

OFFICIAL STATEMENT DATED AUGUST 17, 2006

THE DELIVERY OF THE BONDS IS SUBJECT TO THE OPINION OF VINSON & ELKINS L.L.P., 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 ALTERNATIVE MINIMUM TAXABLE INCOME IMPOSED ON INDIVIDUALS. INTEREST ON THE SERIES 2006B BONDS 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.

NEW ISSUE - Book-Entry-Only

RATING: Standard & Poor's Ratings Group: "A"
(See "BOND INSURANCE" and "RATING" herein.)

KIPP, Inc.

\$34,890,000 Education Revenue Bonds, Series 2006A

and

\$525,000 Taxable Education Revenue Bonds, Series 2006B

(Issued by the Texas Public Finance Authority Charter School Finance Corporation)

KIPP

There are no shortcuts.

Interest Accrues From August 1, 2006

Due: February 15 (as on the inside cover page)

Interest on the \$34,890,000 KIPP, Inc. Education Revenue Bonds (Issued by the Texas Public Finance Authority Charter School Finance Corporation), Series 2006A (the "Series 2006A Bonds") and \$525,000 KIPP, Inc. Taxable Education Revenue Bonds (Issued by the Texas Public Finance Authority Charter School Finance Corporation) Series 2006B (the "Series 2006B Bonds" and collectively with the Series 2006B Bonds, the "Bonds" and, together with any Additional Indebtedness (as defined in the Indenture hereinafter described, the "Debt") is payable February 15, 2007, and each August 15 and February 15 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 ("DTC"), pursuant to the Book-Entry Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000. 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 Zions First National Bank, 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 subject to optional and mandatory redemption, as described 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 KIPP, Inc. (the "Borrower" or "Company"), which operates an open enrollment charter school under the laws of the State of Texas, to refinance certain existing debt and finance the cost of constructing, equipping, and renovating certain "educational facilities" (as that term is defined within Chapter 53, Texas Education Code, as amended) and the purchase of sites therefore and facilities incidental, subordinate, or related thereto or appropriate in connection therewith at the Borrower's campuses located at 10711 Kipp Way, Houston, Texas 77099, 3730 South Acres Drive, Houston, Texas 77047, and 3150 Yellowstone, Houston, Texas 77054 and to pay the costs of issuing the Bonds for the benefit of the Borrower.

THE BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER, PAYABLE SOLELY FROM REVENUES TO BE DERIVED BY THE ISSUER UNDER THE LOAN AGREEMENT DATED AS OF AUGUST 1, 2006 (THE "LOAN AGREEMENT") BETWEEN THE ISSUER AND THE BORROWER, AS AMENDED FROM TIME TO TIME, AND TAXABLE AND TAX-EXEMPT PROMISSORY NOTES (THE "ISSUER MASTER NOTES") TO BE ISSUED UNDER THE MASTER TRUST INDENTURE AND SECURITY AGREEMENT, DATED AS OF AUGUST 1, 2006, AS SUPPLEMENTED BY THE SUPPLEMENTAL MASTER TRUST INDENTURE NO. 1, DATED AS OF AUGUST 1, 2006 (TOGETHER, THE "MASTER INDENTURE"), EACH BETWEEN THE COMPANY AND ZIONS FIRST NATIONAL BANK, AS MASTER TRUSTEE (THE "MASTER TRUSTEE"), AND DELIVERED TO THE ISSUER PURSUANT TO THE LOAN AGREEMENT, AND, IN CERTAIN CIRCUMSTANCES, OUT OF AMOUNTS SECURED THROUGH THE EXERCISE OF REMEDIES PROVIDED IN THE TRUST INDENTURE AND SECURITY AGREEMENT, DATED AS OF AUGUST 1, 2006, (THE "INDENTURE") BETWEEN THE ISSUER AND ZIONS FIRST NATIONAL BANK (THE "TRUSTEE", THE LOAN AGREEMENT, AND THE ISSUER MASTER NOTES. THE BONDS ARE NOT OBLIGATIONS OF THE CITY OF HOUSTON, TEXAS (THE "CITY"), THE STATE OF TEXAS (THE "STATE"), OR ANY ENTITY OTHER THAN THE ISSUER. NONE OF THE STATE, THE CITY, OR ANY POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE SHALL BE OBLIGATED TO PAY THE BONDS OR THE INTEREST THEREON AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, THE CITY, OR ANY OTHER POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. THE ISSUER HAS NO TAXING POWER.

THE BONDS ARE SPECULATIVE INVESTMENTS, THE PURCHASE AND OWNERSHIP OF WHICH ARE SUBJECT TO SPECIAL RISK FACTORS. ALL PROSPECTIVE PURCHASERS ARE URGED TO EXAMINE CAREFULLY THIS ENTIRE OFFICIAL STATEMENT WITH RESPECT TO THE INVESTMENT SECURITY OF THE BONDS, PARTICULARLY THE SECTION CAPTIONED "RISK FACTORS."

The Bonds are offered by the Underwriters, subject to prior sale, when, as, and if issued by the Issuer and accepted by the Underwriters, subject, among other things, to the approval of the initial Bonds by the Attorney General of Texas and the approval of certain legal matters by Vinson & Elkins L.L.P., Houston, Texas, Bond Counsel. Certain other matters will be passed upon for the Underwriters by Andrews Kurth LLP, Houston, Texas. Delivery of the Bonds is expected on or about September 20, 2006.

RBC CAPITAL MARKETS UBS INVESTMENT BANK

CITIGROUP

MORGAN KEEGAN & CO., INC.

MORGAN STANLEY

MATURITY SCHEDULE

KIPP, Inc. EDUCATION REVENUE BONDS

\$34,890,000 Education Revenue Bonds, Series 2006A

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Reoffering Yield</u> ^(a)	<u>CUSIPS</u> ^(b)	<