</u>		<u>1,607,201</u>
Change in net assets	215,532	0	215,532
Net assets - beginning of year	<u>359,707</u>	<u>190,499</u>	<u>550,206</u>
Net assets - end of year	<u>575,239</u>	<u>190,499</u>	<u>765,738</u>

El Paso Education Initiative, Inc.
d/b/a Burnham Wood Charter School
Statement of Financial Position
August 31, 2006
Unaudited

ASSETS

Current Assets

Cash	598,286
Due from State	129,982

Property and equipment - net	<u>195,081</u>
------------------------------	----------------

Total Assets	<u><u>923,350</u></u>
---------------------	-----------------------

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	3,897
Accrued payroll liabilities	24,863
Accrued wages	<u>128,853</u>

Total Liabilities	157,613
-------------------	---------

Net Assets

Unrestricted	575,239
Temporarily restricted	<u>190,499</u>

Total net assets	765,738
------------------	---------

Total Liabilities and Net Asset	<u><u>923,350</u></u>
--	-----------------------

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

[THIS PAGE INTENTIONALLY LEFT BLANK]

DELGADO, ACOSTA, BRADEN & JONES, P.C.

ATTORNEYS AT LAW

AUSTIN
DALLAS
EL PASO
HOUSTON

*Correspondent Offices
in Mexico City and
Ciudad Juarez*

[Closing Date]

Board of Directors
Texas Public Finance Authority Charter School Finance Corporation
300 W. 15th Street, Suite 411
Austin, Texas 78701

Wells Fargo Bank, National Association, as Trustee
MAC T5001-061
1000 Louisiana, Suite 640
Houston, Texas 77002

Re: \$8,360,000 Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Burnham Wood Charter School Project), Series 2006A and \$165,000 Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Burnham Wood Charter School Project), Series 2006B

Ladies and Gentlemen:

We have been engaged by the Texas Public Finance Authority Charter School Finance Corporation (the "Issuer") to serve as bond counsel in connection with the issuance of its Education Revenue Bonds (Burnham Wood Charter School Project), Series 2006A (the "Series 2006A Bonds") and its Taxable Education Revenue Bonds (Burnham Wood Charter School Project), Series 2006B (the "Series 2006B Bonds") (collectively, the "Bonds"). The Bonds are issued pursuant to a Trust Indenture, dated as of September 1, 2006 (the "Indenture"), between the Issuer and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The proceeds of the Bonds will be loaned by the Issuer to the El Paso Education Initiative Inc. (the "Borrower"), pursuant to a Loan Agreement (the "Loan Agreement"), dated as of September 1, 2006, between the Issuer and the Borrower. Under the Loan Agreement, the Borrower has agreed to make payments to or for the account of the Issuer in amounts necessary to pay when due the principal of and premium (if any) and interest on the Bonds. Such payments and the rights of the Issuer under the Loan Agreement (except certain rights to indemnification, rebate payments and administrative fees) are pledged and assigned by the Issuer under the Indenture to the Trustee as security for the Bonds. Capitalized terms not otherwise defined herein have the meanings assigned to such terms in the Indenture or Loan Agreement. The Bonds are payable solely from the Trust Estate.

As to questions of fact material to our opinion, we have relied upon representations of the Issuer and the Borrower contained in the Loan Agreement and the Indenture and upon certain, certified proceedings furnished to us by or on behalf of the Borrower, the Issuer, and certain public officials, without undertaking to verify the same by independent investigation. We have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

221 N. Kansas Street, Suite 2000 • El Paso, Texas 79901 • TEL (915) 544-9997 • FAX (915) 544-8544
www.delgadoacosta.com

Based upon the foregoing, we are of opinion that, under existing law;

1. The Issuer is duly created and validly existing as a nonprofit corporation created pursuant to Chapter 53, Texas Education Code, particularly Sections 53.351 thereof, and has the corporate power to enter into and perform the obligations under the Indenture and the Loan Agreement and issue the Bonds.

2. The Indenture and the Loan Agreement have each been duly authorized, executed and delivered by the Issuer, each is a valid and binding obligation of the Issuer, and, subject to the qualifications stated below, each is enforceable upon the Issuer. The Indenture creates a valid lien on the Loan Payments and on the rights of the Issuer under the Loan Agreement (except certain rights to indemnification, rebate payments and administrative fees).

3. The Bonds have been duly authorized, executed and delivered by the Issuer and are valid and binding limited obligations of the Issuer, payable solely from the Trust Estate.

4. Interest on the Series 2006A Bonds is excludable from gross income of the holders of the Series 2006A Bonds for federal income tax purposes under existing law.

5. Interest on the Series 2006A Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Series 2006A Bonds will be included in the "adjusted current earnings" of a corporation (other than any S corporation, regulated investment company, REIT, REMIC or FASIT) for purposes of computing its alternative minimum tax.

In rendering the opinions expressed in paragraphs 4 and 5 above, we have relied on, among other things, certificates signed by officers of the Borrower with respect to certain material facts; estimates and expectations which are solely within the knowledge of the Borrower and which we have not independently verified. In addition, in rendering the opinions set forth in paragraphs 4 and 5, we have relied on the opinion of Ainsa Hutson, LLP, Borrower's counsel, with respect to matters relating to Section 501(c)(3) of the Code and assumed continuing compliance with the covenants in the Loan Agreement and the Indenture pertaining to those sections of the Code which affect the status of the Borrower as an organization described in section 501(c)(3) of the Code and the exclusion from gross income of interest on the Series 2006A Bonds for federal income tax purposes. If the opinions or certificates upon which we have relied are determined to be inaccurate or incomplete or the Borrower or the Issuer fail to comply with such covenants, interest on the Series 2006A Bonds could become includable in gross income from the date of their original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of the Bonds.

Owners of the Series 2006A Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Series 2006A Bonds).

Our opinions are limited to the laws of the State of Texas and the federal laws of the United States, in each case as in effect on the date hereof. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Series 2006A Bonds. If an audit is commenced in accordance with its current published procedures, the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted in the Indenture, and the Borrower has covenanted in the Loan Agreement, not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Series 2006A Bonds as includable in gross income for federal income tax purposes.

It is to be understood that the rights of the holders of the Bonds and the enforceability of the Bonds, the Indenture and the Loan Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases

Respectfully,

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

FORM OF INVESTOR LETTER

[THIS PAGE INTENTIONALLY LEFT BLANK]

FORM OF INVESTOR LETTER

(DATE)

Texas Public Finance Authority
Charter School Finance Corporation
300 W15th Street
Suite 411
Austin, Texas 78701

Re: Texas Public Finance Authority Charter School Finance Corporation
Education Revenue Bonds (Burnham Wood Charter School Project)
\$8,360,000 Education Revenue Bonds, Series 2006A and \$165,000
Taxable Education Revenue Bonds, Series 2006B

Ladies and Gentlemen:

The undersigned, authorized officer of _____ (the "*Purchaser*"), has purchased a principal amount of \$ _____ of the above-captioned Bonds (the "*Bonds*"). In connection with such purchase, The Texas Public Finance Authority Charter School Finance Corporation (the "*Issuer*") requires that the Purchaser make certain representations as to the Purchaser's willingness to accept the risks of investing in the Bonds, the Purchaser's investigation of such risks, and such other matters. Accordingly, the Purchaser represents and warrants to the Issuer, and the other addressees hereof as follows:

- A. **QUALIFICATION.** The Purchaser is an "accredited investor" within the meaning of Rule 501 of Regulation D of the rules governing the limited offer and sale of securities without registration under the Securities Act of 1933 (the "*Securities Act*") or is a "qualified institutional buyer" within the meaning of Rule 144A of the Securities Act.
- B. **NO REGISTRATION; TRANSFERABILITY.** The Purchaser understands that the Indenture relating to the Bonds has not been registered under the Securities Act, the securities laws of any state or the Trust Indenture Act of 1939, as amended, in reliance upon certain exemptions set forth therein. The Purchaser acknowledges that the Bonds (i) are not being registered or otherwise qualified for sale under the "blue sky" laws and

regulations of any state and (ii) will not be listed on any securities exchange. The Purchaser has been informed and agrees that the Bonds may not be transferred to any person that is not a "qualified institutional buyer" within the meaning of Rule 144A of the Securities Act or an "accredited investor" within the meaning of Rule 501 of Regulation D of the rules governing the limited offering and sale of securities without registration under the Securities Act.

- C. **INDEPENDENT EVALUATION; WAIVER OF ISSUER'S DUE DILIGENCE; RELEASE.** The Purchaser has independently evaluated the factors associated with its investment decision. The Purchaser has been given full and complete access to and has been furnished with all information requested by the Purchaser regarding the Borrower, and has conducted such other investigations relating to the Issuer, the Borrower, the Project, and the Bonds, as in the opinion of the Purchaser was necessary in connection with its purchase of the Bonds. The Purchaser acknowledges that the Issuer, the members of its Board of Directors, its officers, counsel, advisors and agents of any of the foregoing (each individually an "*Issuer Party*" and all collectively the "*Issuer Parties*") have not undertaken to furnish information to the Purchaser, or to ascertain the accuracy or completeness of any information that may have been furnished to the Purchaser by or on behalf of the Issuer or the Borrower relating to the operations, financial condition or future prospects of the Borrower or the Project and that none of the Issuer Parties have made any representations concerning the accuracy or completeness of any information supplied to the Purchaser or relating to the Borrower and the Project. The Purchaser further acknowledges that the Borrower has not undertaken to furnish information to the Purchaser regarding the Issuer, or to ascertain the accuracy or completeness of any information that may have been furnished to the Purchaser by or on behalf of the Issuer and that the Borrower has not made any representations concerning the accuracy or completeness of any information supplied to the Purchaser or relating to the Issuer. The Purchaser hereby waives any requirements of due diligence in investigation or inquiry on the part of any of the Issuer Parties and all claims, actions, or causes of action which the Purchaser may have directly or indirectly from or relating to any action which the Issuer and its Board of Directors took, or could have taken, in connection with the issuance and sale of the Bonds to the Purchaser.
- D. **BUSINESS BUYING SECURITIES.** The Purchaser is a bank, a savings institution, an insurance company, a securities dealer, or an agency or instrumentality of the United States or of a state thereof, or a person, a principal part of whose business consists of buying securities.
- E. **SOPHISTICATION.** The Purchaser is sufficiently knowledgeable and experienced in financial and business matters, including the purchase and ownership of municipal and other tax-exempt obligations, to be able to evaluate the risks and merits of the investment represented by the purchase of the Bonds, and it is capable of and has made its own investigation of the Borrower and the Project in connection with its decision to purchase the Bonds.

- F. **INVESTMENT PURPOSE.** The Purchaser is purchasing the Bonds for not more than one account for investment and not with a view to distribution, transfer, or resale thereof, provided that the disposition of the Bonds shall at all times be within the sole control of the Purchaser, within the constraints referenced herein.
- G. **LEGAL AUTHORIZATION.** The Purchaser is duly and legally authorized to purchase the Bonds, and the Purchaser is duly and legally authorized to execute this Investor Letter. The Purchaser has satisfied itself that the Bonds are a lawful investment for it under all applicable laws.
- H. **SPECIAL LIMITED OBLIGATIONS.** The Purchaser understands that the Bonds are special limited, and not general, obligations of the Issuer payable solely from the revenues received by Wells Fargo Bank, N.A., as trustee (the "*Trustee*"). The Purchaser understands that the Bonds are not secured by any obligations or the pledge of any monies received or to be received from taxation or from the State of Texas (the "*State*") or any political subdivision or taxing district thereof (including, without implied limitation, the Issuer), and that the Bonds will never represent or constitute a general obligation, debt, or bonded indebtedness of the State, or any political subdivision thereof, and that no right will exist to have taxes levied by the State, or any political subdivision thereof, for the payment of the principal of, premium, if any, and interest on the Bonds, and that payment of the principal of, premium, if any, and interest on the Bonds depends upon the general credit of the Borrower and upon the net cash flow from the Project. The Purchaser understands that the Issuer has no taxing power.
- I. **SURVIVAL.** All representations of the Purchaser contained herein shall survive the sale and delivery of the Bonds to the Purchaser as representations of fact existing as of the date of execution and delivery of this Investor Letter.
- J. **DEFINED TERMS.** The initial capitalized terms not defined herein shall have the meaning ascribed to such terms in the Indenture which secures the payment of the Bonds.
- K. **WAIVER OF DUE DILIGENCE.** Notwithstanding anything to the contrary herein, the Purchaser waives any requirement of due diligence and investigation or inquiry on the part of any of the addressees to this Investor Letter.

The above representations are provided solely for the benefit of the addressees of this Investor Letter and may not be relied upon by or furnished to any other person without our prior written consent; provided however, Bond Counsel may rely on the matters set forth in paragraphs A through J above.

Purchaser

By: _____
(Signature)

Name: _____
(Print)

[NOTE: Must be Chief Financial Officer or other Executive Officer of the Purchaser]

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

[THIS PAGE INTENTIONALLY LEFT BLANK]

CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT dated as of September 1, 2006 (the "Continuing Disclosure Agreement") is executed and delivered by El Paso Education Initiative Inc., (the "Borrower"), on behalf of itself and Burnham Wood Charter School (as defined in the Trust Indenture dated as of September 1, 2006), between the Borrower and Wells Fargo Bank, National Association as trustee thereunder (the "Dissemination Agent").

RECITALS

1. This Continuing Disclosure Agreement is executed and delivered in connection with the issuance by the Texas Public Finance Authority Charter School Finance Corporation (the "Issuer") of \$8,360,000 Revenue Bonds (Burnham Wood Charter School Project), Series 2006A (the "Series 2006A Bonds") and the \$165,000 Taxable Education Revenue Bonds (Burnham Wood Charter School Project), Series 2006B (the "Series 2006B Bonds") (collectively, the "Bonds"), pursuant to a Trust Indenture dated as of September 1, 2006 (the "Indenture"), by and between the Issuer and Wells Fargo Bank, National Association, as Trustee (the "Bond Trustee"). The proceeds of the Bonds are being loaned by the Issuer to the Borrower pursuant to a Loan Agreement dated as of September 1, 2006, between the Issuer and the Borrower (the "Loan Agreement.")

2. The Borrower and the Dissemination Agent are entering into this Continuing Disclosure Agreement for the benefit of the Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"). The Borrower acknowledges that the Borrower is the only "obligated person" with responsibility for continuing disclosure, and the Issuer has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Continuing Disclosure Agreement, and has no liability to any person, including any Beneficial Owner of the Bonds, with respect to the Rule.

In consideration of the mutual covenants and agreements herein, the Borrower and the Dissemination Agent covenant and agree as follows:

Section 1. Definitions. In addition to the definitions set forth in the Loan Agreement, which apply to any capitalized term used in this Continuing Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" means any Annual Report provided by the Borrower pursuant to, and as described in, Section 2 of this Continuing Disclosure Agreement.

"Beneficial Owner" means any registered owner of any Bonds and any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Dissemination Agent” means Wells Fargo Bank, National Association, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Borrower.

“Material Events” means any of the events listed in Section 3(a) of this Continuing Disclosure Agreement.

“National Repository” means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in Exhibit A.

“Participating Underwriter” means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” means each National Repository and each State Repository, if any.

“Quarterly Report” means any Quarterly Report provided by the Borrower pursuant to, and as described in, Section 2(e) of this Continuing Disclosure Agreement.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State Repository” means any public or private repository or entity designated by the State of Texas as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission.

Section 2. Provision of Annual Reports and Quarterly Reports.

(a) The Borrower shall, or shall cause the Dissemination Agent to, not later than 180 days after the end of the Borrower's fiscal year, commencing with the year ending August 31, 2006, provide to each Repository and the Issuer the following financial information and operating data (the “Annual Report”):

(1) The audited financial statements of the Borrower for the prior fiscal year, prepared in accordance with generally accepted accounting principles. If audited financial statements are not available by the time the Annual Report is required to be filed pursuant to this Section, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Limited Offering Memorandum relating to the Bonds (except for the absence of certain notes and subject to normal year-end adjustments), and the audited financial statements shall be provided in the same manner as the Annual Report promptly after they become available.

(2) Updates as of the end of the fiscal year of certain financial information and operating data contained in the final Limited Offering Memorandum, as described in

Exhibit B, in substantially the same format contained in the final Limited Offering Memorandum relating to the Bonds.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Borrower is an "obligated person" (as defined by the Rule), which have been provided to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Borrower shall clearly identify each such other document so included by reference.

In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in this Section; provided that the audited financial statements of the Borrower may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Borrower's fiscal year changes, it shall give notice of such change in the same manner as for a Material Event under Section 3(d).

(b) Not later than 15 Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the Borrower shall: (1) provide the Annual Report to the Dissemination Agent, with written instructions to file the Annual Report as specified in subsection (a), or (2) provide written notice to the Dissemination Agent that the Borrower has provided the Annual Report to the Repositories and the Issuer.

(c) If the Dissemination Agent has not received an Annual Report or has not received a written notice from the Borrower that it has provided an Annual Report to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository and the Issuer in substantially the form attached as Exhibit C.

(d) The Dissemination Agent shall:

(1) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any (and in doing so, may conclusively rely on the list maintained by the SEC); and

(2) unless the Borrower has provided the Annual Report to the Repositories, file a report with the Borrower, the Issuer and (if the Dissemination Agent is not the Bond Trustee) the Bond Trustee certifying that the Annual Report has been provided pursuant to this Continuing Disclosure Agreement, stating the date it was provided, and listing all the Repositories to which it was provided.

(e) The Borrower shall, not later than 45 days after the end of each of the Borrower's fiscal quarters, commencing with the fiscal quarter ending August 31, 2006, provide to the Dissemination Agent the following financial information and operating data (the "Quarterly Report"):

(1) The unaudited financial statements of the Borrower for the prior fiscal quarter, in a format similar to the financial statements contained in the final Limited Offering Memorandum relating to the Bonds (except for the absence of certain notes and subject to normal year-end adjustments).

(2) Current enrollment data for the immediately preceding fiscal quarter.

Upon receipt of such Quarterly Report, the Dissemination Agent shall file such Quarterly Report with each Repository in the same fashion and manner as the filing of the Annual Report set forth in this Section 2. In addition, the Dissemination Agent shall also provide a copy of such Quarterly Report to any requesting Beneficial Owner.

Section 3. Reporting of Material Events.

(a) Pursuant to the provisions of this Section, the Borrower shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material ("Material Events"):

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults;
- (3) modifications to rights of bondowners;
- (4) optional, contingent or unscheduled bond calls;
- (5) defeasances;
- (6) rating changes;
- (7) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (8) unscheduled draws on debt service reserves reflecting financial difficulties;
- (9) unscheduled draws on credit enhancements reflecting financial difficulties;
- (10) substitution of credit or liquidity providers, or their failure to perform; or
- (11) release, substitution or sale of property securing repayment of the Bonds.

(b) The Dissemination Agent shall have no responsibility for the Borrower's failure to report to the Dissemination Agent notice of a Material Event.

(c) Whenever the Borrower obtains knowledge of the occurrence of a Material Event, the Borrower shall promptly notify and instruct the Dissemination Agent in writing to report the occurrence pursuant to subsection (d).

(d) If the Dissemination Agent has been instructed by the Borrower to report the occurrence of a Material Event, the Dissemination Agent shall promptly file a notice of such occurrence with each National Repository or the Municipal Securities Rulemaking Board and the State Repository, if any, with a copy to the Borrower. Notwithstanding the foregoing, notice of Material Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the owners of affected Bonds pursuant to the Agreement.

Section 4. Termination of Reporting Obligation. The Borrower's obligations under this Continuing Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If the obligations of the Borrower under the Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Continuing Disclosure Agreement in the same manner as if it were the Borrower, and the Borrower shall have no further responsibility hereunder. If such termination or substitution occurs prior to the final maturity of the Bonds, the Borrower shall give notice of such termination or substitution in the same manner as for a Material Event under Section 3(d).

Section 5. Dissemination Agent. The Borrower may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Continuing Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign as dissemination agent hereunder at any time upon 30 days prior written notice to the Borrower. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Borrower pursuant to this Continuing Disclosure Agreement. The initial Dissemination Agent shall be Wells Fargo Bank, National Association.

Section 6. Amendment; Waiver. Notwithstanding any other provision of this Continuing Disclosure Agreement, the Borrower and the Dissemination Agent may amend this Continuing Disclosure Agreement and any provision of this Continuing Disclosure Agreement may be waived, provided that Bond Counsel or other counsel experienced in federal securities law matters provides the Borrower and the Dissemination Agent with its opinion that the undertaking of the Borrower contained herein, as so amended or after giving effect to such waiver, is in compliance with the Rule and all current amendments thereto and interpretations thereof that are applicable to this Continuing Disclosure Agreement.

In the event of any amendment or waiver of a provision of this Continuing Disclosure Agreement, the Borrower shall describe such amendment in the next Quarterly Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Borrower. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (1) notice of such change shall be given in the same manner as for a Material Event under

Section 3(d), and (2) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 7. Additional Information. Nothing in this Continuing Disclosure Agreement shall be deemed to prevent the Borrower from disseminating any other information, using the means of dissemination set forth in this Continuing Disclosure Agreement or any other means of communication, or including any other information in any Quarterly Report, Annual Report or notice of occurrence of a Material Event, in addition to that which is required by this Continuing Disclosure Agreement. If the Borrower chooses to include any information in any Quarterly Report, Annual Report or notice of occurrence of a Material Event, in addition to that which is specifically required by this Continuing Disclosure Agreement, the Borrower shall have no obligation under this Continuing Disclosure Agreement to update such information or include it in any future Quarterly Report, Annual Report or notice of occurrence of a Material Event.

Section 8. Default. In the event of a failure of the Borrower or the Dissemination Agent to comply with any provision of this Continuing Disclosure Agreement, the Bond Trustee may (and, at the request of any Participating Underwriter or the owners of at least 25% aggregate principal amount of Outstanding Bonds, shall), or any Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Borrower or the Dissemination Agent, as the case may be, to comply with its obligations under this Continuing Disclosure Agreement. A default under this Continuing Disclosure Agreement shall not be deemed an event of default under the Indenture or the Loan Agreement, and the sole remedy under this Continuing Disclosure Agreement in the event of any failure of the Borrower or the Dissemination Agent to comply with this Continuing Disclosure Agreement shall be an action to compel performance.

Section 9. Compensation. The Borrower hereby agrees to compensate the Dissemination Agent for the services provided and the expenses incurred pursuant to this Continuing Disclosure Agreement, in an amount to be agreed upon from time to time hereunder, and to reimburse the Dissemination Agent upon its request for all reasonable expenses, disbursements and advances incurred by the Dissemination Agent hereunder (including any reasonable compensation and expenses of counsel) except any such expense, disbursement or advance that may be attributable to its negligence or willful misconduct.

Section 10. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Continuing Disclosure Agreement and no implied covenants or obligations shall be read into this Continuing Disclosure Agreement. The Dissemination Agent may rely conclusively as to the truth of the statements and correctness of opinions provided to it which conform to the requirements of this Continuing Disclosure Agreement. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties, including without limitation any written direction signed by the Borrower. The Dissemination Agent may consult

with counsel of its choice and the written advice of such counsel or any opinion of counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon, it being understood that for purposes of this provision such counsel may be counsel to the Borrower.

The Borrower agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless for, from and against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall not be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties hereunder or in the exercise of any of its rights or powers. The obligations of the Borrower under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 11. Notices. Any notices or communications to or among any of the parties to this Continuing Disclosure Agreement may be given by first class mail, postage prepaid, or delivered in person or by overnight courier, and will be deemed given on the second day following the date on which the notice or communication is so mailed, follows:

To the Borrower:

El Paso Education Initiative Inc.
7310 Bishop Flores Drive
El Paso, Texas 79912
Attention: Superintendent
Telephone/Fax:915-584-9499/915-585-8814

To the Dissemination
Agent:

Wells Fargo Bank, National Association
1000 Louisiana, Suite 640
MAC #T5001-061
Houston, Texas 77002
Attention: Corporate Trust Services
Telephone/Fax:713-319-1674/713-650-0579

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 12. Beneficiaries. This Continuing Disclosure Agreement shall inure solely to the benefit of the Issuer, the Borrower, the Bond Trustee, the Dissemination Agent, the Participating Underwriter, and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Severability. If any provision in this Continuing Disclosure Agreement, the Agreement or the Bonds shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 14. Counterparts. This Continuing Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 15. Governing Law. This Continuing Disclosure Agreement shall be governed by and construed in accordance with the laws of the State of Texas.

EL PASO EDUCATION INITIATIVE INC.,

By: _____
Its: _____

WELLS FARGO BANK, NATIONAL ASSOCIATION
as Dissemination Agent

By: _____
Authorized Officer

Exhibit A to Continuing Disclosure Agreement

**NATIONALLY RECOGNIZED MUNICIPAL SECURITIES INFORMATION
REPOSITORIES**

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
Email: [Munis@Bloomberg.com](mailto: Munis@Bloomberg.com)

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
Email: [nrmsir@dpcdata.com](mailto: nrmsir@dpcdata.com)

FT Interactive Data
Attn: NRMSIR
100 Williams Street, 15th Floor
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390 (Secondary Market Information)
(212) 771-7391 (Primary Market Information)
Email: [NRMSIR@interactivedata.com](mailto: NRMSIR@interactivedata.com)

Standard & Poor's Securities
Evaluations
55 Water Street
45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
Email: [nrmsir_repository@sandp.com](mailto: nrmsir_repository@sandp.com)

Exhibit B to Continuing Disclosure Agreement

**FINANCIAL INFORMATION AND OPERATING DATA TO BE INCLUDED
IN ANNUAL REPORT**

The following section and tables contained in the final Limited Offering Memorandum:

“THE BORROWER AND BURNHAM WOOD CHARTER SCHOOL – Enrollment History”

“THE BORROWER AND BURNHAM WOOD CHARTER SCHOOL – Student Demographics”

“THE BORROWER AND BURNHAM WOOD CHARTER SCHOOL – Student Waiting List”

“THE BORROWER AND BURNHAM WOOD CHARTER SCHOOL – Debt Service Coverage”

“THE BORROWER AND BURNHAM WOOD CHARTER SCHOOL – Student and School Achievement”

Exhibit C to Continuing Disclosure Agreement

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Texas Public Finance Authority Charter School Finance Corporation

Name of Bond Issue: Education Revenue Bonds
(Burnham Wood Charter School Project) Series 2006

Date of Issuance: _____, 2006

NOTICE IS HEREBY GIVEN that El Paso Education Initiative Inc., (the "Borrower") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement dated as of September 1, 2006, between the Borrower and Wells Fargo Bank, National Association as Dissemination Agent. [The Borrower has informed the Dissemination Agent that the Borrower anticipates that the Annual Report will be filed by _____.]

Dated: _____

_____, on behalf of
El Paso Education Initiative Inc.

cc: Burnham Wood Charter School

[THIS PAGE INTENTIONALLY LEFT BLANK]



Recycled Paper - Printed by
IMAGEMASTER 800.452.5152

NEW ISSUE - Book-Entry-Only

NON-RATED

THE DELIVERY OF THE BONDS IS SUBJECT TO THE OPINION OF DELGADO, ACOSTA, BRADEN & JONES, P.C., BOND COUNSEL, TO THE EFFECT THAT INTEREST ON THE SERIES 2006A BONDS (described below) IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW AND IS NOT AN ITEM OF TAX PREFERENCE THAT IS INCLUDABLE IN CALCULATING THE ALTERNATIVE MINIMUM TAX IMPOSED ON INDIVIDUALS. INTEREST ON THE SERIES 2006B BONDS (described below) IS NOT EXEMPT FROM FEDERAL INCOME TAX. SEE "TAX MATTERS" HEREIN FOR A DISCUSSION OF BOND COUNSEL'S OPINION, INCLUDING A DESCRIPTION OF ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS AND OTHER FEDERAL TAX CONSEQUENCES.

**TEXAS PUBLIC FINANCE AUTHORITY
CHARTER SCHOOL FINANCE CORPORATION
Education Revenue Bonds
(Burnham Wood Charter School Project)
\$8,375,000 Education Revenue Bonds, Series 2006A
\$190,000 Taxable Education Revenue Bonds, Series 2006B**

Dated: Date of Delivery

Due: September 1 (as on the inside cover page)

Interest on the \$8,375,000 Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Burnham Wood Charter School Project), Series 2006A (the "Series 2006A Bonds") and the \$190,000 Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Burnham Wood Charter School Project), Series 2006B (the "Series 2006B Bonds") (collectively, the "Bonds") accrues from the Dated Date and is payable March 1, 2007, and each September 1 and March 1 thereafter until the earlier of maturity or redemption. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Trustee, initially, Wells Fargo Bank, National Association, Houston, Texas, to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds. See "Book-Entry-Only System" herein.

The Bonds are being issued by, and are special and limited obligations of, the Texas Public Finance Authority Charter School Finance Corporation (the "Issuer"), and the proceeds thereof will be loaned to the El Paso Education Initiative Inc. (the "Borrower"), a nonprofit corporation organized and existing under the laws of the State of Texas (the "State"), operating two campuses consisting of the Burnham Wood Charter School and the Da Vinci School for Science and Arts (together the "Schools"), open enrollment charter schools under the laws of the State, to finance the cost of certain educational facilities (as this term is defined within Chapter 53, Texas Education Code, as amended), including financing the costs of a project consisting of certain land, buildings, equipment, facilities and improvements located on campuses of the Schools in the City of El Paso, Texas, and to pay the costs of issuing the Bonds (the "Project").

THE BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM REVENUES RECEIVED BY THE ISSUER PURSUANT TO A LOAN AGREEMENT BY AND BETWEEN THE ISSUER AND THE BORROWER, AS FURTHER SECURED BY A DEED OF TRUST AND SECURITY AGREEMENT FROM THE BORROWER ON CERTAIN REAL PROPERTY OF THE BORROWER SECURING PAYMENTS UNDER SUCH LOAN AGREEMENT. THE BONDS ARE NOT OBLIGATIONS OF THE CITY OF EL PASO, TEXAS (THE "CITY"), THE STATE, OR ANY OTHER ENTITY. NONE OF THE CITY, THE STATE, NOR ANY POLITICAL CORPORATION, SUBDIVISION, GOVERNMENTAL ENTITY OR AGENCY OF THE STATE SHALL BE OBLIGATED TO PAY THE BONDS OR THE INTEREST THEREON AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE, OR ANY OTHER POLITICAL CORPORATION, SUBDIVISION, GOVERNMENTAL ENTITY OR AGENCY OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

The purchase and ownership of the Bonds are subject to special risk factors and all prospective purchasers are urged to examine carefully this entire Limited Offering Memorandum with respect to the investment security of the Bonds, particularly the section captioned "RISK FACTORS." The initial owner of the Bonds will be required to execute and deliver to the Trustee an Investor Letter substantially in the form set forth as Appendix D hereto, with only such changes as may be acceptable to the Trustee, to evidence that such Bonds are owned by an investor that is an "accredited investor" under Regulation D of the Securities Act of 1933 or a "qualified institutional buyer" under Rule 144A promulgated by the Securities and Exchange Commission thereunder and that each such accredited investor or qualified institutional buyer has sufficient knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of an investment in the Bonds. See "THE BONDS - Transfer Restrictions" herein.

The Bonds are offered by Wells Fargo Brokerage Services, LLC, (the "Underwriter"), when, as and if issued by the Issuer and accepted by the Underwriter, subject, among other things, to the approval of the initial Bonds by the Attorney General of the State of Texas and the approval of certain legal matters by Delgado, Acosta, Braden & Jones, P.C., El Paso, Texas, Bond Counsel. Certain other matters will be passed upon for the Borrower by Ainsa Hutson, LLP, El Paso, Texas, and for the Underwriter by Kline Alvarado Veio, P.C., Denver, Colorado. Delivery of the Bonds is expected on or about _____, 2006.

WELLS FARGO BROKERAGE SERVICES, LLC

Memorandum is delivered in final form. Under no circumstances shall this Preliminary Limited Offering Memorandum constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, qualification or filing under the securities laws of any such jurisdiction.

MATURITY SCHEDULE

**TEXAS PUBLIC FINANCE
Charter School Finance Corporation**

**EDUCATION REVENUE BONDS
(BURNHAM WOOD CHARTER SCHOOL PROJECT)**

\$8,375,000 EDUCATION REVENUE BONDS, SERIES 2006A

\$190,000 TAXABLE EDUCATION REVENUE BONDS, SERIES 2006B

USE OF INFORMATION IN LIMITED OFFERING MEMORANDUM

The Trustee's duties and obligations to the Holders of the Bonds will commence only upon its acceptance of such duties and obligations by its execution and delivery of the Indenture. The Trustee assumes no responsibility for this Limited Offering Memorandum and has not reviewed or undertaken to verify any information contained herein. The Trustee has not undertaken to investigate, nor is it responsible for, the validity of the execution by the Issuer and the Borrower of the documents to be executed by them or any supplements or amendments thereto or instruments of further assurance, or the validity, perfection, priority, continuation of any lien or the value or sufficiency of the security for the Bonds or intended to be secured by the Indenture and the Deed of Trust described herein.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Limited Offering Memorandum, and, if given or made, such other information or representation must not be relied upon as having been authorized by the Issuer.

This Limited Offering Memorandum is not to be used in an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Financing documents, resolutions, contracts, engineering and other related reports referenced or described in this Limited Offering Memorandum are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the Issuer or from Delgado, Acosta, Braden & Jones, P.C.

The Underwriter has provided the following sentence for inclusion in this Limited Offering Memorandum. The Underwriter has reviewed the information in this Limited Offering Memorandum in accordance with its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. Neither the Issuer nor the Underwriter makes any representation as to the accuracy, completeness or adequacy of the information supplied by The Depository Trust Company for use in this Limited Offering Memorandum.

This Limited Offering Memorandum contains forward-looking projections which may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from the future results, performance or achievements expressed or implied by such forward-looking statements. Any forecast is subject to such risks, uncertainties, and other factors. Some assumptions used to develop forecasts may not be realized and unanticipated events or circumstances may occur. **Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.**

This Limited Offering Memorandum contains, in part, estimates, assumptions and matters of opinion that are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice and neither the delivery of this Limited Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, the Borrower or other matters described herein since the date hereof.

Investors must rely on their own examination of the Borrower and the terms of the offering, including the merits and risks involved. An investment in the Bonds involves a high degree of risk. Certain risks involved with investment in the Bonds are discussed in "INVESTMENT CONSIDERATIONS AND RISK FACTORS" herein. The initial owner of the Bonds will be required to execute and deliver to the Trustee an investor letter substantially in the form set forth as Appendix D hereto, with only such changes as may be acceptable to the Trustee to evidence that such Bonds are owned by an investor that is an "accredited investor" under Regulation D of the Securities Act of 1933 or a "qualified institutional buyer" under Rule 144A promulgated by the Securities and Exchange Commission thereunder and that each such accredited investor or qualified institutional buyer has sufficient

knowledge and experience in financial and business matters, as to be capable of evaluating the merits and risks of an investment in the Bonds. See "THE BONDS – Transfer Restrictions" herein.

THE PRICES AT WHICH THE BONDS ARE OFFERED TO THE PUBLIC BY THE UNDERWRITER (AND THE YIELDS RESULTING THEREFROM) MAY VARY FROM THE INITIAL PUBLIC OFFERING PRICES OR YIELDS APPEARING ON THE COVER PAGE HEREOF. IN ADDITION, THE UNDERWRITER MAY ALLOW CONCESSIONS OR DISCOUNTS FROM SUCH INITIAL PUBLIC OFFERING PRICES TO DEALERS AND OTHERS. IN ORDER TO FACILITATE DISTRIBUTION OF THE BONDS, THE UNDERWRITER MAY ENGAGE IN TRANSACTIONS INTENDED TO STABILIZE THE PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

SPECIAL DISCLOSURE STATEMENT: WELLS FARGO BROKERAGE SERVICES, LLC ("WELLS FARGO") IS A REGISTERED BROKER/DEALER AND A MEMBER OF THE NASD AND SPIC. WELLS FARGO IS NOT A BANK OR THRIFT AND IS SEPARATE FROM ANY WELLS FARGO BANK OR OTHER AFFILIATED BANK OR THRIFT. WELLS FARGO IS SOLELY RESPONSIBLE FOR ITS CONTRACTUAL OBLIGATIONS AND COMMITMENTS.

NONDEPOSIT INVESTMENT PRODUCTS OFFERED BY WELLS FARGO ARE NOT FDIC INSURED, ARE NOT DEPOSITS, ARE NOT OBLIGATIONS OF, OR GUARANTEED BY, ANY BANK, AND ARE SUBJECT TO INVESTMENT RISKS, INCLUDING THE POSSIBLE LOSS OF THE PRINCIPAL INVESTED.

FROM TIME TO TIME WELLS FARGO BANK, NATIONAL ASSOCIATION AND OTHER BANKS AFFILIATED WITH WELLS FARGO MAY LEND MONEY TO A BORROWER OF PROCEEDS OF SECURITIES THAT ARE UNDERWRITTEN OR DEALT IN BY WELLS FARGO. WITHIN THE PROSPECTUS OR OTHER DOCUMENTATION PROVIDED WITH EACH SUCH UNDERWRITING OR DEALING, THERE WILL BE A DISCLOSURE OF ANY MATERIAL LENDING RELATIONSHIP BY AN AFFILIATE OR WELLS FARGO WITH SUCH A BORROWER AND WHETHER THE PROCEEDS OF SUCH AN ISSUANCE OF SUCH SECURITIES WILL BE USED BY THE BORROWER TO REPAY ANY OUTSTANDING INDEBTEDNESS TO ANY WELLS FARGO AFFILIATE.

TABLE OF CONTENTS

USE OF INFORMATION IN LIMITED OFFERING MEMORANDUM.....	i	Covenants	23
LIMITED OFFERING MEMORANDUM.....	1	Limited Marketability of the Bonds	23
PLAN OF FINANCING.....	2	Suitability and Transfer Restrictions	24
Purpose	2	BOOK-ENTRY ONLY SYSTEM	24
The Facilities	2	STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS	26
The Project	2	Recent Litigation Relating to the Texas School Finance System	26
Sources and Uses of Funds	3	Funding Changes in Response to West Orange-Cove II	27
THE BONDS	3	Recent Litigation Relating to HB1	28
Description	3	Possible Effects of Litigation and Changes in Law on Borrower Obligations	28
Redemption Provisions	3	PUBLIC SCHOOL FINANCE SYSTEM PRIOR TO THE 2006-07 FISCAL YEAR.....	29
Limited Offering	6	State Funding for Local School Districts	29
SECURITY AND SOURCE OF PAYMENT	6	Local Revenue Sources - Property Tax Authority	30
Security for the Bonds	6	Wealth Transfer Provisions	30
The Trust Estate	7	2006 Reform Legislation	31
Establishment of Funds for the Bonds; Assignment of State Payments	7	2006-2007 IFA and EDA Funding	32
Facility Revenue Fund	8	Possible Effects On The Borrower's Financial Condition	32
Debt Service Fund	8	THE SYSTEM OF CHARTER SCHOOLS IN TEXAS	33
Debt Service Reserve Fund	9	General	33
Construction and Acquisition Fund	9	Limitation on Number of Charters Granted	33
Rebate Fund	10	Authority Under Charter	33
Deed of Trust	10	State Funding	34
SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT.....	10	Local Funding	34
Loan	10	Provisions of Open-Enrollment Charters	35
Loan Payments	11	Basis for Modification, Placement on Probation, Revocation, or Denial of Renewal	35
Corporate Existence	11	Annual Evaluation	36
Tax Covenants of the Borrower	12	Changes in Funding	36
Defaults	12	THE ISSUER	37
Remedies Upon an Event of Default	13	THE BORROWER AND THE SCHOOLS	37
Notice of Default; Opportunity of the Issuer and the Borrower to Cure Default	13	El Paso Education Initiative Inc.	37
Amendment	13	The Schools	37
Additional Indebtedness	13	Management	38
SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE.....	14	Grant and Fundraising	39
Investment of Moneys; Allocation and Transfer of Investment Income	15	Educational Programs	39
Events of Default	15	Students' Resident District	40
Acceleration	15	Enrollment History	40
Other Remedies for Events of Default	15	Student Demographics	40
The Trustee	16	Student Waiting List	41
RISK FACTORS	17	Student and School Achievement	41
General	17	Comparison of 2005 and 2006	41
Limited Obligations	17	Fort Bliss Growth Due to Base Realignment and Closure (BRAC)	43
Dependence on the State	17	Debt Service Requirements on the Bonds	44
Dependence on the Borrower	18	Audited Financial Information	47
Factors Associated with Education	19	LEGAL MATTERS	47
Payment of State Funds to Trustee	20	Legal Proceedings	47
Legal Opinions	20	No-Litigation Certificates	47
Related Party Transactions	20	FORWARD-LOOKING STATEMENTS.....	48
Conclusion	20	TAX MATTERS	48
Tax-Exempt Status on the Series 2006A Bonds	20	The Series 2006A Bonds	48
Tax-Exempt Status of the Borrower	21	Collateral Tax Consequences	49
State and Local Tax Exemption	21	Tax Accounting Treatment of Original Issue Discount Bonds	49
Unrelated Business Income	22	Tax Accounting Treatment of Original Issue Premium	50
Risk of Catastrophic Loss	22	The Series 2006B Bonds	51
Limited Remedies After Default	22	In General	51
Ability to Sell or Lease the Project if an Event of Default Occurs	22		
Potential Environmental Liability	23		
Risk of Bankruptcy	23		
Risk of Increased Debt	23		
Risk of Failure to Comply with Certain			

Payments of Interest	51
Original Issue Discount	51
Acquisition Premium	52
Market Discount	52
Amortizable Premium	53
Accrual Method Election	53
Disposition or Retirement	53
Information Reporting and Backup	
Withholding	54
Treasury Circular 230 Disclosure	54
SALE AND DISTRIBUTION OF THE BONDS	54
The Underwriter	54
Prices and Marketability	54
Securities Laws	55
LEGAL INVESTMENT AND ELIGIBILITY TO	
SECURE PUBLIC FUNDS IN TEXAS	55
CONTINUING DISCLOSURE OF	
INFORMATION	55
NO RATINGS	56
PREPARATION OF LIMITED OFFERING	
MEMORANDUM	56
Sources and Compilation of Information	56
MISCELLANEOUS	56
APPENDIX A - AUDITED FINANCIALS OF BORROWER	
FOR YEAR ENDED AUGUST 31, 2005	A-1
APPENDIX B - UNAUDITED FINANCIALS OF BORROWER	
AS OF JULY 31, 2006	B-1
APPENDIX C - FORM OF OPINION OF BOND COUNSEL	C-1
APPENDIX D - FORM OF INVESTOR LETTER	D-1
APPENDIX E - FORM OF CONTINUING DISCLOSURE	
AGREEMENT	E-1

LIMITED OFFERING MEMORANDUM

**Texas Public Finance Authority
Charter School Finance Corporation
Education Revenue Bonds
(Burnham Wood Charter School Project)**

**\$8,375,000 Education Revenue Bonds, Series 2006A
\$190,000 Taxable Education Revenue Bonds, Series 2006B**

This Limited Offering Memorandum provides certain information in connection with the issuance by the Texas Public Finance Authority Charter School Finance Corporation (the "*Issuer*") of its \$8,375,000 Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Burnham Wood Charter School Project), Series 2006A (the "*Series 2006A Bonds*") and \$190,000 Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Burnham Wood Charter School Project), Series 2006B (the "*Series 2006B Bonds*") (collectively, the "*Bonds*").

The Bonds are being issued pursuant to a Trust Indenture, dated as of September 1, 2006 (the "*Indenture*"), by and between the Issuer and Wells Fargo Bank, National Association, as trustee (the "*Trustee*"), and a resolution of the Issuer (the "*Resolution*"). Pursuant to a Loan Agreement dated September 1, 2006 by and between the Issuer and the Borrower (the "*Loan Agreement*"), proceeds from the sale of the Bonds will be loaned to the El Paso Education Initiative Inc. (the "*Borrower*"), a 501(c)(3) nonprofit corporation organized and existing under the laws of the State of Texas (the "*State*") operating two campuses consisting of the Burnham Wood Charter School and the Da Vinci School for Science and Arts (together the "*Schools*"), open enrollment charter schools operating under the laws of the State, to finance the cost of certain educational facilities, including financing the costs of a project consisting of certain land, buildings, equipment, facilities and improvements located on campuses of the Schools in the City of El Paso, Texas, and to pay the costs of issuing the Bonds (the "*Project*").

The Bonds are limited obligations of the Issuer payable solely from revenues received by the Issuer pursuant to the Loan Agreement, as evidenced by a Promissory Note of the Borrower to the Issuer and endorsed by the Issuer to the Trustee (the "*Promissory Note*"). Upon purchase by the Borrower of the real property comprising the facilities financed hereunder, the payments under the Loan Agreement will be further secured by a Deed of Trust, Security Agreement and Financing Statement dated as of September 1, 2006 (the "*Deed of Trust*"), from the Borrower on such real property. See "RISK FACTORS – Value of Land and Improvements."

This Limited Offering Memorandum includes descriptions of, among other items, the Indenture, the Resolution, the Bonds, the Loan Agreement, the Promissory Note, the Deed of Trust, the Issuer, the Borrower and the system of charter schools under State law. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of the Indenture, the Loan Agreement, the Deed of Trust, the Resolution and the Promissory Note are available from Delgado, Acosta, Braden & Jones, P.C., 221 N. Kansas Street, Suite 2000, El Paso, Texas 79901.

Any capitalized term used herein and not otherwise defined will have the meaning set forth for such term in the forms of Indenture and Loan Agreement.

PLAN OF FINANCING

Purpose

The Borrower is a nonprofit corporation created and operating under the Texas Nonprofit Corporation Act operating open enrollment charter schools under Chapter 12, Texas Education Code, as amended. The Issuer is a nonprofit charter school finance corporation created by the Texas Public Finance Authority (the "Authority") under Chapter 53, Texas Education Code, as amended. The Issuer will issue the Bonds and loan the proceeds thereof to the Borrower for the purpose of financing the costs of a project consisting of certain land, buildings, equipment, facilities and improvements located on campuses of the Borrower in the City of El Paso, Texas (the "Project").

The Facilities

The Borrower leases a 10,000+ square foot classroom building and owns a 4,000+ square foot modular building at 7310 Bishop Flores in El Paso, Texas. The single-story leased classroom building was constructed in 1995, and a single-story addition was built in 1997. The modular building was installed in 2002 and is being replaced with an approximate 10,000 square foot permanent structure financed with proceeds of the Bond issue. In addition, the Borrower leases space at 785 Southwestern Drive which it will purchase with proceeds of the Bond issue.

The campus facilities are currently used to serve grades kindergarten through seventh. At the Burnham Wood Charter School campus there are 12 available classrooms in the classroom building, including a multi-purpose room, library/media room and offices. At the Da Vinci School for Science and Arts campus there are currently 11 available classrooms with additional classrooms becoming available after the purchase of 785 Southwestern Drive.

The Project

The proceeds from the Bonds will be used to (i) purchase the classroom building that is currently leased at 7310 Bishop Flores, El Paso, Texas; (ii) remove the temporary modular building and build a ten-classroom permanent building on its site at 7310 Bishop Flores; (iii) purchase a 27,000 + square foot facility on a 4.5 acre site located at 785 Southwestern Drive in El Paso, Texas, that offers an auditorium with a 730 seating capacity, a half-size basketball court, recreation room, approximately 13 fully useable classrooms and additional office space; and (iv) build a 20,000 square foot building on the newly acquired site (785 Southwestern Drive) that will contain regular classrooms and specialty rooms such as science laboratories, art rooms and physical education lockers.

The classroom building at 7310 Bishop Flores which is being purchased with a portion of the proceeds of the Bonds is being sold to the Borrower by the building's owner, Iris Burnham. Mrs. Burnham, and her daughter, Esther Furrer, are both members of the Board of Directors (the "Board") of the Schools. Neither Mrs. Burnham nor Mrs. Furrer participated in the action by the Board approving the purchase of the building. The Board obtained an appraisal from an independent, certified appraiser with respect to the value of the building, and set the purchase price for the building based on such appraisal.

Sources and Uses of Funds

Sale proceeds of the Bonds are anticipated to be applied as follows:

	Tax-Exempt Bonds	Taxable Bonds	Total
Sources of Funds*			
Bond Proceeds	\$8,375,000.00	\$190,000.00	\$8,565,000.00
Total Sources	\$8,375,000.00	\$190,000.00	\$8,565,000.00
Uses of Funds*			
Costs of Issuance including Underwriter's Discount	167,500.00	170,300.00	337,800.00
Deposit to Debt Service Reserve Fund	653,792.69	14,832.31	668,625.00
Purchase Da Vinci School for Science and Arts Campus	2,800,000.00	--	2,800,000.00
Purchase Burnham Wood Charter School Campus	1,250,000.00	--	1,250,000.00
Renovate Burnham Wood Charter School Campus	1,500,000.00	--	1,500,000.00
Addition to Da Vinci School for Science and Arts Campus	2,000,000.00	--	2,000,000.00
Rounding Amount	<u>3,707.31</u>	<u>4,867.69</u>	<u>8,575.00</u>
Total Uses	<u>\$8,375,000.00</u>	<u>\$190,000.00</u>	<u>\$8,565,000.00</u>

THE BONDS

Description

The Bonds will be issued in the aggregate principal amounts and will mature on the dates and in the amounts, and will bear interest at the rates per annum set forth on the inside cover page of this Limited Offering Memorandum. Interest on the Bonds will accrue from their date of initial delivery to the Underwriters and be calculated on the basis of a 360-day year of twelve 30-day months. Interest on the Bonds is payable on the dates set forth on the cover page of this Limited Offering Memorandum.

The Bonds will be initially issued in book-entry-only form, as discussed under "BOOK-ENTRY-ONLY SYSTEM" herein, but may be subsequently issued in fully registered form only, without coupons, and in any case, will be issued in the denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof.

The principal of, premium, if any, and interest on the Bonds are payable in lawful money of the United States of America. Amounts due on the Bonds will be paid by check mailed to the owner thereof at its address as it appears on the Bond Registration Books on the first day of the month in which such payment date occurs (the "Record Date"), or at the request and expense of any owner of at least \$1,000,000 principal amount of the Bonds, by wire transfer to a location in the United States of which the Trustee has received 15 days notice. While the Bonds are held in book-entry-only form, interest, principal, and redemption premium, if any, will be paid through The Depository Trust Company, New York, New York ("DTC") as described under "BOOK-ENTRY-ONLY SYSTEM."

Redemption Provisions

Mandatory Sinking Fund Redemption. The Series 2006A Bonds maturing on September 1, 20__ are subject to mandatory sinking fund redemption in part prior to maturity with funds from the Debt Service Fund at a redemption price equal to the principal amount thereof plus interest accrued thereon to the redemption date, without premium, on September 1 in each of the years, and in the principal amounts, respectively, as set forth in the following schedule:

* Preliminary, subject to change.

Mandatory
Redemption Date Principal Amount (\$)

The Series 2006A Bonds maturing on September 1, 20__ are subject to mandatory sinking fund redemption in part prior to maturity with funds from the Debt Service Fund at a redemption price equal to the principal amount thereof plus interest accrued thereon to the redemption date, without premium, on September 1 in each of the years, and in the principal amounts, respectively, as set forth in the following schedule:

Mandatory
Redemption Date Principal Amount (\$)

The Series 2006A Bonds maturing on September 1, 20__ are subject to mandatory sinking fund redemption in part prior to maturity with funds from the Debt Service Fund at a redemption price equal to the principal amount thereof plus interest accrued thereon to the redemption date, without premium, on September 1 in each of the years, and in the principal amounts, respectively, as set forth in the following schedule:

Mandatory
Redemption Date Principal Amount (\$)

The Series 2006B Bonds maturing on September 1, 20__ are subject to mandatory sinking fund redemption in part prior to maturity with funds from the Debt Service Fund at a redemption price equal to the principal amount thereof plus interest accrued thereon to the redemption date, without premium, on September 1 in each of the years, and in the principal amounts, respectively, as set forth in the following schedule:

Mandatory
Redemption Date Principal Amount (\$)

The principal amount of the Bonds required to be redeemed pursuant to the operation of such mandatory sinking fund redemptions shall be reduced by the principal amount of any Bonds of the same series and maturity date which, at least 45 days prior to the mandatory sinking fund redemption date: (a) shall have been purchased and delivered to the Trustee for cancellation; (b) shall have been purchased and canceled by the Trustee with funds furnished for such purpose, in each case at a purchase price not exceeding the principal amount of such Series 2006A Bonds plus accrued interest to the date of purchase thereof; or (c) shall have been redeemed pursuant to the extraordinary optional redemption provisions described below.

Optional Redemption. The Series 2006A Bonds are subject to optional redemption prior to scheduled maturity, in whole or in part, on September 1, 20__ and on any date thereafter, at the option of the Borrower, upon written notice of the exercise of the option to redeem delivered to the Trustee by the Borrower not later than the 45th day prior to the date of redemption at a redemption price of ___, plus accrued interest to the date of redemption.

Mandatory Redemption Upon Determination of Taxability of the Bonds. The Series 2006A Bonds will be redeemed in whole prior to maturity on a date selected by the Borrower which is not more than one hundred twenty (120) days following the occurrence of a Determination of Taxability (as hereinafter defined) at a redemption price equal to 103% of the principal amount thereof plus interest to the redemption date.

As used herein, "*Determination of Taxability*" means a determination that the interest income on any of the Series 2006A Bonds does not qualify as interest excluded from gross income of the recipient thereof for the purpose of federal income taxation ("*exempt interest*") under Section 103 of the Code (in the case of a private activity bond, for a reason other than that a registered owner is or a former registered owner was a substantial user within the meaning of Section 147 of the Code), which determination will be deemed to have been made upon the first to occur of any of the following: (a) the date on which the Trustee is notified that an opinion of counsel is unable to be delivered to the effect that the interest on the Series 2006A Bonds qualifies as such exempt interest; or (b) the date on which any change in law or regulation becomes effective or on which the Internal Revenue Service (the "*IRS*") issues any public or private ruling, technical advice memorandum or any other written communication or on which there shall occur a ruling or decision of a court of competent jurisdiction, with or to the effect that the interest income on any of the Series 2006A Bonds does not qualify as such exempt interest; or (c) the date on which the Borrower shall receive notice from the Trustee in writing that the Trustee has been notified by the IRS, or has been advised by the Issuer, the Borrower or any owner or former owner of a Series 2006A Bond that the IRS has issued a notice of deficiency or similar notice which asserts that the interest on any of the Series 2006A Bonds does not qualify as such exempt interest.

Mandatory Redemption With Excess Proceeds. The Series 2006A Bonds will be redeemed in whole or in part prior to maturity as a result of a deposit of amounts transferred from the Construction and Acquisition Fund to the Debt Service Fund as excess proceeds upon completion of the Project. Series 2006A Bonds redeemed as described in this paragraph will be redeemed within 45 days of such deposit at a redemption price equal to the unpaid principal amount of the Series 2006A Bonds being redeemed, without premium, plus accrued interest to the redemption date (and if the redemption date is other than an Interest Payment Date, interest shall be calculated on the basis of a 360-day year).

Extraordinary Optional Redemption. The Series 2006A Bonds are subject to extraordinary redemption, at the option of the Issuer upon request of a Borrower Representative, at a redemption price of par plus interest accrued thereon to the redemption date, without premium, on any date, in the event the Project is damaged, destroyed or condemned or threatened to be condemned: (i) in whole, if, in accordance with the terms of the Loan Agreement, the Project is not reconstructed, repaired or replaced, from insurance proceeds transferred from the Construction and Acquisition Fund to the Debt Service Fund which, together with an amount required to be paid by the Borrower pursuant to the Loan Agreement, will be sufficient to pay the Series 2006A Bonds in full; or (ii) in part, after reconstruction, repair or replacement of the Project in accordance with the terms of the Loan Agreement, from excess insurance proceeds transferred from the Construction and Acquisition Fund to the Debt Service Fund for such purpose.

Redemption in Part. If less than all of the Series 2006A Bonds are called for redemption, the particular Series 2006A Bonds or portions thereof to be redeemed will be selected by the Trustee in accordance with the written direction of the Borrower; provided, however, that portions of the Series 2006A Bonds will be redeemed in Authorized Denominations; provided, that no redemption will result in the Series 2006A Bond being held in less than an Authorized Denomination.

In case part, but not all, of a Series 2006A Bond is selected for redemption, the owner thereof or his attorney or legal representative must present and surrender the Series 2006A Bond to the Trustee for payment of the redemption price, and the Issuer will cause to be executed, authenticated and delivered to or upon the order of such owner or his attorney or legal representative, without charge therefor, in exchange for the unredeemed portion of the principal amount of such Series 2006A Bond so surrendered, a Series 2006A Bond of the same maturity and bearing interest at the same rate.

Notice of Redemption. At least 30 days prior to the date fixed for any redemption of the Series 2006A Bonds but not more than 60 days prior to any redemption date, the Trustee will cause a written notice of such redemption to be mailed by first-class mail, postage prepaid, to each owner of Series 2006A Bonds to be redeemed, at its address appearing on the Bond Registration Books on the date such notice is mailed by the Trustee. Any notice mailed as provided herein will be conclusively presumed to have been given, irrespective of whether received. By the date fixed for any such redemption, due provision will be made with the Trustee and the Paying Agent for the payment of the appropriate redemption price. If such written notice of redemption is made and if due provision for payment of the redemption price is made, all as provided above and in the Indenture, the Series 2006A Bonds which are to be redeemed thereby automatically will be deemed to have been redeemed prior to their scheduled maturity, and they will not bear interest after the date fixed for redemption, and they will not be regarded as being Outstanding except for the right of the owner to receive the redemption price out of the funds provided for such payment. If any Series 2006A Bond is not paid upon the surrender thereof at the maturity or redemption date thereof, such Series 2006A Bond will continue to be Outstanding and will continue to bear interest until paid at the interest rate borne by such Series 2006A Bond.

Limited Offering

The initial owner of any Bonds will be required to deliver to the Trustee an executed Investor Letter, substantially in the form set forth as Appendix D hereto, with only such changes as may be acceptable to the Trustee, to evidence that such Bonds are owned by an investor that is an "accredited investor" under Regulation D of the Securities Act of 1933 or a "qualified institutional buyer" under Rule 144A promulgated thereunder and that each such accredited investor or qualified institutional buyer has sufficient knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of an investment in the Bonds.

SECURITY AND SOURCE OF PAYMENT

Security for the Bonds

THE BONDS AND ANY ADDITIONAL BONDS HEREAFTER ISSUED ARE LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM REVENUES RECEIVED BY THE ISSUER PURSUANT TO THE LOAN AGREEMENT BY AND BETWEEN THE ISSUER AND THE BORROWER, AS EVIDENCED BY THE PROMISSORY NOTE, AS FURTHER SECURED BY A DEED OF TRUST FROM THE BORROWER ON CERTAIN REAL PROPERTY (UPON PURCHASE OF SUCH REAL PROPERTY) SECURING PAYMENTS UNDER THE LOAN AGREEMENT. THE BONDS ARE NOT OBLIGATIONS OF THE CITY OF EL PASO,

TEXAS, THE STATE OF TEXAS, OR ANY OTHER ENTITY. NONE OF THE CITY, THE STATE, NOR ANY POLITICAL CORPORATION, SUBDIVISION, GOVERNMENTAL ENTITY OR AGENCY OF THE STATE IS OBLIGATED TO PAY THE BONDS OR THE INTEREST THEREON AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE, OR ANY OTHER POLITICAL CORPORATION, SUBDIVISION, GOVERNMENTAL ENTITY OR AGENCY OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

Chapter 1208, Texas Government Code, applies to the issuance the Bonds and the pledge of the revenues described herein, and such pledge is, therefore, valid, effective, and perfected. Should State law be amended at any time while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge securing the Bonds is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, in order to preserve to the registered owners of the Bonds a security interest in such pledge, the Issuer agrees to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

The Trust Estate

Under the Indenture, the Issuer grants to Wells Fargo Bank, National Association, as Trustee, a security interest in the following:

(a) All right, title, and interest of the Issuer in the Loan Agreement, including a lien on all Revenues (except the Issuer's rights under Sections 7.10, 8.6 and 9.11 of the Loan Agreement), including all extensions and renewals of the term of the Indenture, including the present and continuing right to: (a) make claim for, collect, receive, and make receipt for: (i) Loan Payments (as defined in the Indenture); (ii) other sums of money payable or receivable thereunder, whether payable as Loan Payments thereunder or otherwise; and (iii) any and all security granted or held for the payment of Loan Payments; (b) bring any actions and proceedings thereunder or for the enforcement thereof; and (c) do any and all other things which the Issuer or any lender is or may become entitled to do under the Loan Agreement;

(b) All right, title, and interest of the Issuer in and to the Notes and the Deed of Trust (as defined in the Indenture);

(c) All right, title, and interest of the Issuer in all moneys and securities from time to time held by the Trustee under the terms of the Indenture (except moneys held in the Rebate Fund);

(d) Any and all property of every kind or description which may from time to time hereafter be sold, transferred, conveyed, assigned, hypothecated, endorsed, deposited, pledged, mortgaged, granted or delivered to, or deposited with the Trustee as additional security by the Issuer or anyone on its part or with its written consent, or which pursuant to any of the provisions of the Indenture or of the Loan Agreement may come into the possession of or control of the Trustee or a receiver appointed pursuant to the Indenture, as such additional security; and

(e) Any and all proceeds (including any interest in real property) acquired by the Trustee as a result of its exercise of any remedies under the Deed of Trust.

The foregoing is collectively referred to as the "*Trust Estate*."

Establishment of Funds for the Bonds; Assignment of State Payments

Under the Indenture, the following funds are established and maintained by the Trustee for the benefit of the Bonds:

(a) Facility Revenue Fund;

(b) Debt Service Fund;

(c) Debt Service Reserve Fund;

- (d) Construction and Acquisition Fund; and
- (e) Rebate Fund.

Facility Revenue Fund

There shall be deposited into the Facility Revenue Fund as and when received, all Revenues required to be deposited therein pursuant to the Loan Agreement including Sections 5.2(b), 6.1 and 6.8 thereof. On or before the first Business Day of each month, the Trustee shall withdraw and pay or deposit from the amounts on deposit in the Facility Revenue Fund the following amounts in the order of priority indicated:

- FIRST: to the Trustee for payment of any fees or expenses which are then due and payable;
- SECOND: to the Debt Service Fund, an amount sufficient to make all deposits to the Debt Service Fund required to be made for such month under the Loan Agreement which relate to the Debt Service on the Notes or which are necessary to remedy any prior deficiencies relating to previously required deposits to the Debt Service Fund under the Loan Agreement;
- THIRD: to the Debt Service Reserve Fund, amounts, as required in the Indenture, sufficient to make the balance in the Debt Service Reserve Fund equal the Debt Service Reserve Fund Requirement for the Bonds; and
- FOURTH: to the Borrower, the balance of such moneys after making the payments or deposits required under items (i) through (iii) above.

Any balance remaining in the Facility Revenue Fund after the Bonds have been paid in full or payment thereof has been provided for in accordance with the Indenture and provided all other obligations of the Borrower under the Bond Documents shall have been fully performed, shall be paid to the Borrower. Upon the acceleration of the principal of all Bonds Outstanding pursuant to an Event of Default under the Indenture, the Trustee shall immediately transfer all amounts in the Facility Revenue Fund over to the Debt Service Fund.

Debt Service Fund

There will be deposited into the Debt Service Fund from the proceeds of the Bonds:

- (1) amounts representing accrued interest received on the Closing Date, if any;
- (2) all amounts required to be transferred from the Debt Service Reserve Fund in accordance with the provisions of the Indenture;
- (3) all amounts required to be deposited therein from the Facility Revenue Fund; and
- (4) any other amounts paid to or recovered by the Trustee for deposit in the Debt Service Fund which are not specifically required to be credited to any other fund or account established pursuant to the Indenture.

In addition, the Borrower will make loan payments as provided for under the Loan Agreement and in accordance with the Indenture directly to the Trustee, through the Debt Service Fund, as follows:

- (1) in equal monthly installments, for deposit in the Debt Service Fund, amounts sufficient to provide for the payment of interest which is due on the next ensuing date for payment of such interest with respect to the Bonds; and
- (2) in equal monthly installments, for deposit in the Debt Service Fund, amounts sufficient to provide for the payment of the principal of or sinking fund payment on the Bonds which is next due for payment of such principal or for such sinking fund redemption payment.

Except as otherwise provided in the Indenture, the money in the Debt Service Fund will be used solely for the payment of Debt Service and, during the continuance of an Event of Default, payment of the fees and expenses of the Trustee, in accordance with the provisions of the Indenture.

Debt Service Reserve Fund

There will initially be deposited in the Debt Service Reserve Fund from the proceeds of the Bonds an amount sufficient to cause the amount of deposit therein to equal the maximum annual debt service on the Bonds (the “*Debt Service Reserve Fund Requirement*”). Except as otherwise provided in the Indenture, the Debt Service Reserve Fund at all times will be maintained at an amount equal to the Debt Service Reserve Fund Requirement. If there are insufficient funds in the Debt Service Fund to pay the Debt Service on the Bonds by 12:00 noon (Central Time) two Business Days prior to the day on which payment of the Debt Service on the Bonds is due, the Trustee will transfer from the Debt Service Reserve Fund to the Debt Service Fund amounts necessary to make such payments from the Debt Service Fund on the day on which payment of the Debt Service on the Bonds is due. If the amount in the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement because the Trustee has applied funds in the Debt Service Reserve Fund, the Trustee will promptly notify the Borrower in writing that a deficiency in the Debt Service Reserve Fund exists, and the Borrower will pay such deficiency to the Trustee for deposit into the Debt Service Reserve Fund to restore the amount in the Debt Service Reserve Fund to equal the Debt Service Reserve Fund Requirement in the 18 consecutive equal monthly installments, the first of which will be made within 30 days from the date of receipt of such notice. Notwithstanding the foregoing, moneys in the Debt Service Reserve Fund maybe applied to pay Debt Service during the 12 months immediately preceding and including the final maturity of the Bonds without violating the foregoing requirement to maintain the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Fund Requirement.

Upon any redemption or defeasance of the Bonds as a whole, the moneys on deposit in the Debt Service Reserve Fund will be transferred to the Debt Service Fund to be used for the purposes of such redemption or to an escrow fund for the purpose of defeasance, as the case may be. Upon final maturity of the Bonds, the Trustee will transfer the balance on deposit in the Debt Service Reserve Fund to the Debt Service Fund.

So long as any Bonds are outstanding, the Borrower will have no right, title or interest in or to the funds in the Debt Service Reserve Fund.

Construction and Acquisition Fund

The Trustee will deposit the balance of the proceeds of the issuance and delivery of the Bonds remaining after deposits to the Debt Service Fund and Debt Service Reserve Fund required by the Indenture in the Construction and Acquisition Fund. Moneys on deposit in the Construction and Acquisition Fund will be invested pursuant to written instructions from the Authorized Representative pursuant to the Indenture. The Construction and Acquisition Fund will have a separate account for each Series of Bonds from time to time authorized under the Indenture. Initially, the Construction and Acquisition Fund will have two subaccounts: (1) Series 2006 Construction and Acquisition Account; and (2) the 2006 Cost of Issuance Account. On the Closing Date, the Trustee will disburse funds from: (a) the Cost of Issuance Account for the payment of the costs associated with the issuance of the Bonds; and (b) the Series 2006 Construction and Acquisition Account for the payment of any outstanding mortgages, liens, notes, or obligations on the Project refinanced with the proceeds of the Bonds. The Trustee is authorized and directed to disburse moneys on deposit in the Construction and Acquisition Fund as provided in the Indenture and Loan Agreement. Upon delivery to the Trustee of a Completion Certificate, the Trustee shall transfer any remaining principal and interest earned from moneys on deposit in the Construction and Acquisition Fund to the Debt Service Fund to be used to redeem the applicable Series of Bonds as provided in the Indenture.

The Construction and Acquisition Fund will be in the custody of the Trustee but in the name of the Issuer, and the Issuer has authorized and directed the Trustee to withdraw sufficient funds from the Construction and Acquisition Fund for Construction Costs requisitioned by the Borrower.

Rebate Fund

There will be deposited into the Rebate Fund as and when received each amount delivered to the Trustee by the Borrower for deposit thereto and each amount directed by the Borrower to be transferred. Within five days after each receipt or transfer of funds to the Rebate Fund, the Trustee will forward amounts on deposit in the Rebate Fund to the United States Treasury at the times and in the amounts set forth in the Borrower's direction pursuant to the Loan Agreement.

Within the Rebate Fund, there will be a separate account for each series of Bonds from time to time authorized, authenticated, and delivered under the Indenture, including the 2006A Rebate Account. The Rebate Fund will be in the custody of the Trustee but in the name of the Issuer and the Issuer has authorized and directed the Trustee to withdraw funds from the Rebate Fund for the purposes set forth in the Indenture.

Deed of Trust

The Borrower has granted to Wells Fargo Bank, National Association, and any substitute or successor Trustee under the Indenture, for the use and benefit of the holders of the Bonds (collectively the Trustee and such Holders are referred to as the "Beneficiary"), a first deed of trust lien and security interest in the Project pursuant to the Deed of Trust. The deed of trust lien and security interest will secure the indebtedness evidenced by the Bonds, any and all amounts, liabilities, and obligations for which or for the performance of which the Borrower may become indebted or obligated under the terms of the Loan Agreement or the Deed of Trust, including, but not limited to, the fees and expenses of the Beneficiary; any sum or sums constituting other indebtedness (whether now existing or hereafter arising) of the Borrower to the Beneficiary related to the Project, and any and all renewals, rearrangements, and extensions of the foregoing items of indebtedness and obligations.

Pursuant to the Deed of Trust, the Borrower have granted a first lien and security interest to the Trustee in, among other property, the tract(s) of land (the "Land") described in the Deed of Trust, all improvements upon the Land now or hereafter attached to or placed, erected, constructed, or developed thereon, and all fixtures, materials, equipment, portable buildings, apparatus, furniture, furnishings, building materials, supplies, and other property, real and personal, now or hereafter installed or used thereon or upon the improvements thereon (the "Improvements"), and all rents, revenues, profits, income, damages, awards, and proceeds from or attributable to all or any portion of the Land and the Improvements.

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

The following is a brief summary of certain portions of the Loan Agreement. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Loan Agreement, copies of which are on file with the Issuer and the Trustee. Capitalized terms used in this section and not otherwise defined in this Limited Offering Memorandum shall have the meanings assigned thereto in the Loan Agreement.

Loan

The proceeds of the sale of the Bonds which are deposited into the Funds and Accounts pursuant to the Indenture will be loaned by the Issuer to the Borrower under the Loan Agreement; provided, that upon such deposit the Borrower's rights to such proceeds will be determined by and limited as provided in the Indenture. The Borrower's obligation to repay such loan will be evidenced by the Promissory Note. At the time the proceeds of the Bonds are loaned to the Borrower, it will deliver or cause to be delivered to the Issuer or its designee the Promissory Note, fully authorized, executed and authenticated. Each Promissory Note will be in an original principal amount equal to the aggregate principal amount of the series of Bonds to which it relates, will bear interest at the rate or rates borne by the series of Bonds to which it relates, and will be payable as to principal, premium, if any, and interest at the times and places and in the manner set out in the Loan Agreement and the Bonds. To the extent that any amounts paid on the Promissory Note are utilized to pay, or with respect to payment of, principal of the Bonds, such payments shall be credited toward the principal balance of the Promissory Note. Any amount paid as Debt Service on the Bonds shall be a credit against corresponding amounts due on the Promissory Note.

Loan Payments

Under the Loan Agreement, the Borrower agrees, subject to the limitations of the Loan Agreement, to make Loan Payments in accordance with the Indenture and the Loan Agreement directly to the Trustee as follows:

- (i) in equal monthly installments, for deposit in the Debt Service Fund, amounts sufficient to provide for the payment of interest which is due on the next ensuing date for payment of such interest with respect to the Bonds;
- (ii) in equal monthly installments, for deposit in the Debt Service Fund, amounts sufficient to provide for the payment of the principal of or sinking fund payment on the Bonds which is next due for payment of such principal or for such sinking fund redemption payment; and
- (iii) for deposit into the Debt Service Reserve Fund, such amounts as are required by the Indenture to reestablish the Debt Service Reserve Fund Requirement.

The Trustee is required to make monthly transfers of funds on deposit in the Facility Revenue Fund in accordance with the Indenture. To the extent funds in the Facility Revenue Fund are transferred by the Trustee in accordance with the requirements of the Indenture and are sufficient for such purposes, the transfer and application of such funds for the purposes described in certain provisions of the Indenture shall be considered to satisfy the related Loan Payment obligations of the Borrower described in the paragraph above. To the extent funds in the Facility Revenue Fund are ever insufficient to satisfy the transfer requirements of the Indenture, the Borrower will make the related Loan Payments from funds other than the Revenues.

Under the Loan Agreement, the Borrower agrees that its obligations under the Bond Documents will be absolute and unconditional, irrespective of any rights of set-off, diminution, abatement, recoupment or counterclaim the Borrower might otherwise have against any Person, and the Borrower will perform and observe all its obligations under the Bond Documents without suspension and, except in connection with a discharge of the Indenture, the Borrower will not terminate the Bond Documents for any cause. The Borrower covenants not to seek and waives, to the extent permitted by applicable law, the benefits of any rights which it may have at any time to any stay or extension of time for performance or to terminate, cancel or limit its liability under the Bond Documents except through payment of the Bond Obligations as provided in the Bond Documents. The Holders of the Bonds will be entitled to rely upon the agreements and covenants in these provisions of the Loan Agreement regardless of the validity of the remainder of the Loan Agreement or any other agreement.

Corporate Existence

The Borrower covenants to comply fully and in all respects with the provisions of the Act and the Borrower's charter so long as any Bonds remain Outstanding. The Borrower also covenants that while any of the Bonds remains Outstanding and no Event of Default shall have occurred and be continuing, the Borrower shall not merge or consolidate with any other corporation or entity or sell or dispose of all or substantially all of its assets in any manner now or hereafter authorized by Chapters 12 or 45 of the Education Code, as amended, unless: (a) either the Borrower will be the surviving corporation in the case of a merger, or the surviving, resulting, or transferee corporation, as the case may be, will expressly and unconditionally assume, in a written instrument delivered to the Issuer, and the Trustee, the punctual performance and observance of all of the covenants and conditions of the Loan Agreement and the Bond Documents to be performed by the Borrower; (b) the Borrower or such surviving, resulting, or transferee corporation, as the case may be, will not, immediately after such merger or consolidation, or sale or disposition, be in default in the performance of any covenant or condition under the Loan Agreement or under any other Bond Documents; (c) the surviving, resulting, or transferee corporation, as the case may be, will be duly authorized to transact business in the State; (d) the Borrower or such surviving, resulting, or transferee corporation, as the case may be, will have a net worth at least equal to the net worth of the Borrower immediately preceding such merger or consolidation, or sale or disposition, with net worth being determined in accordance with generally accepted accounting principles; and (e) the Trustee shall have received, to their reasonable satisfaction, such other information, documents, certificates and opinions as the Trustee may reasonably require. Prior to the consummation of any such merger, sale, conveyance or transfer, (y) the Borrower shall deliver to the Issuer and the Trustee an opinion of Bond Counsel to the effect that such merger, sale, conveyance or transfer will not adversely affect the exclusion of interest on the Series 2006A Bonds from

gross income for federal income tax purposes and does not violate the Act or the Code and (z) the surviving, resulting, or transferee entity's certification of the Issuer and the Trustee to the effect that each of the conditions stated in clauses (a) through (f) of the preceding sentence is and will remain satisfied as of the date of such consummation and that such consummation will not cause any such condition to not be satisfied. Furthermore, the Borrower or any surviving, resulting or transferee corporation will, at all times during the term of the Loan Agreement, qualify as an "accredited primary or secondary school" or "authorized charter school" as such terms are defined in Section 53.02, Texas Education Code.

Except as provided above, the Loan Agreement may not be assigned, as a whole or in part, by the Borrower.

Tax Covenants of the Borrower

The Borrower covenants that the Borrower will not, through any act or omission, adversely affect the exclusion from gross income for federal income tax purposes of interest paid on the Bonds, and, in the event of such action or omission, it will use all reasonable efforts to cure the effect of such action or omission. Without limiting the generality of the foregoing, in the Loan Agreement, the Borrower specifically covenants and agrees to take or refrain from taking certain actions that might affect the exclusion from gross income for federal income tax purposes of interest paid on the Bonds. Reference is made to the Loan Agreement for a complete description of the Borrower's tax covenants.

Defaults

Under the Loan Agreement, the following are "Events of Default":

(a) Failure by the Borrower to pay the Loan Payments within five (5) Business Days after such Loan Payments were due.

(b) Any representation or warranty made or deemed made by the Borrower under the Bond Documents is false, misleading or erroneous in any material respect when made or deemed made, or failure by the Borrower to observe and perform any covenant, condition, or agreement on its part to be observed or performed under the Loan Agreement or the Indenture (other than payment of Loan Payments as outlined in (a) above), for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, is given to the Borrower by the Issuer or the Trustee.

(c) The dissolution or liquidation by the Borrower or the filing by the Borrower of a voluntary petition for relief, or the entry of an order or decree for relief in an involuntary case, or the entry of an order or decree for dissolution, liquidation or winding up of the affairs of the Borrower under any applicable bankruptcy, insolvency, or similar law now or hereafter in effect, and such order or decree remains unstayed and in effect for a period of 60 consecutive days, or the Borrower consents to or a competent court decrees or orders the appointment of and taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator, or other similar official of the Borrower, of any substantial part of its property or the Project, or the Borrower shall make any general assignment for the benefit of creditors or shall fail generally to pay its debts as they become due or shall take any corporate action in furtherance of any of the foregoing. The term "dissolution or liquidation," will not be construed to include the cessation of the corporate existence of the Borrower or the combination or merger of the Borrower into or with another corporation or a dissolution or liquidation of the Borrower following the transfer of all or substantially all of its assets as an entirety, under the conditions permitting such action set out in the Loan Agreement.

(d) The occurrence and continuance of any "Events of Default" specified in the Indenture that has not been waived.

(e) The occurrence and continuance of any "Event of Default" specified in the Deed of Trust that has not been waived.

The foregoing provisions (except (a) above) are subject to the following limitations: If by reason of Force Majeure the Borrower is unable in whole or in part to carry out its agreements contained in the Loan Agreement, other than the obligations on the part of the Borrower regarding Loan Payments and special covenants, the Borrower will not

be deemed in default during the continuance of such inability. The Borrower agrees, however, to remedy with all reasonable dispatch the cause or causes preventing the Borrower from carrying out its agreements by reason of such Force Majeure.

Remedies Upon an Event of Default

Whenever any Event of Default shall have happened and be continuing, the Issuer, or the Trustee as assignee of the Issuer, may take any one or more of the following remedial steps:

(a) By written notice to the Borrower, declare all unpaid indebtedness under the Loan Agreement to be immediately due and payable, whereupon the same will become immediately due and payable. The term "all unpaid indebtedness" means Loan Payments in an amount equal to the Debt Service on all Bonds then Outstanding and interest to accrue thereon to the date of receipt by the Trustee of such moneys, and other payments due or to become due under the Loan Agreement, including without limitation, any unpaid fees and expenses of the Trustee and any Paying Agent, for the Bonds which are then or will become due prior to the time that the Bonds are paid in full.

(b) From time to time take whatever action at law or in equity or under the terms of the Bond Documents as necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement, or covenant of the Borrower under the Loan Agreement or any other Bond Document.

(c) From time to time take whatever actions at law or in equity as necessary or desirable to enforce the obligations of the Borrower regarding indemnification, payment of attorneys' fees, and payment of Issuer's fees.

(d) Provide a Notice of Exclusive Control to the Borrower's depository bank.

No remedy conferred upon or reserved to the Trustee or the Issuer by the Loan Agreement is exclusive of any other available remedy or remedies, but each and every such remedy is cumulative and is in addition to every other remedy given under the Loan Agreement or now or hereafter existing at law or in equity or by statute.

Notice of Default; Opportunity of the Issuer and the Borrower to Cure Default

No default under the Loan Agreement or the Indenture shall constitute an Event of Default until actual notice of such default by registered or certified mail shall be given to the Issuer and the Borrower by the Trustee or by the Owners of not less than 25% in aggregate principal amount of all Bonds Outstanding, and the Issuer and the Borrower shall have had 60 days after receipt such notice, to correct said default or to cause said default to be corrected, and shall not have corrected said default or caused said default to be corrected within the applicable period; provided, however, if said default is of a type that can be corrected but is such that it cannot be corrected within the applicable period, it shall not constitute an Event of Default if corrective action is instituted by the Issuer or the Borrower within the applicable period and diligently pursued until the default is corrected.

Amendment

Subsequent to the issuance of Bonds and prior to their payment in full (or provision for the payment thereof having been made in accordance with the provisions of the Indenture), the Loan Agreement may not be amended except in accordance with the procedures set forth in the Indenture. Notwithstanding the foregoing, the Loan Agreement may not be amended, without the consent of the Owner of each Outstanding Bond affected thereby, so as to alter the obligation of the Borrower to pay Loan Payments when due, alter certain other obligations of the Borrower set out in the Loan Agreement, terminate or cancel the Loan Agreement, or decrease the minimum percentage of the principal amount of the Bonds the owners of which must consent to any amendment.

Additional Indebtedness

The Borrower reserves the right from time to time to issue or incur Additional Indebtedness upon such terms and conditions as it may determine.

The Borrower may incur any Additional Indebtedness payable from the Revenues for the purposes provided in the Loan Agreement and/or for the purpose of refunding any Outstanding Bonds if the following conditions are met:

- (i) this Agreement is in effect and no Event of Default is then existing under the Loan Agreement;
- (ii) such Additional Indebtedness shall be on a parity with respect to the Trust Estate and shall be payable by the Borrower solely from the Revenues and other amounts derived pursuant to the Loan Agreement (except to the extent paid out of moneys attributable to the proceeds derived from the Additional Indebtedness or to income from the temporary investment thereof);
- (iii) the Revenues for the twelve-month period next preceding the month of the date of the Additional Indebtedness then to be issued, or for the Borrower's completed fiscal year next preceding the date of such Additional indebtedness, are equal to at least 1.5 times the maximum annual principal and interest requirements of all Bonds to be Outstanding after the issuance of the Additional Indebtedness;
- (iv) the State Revenues for the twelve-month period next preceding the month of the date of the Additional Indebtedness then to be issued, or for the Borrower's completed fiscal year next preceding the date of such Additional Indebtedness, are equal to at least 1.25 times the maximum annual principal and interest requirements of all Bonds to be Outstanding after the issuance of Additional Indebtedness;
- (v) the Net Revenues for the twelve-month period next preceding the month of the date of the Additional Indebtedness then to be issued, or for the Borrower's completed fiscal year next preceding the date of such Additional Indebtedness, are equal to at least 1.10 times the maximum annual principal and interest requirements of all Bonds to be Outstanding after the issuance of the Additional Indebtedness; and
- (vi) the Projected Net Revenues for the twelve-month period following the month of the date of the Additional Indebtedness then to be issued, or for the Borrower's full fiscal year next following the date of such Additional Indebtedness, are equal to at least 1.10 times the maximum annual principal and interest requirements of all Bonds to be Outstanding after the issuance of the Additional Indebtedness.

The Additional Bonds of each such series will be authenticated by the Trustee and/or registered by the Comptroller of Public Accounts of the State and, upon payment to the Trustee of the proceeds of said sale of Additional Bonds, they will be delivered by the Trustee to the purchasers thereof, but only upon there being filed with the Trustee certain items.

Any Additional Indebtedness issued pursuant to the Loan Agreement will be equally and ratably secured under the Indenture with respect to the Trust Estate and any Additional Security with the Bonds and any series of Additional Bonds issued pursuant to the Indenture, without preference, priority, or distinction of any Bonds over any other Bonds. Each series of Additional Bonds shall be approved by the Attorney General of the State to the extent required by applicable State law at the time of the issuance thereof.

If Additional Bonds are being issued for the purpose of refunding less than all previously issued Bonds which are outstanding, certain requirements of the Loan Agreement shall not apply so long as the annual Debt Service in any fiscal year after the issuance of such bonds will not exceed the scheduled Debt Service in the same fiscal year prior to the issuance of the Bond.

SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE

The following is a brief summary of the Indenture pursuant to which the Bonds will be issued. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Indenture, copies of

which are on file with the Issuer and the Trustee. Capitalized terms used in this section and not otherwise defined in this Limited Offering Memorandum shall have the meanings assigned thereto in the Trust Indenture.

Investment of Moneys; Allocation and Transfer of Investment Income

Moneys in each of the Funds held under the Indenture shall be invested and reinvested by the Trustee at the written direction of the Borrower in Permitted Investments; provided, however, that prior to the Initial Disbursement all monies in the Construction and Acquisition Fund shall be invested only in the Wells Fargo 100% U.S. Treasury Fund. If not otherwise directed, the Trustee shall invest cash balances in an investment of the type described in the Indenture under the definition of Permitted Investments. The Trustee is specifically authorized to implement its automated cash investment system to assure that cash on hand is invested and to charge its normal cash management fees, which may be deducted from income earned on investments.

The Trustee may make any and all such investments through its own investment or securities department or the investment or securities department of any affiliate of the Trustee. Any obligations acquired by the Trustee as a result of such investment or reinvestment shall be held by or under the control of the Trustee. The Trustee may commingle moneys among all Funds other than the Rebate Fund for purposes of investment, but all moneys invested shall be deemed at all times a part of the fund for which such investments were made. Moneys from the Rebate Fund shall remain segregated for investment purposes. The interest accruing thereon and any profit realized from such investments shall be credited pro rata to the fund from which such investments were made, and any loss resulting from such investment shall be charged pro rata to such fund. The Trustee shall sell and reduce to cash a sufficient amount of such investments credited to the Debt Service Fund whenever the cash balance in the Debt Service Fund is insufficient to pay the Debt Service when due. The Trustee shall not be responsible for any loss resulting from any investment of moneys in any fund hereunder or for keeping such moneys fully invested at all times, except for its negligence or willful misconduct in failing to follow written directions from the Borrower as to the investment of such funds. The Trustee shall have no liability in connection with early liquidation penalties.

Events of Default

Each of the following is deemed an "Event of Default" under the Indenture:

- (a) Failure by the Issuer to make due and punctual payment of the Debt Service on any Outstanding Bond, whether at the Stated Maturity thereof, at the date fixed for redemption, upon proceedings for redemption, or otherwise upon the maturity thereof.
- (b) Failure by the Issuer to perform or observe any other of the covenants, agreements, or conditions to be performed or observed on its part contained in the Indenture or in the Outstanding Bonds and continuance thereof for the period after notice is given as specified in Section 6.12 of the Indenture.
- (c) The occurrence of an "Event of Default" under Section 8.1 of the Loan Agreement.

Acceleration

Upon the occurrence of an Event of Default, the Trustee may, and upon the written request of the Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding shall, by notice in writing delivered to the Issuer and the Borrower, declare the principal of all Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable, anything in the Bonds, the Loan Agreement, the Notes, or the Indenture to the contrary notwithstanding.

Other Remedies for Events of Default

Upon the occurrence of an Event of Default, before or after declaring the principal of the Bonds immediately due and payable, the Trustee may proceed to pursue any available remedy by suit at law or in equity, including, without limitation, the following:

- (a) By mandamus, or other suit, action, or proceeding at law or in equity, as the Trustee shall deem most effective to protect and enforce all rights of the Owners, require the Issuer and the Borrower to carry out their respective covenants, agreements, and obligations under the Indenture, the Loan Agreement, the Notes, or the Act.
- (b) Bring suit upon the Indenture and the Bonds.
- (c) Bring suit upon the Loan Agreement and the Notes.
- (d) By action, suit, or proceeding at law or in equity require the Issuer to account as if it were the trustee of an express trust for the Owners.
- (e) By action, suit, or proceeding at law or in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners.

Any judgment against the Issuer will be enforceable only against the Trust Estate. There will not be authorized any deficiency judgment against any assets of, or the general credit of, the Issuer.

If an Event of Default has occurred and be continuing, and if requested to do so by the Owners of not less than 25% in aggregate principal amount of all Bonds then Outstanding and if indemnified as provided in Section 7.1(m) of the Trust Indenture, the Trustee will be obligated to exercise one or more of the lawful rights and powers conferred by the Indenture, as the Trustee, being advised by counsel, deems in the interests of the Owners.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee (or to the Owners) is intended to be exclusive of any other remedy, but each and every such remedy will be cumulative and will be in addition to any other remedy given to the Trustee or the Owners under the Indenture or now or hereafter existing at law, in equity, or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default will impair any such right or power or will be construed to be a waiver of any such default or Event of Default or acquiescence therein; and every such right and power may be exercised from time to time as often as may be deemed expedient by the Trustee or the Owners as the case may be.

No waiver of any default or Event of Default hereunder, whether by the Trustee or the Owners will extend to or will affect any subsequent default or Event of Default or will impair any right or remedies consequent thereon.

The Trustee

In the Indenture, the Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Indenture. The Indenture provides that no implied covenants or obligations are to be read into the Indenture against the Trustee. In case an Event of Default has occurred (which has not been cured or waived) and after the Trustee takes notice thereof as provided in the Indenture, the Trustee agrees to exercise such of the rights and powers vested in it by the Indenture, and to use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of its own affairs.

The Trustee may execute any of the trusts or powers under the Indenture and perform any of its duties by or through attorneys, agents, receivers, or employees, but the Trustee will not be answerable for the conduct of the same provided that the Trustee uses reasonable care in selecting such representative. The Trustee shall be entitled to advice of counsel concerning all matters of trust and the duties under the Indenture, and in all cases may pay such reasonable compensation to all such attorneys, agents, receivers, and employees as may reasonably be employed or retained in connection with the trust created by the Indenture. The Trustee may act upon the opinion or advice of any attorneys and shall not be responsible for any loss or damage resulting from any action or non-action exercised in good faith in reliance upon such opinion or advice.

RISK FACTORS

Prospective purchasers of the Bonds should consider carefully, along with other matters referred to herein, the following risks of investment. The ability of the Borrower to meet the debt service requirements of the Bonds is subject to various risks and uncertainties which are discussed throughout this Limited Offering Memorandum. Certain of such investment considerations are set forth below. This section of this Limited Offering Memorandum does not purport to summarize all of the risks. Investors should read this Limited Offering Memorandum in its entirety.

The Bonds are offered only to Accredited Investors and Qualified Institutional Buyers in minimum denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof, will not receive a credit rating from any source, and are not suitable investments for all investors. Each prospective purchaser is responsible for assessing the merits and risks of an investment in the Bonds and must be able to bear the economic risk of such investment in the Bonds. By purchasing the Bonds, each purchaser represents that it is an Accredited Investor or a Qualified Institutional Buyer with sufficient knowledge and experience in financial and business matters, including the purchase and ownership of tax-exempt obligations, to evaluate the merits and risks of an investment in the Bonds.

General

THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS.

Limited Obligations

The Bonds are special and limited obligations of the Issuer. They are secured by and payable solely from funds payable by the Borrower under the terms and conditions of the Loan Agreement and as otherwise described herein. The obligations of the Issuer under the Indenture are not general obligations of the Issuer and neither the Trustee nor the registered or beneficial owners of the Bonds will have any recourse to any property, funds or assets of the Issuer (other than the property granted to the Trustee as part of the Trust Estate) with respect to such obligations. See "SECURITY AND SOURCE OF PAYMENT."

Dependence on the State

State Payments Subject to Biennial Appropriation. Repayment of Debt Service on the Bonds depends principally on receipt by the Borrower of payments by the State and by the school district that the student would otherwise attend for each student in average daily attendance. The State legislature meets each odd-numbered biennium, and failure of the State legislature to appropriate sufficient amounts to pay its share of the per student cost to the Borrower could result in failure of the Issuer to make timely payments of Debt Service on the Bonds. See "THE SYSTEM OF CHARTER SCHOOLS IN TEXAS."

Changes in the School Finance System. Because Texas charter schools are ultimately funded from the same sources as Texas public school districts, changes in the system of school finance could significantly affect how charter schools, including the Borrower, are funded. Neither the Issuer nor the Borrower can make any representation or prediction concerning how or if the State Legislature may change the current public school finance system, and how those changes may affect the funding or operations of charter schools. See "THE SYSTEM OF CHARTER SCHOOLS IN TEXAS" AND "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS."

Changes in the System of Charter Schools. Continued operation could be adversely affected if the State makes changes in the legislative provisions governing operation of charter schools. The system of charter schools in State was first enacted in 1995, and unforeseen operational or management issues could cause the State to significantly alter the statutory provisions governing charter schools in the future. See "THE SYSTEM OF CHARTER SCHOOLS IN TEXAS" and "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS."

Revocation or Non-renewal of Charter. The School's charter has been renewed and will expire on July 31, 2013. In addition, the School's charter may be revoked or the State may refuse to renew the charter if the person operating the Schools commits a material violation of the charter, including failure to satisfy accountability provisions

prescribed by the charter, failure to satisfy generally accepted accounting standards of fiscal management, or failure to comply with the provisions of Chapter 12, Texas Education Code or other applicable laws or rules. See "THE SYSTEM OF CHARTER SCHOOLS IN TEXAS."

Dependence on the Borrower

Dependence on Per Student Revenues. The Borrower derived approximately 86% of its revenues during the 2005-2006 school year from payments by the State and/or by the school district that a student would otherwise attend for each student in average daily attendance at the Schools. The timely payment of principal and interest on the Bonds depends on operations of the Schools attracting and retaining the number of students that are needed to provide sufficient revenues to make timely payment of Loan Payments securing payment of the Debt Service on the Bonds. See "FINANCIAL AND OPERATIONS INFORMATION—Projections by the Borrower."

Growth of Student Population. The principal source of repayment of the Bonds is monthly amounts paid by the State and local district to the Schools on the basis of average daily attendance. The Borrower's total per student funding for 2005-2006 was approximately \$6,000 per student in average daily attendance, but such amount may vary from year to year. See "THE SYSTEM OF CHARTER SCHOOLS IN TEXAS—State Funding" and "—Local Funding". The student population for the 2005-2006 fiscal year was 293. Current enrollment (2006-2007 School Year) is 429 as of August 24, 2006. At current levels of enrollment, State and local payments are sufficient to provide revenues to make timely payment of Loan Payments securing payment of the Debt Service on the Bonds. However, any failure to retain students at current enrollment levels could adversely affect the School's ability to provide sufficient revenues to make timely payment of Loan Payments securing payment of the Debt Service on the Bonds. See "FINANCIAL AND OPERATIONS INFORMATION—Projections by the Borrower."

Accuracy of Borrower Projections of Growth. The Borrower is not making projections with regard to future growth. Its current level of enrollment provides sufficient revenue for debt service on the Bonds, financial commitments to students and staff, repair of facilities and growth in general fund balance. Currently, there are approximately 10 applications on the waiting list for admission. **Pro-forma revenue and expenditure projections are from the Borrower, and neither the Issuer nor the Underwriter has commissioned an independent feasibility analysis of any of the projected student attendance figures upon which the Borrower's projections are based. No independent confirmation of the Borrower's projections has been made, and while the Borrower believes its projections of growth of average daily attendance are reasonable, such growth may or may not occur and may be affected by a variety of factors, including continued provision for funding of the Schools by the State at adequate levels, operations and maintenance of the Schools, and competition from other public or private schools in the El Paso area.** See "FINANCIAL AND OPERATIONS INFORMATION—Projections by the Borrower."

Risks Associated with a New Venture. The likelihood of success of the Borrower must be viewed in light of the problems, expenses, difficulties, delays, and complications often encountered in the formation of a new enterprise. The Borrower has been operating the Schools since June 1, 1998. As a new venture, a potential investor should anticipate that operational difficulties would exist for the Borrower that might not exist for traditional public schools or for established private schools.

Further, the system of charter schools in the State is recent, having only been established in 1995. Potential purchasers should therefore be aware that in addition to the Schools themselves being a new venture, the system under which the Schools operate is also new, and future operations of the Schools could be significantly affected by unforeseen problems arising from the statutory provisions governing charter schools in the State or future changes therein. See "—Dependence on the State—Changes in the System of Charter Schools" and "THE SYSTEM OF CHARTER SCHOOLS IN TEXAS". An evaluation of the first four years of operation of the State's charter schools was commissioned by the State Board of Education, and is available from the Division of Charter Schools, Texas Education Agency, 1701 N. Congress Ave., Austin, TX 78701-1494, 512-463-9732, or at www.tasb.org/tcer/schools/yr4-exec-sum.doc.

Market Demand; Competition. The Schools are located in the 79912 zip code in the El Paso area. Unlike school districts, the Borrower must attract students from other schools, both public and private, within the El Paso area. No students are required to attend the Schools, and students at the Schools may subsequently transfer to other public or private schools at will. There are numerous public and private schools in the El Paso area, many of which may be

closer to the homes of present or prospective students of the Schools. Failure by the Borrower to provide facilities or academics at a level acceptable to students and their parents would presumably cause the Borrower to fail to attract or maintain students, and would negatively affect the ability of the Borrower to make Loan Payments in an amount sufficient to pay the Bonds.

The Schools are two of five charter schools established in the El Paso area. There are nine (9) public elementary schools and two (2) middle schools within the 79912 zip code. Currently 68% of the School's students reside in the 79912 zip code.

El Paso Independent School District Elementary and Middle Schools in Proximity to the Schools

<u>School</u>	<u>2006 Accountability Rating</u>	<u>Student Population</u>	<u>Proximity to The Schools</u>
Morehead Middle	Academically Acceptable	1,162	5.40
Hornedo Middle	Recognized	1,786	2.14
Putnam Elementary	Recognized	565	2.72
Western Hills Elementary	Recognized	466	2.81
Johnson Elementary	Academically Acceptable	728	3.99
Rivera Elementary	Academically Acceptable	577	2.05
Polk Elementary	Exemplary	767	1.28
Green Elementary	Recognized	612	4.79
Guerrero Elementary	Recognized	940	.55
Kohlberg Elementary	Recognized	882	1.57
Tippin Elementary	Recognized	632	2.01

Limited Assets of the Borrower. The Borrower's principal assets are the Schools. If the Schools do not generate sufficient revenues to pay all of the Borrower's loan obligations and operating expenses, the Borrower may have no other significant source of funds to make such payments. A failure by the Borrower to pay the Borrower's operating expenses would presumably ultimately result in the inability of the Borrower to attract or maintain sufficient revenues for payment of its Loan Payments.

No Taxing Power. The Borrower has no taxing power.

Factors Associated with Education

There are a number of factors affecting schools in general that could have an adverse effect on the School's financial position and ability to make Loan Payments. These factors include, but are not limited to, increasing costs of compliance with federal, state or local regulatory laws or regulations, including, without limitation, laws or regulations concerning environmental quality, work safety and accommodating persons with disabilities; any unionization of the School's work force with consequent impact on wage scales and operating costs of the Schools; the ability to attract a sufficient number of students; and changes in existing statutes pertaining to the powers and minimum funding levels for charter schools. Operation of schools also presents significant risks and operational and management issues not present in other enterprises. While State law provides that the Schools are immune from liability to the same extent as a school district, and that its employees and volunteers are immune from liability to the same extent as employees and volunteers of a school district, a potential investor should anticipate that, because the Schools provides services to children, any failure in the Borrower's operation and management of the Schools could result in liability risks to the Borrower which would not be present for other enterprises not engaged in providing such services.

Non-Recourse Debt. The obligations of the Borrower under the Loan Agreement are non-recourse in nature. The Borrower is obligated to meet its obligations under the Loan Agreement except for certain reimbursement and indemnity obligations. Should the Borrower be unable to meet its obligations under the Loan Agreement, the Trustee's remedies will be limited to foreclosure upon the Deed of Trust and recovery against the funds and accounts held by the Trustee (other than the Rebate Fund) pursuant to the Indenture.

Payment of State Funds to Trustee

The Indenture provides that all of the Revenues will be deposited into the Facility Revenue Fund held by the Trustee, and the Borrower will covenant and agree in the Loan Agreement that, without demand by the Trustee, it will deliver or cause to be delivered to the Trustee within one Business Day from the day of receipt of the Revenues to be so deposited. The only remedy available to the Trustee or Bondholder would be a suit against the Borrower to enforce the provisions of the Loan Agreement.

Legal Opinions

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

Related Party Transactions

The Borrower has numerous transactions with affiliated or related parties. The Borrower is related or affiliated with Iris Burnham, who is the initiator and superintendent of the Schools as well as President of the Board and mother to Esther Furrer. Ms. Burnham owns the 10,000+ square foot building on the Burnham Wood Charter School campus.

The Borrower has been leasing the 10,000+ square foot building on the Burnham Wood Charter School campus from Iris Burnham under the terms of a lease agreement. The Schools are required to pay real property taxes and common maintenance expenses in addition to rent. Total rent expense included in the statement of activities for fiscal year ending August 31, 2005 was \$86,916. During fiscal year ended August 31, 2005, the Schools paid \$65,809 to Ms. Burnham for building leases. Part of the proceeds of the Bonds are being used to purchase these facilities from Ms. Burnham for a purchase price of \$1,250,000. See "PLAN OF FINANCING – The Project".

Conclusion

FROM THE ABOVE, IT IS EVIDENT THAT AN INVESTMENT IN THE BONDS INVOLVES A HIGH DEGREE OF RISK AND IS SPECULATIVE IN NATURE. The relatively high interest rate borne by these Bonds (as compared to prevailing interest rates on more secure bonds such as those which constitute general obligations of fiscally sound municipalities or states or creditworthy borrowers) is intended to compensate the investor for assuming this element of risk. Each prospective investor should carefully examine this Limited Offering Memorandum and the Appendices hereto and such investor's own financial condition in order to make a judgment as to whether the Bonds are an appropriate investment for such investor.

Tax-Exempt Status on the Series 2006A Bonds

The Internal Revenue Code of 1986, as amended (the "Code") imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Series 2006A Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds, limitations on the investment earnings of bond proceeds prior to expenditure, a requirement that certain investment earnings on bond proceeds be paid periodically to the United States, and a requirement that issuers file an information report with the IRS. The Borrower has agreed that they will comply with such requirements. Failure to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of the interest on the Series 2006A Bonds as taxable. Such adverse treatment may be retroactive to the date of issuance. See also "TAX MATTERS."

In December 1999, as a part of a larger reorganization of the IRS, the IRS commenced operation of its Tax-Exempt and Government Entities Division (the "TE/GE Division") as the successor to its Employee Plans and Exempt Organizations division. The TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. The number of tax-exempt bond examinations has increased significantly under the new TE/GE Division.

The Borrower has not sought to obtain a private letter ruling from the IRS with respect to the Series 2006A Bonds, and the opinion of Bond Counsel is not binding on the IRS. There is no assurance that any IRS examination of the Bonds will not adversely affect the market value of the Series 2006A Bonds. See "TAX MATTERS" below.

Tax-Exempt Status of the Borrower

The tax-exempt status of the Series 2006A Bonds presently depends upon maintenance by the Borrower of its status as an organization described in section 501(c)(3) of the Code. The maintenance of this status depends on compliance with general rules regarding the organization and operation of tax-exempt entities, including operation for charitable and educational purposes and avoidance of transactions that may cause earnings or assets to inure to the benefit of private individuals, such as the private benefit and inurement rules.

Tax-exempt organizations are subject to scrutiny from and face the potential for sanction and monetary penalties imposed by the IRS. One primary penalty available to the IRS under the Code with respect to a tax-exempt entity engaged in inurement or unlawful private benefit is the revocation of tax-exempt status. Although the IRS has not frequently revoked the tax-exempt status of non-profit organizations, it could do so in the future. Loss of tax-exempt status by the Borrower could result in loss of tax exemption of the 2006A Bonds and defaults in covenants regarding the Bonds and other obligations would likely be triggered. Loss of tax-exempt status by the Borrower could also result in substantial tax liabilities on its income. For these reasons, loss of tax-exempt status of the Borrower could have material adverse consequences on the financial condition of the Borrower.

With increasing frequency, the IRS has imposed substantial monetary penalties and future charity or public benefit obligations on tax-exempt entities in lieu of revoking tax-exempt status, as well as requiring that certain transactions be altered, terminated or avoided in the future and/or requiring governance or management changes. These penalties and obligations typically are imposed on the tax-exempt organization pursuant to a "closing agreement," a contractual agreement pursuant to which a taxpayer and the IRS agree to settle a disputed matter. Given the exemption risks involved in certain transactions, the Borrower may be at risk for incurring monetary and other liabilities imposed by the IRS. These liabilities could be materially adverse.

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

The Borrower may be audited by the IRS. Because of the complexity of the tax laws and the presence of issues about which reasonable persons can differ, an IRS audit could result in additional taxes, interest and penalties. An IRS audit ultimately could affect the tax-exempt status of the Borrower, as well as the exclusion from gross income for federal income tax purposes of the interest on the Series 2006A Bonds and any other tax-exempt debt issued for the Borrower.

State and Local Tax Exemption

The State has not been as active as the IRS in scrutinizing the tax-exempt status of nonprofit organizations. It is possible that legislation may be proposed to strengthen the role of the Attorney General of the State in supervising nonprofit organizations. It is likely that the loss by the Borrower of federal tax exemption also would trigger a challenge to the state or local tax exemption of the Borrower. Depending on the circumstances, such event could be adverse and material.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation for not-for-profit corporations. There can also be no assurance that future changes in the laws and regulations of federal, state or local governments will not materially adversely affect the operations and financial conditions of the Borrower by requiring the Borrower to pay income or local property taxes.

Unrelated Business Income

The IRS and state, county and local tax authorities may undertake audits and reviews of the operations of tax-exempt organizations with respect to the generation of unrelated business taxable income (“UBTI”). The Borrower may participate in activities that generate UBTI. An investigation or audit could lead to a challenge that could result in taxes, interest and penalties with respect to UBTI and, in some cases, ultimately could affect the tax-exempt status of the Borrower as well as the exclusion from gross income for federal income tax purposes of the interest payable on the Series 2006A Bonds.

Risk of Catastrophic Loss

In the event a natural or man-made disaster, such as a hurricane, fire, earthquake, tornado, or war destroyed the Schools, the revenues of the Borrower would be drastically reduced. Moreover, the market value of the property pledged under the Deed of Trust would also be drastically reduced.

While the Bonds are outstanding, the Borrower has agreed to insure or cause insurance to be carried for its buildings and contents, including the Project, against such losses and in such amounts as is customary for persons engaged in the same business as the Borrower and operating facilities similar to its buildings and other facilities, including the Project. The Borrower has additionally covenanted in the Loan Agreement to provide general liability, comprehensive professional liability, workers compensation, and business interruption insurance. The business interruption insurance is required to cover actual losses in gross revenues from the Project resulting directly from necessary interruption of the operation of the Borrower caused by damage to or destruction (resulting from fire and lightning, accident to a fire pressure vessel or machinery, and other perils as further set forth in the Loan Agreement) to real or personal property constituting part of the Project, less charges and expenses which do not necessarily continue during the interruption, for such length of time as may be required with the exercise of due diligence and dispatch to rebuild, repair, or replace such properties as have been damaged or destroyed (but in no event less than 12 months). In the event of insurance proceeds in an amount greater than \$250,000 from damage or destruction, or proceeds from condemnation in an amount greater than \$250,000, the Loan Agreement requires transfer of such amounts to the Trustee under the conditions set forth in the Loan Agreement. Nevertheless, there can be no assurance that a casualty loss will be covered by insurance (certain casualties are excepted), that the insurance company will fulfill its obligation to provide insurance proceeds, that insurance proceeds to rebuild the Schools will be sufficient, or that a sufficient number of students would wish to attend the Schools following rebuilding. Even if insurance proceeds are available and the Schools are rebuilt, there could be a lengthy period in which there would be little or no revenues.

Limited Remedies After Default

Remedies available to owners of Bonds in the event of a default by the Issuer in one or more of its obligations under the Bonds or the Indenture or the Borrower under the Agreement or the Note are limited to the terms of such instruments, and may prove to be expensive, time-consuming, and difficult to enforce. Further, as noted above, the Bonds are limited obligations of the Issuer and existence of any remedy does not guarantee sufficient assets of the Borrower pledged to payment of the Bonds to secure such payment. See “RISK FACTORS –Limited Obligations.”

Remedies with respect to foreclosure under the Deed of Trust may be further limited by State constitutional and statutory limitations on foreclosure, including the right of redemption of foreclosed property granted to debtors under the Texas Constitution.

The enforceability of the rights and remedies of the Bondholders may further be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors such as the Issuer or the Borrower. See “RISK FACTORS –Risk of Bankruptcy” below.

Ability to Sell or Lease the Project if an Event of Default Occurs

Upon the occurrence of any event of default under the Indenture, a remedy available to the Trustee, or a majority in principal amount of the Owners of the Bonds then outstanding, is to attempt to sell or lease the Project. There can be no assurances that the Trustee or the Holders of the Bonds will be able to find a willing purchaser or lessee

for the Project. The failure to sell or lease the Project for payments that would generate amounts, after payment of certain costs and expenses, substantially equal to the principal and interest due with respect to the Bonds, will make it impossible for the Trustee to pay the Bonds in full. Any sale or lease of the Project may require compliance with laws of the State applicable thereto. Such compliance may be difficult, time-consuming, and/or expensive. The Project may not be adaptable to other revenue general uses.

Additionally, as the Project will constitute special-purpose school facilities, in the event of a foreclosure pursuant to the Deed of Trust, the number of uses which could be made of the Project and the number of entities which would be interested in purchasing the Project may be limited, and the sale price might thus be materially reduced or adversely affected. Even if the Trustee should acquire title to the Project pursuant to its foreclosure remedies, the ability of the Trustee to lease or resell the Project to third parties, thereby liquidating the investment, may be limited as a result of the nature of the Project. For these reasons no assurance can be made that the amount realized upon any forced sale of the Project will be fully sufficient to pay and discharge the Bonds.

Potential Environmental Liability

There are potential risks relating to environmental liability associated with the ownership of, or secured lending with respect to, any property. If hazardous substances are found to be located on property, owners of, or secured lenders regarding such property may be held liable for costs and other liabilities relating to such hazardous substances. In the event of a foreclosure pursuant to the Deed of Trust or participation in the management of the Project by the Holders of the Bonds, the Holders may be held liable for costs or other liabilities relating to hazardous substances, if any, on the Land on a strict liability basis and such costs might exceed the value of such property.

Risk of Bankruptcy

There is a risk that the Borrower may file for bankruptcy and afford itself the protection of the federal Bankruptcy Code. In that case, the Borrower receives the benefit of the automatic stay and creditors, such as the owners of the Bonds, cannot pursue their remedies against it without the permission of the Bankruptcy Court. The Borrower has a right to reorganize and adjust its debts with the approval of the Bankruptcy Court. While the Borrower is a nonprofit corporation, the Schools are a part of the public school system. Consequently, it is not clear whether the Borrower would properly file as a corporate debtor or under chapter nine of the United States Bankruptcy Code governing government subdivisions. If the Borrower is properly a corporate debtor, it may be possible for the Borrower to be forced into involuntary bankruptcy by one or more creditors. A bankruptcy filing by or against the Borrower could adversely affect the receipt of principal and interest on the Bonds.

Risk of Increased Debt

The Issuer has reserved the right to incur Additional Indebtedness which is secured under the Indenture on an equal basis with the Bonds. The incurrence of Additional Indebtedness may adversely affect the investment security of the Bonds. For a description of the circumstances under which Additional Bonds may be incurred, see "SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT-Additional Indebtedness."

Risk of Failure to Comply with Certain Covenants

Failure of the Issuer to comply with certain covenants contained in the Indenture or the Borrower with covenants in the Loan Agreement on a continuing basis prior to the maturity of the Series 2006A Bonds could result in interest on the Series 2006A Bonds becoming taxable retroactive to the date of original issuance. See "TAX MATTERS."

Limited Marketability of the Bonds

The Issuer has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price may be

greater than the bid and asked price of bonds of comparable maturity and quality issued by more traditional issuers as such bonds are more generally bought, sold or traded in the secondary market.

The purchase of the Bonds is suitable only for participants of substantial financial means who have no need for liquidity in their investment and who understand and can afford the financial and other risks of this investment. To help prevent purchase of Bonds by investors who may not be appropriate investors, the Issuer has restricted denominations of the Bonds to \$100,000 and integral multiples of \$5,000 in excess thereof. Resale of the Bonds to beneficial owners in lesser denominations is not authorized except as provided for under the terms of the Indenture. The Indenture provides that at such time as the Bonds are rated "investment grade" by either Fitch, Moody's, or S&P, and upon receipt of such rating and satisfaction of all conditions and notices set forth in the Indenture, the authorized denominations of the Bonds will be reduced to \$5,000.

Suitability and Transfer Restrictions

The initial Owner of any Bonds will be required to deliver to the Trustee an investor's letter, substantially in the form set forth as Appendix D hereto, with only such changes as may be acceptable to the Trustee (the "*Investor's Letter*"), to evidence that such Bonds are owned by an investor that is an "accredited investor" under Regulation D of the Securities Act of 1933 or a "qualified institutional buyer" under Rule 144A promulgated by the Securities and Exchange Commission thereunder and that each such accredited investor or qualified institutional buyer has sufficient knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of an investment in the Bonds. See "THE BONDS – Transfer Restrictions" herein.

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC, Cede & Co. and the Book-Entry System has been furnished by DTC for use in disclosure documents such as this Limited Offering Memorandum. The Issuer and the Underwriter believe such information to be reliable, but neither the Issuer nor the Underwriter takes any responsibility for the accuracy or completeness thereof.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond certificate per maturity will be issued for each stated maturity of each Series of the Bonds, each in the aggregate principal amount of such stated maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

Use of Certain Terms in Other Sections of this Limited Offering Memorandum. In reading this Limited Offering Memorandum it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Limited Offering Memorandum to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Indenture will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the Issuer or the Underwriter.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Recent Litigation Relating to the Texas School Finance System

On April 9, 2001, four property wealthy districts filed suit in the 250th District Court of Travis County, Texas (the "District Court") against the Texas Education Agency, the Texas State Board of Education, the Texas Commissioner of Education (the "Commissioner") and the Texas Comptroller of Public Accounts in a case styled West Orange-Cove Consolidated Independent School District, et al. v. Neeley, et al. The plaintiffs alleged that the \$1.50 maximum maintenance and operations tax rate had become in effect a State property tax, in violation of article VIII, section 1-e of the Texas Constitution, because it precluded them and other school districts from having meaningful discretion to tax at a lower rate. Forty school districts intervened in two groups, six with Edgewood ISD and thirty-four with Alvarado ISD. The intervenors alleged that the Texas public school finance system (the "Finance System") was inefficient, inadequate, and unsuitable, in violation of article VII, section 1 of the Texas Constitution, because the State of Texas (the "State") did not provide adequate funding. As described below, this case has twice reached the Texas Supreme Court (the "Supreme Court"), which rendered decisions in the case on May 29, 2003 ("West Orange-Cove I") and November 22, 2005 ("West Orange-Cove II"). After the remand by the Supreme Court back to the District Court in West Orange-Cove I, 285 other school districts were added as plaintiffs or intervenors. The plaintiffs joined the intervenors in their article VII, section 1 claims that the Finance System is inadequate and unsuitable, but not in their claims that the Finance System is inefficient.

On November 30, 2004, the final judgment of the District Court was released in connection with its reconsideration of the issues remanded to it by the Supreme Court in West Orange-Cove I. In that case, the District Court rendered judgment for the plaintiffs on all of their claims and for the intervenors on all but one of their claims, finding that (1) the Finance System is unconstitutional in that the Finance System violates article VIII, section 1-e of the Texas Constitution because the statutory limit of \$1.50 per \$100.00 of taxable assessed valuation on property taxes levied by school districts for operation and maintenance purposes has become both a floor and a ceiling, denying school districts meaningful discretion in setting their tax rates; (2) the constitutional mandate of adequacy set forth in article VII, section 1, of the Texas Constitution exceeds the maximum amount of funding that is available under the current funding formulas administered by the State; and (3) the Finance System is financially inefficient, inadequate, and unsuitable in that it fails to provide sufficient access to revenue to provide for a general diffusion of knowledge as required by article VII, section 1, of the Texas Constitution.

The final judgment of the District Court included an injunction (the "Prospective Injunction") prohibiting the distribution of State money for school district operations under the current Finance System until the Legislature of the State (the "Legislature") has conformed the Finance System to meet Texas constitutional standards. The final judgment of the District Court stayed the effect of the Prospective Injunction until October 1, 2005 in order to give the Legislature a reasonable opportunity to cure the constitutional deficiencies in the Finance System. The Supreme Court granted a direct appeal filed by the State. Oral argument on West Orange-Cove II was held on July 6, 2005, with the Supreme Court rendering its decision with respect to such case on November 22, 2005. The Texas Supreme Court upheld the District Court's ruling that State constitutional mandates of adequacy, efficiency, and sufficiency under Article VII, Section of the Texas Constitution were violated by the Finance System because the \$1.50 cap on maintenance and operation taxes amounted to an unconstitutional State property tax. The Texas Supreme Court, however, reversed the District Court's ruling that constitutional mandates of adequacy, efficiency, and sufficiency under Article VII, Section 1 of the Texas Constitution were violated by the Finance System. The Texas Supreme Court's judgment extended the Prospective Injunction from October 1, 2005, to June 1, 2006, in order to give the Legislature a reasonably opportunity to cure the identified constitutional deficiencies in the Finance System.

As stated above, in West Orange-Cove I the plaintiff school districts asserted that the \$1.50 per \$100.00 of taxable assessed valuation tax that is generally authorized by State law to be levied for school operation and maintenance purposes (the "O&M Tax"), though imposed locally, has become in effect a State property tax prohibited by article VIII, section 1-e of the Texas Constitution. The intervening school district groups contended that funding for school operations and facilities is inefficient in violation of article VII, section 1 of the Texas Constitution, because children in property-poor districts do not have substantially equal access to education revenue. The school districts asserted that the Finance System cannot achieve "[a] general diffusion of knowledge" as required by article VII, section 1 of the Texas Constitution, because the system is underfunded. The State, represented by the Texas Attorney General, made a number of arguments opposing the positions of the school districts, as well as asserting that school districts did not have standing to challenge the State in these matters.

In West Orange-Cove II, the Supreme Court's holding was twofold: (1) that the local O&M Tax had become a State property tax in violation of article VIII, section 1-e of the Texas Constitution and (2) the deficiencies in the Finance System do not amount to a violation of article VII, section 1 of the Texas Constitution. In reaching its first holding, the Supreme Court relied on evidence presented to the District Court to conclude that school districts do not have meaningful discretion in levying the O&M Tax. In reaching its second holding, the Court, using a test of arbitrariness, determined that: the public education system is "adequate," since it is capable of accomplishing a general diffusion of knowledge; the Finance System is not "inefficient," because school districts have substantially equal access to similar revenues per pupil at similar levels of tax effort, and efficiency does not preclude supplementation of revenues with local funds by school districts; and the Finance System does not violate the constitutional requirement of "suitability," since the present system is suitable for adequately and efficiently providing a public education.

In reversing the District Court's holding that the Finance System was unconstitutional under article VII, section 1 of the Texas Constitution, the Supreme Court stated:

Although the districts have offered evidence of deficiencies in the public school finance system, we conclude that those deficiencies do not amount to a violation of article VII, section 1. We remain convinced, however, as we were sixteen years ago, that defects in the structure of the Finance System expose the system to constitutional challenge. Pouring more money into the system may forestall those challenges, but only for a time. They will repeat until the system is overhauled.

In response to the intervenor districts' contention that the Finance System is constitutionally inefficient, the West Orange-Cove II decision states that the Texas Constitution does not prevent the Finance System from being structured in a manner that results in gaps between the amount of funding per student that is available to the richest districts as compared to the poorest district, but reiterated its statements in *Edgewood Independent School District v. Meno*, 893 S.W.2d 450 (Tex. 1995) ("Edgewood IV") that such funding variances may not be unreasonable. The Supreme Court further stated that "[t]he standards of article VII, section 1 - adequacy, efficiency, and suitability - do not dictate a particular structure that a system of free public schools must have." The Supreme Court also noted that "[e]fficiency requires only substantially equal access to revenue for facilities necessary for an adequate system," and the Supreme Court agreed with arguments put forth by the State that the plaintiff school districts had failed to present sufficient evidence to prove that there is an inability to provide for a "general diffusion of knowledge" without additional facilities.

As noted above, in West Orange-Cove II the Supreme Court modified the effective date of the Prospective Injunction from October 1, 2005 to June 1, 2006. With the passage of the Reform Legislation (as described below) by the Legislature in response to the Supreme Court's decision in West Orange-Cove II, the District Court dissolved the Prospective Injunction on May 26, 2006.

Funding Changes in Response to West Orange-Cove II

The Governor called a third special session of the 79th Legislature to address the deficiencies in the Finance System that were identified in West Orange-Cove II. The special called session began on April 17, 2006 and ended on May 15, 2006 (the "Third Called Session"). In the Third Called Session, the Legislature enacted House Bill 1 ("HB 1"), which makes substantive changes in the way the Finance System is funded, as well as House Bill 2 ("HB 2"), which establishes a special fund in the State treasury to be used to collect new tax revenues that are dedicated under certain conditions for appropriation by the Legislature to reduce O&M Tax rates. Through enactment of House Bills 3, 4 and 5 the Legislature has, respectively, broadened the State business franchise tax, modified the

procedures for assessing the State motor vehicle sales and use tax and increased the State tax on tobacco products (House Bills 1 through 5 are collectively referred to as the "Reform Legislation"). The Governor has signed all of the Reform Legislation into law, which generally became effective at the beginning of the 2006-07 fiscal year of each district. For a description of the changes to the Finance System effected by HB 1, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2006 Reform Legislation."

Recent Litigation Relating to HBI

On June 14, 2006, an entity called Citizens Lowering Our Unfair Taxes PAC ("CLOUT") filed a lawsuit (case number GN602156) in the 345th District Court (the "District Court") in Travis County, Texas against the Texas Lieutenant Governor, the Speaker of the Texas House of Representatives, the Texas Comptroller of Public Accounts, the State of Texas and the Legislative Budget Board ("LBB") (collectively, the "State Defendants") in a case styled Edd Hendee, individually and as Executive Director of C.L.O.U.T. v. Dewhurst, et al. (the "CLOUT Lawsuit"). The plaintiffs allege that various violations of Article VIII, Section 22(a) of the Texas Constitution and Chapter 316 of the Texas Government Code have occurred and have resulted in unconstitutional and illegal spending by the Texas State government, including the appropriations made for the Texas public school Finance System under HB 1. (See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2006 Reform Legislation" for a discussion regarding HB 1). Among other things, the plaintiffs challenge the methodology used to establish the maximum amount of non-dedicated revenues that may be spent in the 2006-2007 State biennium under Article VIII, Section 22(a) and the delegation of the determination of such amount to the LBB. The plaintiffs have requested, among other things, a declaratory judgment that the appropriation for the Finance System in HB 1 is unconstitutional on the basis that it exceeds the maximum amount of appropriations authorized by Article VIII, Section 22(a). The State Defendants timely filed an answer to the suit with the 345th District Court. The answer includes a general denial of the allegations of the plaintiffs and, in addition, asserts certain affirmative defenses to the suit. On August 7, 2006, the District Court granted a motion filed by the State Defendants to dismiss the suit on the grounds that the issues raised by the suit are strictly within the province of the Legislature and the LBB. The plaintiffs filed a notice of accelerated appeal with the District Court on August 8, 2006. In accordance with such notice, the appeal of the dismissal is expected to be made to the State's Third Court of Appeals. The Borrower can make no representation or prediction concerning the outcome of the CLOUT Lawsuit or its effects on HB 1 and, consequently, its impact on the financial condition of the District. However, the Borrower does not anticipate that the security for the payment of the Bonds would be affected as a result of the outcome of the CLOUT Lawsuit.

Possible Effects of Litigation and Changes in Law on Borrower Obligations

The Borrower has not fully assessed the impact of the Reform Legislation on the Borrower or the CLOUT Lawsuit. However, as a result of the Reform Legislation, the District Court dissolved the Prospective Injunction. For a discussion on the security of the Bonds, reference is made, in particular, to "SECURITY AND SOURCE OF PAYMENT."

In Edgewood IV, the Supreme Court stated that any future determination of unconstitutionality "would not, however, affect the district's authority to levy the taxes necessary to retire previously issued bonds, but would instead require the Legislature to cure the Finance System's unconstitutionality in a way that is consistent with the Contract Clauses of the U.S. and Texas Constitutions" (collectively, the "Contract Clauses"). Consistent with the Contract Clauses, in the exercise of its police powers, the State may make such modifications in the terms and conditions of contractual covenants related to the payment of the Bonds as are reasonable and necessary for the attainment of important public purposes.

Although, as a matter of law, the Bonds, upon issuance and delivery, will be entitled to the protections afforded previously existing contractual obligations under the Contract Clauses, the District can make no representations or predictions concerning the effect of future legislation or litigation, or how such legislation or future court orders may affect the Borrower's financial condition, revenues or operations.

While the disposition of any possible future litigation or the enactment of future legislation could substantially adversely affect the financial condition, revenues or operations of the Borrower, as noted herein, the Borrower does not anticipate that the security for payment of the Bonds would be adversely affected by any such litigation or legislation that may be enacted in the future to address school funding in Texas. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM."

PUBLIC SCHOOL FINANCE SYSTEM PRIOR TO THE 2006-07 FISCAL YEAR

State Funding for Local School Districts

The current Finance System provides for (1) State guaranteed basic funding allotments per student ("Tier One") and (2) State guaranteed revenues per student for each cent of local tax effort to provide operational funding for an "enriched" educational program ("Tier Two"). In addition, to the extent funded by the Legislature, the Finance System includes, among other funding allotments, an allotment to subsidize qualifying districts' existing debt service up to certain limits ("EDA"), the Instructional Facilities Allotment ("IFA"), and an allotment to pay operational expenses associated with the opening of a new instructional facility. Tier One, Tier Two, EDA and IFA are generally referred to as the Foundation School Program. Tier One and Tier Two allotments represent the State funding share of the cost of maintenance and operations of school districts and supplement local ad valorem O&M Taxes levied for that purpose. Tier One and Tier Two allotments and prior year IFA allotments are generally required to be funded each year by the Legislature. EDA and future year IFA allotments supplement local ad valorem taxes levied for debt service on bonds issued by districts to construct, acquire and improve facilities and are generally subject to appropriation by the Legislature. State funding allotments may be altered and adjusted to penalize school districts with high administrative costs and, in certain circumstances, to account for shortages in State appropriations or to allocate available funds in accordance with wealth equalization goals.

Tier One allotments are intended to provide a basic program of education rated academically acceptable and meeting other applicable legal standards. If needed, the State will subsidize local tax receipts to produce an amount known as the basic allotment (the "Basic Allotment") per student in average daily attendance. Prior to the 2006-07 fiscal year, to receive the State subsidy, a school district had to levy an effective property tax of at least \$0.86 per \$100 of assessed valuation. In 2005, the Legislature appropriated funds providing for the Basic Allotment for Tier One at \$2,537 per student in average daily attendance (the same as for the 2004-05 State fiscal biennium).

Tier Two allotments are intended to guarantee each school district an opportunity to provide a basic program and to supplement that program at a level of its own choice; provided, however Tier Two allotments may not be used for the payment of debt service or capital outlay. Prior to the 2006-07 fiscal year, each school district was guaranteed an amount (the "Foundation Program Guaranteed Yield") per weighted student in State and local funds for each cent of tax effort (excluding the district's bond debt service tax effort) that a school district levied above the effective rate of \$0.86 required for its Tier One local share, not to exceed \$0.64 per \$100 of assessed valuation.

The IFA guarantees each school district a specified amount per student (the "IFA Guaranteed Yield") in State and local funds for each cent of tax effort to pay principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. To receive an IFA, a school district must apply to the Commissioner in accordance with rules adopted by the Commissioner before issuing the bonds to be paid with State assistance. The total amount of debt service assistance over a biennium for which a district may be awarded is limited to the lesser of (1) the actual debt service payments made by the district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in average daily attendance. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. If the total amount appropriated by the State for IFA in a year is less than the amount of money school districts applying for IFA are entitled to for that year, districts applying will be ranked by the Commissioner by wealth per student, and State assistance will be awarded to applying districts in ascending order of adjusted wealth per student beginning with the district with the lowest adjusted wealth per student. In determining wealth per student for purposes of IFA, adjustments are made to reduce wealth for certain fast growing districts. Once a district receives an IFA award for bonds, it is entitled to continue receiving State assistance without reapplying to the Commissioner and the guaranteed level of State and local funds per student per cent of tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued.

State financial assistance is provided for certain existing debt issued by school districts (referred to herein as EDA) to produce a guaranteed yield (the "EDA Yield"), which for the 2006-07 State Biennium is \$35.00 (subject to adjustment as described below) in State and local revenue per student for each cent of debt service tax levy; however, for bonds that became eligible for EDA funding after August 31, 2001, and prior to August 31, 2005, EDA assistance for such eligible bonds may be less than \$35 in revenue per student for each cent of debt service tax, as a result of certain administrative delegations to the Commissioner under State law. Effective September 1, 2003, the portion of the

local debt service rate that has qualified for equalization funding by the State has been limited to the first 29 cents of debt service tax or a greater amount for any year provided by appropriation by the Legislature. In general, a district's bonds are eligible for the allotment if, during the 2004-05 fiscal year, the district (i) made payments on such bonds or (ii) levied and collected debt taxes for the payment of principal and interest on such bonds.

A district may also qualify for an allotment for operational expenses associated with opening new instructional facilities. This funding source may not exceed \$25,000,000 in one school year on a State-wide basis. For the first school year in which students attend a new instructional facility, a district is entitled to an allotment of \$250 for each student in average daily attendance at the facility. For the second school year in which students attend that facility, a district is entitled to an allotment of \$250 for each additional student in average daily attendance at the facility. The new facility operational expense allotment will be deducted from wealth per student for purposes of calculating a district's Tier Two State funding.

Local Revenue Sources - Property Tax Authority

The primary source of local funding for school districts is ad valorem taxes levied against the local tax base. Prior to the 2006-07 fiscal year, school districts were authorized, subject to voter approval, to levy an annual ad valorem O&M Tax at a rate, subject to limited exceptions, not to exceed \$1.50 per \$100 assessed valuation. Many school districts, however, voted their O&M Tax under prior law and may be subject to other limitations on this tax rate. School districts are also authorized to levy a bond debt service tax that may be unlimited in rate. The governing body of a school district cannot adopt an annual tax rate which exceeds the district's "rollback tax rate" without submitting such proposed tax rate to the voters at a referendum election.

Wealth Transfer Provisions

Under the Finance System, districts are required, with certain limited exceptions, to effectively adjust taxable property wealth per weighted student ("wealth per student") for each school year to no greater than the "equalized wealth level". Prior to the 2006-07 fiscal year, the equalized wealth level was \$305,000. A district may effectively reduce its wealth per student either by reducing the amount of taxable property within the district relative to the number of weighted students, by transferring revenue out of the district or by exercising any combination of these remedies.

A district has four options to reduce its wealth per student so that it does not exceed the equalized wealth level: (1) A district may consolidate by agreement with one or more districts to form a consolidated district. All property and debt of the consolidating districts vest in the consolidated district. (2) Subject to approval by the voters of all affected districts, a district may consolidate by agreement with one or more districts to form a consolidated taxing district solely to levy and distribute either O&M Taxes or both O&M Taxes and debt service taxes. (3) A district may detach property from its territory for annexation by a property-poor district. (4) A district may educate students from other districts who transfer to the district without charging tuition to such students.

A district has three options to transfer tax revenues from its excess property wealth. First, a district with excess wealth per student may purchase "attendance credits" by paying the tax revenues to the State for redistribution under the Foundation School Program. Second, it can contract to disburse the tax revenues to educate students in another district, if the payment does not result in effective wealth per student in the other district to be greater than the equalized wealth level. Both options to transfer property wealth are subject to approving elections by the transferring district's qualified voters. Third, a wealthy district may reduce its wealth by paying tuition to a non-wealthy district for the education of students that reside in the wealthy district.

A district may not adopt a tax rate until its effective wealth per student is the equalized wealth level or less. If a final court decision holds any of the preceding permitted remedial options unlawful, districts may exercise any remaining option under a revised schedule approved by the Commissioner.

If a district fails to exercise a permitted option, the Commissioner must reduce the district's property wealth per student to the equalized wealth level by detaching certain types of property from the district and annexing the property to a property-poor district or, if necessary, consolidate the district with a property-poor district. Provisions governing

detachment and annexation of taxable property by the Commissioner do not provide for assumption of any of the transferring district's existing debt.

2006 Reform Legislation

The Reform Legislation is generally effective at the beginning of the 2006-07 fiscal year of each district. The structural changes made to the Finance System by the Reform Legislation are generally included in HB 1. The basic structure of the Finance System was not modified, and the funding elements continue to include the Tier One guaranteed basic funding allotment per student, the Tier Two guaranteed yield of revenues per student for each cent of local tax effort to provide operational funding for an "enriched" educational program, the EDA allotments to subsidize existing debt service up to certain limits, and the IFA as described above. HB 1 modifies the timing and method of allocations made to school districts by the State to fund Tier One and Tier Two portions of the State's Foundation School Program. In particular, the Tier One basic allotment (currently \$2,537 per student in average daily attendance) and the Tier One guaranteed yield (currently \$27.14 per weighted student), would now be determined by a formula set forth in HB 1, which relies, as do other provisions of HB 1, on the use of a "state compression percentage," as discussed below. Based upon the formulas in HB 1 and using information provided by the Texas Legislative Budget Board (the "LBB"), the basic allotment for the 2006-07 fiscal year is estimated to be \$2,748, and the guaranteed yield for each cent of tax effort is estimated to be \$31.95. HB 1 is intended to reduce local O&M Tax rates by one third over two years, with O&M Tax levies declining by approximately 11% in fiscal year 2006-07 and approximately another 22% in fiscal year 2007-08. Additional State funding needed to offset local tax rate reductions must be generated by the modified State franchise, motor vehicle and tobacco taxes or any other revenue source appropriated by the Legislature. The LBB has projected that the Reform Legislation will be underfunded from the Reform Legislation revenue sources by a cumulative amount of \$25 billion over fiscal years 2006-2007 through 2010-2011, although current State surpluses are expected to offset the revenue shortfall in fiscal years 2006-07 and 2007-2008, and the shortfall could be further reduced if the Reform Legislation, particularly the ad valorem tax compression measures of HB 1, should prove to be an economic stimulus for the State.

Under HB 1, school districts are guaranteed to receive State funding necessary to provide the district the greater of (A) the amount of State and local revenue per student for the district in the 2005-06 fiscal year, (B) the amount of State and local revenue per student the district would have been entitled to for the 2006-07 fiscal year based on the funding elements in place prior to the Reform Legislation using the O&M Tax rate the district adopted for the 2005-06 fiscal year, or (C) the amount of State and local revenue per student the district would have been entitled to for the 2006-07 fiscal year based on the funding elements in place prior to the Reform Legislation using an O&M Tax rate that would allow the district to maintain total revenue per student under the funding elements in place prior to the Reform Legislation. In addition to the greater of (A), (B) or (C), school districts are guaranteed to receive a \$2,000 across-the-board salary increase for teachers and certain other employees funded by the State, a \$500 stipend for school district employee health insurance and a high school student allotment of \$275 per student in average daily attendance for dropout prevention and college readiness programs. State funds appropriated to provide districts the guaranteed amount may only be used for operating and maintenance purposes and not to fund facilities, debt service or other purposes. If a district adopts an O&M Tax rate in any fiscal year below a rate equal to the state compression percentage for the district in that year multiplied by the O&M Tax rate adopted by the district for the 2005-06 fiscal year, the district's guaranteed amount is reduced in a proportionate amount. If a district receives more State and local revenue from the Tier One and Tier Two allotments and wealth equalization than the guaranteed amount described above, the amount of State funding will be reduced by the excess revenue. According to the LBB, the average result to school districts in the State as a consequence of the enactment of HB 1 will be an approximately 4% increase in funding for the 2006-07 fiscal year.

In general terms, HB 1 allocates funds to districts in a manner that requires districts to "compress" their tax rates in order to receive increased State funding at a level that equalizes local tax wealth at the 88th percentile yield for the 2006-07 fiscal year. A basic component of the funding formulas in HB 1 is the "state compression percentage". The state compression percentage is 88.67% for fiscal year 2006-07 and 66.67% for fiscal year 2007-08. For fiscal year 2008-09 and thereafter, the Commissioner is required to determine the state compression percentage for each fiscal year based on the percentage by which a district is able to reduce its O&M Tax rate for that year, as compared to the district's adopted O&M Tax rate for the 2005-06 fiscal year, as a result of State funds appropriated for distribution for the current fiscal year from the property tax relief fund established under HB 2, or from any other funding source made available by the Legislature for school district property tax relief.

The primary source of local funding for school districts remains ad valorem taxes levied against the local tax base. HB 1 replaces the former provision of the Education Code, Section 45.003, that in general limited the O&M Tax rate to \$1.50 per \$100 of taxable assessed value, with a formula using the state compression percentage so that the maximum tax rate that may be adopted by a district in any fiscal year is limited based on the amount of State funds to be received by the District in that year. In addition, HB 1 amended the definition of "rollback tax rate" to take into account the new State funding structure under the Reform Legislation. A district generally cannot adopt an O&M Tax rate exceeding the district's "rollback tax rate" without approval of a majority of the voters voting at an election approving the higher rate. For the 2006-07 and 2007-08 fiscal years, HB 1 provides that districts may generate additional local funds by raising their O&M Tax rate by four cents above the compressed tax rates (without taking into account changes in taxable valuation) under HB 1 without voter approval, and such amounts will generate equalized funding dollars from the State under the Tier Two program. In fiscal year 2008-09 and thereafter, districts may, in general, increase their tax rate by an additional two or more cents and receive State equalization funds for such taxing effort so long as the voters approve such tax rate increase.

The Reform Legislation retains the concept of wealth equalization among school districts in the State, but the amount of local funds that may be retained by relatively property wealthy school districts has been increased, thereby reducing the amount of funds generated by "recapture" of local funds from high wealth districts. Under current law, a district is defined as "property wealthy" if its wealth per student in average daily attendance exceeds \$305,000. HB 1 replaces that test with a new formula. According to the LBB, the wealth level for fiscal year 2006-07 that will require wealth reduction measures is estimated at \$319,500 per student in average daily attendance. That change is expected to substantially reduce the number of districts that are subject to "recapture." Property wealthy districts may also be able to levy up to an additional four cents (six cents beginning with fiscal year 2009-10) per \$100 of assessed valuation of O&M Taxes to provide revenue above the equalized wealth level that is not subject to recapture. The Reform Legislation did not modify the procedures that property wealthy districts may take for the purpose of reducing property wealth (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Public School Finance System Prior to the 2006-07 Fiscal Year Wealth Transfer Provisions"). Additional funding was provided by the Legislature in HB 1 for low wealth districts that exercise all or part of the local option enrichment tax.

In addition to making changes to the Finance System that are generally described above, HB 1 modifies other laws including provisions mandating that all public schools in the State start the school year on a uniform date; establishing a statewide electronic student records system; requiring the Commissioner and the Texas Higher Education Coordinating Board to align high school and college curriculums; and establishing approximately \$300 million in incentive pay programs for campus and teacher incentive programs. A constitutional amendment that would have reduced the amount of taxes for taxpayers 65 years of age or older that are "frozen" so that the frozen tax amount will be proportionate to the reduction in local ad valorem taxes failed to pass during the Third Called Session, but could be reintroduced in future legislative sessions.

The Borrower can make no representation or prediction concerning whether the public school finance system as modified by the Reform Legislation will be determined to be constitutional. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS - Possible Effects Of Litigation And Changes In Law On Borrower Obligations."

2006-2007 IFA and EDA Funding

In 2005, the Legislature renewed the IFA allotment program and appropriated funds for outstanding school district bonds that qualified in prior budget cycles for IFA allotments and for additional IFA funding for the State's 2006-07 fiscal biennium. In 2005, the Legislature also appropriated funds for outstanding school district bonds that qualified in prior budget cycles for EDA allotments and provided additional EDA funding for the State's 2006-07 fiscal biennium. A district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the district receives overlapping IFA funding.

Possible Effects On The Borrower's Financial Condition

As described under "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" changes made by the State Legislature could affect the financial condition of the Borrower.

THE SYSTEM OF CHARTER SCHOOLS IN TEXAS

General

The State legislature adopted the charter school system in 1995 to offer publicly funded choices to parents within the public school system. State law provides for three types of charters: home-rule school district charters, campus or campus program charters, and open-enrollment charters. The Borrower's Charter Schools operate under an open enrollment charter.

The apparent benefit for operating as an open enrollment charter school is greater control and autonomy at the school level. Under current statutes, the charter system effectively provides the same per student public funding for education (but not necessarily for capital needs) as is available to other public schools.

The State Board of Education may grant a charter on the application of an eligible entity for an open-enrollment charter school to operate in a facility of a commercial or nonprofit entity or a school district, including a home-rule school district. "Eligible entity" includes certain institutions of higher education, certain private or independent institutions of higher education, an organization (such as the Borrower) that is exempt from taxation under Section 501(c)(3) of the Code or a governmental entity.

Limitation on Number of Charters Granted

The State Board of Education may, at this time, grant a total of not more than 215 charters for open-enrollment charter schools. An open-enrollment charter school granted a charter to serve students eligible for public education grants may serve other students.

Authority Under Charter

An open-enrollment charter school must provide instruction to students at one or more elementary or secondary grade levels as provided by the charter; must be governed under the governing structure described by the charter; will retain authority to operate under the charter contingent on satisfactory student performance as provided by statute; and does not have authority to impose taxes.

An open-enrollment charter school is subject to federal and State laws and rules governing public schools, but is subject to the Texas Education Code and rules adopted under the Texas Education Code only to the extent the applicability of a provision of the Texas Education Code or a rule adopted under the Code to an open-enrollment charter school is specifically provided.

An open-enrollment charter school has the powers granted to schools under Title 2, Texas Education Code, as amended, ("*Title 2*"), which generally governs public primary and secondary education in the State. An open-enrollment charter school is subject to any provisions of Title 2 establishing a criminal offense; prohibitions, restrictions, or requirements, as applicable, imposed by Title 2 or a rule adopted under Title 2, relating to specific provisions governing the Public Education Information Management System ("*PEIMS*"), criminal history records; high school graduation; special education programs; bilingual education; prekindergarten programs; extracurricular activities; health and safety; and public school accountability (including testing requirements).

An open-enrollment charter school is part of the public school system of the State. The governing body of the school is considered a governmental body for purposes of Chapters 551 and 552, Texas Government Code, as amended, governing open meetings and open records. The school is immune from liability to the same extent as a school district, and its employees and volunteers are immune from liability to the same extent as school district employees and volunteers. An employee of an open-enrollment charter school who qualifies for membership in the Teacher Retirement System of Texas shall be covered under the system to the same extent a qualified employee of a school district is covered. For each employee of the school covered under the system, the school is responsible for making any contribution that otherwise would be the legal responsibility of the school district, and the State is responsible for making contributions to the same extent it would be legally responsible if the employee were a school district employee.

An open-enrollment charter school must provide transportation to each student attending the school to the same extent a school district is required by law to provide transportation to district students.

State Funding

Prior to August 31, 2001, an open-enrollment charter school is entitled to the distribution from the available school fund for a student attending the open-enrollment charter school to which the district in which the student resides would be entitled. A student attending an open-enrollment charter school who is eligible under Section 42.003, Texas Education Code, as amended, is entitled to the benefits of the Foundation School Program. The Commissioner of Education will distribute from the foundation school fund to each charter school an amount equal to the cost of a Foundation School Program provided by the program for which the charter is granted, including the transportation allotment, for the student that the district in which the student resides would be entitled to, less an amount equal to the sum of the school's tuition receipts from the local district plus the school's distribution from the available school fund. This prior law provides the basis for a portion of the State Funding available to charter schools and more fully described under "The System of Charter Schools in Texas – Changes in Funding".

Generally, a student is entitled to the benefits of the Foundation School Program if the student is 5 years of age or older and under 21 years of age on September 1 of the school year and has not graduated from high school. A student is also entitled to the benefits of the Foundation School Program if the student is enrolled in certain prekindergarten classes.

The Foundation School Program provides for: (1) State guaranteed basic funding allotments per student ("*Tier One*"); and (2) State guaranteed revenues per student per penny of local tax effort to provide operational funding for an "enriched" educational program ("*Tier Two*"). State funding allotments may be altered and adjusted in certain circumstances to account for shortages in State appropriations or to allocate available funds in accordance with wealth equalization goals. Tier One allotments are intended to provide a basic program of education rated academically acceptable and meeting other applicable legal standards. If needed, the State will subsidize local tax receipts to produce a basic allotment. The basic allotment is currently \$2,537 per student in average daily attendance. To receive the State subsidy, a local school district must levy an effective property tax of at least \$0.86 per \$100 of assessed valuation.

Tier Two allotments are intended to guarantee each school district an opportunity to provide a basic program and to supplement that program at a level of its own choice, however Tier Two allotments may not be used for the payment of debt service or capital outlay. Each school district is guaranteed \$27.14 per weighted student in State and local funds for each cent of tax effort (excluding a school district's bond debt service tax effort) that a school district levies above the effective rate of \$0.86 required for its Tier One local share, not to exceed \$0.64 per \$100 of assessed valuation.

Local Funding

Except as specifically provided, an open-enrollment charter school is entitled to receive payments (referred to as tuition) from the school district in which a student attending the charter school resides in an amount equal to the quotient of the tax revenue collected by the school district for maintenance and operations for the school year for which tuition is being paid divided by the sum of the number of students enrolled in the district as reported in the Public Education Information Management System (PEIMS), including the number of students for whom the district is required to pay tuition. The tuition to be paid by a school district with a wealth per student that exceeds the equalized wealth level under Chapter 41, Texas Education Code, as amended, will be based on the district's tax revenue after the district has acted to achieve the equalized wealth level under Chapter 41. Except for the payments received from the local school districts, an open-enrollment charter school may not generally charge tuition to its student.

Because the amount received by the charter school from the local district is based on the local district's per student tax revenue, per student revenue for the charter school will vary depending on the taxes levied by the student's home district.

The Borrower's total per student funding for 2005-2006, including both the State share and the local share described under this heading, was approximately \$5,500 per student.

Provisions of Open-Enrollment Charters

Under State statute, the State Board of Education has the authority to select applicants to establish open-enrollment charter schools. The Board has adopted an application form and procedures for applications to operate an open-enrollment charter school. The Board has also adopted criteria to use in selecting a charter.

Each charter granted describes the educational program to be offered, which must include the required curriculum as provided by statute, specify the period for which the charter or any charter renewal is valid; provide that continuation or renewal of the charter is contingent on acceptable student performance on assessment instruments and on compliance with any accountability provision specified by the charter, by a deadline or at intervals specified by the charter; establish the level of student performance that is considered acceptable; specify any basis, in addition to a basis specified by statute, on which the charter may be placed on probation or revoked or on which renewal of the charter may be denied; prohibit discrimination in admission policy on the basis of sex, national origin, ethnicity, religion, disability, academic or athletic ability, or the district the child would otherwise attend in accordance with the Texas Education Code; specify the grade levels to be offered; describe the governing structure of the program; specify the qualifications to be met by professional employees of the program; describe the process by which the person providing the program will adopt an annual budget; describe the manner in which an annual audit of the financial and programmatic operations of the program is to be conducted, including the manner in which the person providing the program will provide information necessary for the school district in which the program is located to participate, as required by the Education Code or by State Board of Education rule, in PEIMS; describe the facilities to be used; describe the geographical area served by the program; and specify any type of enrollment criteria to be used. The charter may provide for the exclusion of a student who has a documented history of a criminal offense, a juvenile court adjudication, or certain discipline problems.

A charter for an open-enrollment charter school will be in the form of a written contract signed by the chair of the State Board of Education and the chief operating officer of the charter school. A revision of a charter of an open-enrollment charter school may be made only with the approval of the State Board of Education.

Basis for Modification, Placement on Probation, Revocation, or Denial of Renewal

The Commissioner may modify, place on probation, revoke, or deny renewal of the charter of an open-enrollment charter school if the Commissioner determines that the person operating the charter school committed a material violation of the charter, including failure to satisfy accountability provisions prescribed by the charter; failed to satisfy generally accepted accounting standards of fiscal management; or failed to comply with any applicable law or rule. An action the Commissioner takes with respect to modification, probation, revocation, or denial of renewal of a charter must be based on the best interest of the charter school's students, the severity of the violation, and any previous violation the school has committed. The Commissioner has adopted rules regarding modifying, placing on probation, revoking, or denying renewal of the charter of an open-enrollment charter school.

If the Commissioner revokes or denies the renewal of a charter of an open-enrollment charter school, or if an open enrollment charter school surrenders its charter, the school may not continue to operate or receive State funds except that an open-enrollment charter school may continue to operate and receive State funds for the remainder of a school year if the Commissioner denies renewal of the school's charter before the completion of that school year.

The Commissioner may take certain disciplinary actions available for public schools generally to the extent the Commissioner determines necessary, if an open-enrollment charter school commits a material violation of the school's charter, fails to satisfy generally accepted accounting standards of fiscal management, or fails to comply with this subchapter or another applicable rule or law. The Commissioner may temporarily withhold funding, suspend the authority of an open enrollment charter school to operate, or take any other reasonable action the Commissioner determines necessary to protect the health, safety, or welfare of students enrolled at the school based on evidence that conditions at the school present a danger to the health, safety, or welfare of the students. After the Commissioner so acts, the open-enrollment charter school may not receive funding and may not resume operating until a determination is made that, despite initial evidence, the conditions at the school do not present a danger of material harm to the health, safety, or welfare of students; or the conditions at the school that presented a danger of material harm to the health, safety, or welfare of the students have been corrected.

Annual Evaluation

The Commissioner must designate an impartial organization with experience in evaluating school choice programs to conduct an annual evaluation of open-enrollment charter schools. The evaluation must include consideration of students' scores on assessment instruments, student attendance, students' grades, incidents involving student discipline, socioeconomic data on students' families, parents' satisfaction with their children's schools, and students' satisfaction with their schools. The evaluation of open-enrollment charter schools must also include an evaluation of: the costs of instruction, administration, and transportation incurred by open-enrollment charter schools; and the effect of open-enrollment charter schools on school districts and on teachers, students, and parents in those districts.

Changes in Funding

Commencing August 31, 2001, a charter holder is entitled to receive for the open-enrollment charter school funding as if the school were a school district without a tier one local share for purposes of Tier One and without any local revenue ("LR") for purposes of Tier Two. In determining funding for an open-enrollment charter school, adjustments under state law and the district enrichment tax rate ("DTR") are based on the average adjustment and average district enrichment tax rate for the state. An open-enrollment charter school is entitled to funds that are available to school districts from the agency or the commissioner in the form of grants or other discretionary funding unless the statute authorizing the funding explicitly provides that open-enrollment charter schools are not entitled to the funding. The commissioner may adopt rules to provide and account for state funding of open-enrollment charter schools.

Funds received from the State after September 1, 2001, by a charter holder are considered to be public funds for all purposes under State law and are held in trust by the charter holder for the benefit of the students of the open-enrollment charter school.

The change in State funding applied beginning with the 2001-2002 school year, except that an open-enrollment charter school operating on September 1, 2001, is funded as follows:

1. for the 2001-2002 and 2002-2003 school years, the school received funding according to the law in effect on August 31, 2001;
2. for the 2003-2004 school year, the school received 90 percent of its funding according to the law in effect on August 31, 2001, and 10 percent of its funding according to the change;
3. for the 2004-2005 school year, the school receives 80 percent of its funding according to the law in effect on August 31, 2001, and 20 percent of its funding according to the change;
4. for the 2005-2006 school year, the school receives 70 percent of its funding according to the law in effect on August 31, 2001, and 30 percent of its funding according to the change;
5. for the 2006-2007 school year, the school receives 60 percent of its funding according to the law in effect on August 31, 2001, and 40 percent of its funding according to the change;
6. for the 2007-2008 school year, the school receives 50 percent of its funding according to the law in effect on August 31, 2001, and 50 percent of its funding according to the change;
7. for the 2008-2009 school year, the school receives 40 percent of its funding according to the law in effect on August 31, 2001, and 60 percent of its funding according to the change;
8. for the 2009-2010 school year, the school receives 30 percent of its funding according to the law in effect on August 31, 2001, and 70 percent of its funding according to the change;

9. for the 2010-2011 school year, the school receives 20 percent of its funding according to the law in effect on August 31, 2001, and 80 percent of its funding according to the change;

10. for the 2011-2012 school year, the school receives 10 percent of its funding according to the law in effect on August 31, 2001, and 90 percent of its funding according to the change; and

11. for the 2012-2013 school year and subsequent school years, the school receives 100 percent of its funding according to the change.

THE ISSUER

The Issuer is a public non-profit corporation created by the Authority and existing as an instrumentality of the Authority pursuant to Section 53.351 of the Texas Education Code, as amended (the "Act"). Pursuant to the Act, the Issuer is authorized to issue revenue bonds and to lend the proceeds thereof to authorized charter schools for the purpose of aiding such school in financing or refinancing "educational facilities" (as such term is defined in the Act) and facilities which are incidental, subordinate, or related thereto or appropriate in connection therewith.

All of the Issuer's property and affairs are controlled by and all of its power is exercised by a board of directors (the "Board") consisting of three members, each of whom has been appointed by the governing body of the Authority (the "Authority Board"). Present members are Bob Schulman, president; Marina Bellantyne Walne, vice president; and Omar Garcia, secretary. Board members serve two-year terms, and each Board member may serve an unlimited number of two-year terms. Although Board members serve until their successors have been appointed as described above, any one or more Board members may be removed from office at any time, with or without cause, by the Authority Board. All vacancies on the Board, whether they occur as a result of resignation or removal, are filled by the Authority Board as described above.

Neither the Board members nor officers receive compensation for serving as such, but they are entitled to reimbursement for expenses incurred in performing such service.

The Issuer has no assets, property, or employees and does not intend to acquire any property or employ anyone. Other than legal counsel and financial advisor, the Issuer has not engaged any consultant or other professional. THE ISSUES HAS NO TAXING POWER.

The Issuer is receiving a fee in connection with the issuance of the Bonds, which amount will be paid to the Authority and may be used by the Authority for any lawful purpose.

Except for the issuance of the Bonds, the Issuer is not in any manner related to or affiliated with the Borrower. The Issuer has issued the Bonds and loaned the proceeds to the Borrower pursuant to the Loan Agreement solely to carry out the Issuer's statutory purposes as a charter school finance corporation, and the Issuer makes no representation or warranties as to the Borrower, including specifically the operations of the Borrower as an open-enrollment charter school or the Borrower's ability to make any payments under the Loan Agreement. The Borrower has agreed to indemnify the Issuer for certain matters under the Loan Agreement.

THE BORROWER AND THE SCHOOLS

El Paso Education Initiative Inc.

The Borrower is a Texas nonprofit corporation recognized by the Internal Revenue Service as an organization described under Section 501(c)(3) of the Internal Revenue Code on June 16, 1998. The Borrower operates two campuses consisting of the Burnham Wood Charter School and the Da Vinci School for Science and Arts.

The Schools

The Schools are located in northwestern El Paso and are accessible from two major traffic arteries, Interstate Highway 10 (east-west flow) and Mesa Street (flow from downtown to the northwest). In addition, they operate in

close proximity to three public housing projects. The Schools currently offer a full-day kindergarten and accelerated first grade through seventh grade, and have a combined current enrollment of 429 students and 31 teachers. All of the teachers are highly qualified in terms of the No Child Left Behind criteria. There is a maximum 1:22 teacher/student ratio for grades K-4 and a 1:25 teacher student ratio for grades 5-7.

Management

The Schools are governed by a seven-member Board of Directors, as set forth below:

<u>Name</u>	<u>Role</u>	<u>Profession</u>
Iris Burnham	President	Superintendent, Burnham Wood Charter School
Leonard Lidiak	Vice President	Chairman Emeritus, State National Bank
Esther Furrer	Secretary/Treasurer	Financial Administrator/Development Director, Burnham Wood Charter School
Eric Braham	Trustee	United States Postal Service
Dr. Maceo C. Daily, Jr.	Trustee	Director of African American Studies, University of Texas
Carlos Kaplan	Trustee	Owner, First Finance Company
Henry Kellen	Trustee	Retired

Day to day operations of the School are managed by the following persons:

Iris Burnham – Superintendent, Burnham Wood Charter School. Iris Burnham has served as Superintendent of the Burnham Wood Charter School since its inception in 1998. Ms. Burnham oversees the operation of delivery of educational services and the budget planning, program planning and development of the District. Ms. Burnham has been involved in the creation and administration of other educational organizations including the founding and implementation of the School for Educational Enrichment, a fully accredited private school in El Paso, Texas; the Accreditation Commission of the Texas Alliance of Accredited Private Schools where she served as President and currently Treasure. In this capacity, Ms. Burnham evaluates and recommends private schools throughout Texas for accreditation status; ACT-NOW! (alternative teacher certification program in Texas) where Ms. Burnham serves as President; former Instructor at both the University of Texas at El Paso and the El Paso Community College; along with teaching positions and Life time professional certification in N.Y., California and Texas. Ms. Burnham is the founder and creator of the Burnham Wood Charter School.

Deborah Crinzi – Assistant Superintendent for Curriculum and Instruction, Burnham Wood Charter School. Ms. Crinzi has also held various other administrative positions such as the Principal of the School for Educational Enrichment; Co Founder/Curriculum Developer/Trainer for ACT-NOW! (an alternative teacher certification program in Texas); Assistant Principal of the Ysleta Independent School District and the Canutillo Independent School District; and District Program Director for severely behavior disordered students, Counselor; Coordinator for District Discipline Policies for the Toppenish Independent School District. Ms. Crinzi also serves as the Principal of the Da Vinci School for Science and Arts.

Esther Furrer – Financial Administrator, Burnham Wood Charter School. Ms. Furrer oversees the bookkeeping department, the fiscal management of Federal entitlements, State Foundation School Program and Competitive State and local grants. Ms. Furrer also acts as the Director of Development at the Burnham Wood Charter School, the Grants Manager and the Liaison between the District and key personnel involved with grant projects. For more than ten years, Ms. Furrer has worked in budgeting, finance, and operations analysis in the public and private for- and non-profit sectors, including the Texas State Comptroller's Office, the Federal Reserve Bank of Dallas-El Paso Branch, the City of New York Mayor's Office of Operations, the Council on Foreign Relations, and KPMG, LLP.

Grant and Fundraising

The Schools raise funds through a combination of methods and initiatives.

The Schools apply for academic grants, such as those awarded by the Department of Education and the Texas Education Agency. Examples of public grant programs for which the School has applied are Reading First, Arts in Education, and Mentoring Partnership. The Schools also pursue funding opportunities from private foundations, such as the Jack Kent Cooke Foundation, which funds innovative education programs, and the Challenge grant program. Funds awarded through these grant programs help underwrite staff, faculty, instructional and supply costs, and reduce the burden of such costs on the total School budgets.

John Lock, CEO of the Charter School Growth Fund, has invited the Schools to re-apply for grants to fund replication efforts. The Schools will re-apply for these funds to help cover its growing administrative and training costs.

The new Da Vinci School for Science and the Arts school model includes the performing arts and science, technology, engineering, and math (STEM), which will create a dual-emphasis curriculum, potentially increasing available resources and funding sources for the School. The arts are viewed as part of the design model, as well as a major enrollment incentive for El Paso's student population to the new STEM school. This STEM academy has been underwritten in part by a \$700,000 grant from the Texas Education Agency for Fiscal Year 2006-2007. The Schools can receive up to an additional \$700,000 for Fiscal Year 2007-2008 based on performance.

In 2004, the Schools completed the second year of a very successful two-year Charter Schools Dissemination Grant Program. Awarded in the summer of 2002 by the Texas Education Agency via a competitive application process, \$80,000 in federal grant funds were used to provide valuable training to El Paso area teachers. Several workshops were conducted under the leadership of the principal, with capable assistance from many of the Burnham Wood teaching staff. Workshop topics included Core Knowledge, Behavior Management, Writing, Calendar Math and Science. The School, through this grant, provided professional development sessions to teachers from both small and large districts and provided its own instructional staff with opportunities to lead and inform their colleagues.

The Schools have conducted and plan to continue to conduct successful local fundraisers.

Significant future plans will be tied to state and federal government initiatives to provide facilities funding for high performing charter schools.

Educational Programs

The educational programs of the Schools follow the state standards, the Texas Essential Knowledge and Skills (TEKS). The School also provides accelerated reading and math instruction; an enriched humanities curriculum, Core Knowledge Sequence, the Johnson & Johnson Cooperative Learning Model and a fine arts program. With a STEM emphasis on the elementary level, weekly Science laboratory programs are implemented at grades K-6. The educational model of the Burnham Wood Charter School is based on Learner-Center Principles that address development and improvement across three areas: (i) academics; (ii) behavior; and (iii) character. The School proposes that students learn best when teachers target each of these areas in every lesson.

The Da Vinci School for Science and Arts Program is represented by education rooted in culture, values, and needs of the greater community to establish a strong relevance to the dreams of its stakeholders: students, parents, teachers, business leaders, higher education institutions, social service agencies and the public at-large; acknowledgement of the need for an appropriate physical plant that aligns design principles with the effective delivery of instructional services; and presentation of an instructional curriculum and service delivery that is focused, innovative, integrated and expansive.

Students' Resident District

For the most recent school year, 2005-06, students came from the following El Paso area districts:

District Number	District Name	Number of Students
071902	El Paso ISD	278
071905	Ysleta ISD	5
071906	Anthony ISD	3
071907	Canutillo ISD	7

Enrollment History

HISTORICAL – TOTAL

Population:	2003/04	2004/05	2005/06	2006/07*
Total Student Enrollment	233	245	293	429
Grades Served	K-5	K-6	K-6	K-7

* As of August 24, 2006.

HISTORIC ENROLLMENT BY GRADE

Grade	2003-04	2004-05	2005-06	2006-07*
Pre-K (3 and 4)	0	0	0	0
Kindergarten	32	41	56	49
1 st	59	38	49	64
2 nd	46	45	51	55
3 rd	40	42	45	44
4 th	34	31	37	53
5 th	22	31	30	59
6 th	0	17	25	47
7 th	0	0	0	58
8 th	0	0	0	0
9 th	0	0	0	0
10 th	0	0	0	0
11 th	0	0	0	0
12 th	0	0	0	0
Total	233	245	293	429

Student Demographics

The student ethnicity for the most recent school year (2005-2006) is as follows:

Ethnicity	No. of Students	Percent of Total
Hispanic	206	70.3
White	54	18.4
Asian/Pacific Islander	21	7.2
Black	12	4.1
Total:	293	100

* School year for enrolled effective August 24, 2006. For the 2006-2007 school year, the Borrower will add approximately 20,000 square feet to its facilities enabling them to serve an additional 600 students. The School plans to add one grade each year for the next five years, serving grades K-12 in year 2011.

In accordance with federal and state guidelines for charter schools, the School serves students typical of the public school systems in El Paso County. For example, 43% of the School's students are categorized as economically disadvantaged, 12% as Limited English Proficient (LEP), and 23% as At-risk, while 14% of the students require special education services.

Student Waiting List

For the 2006-2007 academic year, the Schools added 10 classrooms filling approximately 136 available spots. The School is currently updating their waiting list for this upcoming year.

Student and School Achievement

In 1993, the Texas Legislature enacted statutes that mandated the creation of the Texas public school accountability system to rate school districts and evaluate campuses. A viable and effective accountability system was able to be developed in Texas because the state already had the necessary supporting infrastructure in place: a pre-existing student-level data-collection system; a state-mandated curriculum; and a statewide assessment tied to the curriculum. The State categorizes schools into three Accountability Ratings; Academically Acceptable, Recognized and Exemplary.

The system initiated with the 1993 legislative session remained in place through the 2001-02 school year. The ratings issued in 2002 were the last under that system. Beginning in 2003, a new assessment, the Texas Assessment of Knowledge and Skills (TAKS), was administered. This assessment includes more subjects and grades, and is more difficult than the previous statewide assessment. With such fundamental changes, the accountability system needed to be redesigned. As soon as results from the 2003 TAKS were available and analyzed, development of the new accountability system began in earnest. Ratings established using the newly designed system were first issued in the fall of 2004.

For the 2003-2004 and 2004-2005 school years, this Charter School was one of only three charter schools in the State ranked "Exemplary". On August 1st 2006, the Texas Education Agency notified the School that for 2005-2006 its Accountability Rating will be one level below Exemplary to its current ranking of "Recognized" due to a drop in testing scores for one subject at one of the grades in the School. However, all the other test results at all grade levels remained at exemplary levels. There is one schools ranked "Exemplary" and seven schools ranked "Recognized" in the surrounding school area.

Comparison of 2005 and 2006

The ratings issued in 2006 mark the third year of the new system. Many components of the 2006 system are the same as those that were in effect in 2005. However, there are a few differences between 2005 and 2006. These include:

- a significant increase in the rigor of the TAKS standards for all subjects in order to achieve or maintain a rating of Academically Acceptable;
- an increase in the rigor of the underreported students indicator, which can prevent a district from being rated Exemplary or Recognized;
- completion of phasing in the passing standard on the TAKS (now at Panel Recommendation for all grades and subjects);
- the use of Completion Rate I, which does not count GED recipients as completers;
- additional Required Improvement opportunities for SDAA II;
- adjustments to the accountability subset as well as adjustments to ratings in situations where Hurricanes Katrina and Rita adversely affected schools and districts.
- an increase in the rigor of the Recommended High School Program/Distinguished Achievement Program (RHSP/DAP) indicator for Gold Performance Acknowledgment (GPA);
- replacement of the TAAS/TASP Equivalency indicator with the Texas Success Initiative (TSI) - Higher Education Readiness Component indicator for GPA.

2005 State Accountability Ratings for the School and surrounding schools based on standardized test scores:

Zone/School	2005 Accountability Rating	Percent Passing TAKS ⁽¹⁾ Spring 2005					SDAII ⁽²⁾
		Read/ELA	Writing	Social Studies	Math	Science	
Burnham Wood Charter School ⁽³⁾	Exemplary	98%	99%	--	91%	90%	--
Morehead Middle	Academically Acceptable	75%	83%	74%	45%	--	64%
Hornedo Middle ⁽⁴⁾	Academically Acceptable	88%	91%	89%	66%	--	--
Putnam Elem. ⁽⁵⁾	Academically Acceptable	87%	96%	--	86%	59%	94%
Western Hills Elem.	Recognized	90%	97%	--	87%	82%	92%
Johnson Elem.	Academically Acceptable	80%	83%	--	73%	41%	94%
Rivera Elem.	Acadmically Acceptable	91%	97%	--	88%	63%	--
Polk Elem. ⁽⁶⁾	Recognized	97%	99%	--	95%	84%	--
Green Elem. ⁽⁷⁾	Academically Acceptable	92%	99%	--	91%	73%	88%
Guerrero Elem.	Recognized	94%	99%	--	91%	74%	97%
Kohlberg Elem.	Recognized	94%	98%	--	93%	82%	--
Tippin Elem.	Recognized	97%	97%	--	95%	74%	--

(1) TAKS evaluates all students and subgroups – African American, Hispanic, White, and Economically Disadvantaged – that meet minimum size requirement.

(2) SDAA II evaluates the performance of all students only. “Actual Change” for SDAA II is not shown because 2005 was the first year it was administered.

(3) Reflects the ranking for the Burnham Wood Charter School. In 2006 the School’s Accountability Ranking was changed to “Recognized”.

(4) In 2006 the School’s Accountability Ranking was changed to “Recognized”.

(5) In 2006 the School’s Accountability Ranking was changed to “Recognized”.

(6) In 2006 the School’s Accountability Ranking was changed to “Exemplary”.

(7) In 2006 the School’s Accountability Ranking was changed to “Recognized”.

Zone/School	Actual Change Expressed in Percentage Points, Spring 2005 Over Spring 2004				
	Read/ELA	Writing	Social Studies	Math	Science
Burnham Wood Charter School	+2	--	--	-3	+2
Morehead Middle	+4	-4	+7	-4	--
Hornedo Middle	+2	-2	+4	-4	--
Putnam Elem.	+14	+9	--	+2	+10
Western Hills Elem.	+5	+14	--	+8	+25
Johnson Elem.	+13	+2	--	+15	+12
Rivera Elem.	+2	-1	--	+6	+25
Polk Elem.	+3	+6	--	+3	+2
Green Elem.	+5	+7	--	+5	+12
Guerrero Elem.	+9	+4	--	+12	+29
Kohlberg Elem.	+4	+2	--	+4	+9
Tippin Elem.	--	--	--	--	--

Fort Bliss Growth Due to Base Realignment and Closure (BRAC)

Expected growth as a result of increases in military dependents and dependents of civilian support personnel new to the area will increase the student population of the El Paso Independent School District beyond the historical 0.5% growth rate of the last ten years. Dependent information provided by the United States Army on October 14, 2005, indicated the following number of school age dependents.

Year	Enrollment	Military	Historical Growth	Total Enrollment
2005	63,870	--	--	--
2006	63,870	1,636	328	65,834
2007	65,834	746	333	66,912
2008	66,912	4,015	355	71,282
2009	71,282	1,541	364	73,187
2010	73,187	1,840	375	75,402

The predicted enrollment above does not include dependents of civilian support personnel that will be moving to the area. It is not currently possible to predict this additional civilian growth. These high grow rates will require the El Paso Independent School District to more fully utilize existing facilities and to acquire additional facilities. There will be a need to have new facilities in northeast El Paso by September 2008 or September 2009 at the latest. The military has indicated that the 2008 and 2009 troop movements might be delayed by one year.

FINANCIAL AND OPERATIONS INFORMATION

Debt Service Requirements on the Bonds*

Date	Principal	Interest	Total P+I
09/01/2006	-	-	-
09/01/2007	105,000.00	563,625.00	668,625.00
09/01/2008	110,000.00	556,275.00	666,275.00
09/01/2009	115,000.00	548,825.00	663,825.00
09/01/2010	120,000.00	541,925.00	661,925.00
09/01/2011	130,000.00	534,725.00	664,725.00
09/01/2012	140,000.00	526,925.00	664,725.00
09/01/2013	145,000.00	518,525.00	666,925.00
09/01/2014	155,000.00	509,825.00	664,825.00
09/01/2015	165,000.00	500,525.00	665,525.00
09/01/2016	175,000.00	490,625.00	665,625.00
09/01/2017	185,000.00	480,125.00	663,125.00
09/01/2018	195,000.00	468,100.00	663,100.00
09/01/2019	210,000.00	455,425.00	665,425.00
09/01/2020	225,000.00	441,775.00	666,775.00
09/01/2021	235,000.00	427,150.00	662,150.00
09/01/2022	250,000.00	411,875.00	661,875.00
09/01/2023	270,000.00	395,625.00	665,625.00
09/01/2024	285,000.00	378,075.00	663,075.00
09/01/2025	305,000.00	359,550.00	664,550.00
09/01/2026	325,000.00	339,725.00	664,725.00
09/01/2027	345,000.00	318,600.00	663,600.00
09/01/2028	370,000.00	295,312.50	665,312.50
09/01/2029	395,000.00	270,337.50	665,375.50
09/01/2030	420,000.00	243,675.00	663,675.00
09/01/2031	450,000.00	215,325.00	665,325.00
09/01/2032	480,000.00	184,950.00	664,950.00
09/01/2033	510,000.00	152,550.00	662,550.00
09/01/2034	545,000.00	118,125.00	666,125.00
09/01/2035	585,000.00	81,337.50	661,337.50
09/01/2036	620,000.00	41,850.00	661,850.00
Total	\$8,565,000.00		\$19,936,287.50

* Preliminary, subject to change.

	<u>2004</u> <u>Total</u>	<u>2005</u> <u>Total</u>	<u>2006</u> <u>Total*</u>
Revenues and Other Support			
Local Support			
Contributions	\$151	\$154	\$--
Fundraising Activities	24,487	16,479	--
Interest Income	29	68	8,181
Other Revenues from Local Sources	<u>37,027</u>	<u>43,070</u>	<u>92,118</u>
Total Local Support	61,694	59,771	100,299
State Program Revenues			
Foundation School Program	1,139,344	1,202,822	1,425,240
Other State Aid	<u>23,585</u>	<u>17,268</u>	<u>18,629</u>
Total State Program Revenues	1,162,929	1,220,090	1,443,869
Federal Program Revenues			
ESEA Title I Part A	92,228	74,521	22,033
National School Breakfast and Lunch	6,437	--	--
ESEA Title IV, Safe & Drug Free Schools	1,626	1,509	1,332
ESEA Title II, Part A	12,180	14,582	11,891
IDEA-B Formula	28,684	29,273	15,056
IDEA-B Preschool	603	572	225
Title V, Part B, Sub 1	40,907	--	--
Title II, Part D	1,549	1,702	1,284
Title III, Part A, Sub 2	8,044	6,477	3,942
Title V, Part A – Innovative Programs	815	953	110
School Repair and Renovation Grant	--	<u>2,400</u>	--
Total Federal Program Revenues	193,073	131,989	55,873
Fees and Other Revenue			
On-Behalf Payments	--	--	--
Total Fees and Other Revenue	--	--	--
Total Revenue and Other Support	1,417,696	1,411,850	1,600,041
Expenses and Loss			
Program Services			
Instruction and Instruction-related Services	680,878	698,011	715,343
Instruction and School Leadership	50,150	80,420	128,975
Support Services			
Administration and General	295,460	216,908	234,729
Support Services – Non-Student Based	259,884	218,940	185,173
Support Services – Student (Pupil)	45,487	43,991	65,004
Fundraising	--	--	--
Total Expenses	<u>1,335,306</u>	<u>1,258,270</u>	<u>1,329,223</u>
Change in Net Assets	82,390	153,580	270,817
Net Assets, beginning of year	<u>314,236</u>	<u>396,626</u>	<u>550,206</u>
Net Assets, end of year	\$396,626	\$550,206	821,023

*Through July 31, 2006

The Borrower has prepared the following table for projected revenues and expenditures for the fiscal years ended 2005-2006 through 2011-2012, with fiscal year 2005-2006 incorporating actuals for the period through June 30, 2006 and projections for the remainder of that fiscal year. Revenue projections are based upon enrollment information and other revenues received as discussed herein. Expense projections are based upon historical operations and additional expenses associated with increased enrollment and new programs.

	Proposed Budget 2006-2007	Proposed Budget 2007-2008	Proposed Budget 2008-2009	Proposed Budget 2009-2010	Proposed Budget 2010-2011	Proposed Budget 2011-2012
REVENUE*						
Federal	136,580	299,250	365,000	415,000	511,500	592,250
States	3,220,000	3,780,000	4,380,000	4,980,000	5,635,800	6,241,800
Local	76,000	101,200	105,200	109,200	112,200	117,200
TOTAL REVENUE	3,432,580	4,180,450	4,850,200	5,504,200	6,259,500	6,951,250
EXPENSES **						
6100 Payroll	1,669,561	2,246,174	2,739,762	3,163,240	3,522,330	3,877,125
6200 Contracted Services	348,326	526,736	686,608	774,387	912,787	985,749
6300 Supplies	270,774	391,451	361,208	425,162	402,412	403,412
6400 Other Operating Costs (staff dev. Fees, travel, insurance, advertising)	83,663	94,725	118,903	140,881	154,239	167,432
6600 Capital Outlay	10,000	--	--	--	--	--
TOTAL EXPENSES	<u>2,382,324</u>	<u>3,259,086</u>	<u>3,906,481</u>	<u>4,503,670</u>	<u>4,991,768</u>	<u>5,433,718</u>
REVENUES OVER/(UNDER) EXPENDITURES	1,050,256	921,364	943,719	1,000,530	1,267,732	1,517,532
Debt Service Coverage⁽¹⁾	1.57x	1.37x	1.41x	1.49x	1.89x	2.26x
Expenses by Function:						
11 Instruction	1,370,810	1,843,193	2,133,658	2,471,139	2,664,226	2,962,846
12 Library and Media Services	25,000	112,234	109,116	132,130	142,182	141,912
13 Staff Development	30,000	28,000	31,000	35,000	36,000	38,000
21 Instructional Leadership	3,000	2,000	4,000	5,000	5,500	6,500
23 School Leadership	217,592	287,031	360,320	373,076	411,393	422,815
31 Guidance and Counseling	50,538	65,699	88,114	114,954	123,580	134,971
32 Social Work Services	--	--	37,992	40,158	61,660	63,562
33 Health Services	--	19,553	29,458	39,691	40,657	52,447
34 Transportation	8,000	80,986	84,436	47,187	49,489	50,333
35 Food Services	16,500	99,110	182,188	236,558	346,466	400,752
36 Co-curricular	23,000	32,500	37,500	55,500	58,500	62,500
41 General Administration	341,940	321,747	371,304	408,725	432,319	440,654
51 Maintenance	256,849	301,179	299,727	334,831	375,183	392,840
52 Security	15,880	31,639	36,840	44,484	46,675	49,265
53 Data Processing	4,000	10,000	44,093	102,910	102,347	104,999
61 Community	--	4,000	37,355	41,948	71,119	72,377
81 Fundraising	19,215	20,215	19,378	20,378	24,472	36,944
TOTAL EXPENSES	<u>2,382,324</u>	<u>3,259,086</u>	<u>3,906,481</u>	<u>4,503,670</u>	<u>4,991,768</u>	<u>5,433,718</u>

⁽¹⁾ Estimate based on maximum annual debt service of \$668,625.

*** Revenue Assumptions:**

Federal – Title 1 (primarily)

State - Assumes \$6,000 per student in Foundation School Program Support in FY 2007/2008, 2008/2009 and 2009/2010 and \$6,060 in FY 2010/2011 and 2011/2012 based on the following Enrollment Assumptions:

Burnham Wood Charter School – Assumes enrollment of 330 in FY 2007/2008-2011/2012

Da Vinci School for Science and Arts – Assumes enrollment of 300 in FY 2007/2008; 400 in FY 2008/2009; 500 in FY 2009/2010; 600 in FY 2010/2011; and 700 in FY 2011/2012.

Also assumes \$700,000 STEM Grant in FY 2006/2007. FY 2007/2008 does not assume Grant awarded.

****Expenses Assumptions:**

Payroll assumptions based on:

Burnham Wood Charter School – 19 teachers for FY 2006/2007-2011/2012.

Da Vinci School for Science and Arts – 12.25 teachers for FY 2006/2007; 20 teachers for FY 2007/2008; 25 teachers for FY 2008/2009; 30 teachers for FY 2009/2010; 34 teachers for FY 2010/2011; and 39 teachers for FY 2011/2012.

Audited Financial Information

Audited financial statements for the Borrower for fiscal year 2005 are included herein as APPENDIX A. The Borrower has not sought or obtained the consent of its auditors for inclusion of the audited financial statements.

LEGAL MATTERS

Legal Proceedings

Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General of the State to the effect that the Bonds are valid and legally binding limited obligations of the Issuer under the Constitution and laws of the State payable from and secured by a lien on and pledge of the payments designated as Loan Payments to be paid, or caused to be paid, to the Trustee, pursuant to the Indenture and the Loan Agreement, as evidenced by the Promissory Note, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, and the approving legal opinion of Delgado, Acosta, Braden & Jones, P.C., El Paso, Texas, Bond Counsel, in substantially the form attached hereto as APPENDIX C.

Bond Counsel was not requested to participate and did not take part in the preparation of this Limited Offering Memorandum, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information appearing in this Limited Offering Memorandum under the captions “THE BONDS,” “THE ISSUER,” “SECURITY AND SOURCE OF PAYMENT,” “SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT,” “SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE,” “LEGAL MATTERS,” “TAX MATTERS,” “LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS” and “CONTINUING DISCLOSURE OF INFORMATION” solely to determine whether such information fairly summarizes the provisions of the documents referred to therein and is correct as to matters of law.

No-Litigation Certificates

The Issuer will furnish the Underwriter a certificate, executed by both the President and Secretary of the Issuer, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the collection of Loan Payments for the payment thereof, or the organization of the Issuer, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or nonencumbrance certificate submitted to the Attorney General of the State in connection with approval of the Bonds.

The Borrower will furnish the Underwriter a certificate, executed by both the President and Secretary of the Borrower, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their

knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the payment of Loan Payments for the payment thereof, or the organization of the Borrower, the granting of the Charter, the validity of the Loan Agreement, the Promissory Note, the Deed of Trust, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or nonencumbrance certificate submitted to the Attorney General of the State in connection with approval of the Bonds.

FORWARD-LOOKING STATEMENTS

This Limited Offering Memorandum contains statements relating to future results that are “forward-looking statements” as defined in the Private Litigation Reform Act of 1995. When used in this Limited Offering Memorandum, the words “estimate,” “intend,” “expect” and similar expressions identify forward-looking statements. Any forward-looking statement is subject to uncertainty and risks that could cause actual results to differ, possibly materially, from those contemplated in such forward-looking statements. Inevitably, some assumptions used to develop forward-looking statements will not be realized or unanticipated events and circumstances may occur. Therefore, investors should be aware that there are likely to be differences between forward-looking statements and actual results; those differences could be material.

TAX MATTERS

The Series 2006A Bonds

In the opinion of Delgado, Acosta, Braden & Jones, P.C., Bond Counsel, assuming compliance with certain covenants and based on certain representations, (i) interest on the Series 2006A Bonds is excludable from gross income for federal income tax purposes under existing law, (ii) the Series 2006A Bonds are “qualified 501(c)(3) bonds” under the Code, and (iii) interest on the Series 2006A Bonds is not an item of tax preference that is includable in the alternative minimum taxable income for purposes of determining the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Series 2006A Bonds, to be excludable from gross income for federal income tax purposes. These requirements include a requirement that the Borrower be a tax-exempt organization described in section 501(c)(3) of the Code, limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the Issuer file an information report with the IRS. The Borrower and the Issuer have covenanted in the Indenture and the Loan Agreement that they will comply with these requirements.

For purposes of their opinion that the Series 2006A Bonds are “qualified 501(c)(3) bonds,” Bond Counsel will rely upon representations of the Issuer, the Borrower, and the Underwriter in the Tax Certificates, the Indenture and the Loan Agreement and will assume continuing compliance with the covenants of the Tax Certificates, the Indenture and the Loan Agreement pertaining to those sections of the Code which affect the status of the Borrower as an organization described in section 501(c)(3) of the Code and the exclusion from gross income of interest on the Series 2006A Bonds for federal income tax purposes. In addition, Bond Counsel will rely on representations by the Issuer, the Borrower and the Underwriter with respect to matters solely within the knowledge of the Issuer, the Borrower and the Underwriter, respectively, which Bond Counsel has not independently verified.

If the Borrower or the Issuer should fail to comply with the covenants in the Tax Certificates, the Indenture and the Loan Agreement or the foregoing representations should be determined to be incorrect, inaccurate or incomplete, interest on the Series 2006A Bonds could become includable in gross income for federal income tax purposes from the date of delivery of the Series 2006A Bonds, regardless of the date on which the event causing such includability occurs.

The Code also imposes a 20% alternative minimum tax on the alternative minimum taxable income of a corporation (other than an S corporation, regulated investment company, REIT, REMIC or FASIT) if the amount of

such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, a corporation's alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, a corporation's alternative minimum taxable income includes 75% of the amount by which a corporation's adjusted current earnings exceeds the corporation's alternative minimum taxable income. Because interest on tax-exempt obligations, such as the Series 2006A Bonds, is included in a corporation's adjusted current earnings, ownership of the Series 2006A Bonds could subject a corporation to alternative minimum tax consequences.

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Series 2006A Bonds, received or accrued during the year.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Series 2006A Bonds.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the IRS. Rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions as of the date of the opinion and the representations and covenants of the Issuer and the Borrower that it deems relevant to such opinions. The IRS has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurances can be given whether or not the IRS will commence an audit of the Series 2006A Bonds. If an audit is commenced, in accordance with its current published procedures, the IRS is likely to treat the Issuer as the taxpayer and the Owners of the Series 2006A Bonds may not have a right to participate in such audit. Bond Counsel observes that the Borrower has covenanted in the Loan Agreement not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in treatment of interest on the Series 2006A Bonds as includable in gross income for federal income tax purposes.

Collateral Tax Consequences

Prospective purchasers of the Series 2006A Bonds should be aware that the ownership of tax exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax exempt interest such as interest on the Series 2006A Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Tax Accounting Treatment of Original Issue Discount Bonds

The initial offering price to be paid for certain Series 2006A Bonds (the "Original Issue Discount Bonds") may be less than the principal amount thereof. In such case, (a) the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond at the initial offering price in the initial public offering of the Original Issue Discount Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the caption "Collateral Tax Consequences" generally applies, except as otherwise provided below, to original issue discount on an Original

Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering of the Original Issue Discount Bonds, and should be considered in connection with the discussion in this portion of the Limited Offering Memorandum.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (a) the Underwriter has purchased the Bonds for contemporaneous sale to the public and (b) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof. Neither the Borrower nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Bond.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Tax Accounting Treatment of Original Issue Premium

The initial offering price for certain of the Series 2006A Bonds (the "Premium Bonds") may exceed the stated redemption price payable at maturity of such Premium Bonds. The Premium Bonds are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

The Series 2006B Bonds

The following discussion describes the principal U.S. federal tax treatment of U.S. persons that are beneficial owners ("Owners") of the Series 2006B Bonds. This summary is based on the Code, published revenue rulings, judicial decisions, and existing and proposed Treasury regulations, including regulations concerning the tax treatment of debt instruments issued with original issue discount (the "OID Regulations"), changes to any of which subsequent to the date of this Limited Offering Memorandum may affect the tax consequences described herein.

This summary discusses only the Series 2006B Bonds held as capital assets within the meaning of section 1221 of the Code. It does not discuss all of the tax consequences that may be relevant to an Owner in light of its particular circumstances or to Owners subject to special rules, such as certain financial institutions, insurance companies, tax-exempt organizations, foreign taxpayers, taxpayers who may be subject to the alternative minimum tax on personal holding company provisions of the Code, dealers in securities or foreign currencies, or Owners whose functional currency (as defined in section 985 of the Code) is not the U.S. dollar. Except as stated herein, this summary describes no federal, state, or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Series 2006B Bonds. Investors who are subject to special provisions of the Code should consult their own tax advisors regarding the tax consequences to them of purchasing, holding, owning, and disposing of the Series 2006B Bonds, including the advisability of making any of the elections described below, before determining whether to purchase the Series 2006B Bonds.

For purposes of this discussion, a "U.S. person" means (i) an individual who, for U.S. federal income tax purposes, is a citizen or resident of the United States, (ii) a corporation, partnership, or other entity created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust whose administration is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust.

The term also includes nonresident alien individuals, foreign corporations, foreign partnerships, and foreign estates and trusts to the extent that their ownership of the Series 2006B Bonds is effectively connected with the conduct of a trade or business within the United States, as well as certain former citizens and residents of the United States who, under certain circumstances, are taxed on income from U.S. sources as if they were citizens or residents.

In General

Income derived from a Series 2006B Bond by an Owner is subject to U.S. federal income taxation. In addition, a Series 2006B Bond held by an individual who, at the time of death, is a U.S. person is subject to U.S. federal estate tax.

Payments of Interest

Stated interest paid (and other original issue discount) on each Series 2006B Bond will generally be taxable in each tax year held by an Owner as ordinary interest income without regard to the time it otherwise accrues or is received in accordance with the Owner's method of accounting for federal income tax purposes. Special rules governing the treatment of original issue discount, acquisition premium, market discount, or amortizable premium are described below.

Original Issue Discount

Certain Series 2006B Bonds may be sold at a discount below their principal amount. As provided in the Code and the OID Regulations, the excess of the "stated redemption price at maturity" (as defined below) of each such Series 2006B Bond over its "issue price" (defined as the initial offering price to the public, excluding bond houses and brokers, at which a substantial amount of the Series 2006B Bonds have been sold) will be original issue discount if such excess equals or exceeds a de minimis amount (i.e., one quarter of one percent of the Series 2006B Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity). A Series 2006B Bond having original issue discount equal to or greater than a de minimis amount will be referred to as "Series 2006B Original Issue Discount Bond." Owners of Series 2006B Bonds that are not Original Issue Discount

Bonds ("OID Bonds") will include any de minimis original issue discount in income, as capital gain, on a pro rata basis as principal payments are made on the Series 2006B Bond. The stated redemption price at maturity of a Series 2006B Bond includes all payments on the Series 2006B Bonds other than the stated interest amounts, which are based on a fixed rate and payable unconditionally at the end of each six-month accrual period.

Except as described below, Owners of OID Bonds will have to include in gross income (irrespective of their method of accounting) a portion of the original issue discount of OID Bond for each year during which OID Bonds are held, even though the cash to which such income is attributable would not be received until maturity of OID Bonds. The amount of original issue discounts included in income for each year will be calculated under a constant yield to maturity formula that results in the allocation of less original issue discount to earlier years of the term of OID Bonds and more original issue discount to the later years.

The foregoing summary is based on the assumptions that (i) the Underwriter has purchased the Series 2006B Bonds for contemporaneous sale to the general public and not for investment purposes, (ii) all of the Series 2006B Bonds have been offered, and a substantial amount of each maturity thereof has been sold to the general public in arm's-length transactions for a cash price (and with no other consideration being included) equal to the initial offering prices thereof stated on the cover page of this Limited Offering Memorandum, and (iii) the respective initial offering prices of the Series 2006B Bonds to the general public are equal to the fair market value thereof. Neither the Borrower nor Bond Counsel warrants that the Series 2006B Bonds will be offered and sold in accordance with such assumptions.

Acquisition Premium

In the event that an Owner purchases a Series 2006B Bond at an acquisition premium (i.e., at a price in excess of its "adjusted issue price but less than or equal to its stated redemption price at maturity"), the amount includible in income in each taxable year as original issue discount is reduced by that portion of the acquisition premium properly allocable to such year. (For Series 2006B Bonds that are purchased at a price in excess of the stated redemption price at maturity, see the discussion below under the heading "TAX MATTERS - Amortizable Premium.") The adjusted issue price is defined as the sum of the issue price of the Series 2006B Bond and the aggregate amount of previously accrued original issue discount, less any prior payments of amounts included in its stated redemption price at maturity. Unless an Owner makes the accrual method election described below, acquisition premium is allocated on a pro rata basis to each accrual of original issue discount (i.e. to each six-month accrual period), so that the Owner is allowed to reduce each accrual of original issue discount by a constant fraction.

Market Discount

An Owner that purchases a Series 2006B Bond at a "market discount" will be subject to provisions in the Code that convert certain capital gains on the redemption, sale, exchange or certain other dispositions of the Series 2006B Bond into ordinary income. A Series 2006B Bond will have market discount to the extent the "revised issue price" (as defined in section 1278 of the Code) of the Series 2006B Bond exceeds, by more than a de minimis amount, the Owner's tax basis in the Series 2006B Bond immediately after the Owner acquires the Series 2006B Bond. The "revised issue price" generally equals the issue price of the Series 2006B Bond plus the amount of the original issue discount (computed without regard to any "acquisition premium" described above) that had accrued on the Series 2006B Bond as the date the owner acquired the Series 2006B Bond and reduced by the stated interest previously paid with respect to the Series 2006B Bond as of such date.

An Owner may elect to include market discount in income as it accrues, but such an election will apply to all market discount bonds acquired by such Owner on or after the first day of the first taxable year to which such election applies and is revocable only with permission from the IRS. Unless an Owner elects to include market discounts in income as it accrues, any partial principal payments on, or any gain realized upon the sale, exchange, disposition, redemption, or maturity of a Series 2006B Bond will be taxable as ordinary income to the extent any market discount has accrued on such Series 2006B Bond. Market discount on a Series 2006B Bond would accrue ratably each day between the date an Owner purchases the Series 2006B Bond and the date of maturity. In the alternative, an Owner irrevocably may elect to use a constant interest accrual method under which marginally less market discount would accrue in early years and marginally greater amounts would accrue in later years.

If a Series 2006B Bond purchased with market discount is disposed of in a nontaxable transaction (other than a nonrecognition transaction described in section 1276(c) of the Code), accrued market discount will be includible as ordinary income to the Owner as if such Owner had sold the Series 2006B Bond at its then fair market value. An Owner of a Series 2006B Bond that acquired it at a market discount and that does not elect to include market discount in income on a current basis also may be required to defer the deduction for a portion of the interest expense on any indebtedness incurred or continued to purchase or carry the Series 2006B Bond until the deferred income is realized.

Amortizable Premium

An Owner that purchases a Series 2006B Bond for any amount in excess of its principal amount, or in the case of an OID Bond, its stated redemption price at maturity, will be treated as having premium with respect to the Series 2006B Bond in the amount of such excess. An Owner that purchases an OID Bond at a premium is not required to include in income any original issue discount with respect to the Series 2006B Bond.

If an Owner makes an election under section 171(c)(2) of the Code to treat such premium as "amortizable bond premium," the amount of interest that must be included in such Owner's income for each accrual period will be reduced by the portion of the premium allocable to such period based on the Series 2006B Bond's yield to maturity. If an Owner makes the election under section 171 (c)(2), the election also shall apply to all Series 2006B Bonds held by the Owner at the beginning of the first taxable year to which the election applies and to all such Series 2006B Bonds thereafter acquired by such Owner, and it is irrevocable without the consent of the IRS. If such an election under section 171 (c)(2) of the Code is not made, such an Owner must include the full amount of each interest payment in income in accordance with its regular method of accounting and will receive a tax benefit from the premium only in computing its gain or loss upon the sale or other disposition or retirement of the Series 2006B Bond. The existence of bond premium and the benefits associated with the amortization of bond premium vary with the facts and circumstances of each Owner. Accordingly, each Owner of a Series 2006B Bond should consult his own tax advisor concerning the existence of bond premium and the associated election.

Accrual Method Election

Under the OID Regulations, an Owner that uses an accrual method of accounting would be permitted to elect to include in gross income its entire return on a Series 2006B Bond (i.e., the excess of all remaining payments to be received on the Series 2006B Bond over the amount paid for the Series 2006B Bond by such Owner), based on the compounding of interest at a constant rate. Such an election for a Series 2006B Bond with amortizable bond premium (or market discount) would result in a deemed election for all of the Owner's debt instruments, with amortizable bond premium (or market discount) and could be revoked only with the permission of the IRS with respect to debt instruments acquired after revocation.

Disposition or Retirement

Upon the sale, exchange, or certain other dispositions of a Series 2006B Bond, or upon the retirement of a Series 2006B Bond (including by redemption), an Owner will recognize gain or loss equal to the difference, if any, between the amount realized upon the disposition or retirement and the Owner's basis in the Series 2006B Bond. An Owner's tax basis for determining gain or loss on the disposition or retirement of a Series 2006B Bond will be the cost of the Series 2006B Bond to such Owner, increased by the amount of any original issue discount and any market discount includible in such Owner's gross income with respect to the Series 2006B Bond, and decreased by the amount of any payments under the Series 2006B Bond that are part of its stated redemption price at maturity (i.e., all stated interest payments with respect to the Series 2006B Bonds previously paid) and by the portion of any premium applied to reduce interest payments as described above. Such gain or loss will be capital gain or loss (except to the extent the gain represents accrued original issue discount or market discount on the Series 2006B Bond not previously included in gross income, to which extent such gain would be treated as ordinary income). Any capital gain or loss will be long-term capital gain or loss if at the time of disposition or retirement the Series 2006B Bond has been held for more than one year.

Information Reporting and Backup Withholding

The Issuer is required to report to the IRS payments of interest and accruals of original issue discount (if any) on the Series 2006B Bonds held of record by U.S. persons other than corporations and other exempt holders. Such information will be filed each year with the IRS on Form 1099, which will reflect the name, address, and taxpayer identification number of the registered Owner. A copy of Form 1099 will be sent to each registered Owner of a Series 2006B Bond for federal income tax reporting purposes. The amount of original issue discount required to be reported by the Issuer may not be equal to the amount required to be reported as taxable income by an Owner of an OID Bond that acquired the Series 2006B Bond subsequent to its original issuance.

Interest paid to an Owner of a Series 2006B Bond ordinarily will not be subject to withholding of federal income tax if such Owner is a U.S. person. Backup withholding of federal income tax (currently at a rate of 28 percent, which rate is scheduled to increase to 31 percent for taxable years beginning on or after January 1, 2011) may apply, however, to payments made in respect of the Series 2006B Bonds, as well as payments of proceeds from the sale of the Series 2006B Bonds, to registered holders or Owners that are not "exempt recipients" and that fail to provide certain identifying information. This withholding generally applies if the Owner of a Series 2006B Bond (who is not an exempt recipient) (i) fails to furnish to the Issuer such Owner's social security number or other taxpayer identification number ("TIN"), (ii) furnishes the Issuer an incorrect TIN, (iii) fails to properly report interest, dividends or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the Issuer or such Owner's broker with a certified statement, signed under penalty of perjury, that the TIN provided to the Issuer is correct and that such Owner is not subject to backup withholding. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. To prevent backup withholding, each prospective holder will be requested to complete an appropriate form.

Any amounts withheld under the backup withholding rules from a payment to a person would be allowed as a refund or a credit against such person's U.S. federal income tax, provided that the required information is furnished to the IRS. Furthermore, certain penalties may be imposed by the IRS on a holder or Owner who is required to supply information but who does not do so in the proper manner.

Treasury Circular 230 Disclosure

THE FEDERAL TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON AN OWNER'S PARTICULAR SITUATION. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX IMPLICATIONS OF HOLDING AND DISPOSING OF THE SERIES 2006B BONDS UNDER APPLICABLE STATE OR LOCAL LAWS. FOREIGN INVESTORS SHOULD ALSO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES UNIQUE TO INVESTORS WHO ARE NOT U.S. PERSONS.

SALE AND DISTRIBUTION OF THE BONDS

The Underwriter

The Bonds are being purchased by the Underwriter, pursuant to a purchase contract with the Issuer, at a price of \$ _____, representing the principal amount of the Bonds less an underwriting discount of \$ _____. The Underwriter's obligation to purchase the Bonds is subject to certain conditions precedent, and the Underwriter will be obligated to purchase all of the Bonds if any are purchased. The Issuer has no control over the price at which the Bonds are subsequently sold and the initial yields at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Underwriter.

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the Issuer of a certificate executed and delivered by the Underwriter on or before the date of delivery of the Bonds stating the prices at which a substantial

amount of the Bonds of each maturity have been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the Issuer has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time to time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the Underwriter may over-allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The Issuer has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of the Bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold or traded in the secondary market.

Securities Laws

No registration statement relating to the offer and sale of the Bonds has been filed with the SEC under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein, nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The Issuer assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Securities Procedures Act (Texas Government Code, Chapter 1201), the Bonds: (1) are negotiable instruments; (2) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies; and (3) are legal and authorized investments for: (A) an insurance company; (B) a fiduciary or trustee; or (C) a sinking fund of a municipality or other political subdivision or public agency of the State. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See "RATINGS" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

No review by the Issuer has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states. No representation is made that the Bonds will in fact be used as investments or security by any entity.

CONTINUING DISCLOSURE OF INFORMATION

The Borrower, on behalf of itself, and the School, will enter into a continuing disclosure agreement (the "Continuing Disclosure Agreement") for the benefit of the holders of the Bonds to provide certain information annually and to provide notice of certain events to certain information repositories pursuant to the requirements of Section (b)(5) of Rule 15c2-12 (the "Rule") adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934. In addition to providing certain annual financial and operating information for the

School, the Borrower has agreed to provide, after each fiscal quarter of the School, unaudited financial statements of the School together with certain operating statistics of the Borrower. The Bond Trustee, in its capacity as dissemination agent, is required to provide such quarterly financial statements and operating statistics to any requesting holder of the Bonds. The information to be provided, the events which will be noticed on an occurrence basis and the other terms of the Continuing Disclosure Agreement, including termination, amendment and remedies, are set forth in APPENDIX E.

Neither the Borrower nor the Schools have made any prior undertakings under the Rule. Failure by the Borrower to comply with the Continuing Disclosure Agreement will not constitute an event of default under the Indenture or the Loan Agreement and holders of the Bonds are limited to the remedies described in the Continuing Disclosure Agreement. See APPENDIX E. Failure by the Borrower to comply with the Continuing Disclosure Agreement must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, any such failure may adversely affect the transferability and liquidity of the Bonds and their market price.

NO RATINGS

The Borrower has not applied to, is under no obligation to apply to, and does not plan to apply to any credit rating agency for a rating of the Bonds, and there is no reason to believe that, if applied for, any such rating could be obtained.

PREPARATION OF LIMITED OFFERING MEMORANDUM

Sources and Compilation of Information

The financial data and other information contained in this Limited Offering Memorandum has been obtained primarily from the Borrower and sources other than the Issuer. All of these sources are believed to be reliable, but no representation or guarantee is made by the Issuer as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation or guarantee on the part of the Issuer to such effect. Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions and other related information set forth in this Limited Offering Memorandum are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

MISCELLANEOUS

All estimates, statements and assumptions in this Limited Offering Memorandum and the Appendices hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any statements in this Limited Offering Memorandum involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact, and no representation is made that any such statements will be realized.

This Limited Offering Memorandum was approved by the Board of Directors of the Issuer, as of the date shown on the cover page.

APPENDIX A

AUDITED FINANCIALS OF BORROWER

FOR YEAR ENDED AUGUST 31, 2005

[THIS PAGE INTENTIONALLY LEFT BLANK]

**El Paso Education Initiative, Inc.
d/b/a Burnham Wood Charter School
Financial Statements
For the year ended August 31, 2005
and
Auditors' Report**

CROUCHER HACKETT CALLEROS & CO.
C E R T I F I E D P U B L I C A C C O U N T A N T S
A P R O F E S S I O N A L C O R P O R A T I O N

**EL PASO EDUCATION INITIATIVE, INC.
d/b/a BURNHAM WOOD CHARTER SCHOOL
EL PASO, TEXAS**

TABLE OF CONTENTS

	Page No.
Certificate of Board	
Independent Auditors' Report	1
Basic Financial Statements	
Statement of Financial Position	2
Statement of Activities	3-4
Statement of Cash Flows.....	5
Notes to Financial Statements	6-12
Required Supplementary Information	
Statement of Activities Individual Charter School.....	14
Budgetary Comparison Schedule.....	15
Other Reports	
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	17-18

CROUCHER HACKETT CALLEROS & CO.
C E R T I F I E D P U B L I C A C C O U N T A N T S
A PROFESSIONAL CORPORATION
INDEPENDENT AUDITORS' REPORT

Board of Directors
El Paso Education Initiative, Inc.
d/b/a Burnham Wood Charter School
El Paso, Texas

We have audited the statement of financial position of the El Paso Education Initiative, Inc., d/b/a Burnham Wood Charter School (Burnham Wood) as of August 31, 2005, and the related statements of activities and functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Burnham Wood management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Burnham Wood as of August 31, 2005, and the changes in net assets, and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated January 20, 2006 on our consideration of Burnham Wood's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The budgetary information and the statement of activities identified as required supplementary information in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Texas Education Agency. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Croucher Hackett Calleros & Co.

CROUCHER HACKETT CALLEROS & CO.
Certified Public Accountants
El Paso, Texas

January 20, 2006

Members Texas Society of CPAs
Members American Institute of CPAs

7310 Remcon Circle, Suite B • El Paso, Texas 79912
915-585-3176 • FAX 915-585-9463

EL PASO EDUCATION INITIATIVE, INC.
d/b/a BURNHAM WOOD CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
August 31, 2005
(With Comparative Totals for 2004)

ASSETS		<u>2005</u>	<u>2004</u>
Current assets			
Cash	\$	370,470	\$ 223,766
Accounts receivable		6,106	5,897
Due from state		<u>56,306</u>	<u>58,178</u>
		432,882	287,841
Property and equipment - net		<u>185,081</u>	<u>211,521</u>
Total assets	\$	<u>617,963</u>	\$ <u>499,362</u>
 LIABILITIES AND NET ASSETS 			
Current liabilities			
Accounts payable	\$	4,023	\$ 18,693
Accrued payroll liabilities		66,412	70,339
Teacher retirement		(2,678)	8,566
Due to state		<u>-</u>	<u>5,138</u>
Total liabilities		<u>67,757</u>	<u>102,736</u>
 Net assets			
Unrestricted		359,707	148,179
Temporarily restricted		<u>190,499</u>	<u>248,447</u>
Total net assets		<u>550,206</u>	<u>396,626</u>
Total liabilities and net assets	\$	<u>617,963</u>	\$ <u>499,362</u>

The accompanying notes are an integral part of these statements.

EL PASO EDUCATION INITIATIVE, INC.
d/b/a BURNHAM WOOD CHARTER SCHOOL
STATEMENT OF ACTIVITIES
For the year ended August 31, 2005
(With Comparative Totals for 2004)

	Unrestricted	Temporarily Restricted	2005 Total	2004 Total
REVENUES AND OTHER SUPPORT				
Local support				
Contributions	\$ 154	\$ -	\$ 154	\$ 151
Fund raising activities	16,479	-	16,479	24,487
Interest income	12	56	68	29
Other revenues from local sources	40,070	3,000	43,070	37,027
Total local support	56,715	3,056	59,771	61,694
State program revenues				
Foundation school program	1,202,822	-	1,202,822	1,139,344
Other state aid	-	17,268	17,268	23,585
Total state program revenues	1,202,822	17,268	1,220,090	1,162,929
Federal program revenues				
ESEA Title I, Part A	-	74,521	74,521	92,228
National School Breakfast and Lunch	-	-	-	6,437
ESEA Title IV, Part A	-	1,509	1,509	1,626
ESEA Title II, Part A	-	14,582	14,582	12,180
IDEA-B Formula	-	29,273	29,273	28,684
IDEA-B Preschool	-	572	572	603
Title V, Part B, Sub 1	-	-	-	40,907
ESEA Title II, Part D	-	1,702	1,702	1,549
Title III, Part A, Sub 2	-	6,477	6,477	8,044
ESEA Title V, Part A	-	953	953	815
Classroom Supply Teacher Reimbursement	-	2,400	2,400	-
Total federal program revenues	-	131,989	131,989	193,073
Net assets released from restrictions	210,261	(210,261)	-	-
Total revenue and other support	1,469,798	(57,948)	1,411,850	1,417,696

The accompanying notes are an integral part of these statements.

EL PASO EDUCATION INITIATIVE, INC.
d/b/a BURNHAM WOOD CHARTER SCHOOL
STATEMENT OF ACTIVITIES
For the year ended August 31, 2005
(With Comparative Totals for 2004)

	Unrestricted	Temporarily Restricted	2005 Total	2004 Total
EXPENSES AND LOSS				
Program services				
Instruction and instruction-related services	698,011		698,011	680,878
Instruction and school leadership	80,420		80,420	50,150
Support services				
Administrative and general	216,908		216,908	295,460
Support services - non-student based	218,940		218,940	259,884
Support services-student (pupil)	43,991		43,991	45,487
Fundraising	-		-	3,447
Total expenses	1,258,270		1,258,270	1,335,306
Change in net assets	211,528	(57,948)	153,580	82,390
Assets - beginning of year	148,179	248,447	396,626	314,236
Assets - end of year	\$ 359,707	\$ 190,499	\$ 550,206	\$ 396,626

The accompanying notes are an integral part of these statements.

EL PASO EDUCATION INITIATIVE, INC.
d/b/a BURNHAM WOOD CHARTER SCHOOL
STATEMENT OF CASH FLOWS
For the year ended August 31, 2005
(With Comparative Totals for 2004)

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2005</u>	<u>2004</u>
Cash received from contributors	\$ 154	\$ 56
Cash received from state foundation entitlements	1,214,294	1,119,242
Cash received from federal and state grant allotments	117,251	187,450
Cash received from services	39,857	20,268
Interest income	69	323
Miscellaneous receipts	36,750	41,018
Cash paid to suppliers for goods and services	(547,175)	(493,083)
Cash paid to employees for services	(714,496)	(809,022)
	<hr/>	<hr/>
Net cash provided by operating activities	146,704	66,252
	<hr/>	<hr/>
Net increase in cash and cash equivalents	146,704	66,252
Cash and cash equivalents at beginning of year	<u>223,766</u>	<u>157,514</u>
Cash and Cash Equivalents at End of Year	<u>\$ 370,470</u>	<u>\$ 223,766</u>
 RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH		
CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 153,580	\$ 82,390
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	26,440	26,440
Increase in accounts receivable	(209)	(5,897)
Decrease (Increase) in due from state	1,872	(44,513)
(Decrease) Increase in accounts payable	(14,670)	726
(Decrease) Increase in payroll liabilities	(3,927)	12,119
Decrease in teacher retirement	(11,244)	(5,536)
Increase due to state	(5,138)	523
	<hr/>	<hr/>
Total Adjustments	(6,876)	(16,138)
	<hr/>	<hr/>
Total cash provided by operating activities	<u>\$ 146,704</u>	<u>\$ 66,252</u>

The accompanying notes are an integral part of these statements.

El Paso Education Initiative, Inc.
d/b/a Burnham Wood Charter School
Notes to Financial Statements
August 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

El Paso Education Initiative, Inc. d/b/a Burnham Wood Charter School (Burnham Wood) is an open enrollment charter school dedicated to offering a humanities-based curriculum that stresses cooperative learning, and The Core Knowledge Sequence. Grades kindergarten through six were offered for the 2004-2005 school year. Burnham Wood operates under an open enrollment charter granted June 1, 1998 by the Texas State Board of Education for an initial contract period of five years. A charter renewal for a term of ten years with a contract ending date of July 31, 2013 was approved April 2003. Burnham Wood is part of the public school system of the State of Texas and is entitled to distributions from the state's available school fund. Burnham Wood does not have the authority to impose taxes or charge tuition.

Burnham Wood operates a single charter school and does not conduct any other charter or non-charter activities.

El Paso Education Initiative, Inc. was incorporated October 8, 1997. It was determined to be a non-profit organization exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code on June 16, 1998.

B. Accounting Policies

The financial statements have been prepared on the accrual basis of accounting. The accounting system is organized under the Special Supplement to Financial Accounting and Reporting Nonprofit Charter School chart of Accounts, a Module of the Texas Education Agency Financial Accountability Resource Guide. The significant accounting policies are as follows:

To ensure observance of limitations and restrictions placed on the use of resources available to Burnham Wood, the accounts are maintained in accordance with the principles of fund accounting during the year. Resources for various purposes are classified for accounting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, the accompanying statements of financial position and of activities focuses on the organization as a whole and reports the amounts of its total assets, liabilities, net assets and changes in net assets in accordance with Financial Accounting Standards Board Statement No. 117.

The statement of financial position reports the amounts of each of two classes of net assets: temporarily restricted and unrestricted net assets.

- Temporarily restricted net assets result from contributions and other inflows of assets that are limited by donor-imposed stipulations that can be fulfilled and removed by actions of Burnham Wood pursuant to those stipulations.

El Paso Education Initiative, Inc.
d/b/a Burnham Wood Charter School
Notes to Financial Statements
August 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

- Unrestricted net assets are the remaining part of Burnham Wood's net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

C. Cash and Cash Equivalents

For purposes of the statements of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less. At August 31, 2005 there were no cash equivalents.

D. Fixed Assets and Depreciation

All assets acquired with a unit value of \$5,000 or greater are recorded as fixed assets and are valued at cost or estimated cost. Donated assets are reported at fair market value at the time of acquisition. Depreciation is computed using the straight-line method of depreciation.

E. Revenues

Revenues from the state's available school fund are based on reported attendance.

Contributions received are recognized as revenue in the period received and are reported as either restricted or unrestricted support.

- Contributions with donor-imposed restrictions are reported as restricted support. Restricted support increases temporarily restricted net assets.
- Contributions without donor-imposed restrictions are reported as unrestricted support. Unrestricted support increases unrestricted net assets.

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Funds received but unearned are reflected as deferred revenues, and funds expended but not yet received are shown as receivables.

F. Compensated Absences

All full time employees earn five days of paid sick leave per year. However, the balance does not accumulate; therefore, there is no liability accrued on the financial statements.

**El Paso Education Initiative, Inc.
d/b/a Burnham Wood Charter School
Notes to Financial Statements
August 31, 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

G. Donated Goods and Services

Donated goods and services that can be measured are recorded in the financial statements as in-kind contribution and expenses of a like amount.

H. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. PROPERTY AND EQUIPMENT

Property and equipment at August 31, 2005 is as follows:

Buildings and Improvements	\$ 264,403
Less: Accumulated Depreciation	(79,322)
Property and Equipment - Net	<u>\$ 185,081</u>

Depreciation charged to operations for the year ended August 31, 2005 was \$26,440.

3. SCHEDULE OF CAPITAL ASSETS

As of August 31, 2005, the following disclosure of ownership interests in property and equipment is provided to address certain requirements discussed in House Bill 6, 77th Legislature (2001)

	Date Acquired	Ownership Interest		
		Local	State	Federal
Modular Building	8/31/2002			\$ 136,198
Building Completion Costs	12/31/2002			128,205
Total Property and Equipment		-	-	<u>\$ 264,403</u>

El Paso Education Initiative, Inc.
d/b/a Burnham Wood Charter School
Notes to Financial Statements
August 31, 2005

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily Restricted Net Assets at August 31, 2005 consist of the following:

IDEA Part B, Preschool	\$	2
School Repair and Renovation Grant		185,081
Technology Allotment		3,807
Supplemental Compensation		9
Southwest Bell Foundation - Chess Grant		1,600
	<u>\$</u>	<u>190,499</u>

5. NATURE OF OPERATIONS, RISKS, AND UNCERTAINTIES

Burnham Wood maintains cash balances in one bank. Accounts at this institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. At August 31, 2005, Burnham Wood had cash balances exceeding insurance coverage of \$281,402.

6. DEFINED BENEFIT PENSION PLAN

Plan Description

Burnham Wood Charter School contributes to the Teacher Retirement System of Texas (the System), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by Burnham Wood, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government Code, Title 8 Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. The System's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 877-0123.

**El Paso Education Initiative, Inc.
d/b/a Burnham Wood Charter School
Notes to Financial Statements
August 31, 2005**

6. DEFINED BENEFIT PENSION PLAN (CONT'D)

Funding Policy

Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6.0% of Burnham Wood's covered payroll. Burnham Wood's employees' contributions to the System for the year ending August 31, 2005 were \$28,844 equal to the required contributions for each year. Other contributions made from federal grants for the year ending August 31, 2005 were \$1,289, equal to the required contributions for each year. The amount contributed by the State of Texas on behalf of Burnham Wood was \$25,752 and has not been recorded either as revenue or expense by Burnham Wood.

Prior Period Restatement

The Statement of Activities for the year ended August 31, 2004 was restated without On-Behalf payments. Burnham Wood is not required to report these amounts. This restatement has no effect on net assets.

7. DUE FROM STATE

The following is a summary of the amounts due from the State of Texas:

State Grant Programs	\$ 9,965
Federal Grant Programs	46,341
	<u>\$ 56,306</u>

8. LEASES

Burnham Wood entered into a lease agreement with Iris Burnham (a related party) for the lease of facilities. The lease is considered operating and expires on July 31, 2006 with an option to renew. Burnham Wood is required to pay real property taxes and common maintenance expenses in addition to rent. Total rental expense included in the statement of activities for the years ended August 31, 2005 was \$ 86,916.

El Paso Education Initiative, Inc.
d/b/a Burnham Wood Charter School
Notes to Financial Statements
August 31, 2005

8. LEASES (CONT'D)

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of August 31, 2005, are:

Years ending August 30:	
2006	\$ 84,384
2007	84,384
2008	84,384
2009	84,384
2010	84,384
	<u>\$ 421,920</u>

9. COMMITMENTS AND CONTINGENCIES

Burnham Wood receives funds through state and federal grant programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses charged to the federal programs are subject to audit and adjustment by the grantor agency. The programs administered by Burnham Wood have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, Burnham Wood funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

10. RELATED PARTIES

Iris Burnham, Burnham Wood initiator and superintendent, owns facilities used for the Burnham Wood Charter School. During the year ended August 31, 2005, Burnham Wood paid \$65,809 to Iris Burnham for building leases.

11. HEALTH INSURANCE COVERAGE

During the year ended August 31, 2005, eligible employees of Burnham Wood were covered by TRS Active Care (the Plan) a comprehensive program provided by the Teacher Retirement System of Texas (TRS). Burnham Wood contributed \$225 per month per eligible employee to the plan. In addition, each full-time employee is eligible to receive \$41.66 a month in supplemental compensation from the State of Texas. The supplement can be used for plan coverage or taken as direct compensation. Coverage that exceeded the \$266.66 was paid by authorized payroll deduction. All premiums were submitted to TRS monthly.

**El Paso Education Initiative, Inc.
d/b/a Burnham Wood Charter School
Notes to Financial Statements
August 31, 2005**

12. MAINTENANCE OF EFFORT

The amount paid by the corporation for Burnham Wood employees for health care premiums was as follows:

A) Total charter school contributions for health care 2004-2005	<u>\$ 41,505</u>
B) Subtract any non-medical expenditures	<u>-</u>
C) 2004-2005 maintenance of effort	<u>\$ 41,505</u>

13. COMPARATIVE FINANCIAL INFORMATION

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Burnham Wood's financial statement for the year ended August 31, 2004 from which the summarized information was derived.

14. LITIGATION

Burnham Wood is currently the defendant in a litigation matter with a construction company (the company) involving the installation of a modular building. Burnham Wood has also filed a counterclaim against the company due to the company's failure to properly join the structural parts of the building, which may cause the structure to become unusable. Burnham Wood is seeking a refund of the cost of the modular building and the cost of removing it from the property.

Both matters are pending and the outcome is unknown. However, Burnham Wood does not believe either outcome will have a material effect on its financial position or changes in net assets.

**REQUIRED SUPPLEMENTARY
INFORMATION**

EL PASO EDUCATION INITIATIVE, INC.
d/b/a BURNHAM WOOD CHARTER SCHOOL
STATEMENT OF ACTIVITIES
For the year ended August 31, 2005
(With Comparative Totals for 2004)

	Unrestricted	Temporarily Restricted	Totals	
			2005	2004
Revenues				
Local support				
5740 Other Revenues from Local Sources	\$ 171	\$ 3,056	\$ 3,227	\$ 3,657
5750 Revenues from Co-curricular, Enterprising Services or Activities	56,544	-	56,544	60,465
Total Local Support revenues	56,715	3,056	59,771	64,122
State program revenues				
5810 Foundation School Program Act Revenues	1,202,822	-	1,202,822	1,139,344
5820 State Program Revenues Distributed by Texas Education Agency	-	7,440	7,440	12,394
5830 State Revenues from State of Texas Government Agencies (Other than Texas Education Agency)	-	9,828	9,828	11,704
Total State program revenues	1,202,822	17,268	1,220,090	1,163,442
Federal program revenues				
5920 Federal Revenues Distributed by the Texas Education Agency	-	131,989	131,989	190,132
Net assets released from restrictions:				
Restrictions satisfied by payments	210,261	(210,261)		
Total Revenues	1,469,798	(57,948)	1,411,850	1,417,696
Expenses				
11 Instruction	515,791		515,791	487,307
12 Instructional Resources and Media Services	44,783		44,783	18,418
13 Curriculum Development and Instructional Staff Development	137,437		137,437	175,153
21 Instructional Leadership	27,093		27,093	25,246
23 School Leadership	53,327		53,327	24,904
31 Guidance, Counseling and Evaluation Services	27		27	-
33 Health Services	-		-	173
35 Food Services	41,761		41,761	43,529
36 Co-curricular/Extracurricular Activities	2,203		2,203	1,785
41 General Administration	216,908		216,908	295,460
51 Plant Maintenance and Operations	205,573		205,573	217,945
52 Security and Monitoring Services	1,539		1,539	5,211
53 Data Processing Services	11,828		11,828	36,728
81 Fund Raising	-		-	3,447
Total Expenses	1,258,270	-	1,258,270	1,335,306
Change in Net Assets	211,528	(57,948)	153,580	82,390
Net Assets, beginning of year	148,179	248,447	396,626	314,236
Net Assets, ending of year	\$ 359,707	\$ 190,499	\$ 550,206	\$ 396,626

The accompanying notes are an integral part of these statements

EL PASO EDUCATION INITIATIVE, INC.
d/b/a BURNHAM WOOD CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended August 31, 2005

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenues				
Local support				
5740 Other Revenues from Local Sources	\$ -	\$ -	\$ 4	\$ 4
5750 Revenues from Co-curricular, Enterprising Services or Activities	-	-	-	-
Total Local Support revenues	-	-	4	4
State program revenues				
5810 Foundation School Program Act Revenues	953,000	1,157,074	1,202,822	45,748
5820 State Program Revenues Distributed by Texas Education Agency	-	-	-	-
5830 State Revenues from State of Texas Government Agencies (Other than Texas Education Agency)	-	-	-	-
Total State program revenues	953,000	1,157,074	1,202,822	45,748
Total Revenues	953,000	1,157,074	1,202,826	45,752
Expenses				
11 Instruction	338,241	481,838	441,959	39,879
12 Instructional Resources and Media Services	41,126	46,087	42,078	4,009
13 Curriculum Development and Instructional Staff Development	32,789	30,741	32,347	(1,606)
21 Instructional Leadership	18,968	25,003	22,324	2,679
23 School Leadership	43,623	54,080	53,303	777
31 Guidance, Counseling and Evaluation Services	-	30	27	3
33 Health Services	-	403	382	21
35 Food Services	3,750	17	16	1
36 Co-curricular/Extracurricular Activities	-	1,620	1,611	9
41 General Administration	173,140	220,351	214,803	5,548
51 Plant Maintenance and Operations	162,109	185,663	178,331	7,332
52 Security and Monitoring Services	2,083	1,575	1,539	36
53 Data Processing Services	19,123	12,400	11,698	702
Total Expenses	834,952	1,059,808	1,000,418	59,390
Change in Net Assets	118,048	97,266	202,408	105,142
Net Assets, beginning of year	129,164	129,164	129,164	
Net Assets, ending of year	\$ 247,212	\$ 226,430	\$ 331,572	\$ 105,142

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

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

UNAUDITED FINANCIALS OF BORROWER

AS OF JULY 31, 2006

[THIS PAGE INTENTIONALLY LEFT BLANK]

El Paso Educaion Initiative, Inc.
d/b/a Burnham Wood Charter School
Statement of Financial Position
July 31, 2006
Unaudited

ASSETS

Current Assets	
Cash	633,373
Due from State	67,556
Property and equipment - net	<u>195,081</u>
Total Assets	<u><u>896,010</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	1,280
Accrued payroll liabilities	4,523
Accrued wages	<u>69,184</u>
Total Liabilities	74,987
Net Assets	
Unrestricted	630,524
Temporarily restricted	<u>190,499</u>
Total net assets	821,023
Total Liabilities and Net Asset	<u><u>896,010</u></u>

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

[THIS PAGE INTENTIONALLY LEFT BLANK]

DELGADO, ACOSTA, BRADEN & JONES, P.C.

ATTORNEYS AT LAW

AUSTIN
DALLAS
EL PASO
HOUSTON

*Correspondent Offices
in Mexico City and
Ciudad Juarez*

[Closing Date]

Board of Directors
Texas Public Finance Authority Charter School Finance Corporation
300 W. 15th Street, Suite 411
Austin, Texas 78701

Wells Fargo Bank, National Association, as Trustee
MAC T5001-061
1000 Louisiana, Suite 640
Houston, Texas 77002

Re: \$_____ Texas Public Finance Authority Charter School Finance Corporation
Education Revenue Bonds (Burnham Wood Charter School Project), Series 2006A
and \$_____ Texas Public Finance Authority Charter School Finance Corporation
Taxable Education Revenue Bonds (Burnham Wood Charter School Project), Series
2006B

Ladies and Gentlemen:

We have been engaged by the Texas Public Finance Authority Charter School Finance Corporation (the "Issuer") to serve as bond counsel in connection with the issuance of its Education Revenue Bonds (Burnham Wood Charter School Project), Series 2006A (the "Series 2006A Bonds") and its Taxable Education Revenue Bonds (Burnham Wood Charter School Project), Series 2006B (the "Series 2006B Bonds") (collectively, the "Bonds"). The Bonds are issued pursuant to a Trust Indenture, dated as of _____, 2006 (the "Indenture"), between the Issuer and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The proceeds of the Bonds will be loaned by the Issuer to the El Paso Education Initiative Inc. (the "Borrower"), pursuant to a Loan Agreement (the "Loan Agreement"), dated as of _____, 2006, between the Issuer and the Borrower. Under the Loan Agreement, the Borrower has agreed to make payments to or for the account of the Issuer in amounts necessary to pay when due the principal of and premium (if any) and interest on the Bonds. Such payments and the rights of the Issuer under the Loan Agreement (except certain rights to indemnification, rebate payments and administrative fees) are pledged and assigned by the Issuer under the Indenture to the Trustee as security for the Bonds. Capitalized terms not otherwise defined herein have the meanings assigned to such terms in the Indenture or Loan Agreement. The Bonds are payable solely from the Trust Estate.

As to questions of fact material to our opinion, we have relied upon representations of the Issuer and the Borrower contained in the Loan Agreement and the Indenture and upon certain, certified proceedings furnished to us by or on behalf of the Borrower, the Issuer, and certain public officials, without undertaking to verify the same by independent investigation. We have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

Based upon the foregoing, we are of opinion that, under existing law;

1. The Issuer is duly created and validly existing as a nonprofit corporation created pursuant to Chapter 53, Texas Education Code, particularly Sections 53.351 thereof, and has the corporate power to enter into and perform the obligations under the Indenture and the Loan Agreement and issue the Bonds.

2. The Indenture and the Loan Agreement have each been duly authorized, executed and delivered by the Issuer, each is a valid and binding obligation of the Issuer, and, subject to the qualifications stated below, each is enforceable upon the Issuer. The Indenture creates a valid lien on the Loan Payments and on the rights of the Issuer under the Loan Agreement (except certain rights to indemnification, rebate payments and administrative fees).

3. The Bonds have been duly authorized, executed and delivered by the Issuer and are valid and binding limited obligations of the Issuer, payable solely from the Trust Estate.

4. Interest on the Series 2006A Bonds is excludable from gross income of the holders of the Series 2006A Bonds for federal income tax purposes under existing law.

5. Interest on the Series 2006A Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Series 2006A Bonds will be included in the "adjusted current earnings" of a corporation (other than any S corporation, regulated investment company, REIT, REMIC or FASIT) for purposes of computing its alternative minimum tax.

6. The difference between the amount payable at the maturity of each Series 2006A Original Issue Discount Bond (as defined in the Limited Offering Memorandum) and the initial offering price to the public of such Series 2006A Original Issue Discount Bond constitutes original issue discount with respect to such Series 2006A Original Issue Discount Bond in the hands of any Owners who have purchased such Series 2006A Original Issue Discount Bond in the initial offering of the Series 2006A Bonds; and such initial Owners are entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Series 2006A Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Series 2006A Original Issue Discount Bond continues to be owned by such initial Owners.

In rendering the opinions expressed in paragraphs 4, 5 and 6 above, we have relied on, among other things, certificates signed by officers of the Borrower with respect to certain material facts; estimates and expectations which are solely within the knowledge of the Borrower and which we have not independently verified. In addition, in rendering the opinions set forth in paragraphs 4, 5 and 6, we have assumed continuing compliance with the covenants in the Loan Agreement and the Indenture pertaining to those sections of the Code which affect the status of the Borrower as an organization described in section 501(c)(3) of the Code and the exclusion from gross income of interest on the Series 2006A Bonds for federal income tax purposes. If the certificates upon which we have relied are determined to be inaccurate or incomplete or the Borrower or the Issuer fail to comply with such covenants, interest on the Series 2006A Bonds could become includable in gross income from the date of their original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of the Bonds.

Owners of the Series 2006A Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Series 2006A Bonds).

Our opinions are limited to the laws of the State of Texas and the federal laws of the United States, in each case as in effect on the date hereof. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Series 2006A Bonds. If an audit is commenced in accordance with its current published procedures, the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted in the Indenture and the Borrower has covenanted in the Loan Agreement not to take any action; or omit to take any action within its control, that if taken or omitted, respectively) may result in the treatment of interest on the Series 2006A Bonds as includable in gross income for federal income tax purposes.

It is to be understood that the rights of the holders of the Bonds and the enforceability of the Bonds, the Indenture and the Loan Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases

Respectfully,

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

FORM OF INVESTOR LETTER

[THIS PAGE INTENTIONALLY LEFT BLANK]

FORM OF INVESTOR LETTER

(DATE)

Texas Public Finance Authority
Charter School Finance Corporation
300 W15th Street
Suite 411
Austin, Texas 78701

Delgado, Acosta, Braden, Jones PC
221 N. Kansas Street
Suite 2000
El, Paso Texas, 79901-1440

Re: Texas Public Finance Authority Charter School Finance Corporation Education
Revenue Bonds (Burnham Wood Charter School Project) \$ _____ Education
Revenue Bonds, Series 2006A and \$ _____ Taxable Education Revenue
Bonds, Series 2006B

Ladies and Gentlemen:

The undersigned, authorized officer of _____ (the "*Purchaser*"), has purchased a principal amount of \$ _____ of the above-captioned Bonds (the "*Bonds*"). In connection with such purchase, The Texas Public Finance Authority Charter School Finance Corporation (the "*Issuer*") requires that the Purchaser make certain representations as to the Purchaser's willingness to accept the risks of investing in the Bonds, the Purchaser's investigation of such risks, and such other matters. Accordingly, the Purchaser represents and warrants to the Issuer, and the other addressees hereof as follows:

- A. **QUALIFICATION.** The Purchaser is an "accredited investor" within the meaning of Rule 501 of Regulation D of the rules governing the limited offer and sale of securities without registration under the Securities Act of 1933 (the "*Securities Act*") or is a "qualified institutional buyer" within the meaning of Rule 144A of the Securities Act.
- B. **NO REGISTRATION; TRANSFERABILITY.** The Purchaser understands that the Indenture relating to the Bonds has not been registered under the Securities Act, the securities laws of any state or the Trust Indenture Act of 1939, as amended, in reliance upon certain exemptions set forth therein. The Purchaser acknowledges that the Bonds (i) are not being registered or otherwise qualified for sale under the "blue sky" laws and

regulations of any state and (ii) will not be listed on any securities exchange. The Purchaser has been informed and agrees that the Bonds may not be transferred to any person that is not a “qualified institutional buyer” within the meaning of Rule 144A of the Securities Act or an “accredited investor” within the meaning of Rule 501 of Regulation D of the rules governing the limited offering and sale of securities without registration under the Securities Act.

- C. **INDEPENDENT EVALUATION; WAIVER OF ISSUER’S DUE DILIGENCE; RELEASE.** The Purchaser has independently evaluated the factors associated with its investment decision. The Purchaser has been given full and complete access to and has been furnished with all information requested by the Purchaser regarding the Borrower, and has conducted such other investigations relating to the Issuer, the Borrower, the Project, and the Bonds, as in the opinion of the Purchaser was necessary in connection with its purchase of the Bonds. The Purchaser acknowledges that the Issuer, the members of its Board of Directors, its officers, counsel, advisors and agents of any of the foregoing (each individually an “*Issuer Party*” and all collectively the “*Issuer Parties*”) have not undertaken to furnish information to the Purchaser, or to ascertain the accuracy or completeness of any information that may have been furnished to the Purchaser by or on behalf of the Issuer or the Borrower relating to the operations, financial condition or future prospects of the Borrower or the Project and that none of the Issuer Parties have made any representations concerning the accuracy or completeness of any information supplied to the Purchaser or relating to the Borrower and the Project. The Purchaser further acknowledges that the Borrower has not undertaken to furnish information to the Purchaser regarding the Issuer, or to ascertain the accuracy or completeness of any information that may have been furnished to the Purchaser by or on behalf of the Issuer and that the Borrower has not made any representations concerning the accuracy or completeness of any information supplied to the Purchaser or relating to the Issuer. The Purchaser hereby waives any requirements of due diligence in investigation or inquiry on the part of any of the Issuer Parties and all claims, actions, or causes of action which the Purchaser may have directly or indirectly from or relating to any action which the Issuer and its Board of Directors took, or could have taken, in connection with the issuance and sale of the Bonds to the Purchaser.
- D. **BUSINESS BUYING SECURITIES.** The Purchaser is a bank, a savings institution, an insurance company, a securities dealer, or an agency or instrumentality of the United States or of a state thereof, or a person, a principal part of whose business consists of buying securities.
- E. **SOPHISTICATION.** The Purchaser is sufficiently knowledgeable and experienced in financial and business matters, including the purchase and ownership of municipal and other tax-exempt obligations, to be able to evaluate the risks and merits of the investment represented by the purchase of the Bonds, and it is capable of and has made its own investigation of the Borrower and the Project in connection with its decision to purchase the Bonds.
- F. **INVESTMENT PURPOSE.** The Purchaser is purchasing the Bonds for not more than one account for investment and not with a view to distribution, transfer, or resale thereof,

provided that the disposition of the Bonds shall at all times be within the sole control of the Purchaser, within the constraints referenced herein.

- G. **LEGAL AUTHORIZATION.** The Purchaser is duly and legally authorized to purchase the Bonds, and the Purchaser is duly and legally authorized to execute this Investor Letter. The Purchaser has satisfied itself that the Bonds are a lawful investment for it under all applicable laws.
- H. **SPECIAL LIMITED OBLIGATIONS.** The Purchaser understands that the Bonds are special limited, and not general, obligations of the Issuer payable solely from the revenues received by Wells Fargo Bank, N.A., as trustee (the "*Trustee*"). The Purchaser understands that the Bonds are not secured by any obligations or the pledge of any monies received or to be received from taxation or from the State of Texas (the "*State*") or any political subdivision or taxing district thereof (including, without implied limitation, the Issuer), and that the Bonds will never represent or constitute a general obligation, debt, or bonded indebtedness of the State, or any political subdivision thereof, and that no right will exist to have taxes levied by the State, or any political subdivision thereof, for the payment of the principal of, premium, if any, and interest on the Bonds, and that payment of the principal of, premium, if any, and interest on the Bonds depends upon the general credit of the Borrower and upon the net cash flow from the Project. The Purchaser understands that the Issuer has no taxing power.
- I. **SURVIVAL.** All representations of the Purchaser contained herein shall survive the sale and delivery of the Bonds to the Purchaser as representations of fact existing as of the date of execution and delivery of this Investor Letter.
- J. **DEFINED TERMS.** The initial capitalized terms not defined herein shall have the meaning ascribed to such terms in the Indenture which secures the payment of the Bonds.
- K. **WAIVER OF DUE DILIGENCE.** Notwithstanding anything to the contrary herein, the Purchaser waives any requirement of due diligence and investigation or inquiry on the part of any of the addressees to this Investor Letter.

The above representations are provided solely for the benefit of the addressees of this Investor Letter and may not be relied upon by or furnished to any other person without our prior written consent.

Purchaser

By: _____
(Signature)

Name: _____
(Print)

[NOTE: Must be Chief Financial Officer or other Executive Officer of the Purchaser]

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

[THIS PAGE INTENTIONALLY LEFT BLANK]

CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT dated as of _____, 2006 (the "Continuing Disclosure Agreement") is executed and delivered by El Paso Education Initiative Inc., (the "Borrower"), on behalf of itself and Burnham Wood Charter School (as defined in the Trust Indenture dated as of _____, 2006), between the Borrower and Wells Fargo Bank, National Association as trustee thereunder (the "Dissemination Agent").

RECITALS

1. This Continuing Disclosure Agreement is executed and delivered in connection with the issuance by the Texas Public Finance Authority Charter School Finance Corporation (the "Issuer") of \$8,580,000 Revenue Bonds (Burnham Wood Charter School Project), Series 2006A (the "Series 2006A Bonds") and the \$190,000 Taxable Education Revenue Bonds (Burnham Wood Charter School Project), Series 2006B (the "Series 2006B Bonds") (collectively, the "Bonds"), pursuant to a Trust Indenture dated as of _____, 2006 (the "Indenture"), by and between the Issuer and Wells Fargo Bank, National Association, as Trustee (the "Bond Trustee"). The proceeds of the Bonds are being loaned by the Issuer to the Borrower pursuant to a Loan Agreement dated as of _____, 2006, between the Issuer and the Borrower (the "Loan Agreement.")

2. The Borrower and the Dissemination Agent are entering into this Continuing Disclosure Agreement for the benefit of the Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"). The Borrower acknowledges that the Borrower is the only "obligated person" with responsibility for continuing disclosure, and the Issuer has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Continuing Disclosure Agreement, and has no liability to any person, including any Beneficial Owner of the Bonds, with respect to the Rule.

In consideration of the mutual covenants and agreements herein, the Borrower and the Dissemination Agent covenant and agree as follows:

Section 1. Definitions. In addition to the definitions set forth in the Loan Agreement, which apply to any capitalized term used in this Continuing Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" means any Annual Report provided by the Borrower pursuant to, and as described in, Section 2 of this Continuing Disclosure Agreement.

"Beneficial Owner" means any registered owner of any Bonds and any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Dissemination Agent” means Wells Fargo Bank, National Association, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Borrower.

“Material Events” means any of the events listed in Section 3(a) of this Continuing Disclosure Agreement.

“National Repository” means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in Exhibit A.

“Participating Underwriter” means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” means each National Repository and each State Repository, if any.

“Quarterly Report” means any Quarterly Report provided by the Borrower pursuant to, and as described in, Section 2(e) of this Continuing Disclosure Agreement.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State Repository” means any public or private repository or entity designated by the State of Texas as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission.

Section 2. Provision of Annual Reports and Quarterly Reports.

(a) The Borrower shall, or shall cause the Dissemination Agent to, not later than 180 days after the end of the Borrower's fiscal year, commencing with the year ending August 31, 2006, provide to each Repository and the Issuer the following financial information and operating data (the “Annual Report”):

(1) The audited financial statements of the Borrower for the prior fiscal year, prepared in accordance with generally accepted accounting principles. If audited financial statements are not available by the time the Annual Report is required to be filed pursuant to this Section, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Limited Offering Memorandum relating to the Bonds (except for the absence of certain notes and subject to normal year-end adjustments), and the audited financial statements shall be provided in the same manner as the Annual Report promptly after they become available.

(2) Updates as of the end of the fiscal year of certain financial information and operating data contained in the final Limited Offering Memorandum, as described in

Exhibit B, in substantially the same format contained in the final Limited Offering Memorandum relating to the Bonds.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Borrower is an "obligated person" (as defined by the Rule), which have been provided to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Borrower shall clearly identify each such other document so included by reference.

In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in this Section; provided that the audited financial statements of the Borrower may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Borrower's fiscal year changes, it shall give notice of such change in the same manner as for a Material Event under Section 3(d).

(b) Not later than 15 Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the Borrower shall: (1) provide the Annual Report to the Dissemination Agent, with written instructions to file the Annual Report as specified in subsection (a), or (2) provide written notice to the Dissemination Agent that the Borrower has provided the Annual Report to the Repositories and the Issuer.

(c) If the Dissemination Agent has not received an Annual Report or has not received a written notice from the Borrower that it has provided an Annual Report to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository and the Issuer in substantially the form attached as Exhibit C.

(d) The Dissemination Agent shall:

(1) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any (and in doing so, may conclusively rely on the list maintained by the SEC); and

(2) unless the Borrower has provided the Annual Report to the Repositories, file a report with the Borrower, the Issuer and (if the Dissemination Agent is not the Bond Trustee) the Bond Trustee certifying that the Annual Report has been provided pursuant to this Continuing Disclosure Agreement, stating the date it was provided, and listing all the Repositories to which it was provided.

(e) The Borrower shall, not later than 45 days after the end of each of the Borrower's fiscal quarters, commencing with the fiscal quarter ending August 31, 2006, provide to the Dissemination Agent the following financial information and operating data (the "Quarterly Report"):

(1) The unaudited financial statements of the Borrower for the prior fiscal quarter, in a format similar to the financial statements contained in the final Limited Offering Memorandum relating to the Bonds (except for the absence of certain notes and subject to normal year-end adjustments).

(2) Current enrollment data for the immediately preceding fiscal quarter.

Upon receipt of such Quarterly Report, the Dissemination Agent shall file such Quarterly Report with each Repository in the same fashion and manner as the filing of the Annual Report set forth in this Section 2. In addition, the Dissemination Agent shall also provide a copy of such Quarterly Report to any requesting Beneficial Owner.

Section 3. Reporting of Material Events.

(a) Pursuant to the provisions of this Section, the Borrower shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material ("Material Events"):

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults;
- (3) modifications to rights of bondowners;
- (4) optional, contingent or unscheduled bond calls;
- (5) defeasances;
- (6) rating changes;
- (7) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (8) unscheduled draws on debt service reserves reflecting financial difficulties;
- (9) unscheduled draws on credit enhancements reflecting financial difficulties;
- (10) substitution of credit or liquidity providers, or their failure to perform; or
- (11) release, substitution or sale of property securing repayment of the Bonds.

(b) The Dissemination Agent shall have no responsibility for the Borrower's failure to report to the Dissemination Agent notice of a Material Event.

(c) Whenever the Borrower obtains knowledge of the occurrence of a Material Event, the Borrower shall promptly notify and instruct the Dissemination Agent in writing to report the occurrence pursuant to subsection (d).

(d) If the Dissemination Agent has been instructed by the Borrower to report the occurrence of a Material Event, the Dissemination Agent shall promptly file a notice of such occurrence with each National Repository or the Municipal Securities Rulemaking Board and the State Repository, if any, with a copy to the Borrower. Notwithstanding the foregoing, notice of Material Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the owners of affected Bonds pursuant to the Agreement.

Section 4. Termination of Reporting Obligation. The Borrower's obligations under this Continuing Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If the obligations of the Borrower under the Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Continuing Disclosure Agreement in the same manner as if it were the Borrower, and the Borrower shall have no further responsibility hereunder. If such termination or substitution occurs prior to the final maturity of the Bonds, the Borrower shall give notice of such termination or substitution in the same manner as for a Material Event under Section 3(d).

Section 5. Dissemination Agent. The Borrower may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Continuing Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign as dissemination agent hereunder at any time upon 30 days prior written notice to the Borrower. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Borrower pursuant to this Continuing Disclosure Agreement. The initial Dissemination Agent shall be Wells Fargo Bank, National Association.

Section 6. Amendment; Waiver. Notwithstanding any other provision of this Continuing Disclosure Agreement, the Borrower and the Dissemination Agent may amend this Continuing Disclosure Agreement and any provision of this Continuing Disclosure Agreement may be waived, provided that Bond Counsel or other counsel experienced in federal securities law matters provides the Borrower and the Dissemination Agent with its opinion that the undertaking of the Borrower contained herein, as so amended or after giving effect to such waiver, is in compliance with the Rule and all current amendments thereto and interpretations thereof that are applicable to this Continuing Disclosure Agreement.

In the event of any amendment or waiver of a provision of this Continuing Disclosure Agreement, the Borrower shall describe such amendment in the next Quarterly Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Borrower. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (1) notice of such change shall be given in the same manner as for a Material Event under

Section 3(d), and (2) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 7. Additional Information. Nothing in this Continuing Disclosure Agreement shall be deemed to prevent the Borrower from disseminating any other information, using the means of dissemination set forth in this Continuing Disclosure Agreement or any other means of communication, or including any other information in any Quarterly Report, Annual Report or notice of occurrence of a Material Event, in addition to that which is required by this Continuing Disclosure Agreement. If the Borrower chooses to include any information in any Quarterly Report, Annual Report or notice of occurrence of a Material Event, in addition to that which is specifically required by this Continuing Disclosure Agreement, the Borrower shall have no obligation under this Continuing Disclosure Agreement to update such information or include it in any future Quarterly Report, Annual Report or notice of occurrence of a Material Event.

Section 8. Default. In the event of a failure of the Borrower or the Dissemination Agent to comply with any provision of this Continuing Disclosure Agreement, the Bond Trustee may (and, at the request of any Participating Underwriter or the owners of at least 25% aggregate principal amount of Outstanding Bonds, shall), or any Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Borrower or the Dissemination Agent, as the case may be, to comply with its obligations under this Continuing Disclosure Agreement. A default under this Continuing Disclosure Agreement shall not be deemed an event of default under the Indenture or the Loan Agreement, and the sole remedy under this Continuing Disclosure Agreement in the event of any failure of the Borrower or the Dissemination Agent to comply with this Continuing Disclosure Agreement shall be an action to compel performance.

Section 9. Compensation. The Borrower hereby agrees to compensate the Dissemination Agent for the services provided and the expenses incurred pursuant to this Continuing Disclosure Agreement, in an amount to be agreed upon from time to time hereunder, and to reimburse the Dissemination Agent upon its request for all reasonable expenses, disbursements and advances incurred by the Dissemination Agent hereunder (including any reasonable compensation and expenses of counsel) except any such expense, disbursement or advance that may be attributable to its negligence or willful misconduct.

Section 10. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Continuing Disclosure Agreement and no implied covenants or obligations shall be read into this Continuing Disclosure Agreement. The Dissemination Agent may rely conclusively as to the truth of the statements and correctness of opinions provided to it which conform to the requirements of this Continuing Disclosure Agreement. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties, including without limitation any written direction signed by the Borrower. The Dissemination Agent may consult

with counsel of its choice and the written advice of such counsel or any opinion of counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon, it being understood that for purposes of this provision such counsel may be counsel to the Borrower.

The Borrower agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless for, from and against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall not be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties hereunder or in the exercise of any of its rights or powers. The obligations of the Borrower under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 11. Notices. Any notices or communications to or among any of the parties to this Continuing Disclosure Agreement may be given by first class mail, postage prepaid, or delivered in person or by overnight courier, and will be deemed given on the second day following the date on which the notice or communication is so mailed, follows:

To the Borrower:

El Paso Education Initiative Inc.
7310 Bishop Flores Drive
El Paso, Texas 79912
Attention: General Counsel
Telephone/Fax:915-584-9499/915-585-8814

To the Dissemination
Agent:

Wells Fargo Bank, National Association
1000 Louisiana, Suite 640
MAC #T5001-061
Houston, Texas 77002
Attention: Corporate Trust Services
Telephone/Fax:713-319-1674/713-650-0579

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 12. Beneficiaries. This Continuing Disclosure Agreement shall inure solely to the benefit of the Issuer, the Borrower, the Bond Trustee, the Dissemination Agent, the Participating Underwriter, and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Severability. If any provision in this Continuing Disclosure Agreement, the Agreement or the Bonds shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 14. Counterparts. This Continuing Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 15. Governing Law. This Continuing Disclosure Agreement shall be governed by and construed in accordance with the laws of the State of Texas.

EL PASO EDUCATION INITIATIVE INC.,

By: _____
Its: _____

WELLS FARGO BANK, NATIONAL ASSOCIATION
as Dissemination Agent

By: _____
Authorized Officer

Exhibit A to Continuing Disclosure Agreement

**NATIONALLY RECOGNIZED MUNICIPAL SECURITIES INFORMATION
REPOSITORIES**

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
Email: Munis@Bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
Email: nrmsir@dpcdata.com

FT Interactive Data
Attn: NRMSIR
100 Williams Street, 15th Floor
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390 (Secondary Market Information)
(212) 771-7391 (Primary Market Information)
Email: NRMSIR@interactivedata.com

Standard & Poor's Securities
Evaluations
55 Water Street
45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
Email: nrmsir_repository@sandp.com

Exhibit B to Continuing Disclosure Agreement

**FINANCIAL INFORMATION AND OPERATING DATA TO BE INCLUDED
IN ANNUAL REPORT**

The following section and tables contained in the final Limited Offering Memorandum:

“THE BORROWER AND BURNHAM WOOD CHARTER SCHOOL – Enrollment History”

“THE BORROWER AND BURNHAM WOOD CHARTER SCHOOL – Student Demographics”

“THE BORROWER AND BURNHAM WOOD CHARTER SCHOOL – Student Waiting List”

“THE BORROWER AND BURNHAM WOOD CHARTER SCHOOL – Debt Service Coverage”

“THE BORROWER AND BURNHAM WOOD CHARTER SCHOOL – Student and School Achievement”

Exhibit C to Continuing Disclosure Agreement

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Texas Public Finance Authority Charter School Finance Corporation

Name of Bond Issue: Education Revenue Bonds
(Burnham Wood Charter School Project) Series 2006

Date of Issuance: _____, 2006

NOTICE IS HEREBY GIVEN that El Paso Education Initiative Inc., (the "Borrower") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement dated as of _____, 2006, between the Borrower and Wells Fargo Bank, National Association as Dissemination Agent. [The Borrower has informed the Dissemination Agent that the Borrower anticipates that the Annual Report will be filed by _____.]

Dated: _____

_____, on behalf of
El Paso Education Initiative Inc.

cc: Burnham Wood Charter School

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]



Recycled Paper - Printed by
IMAGEMASTER 800.452.5152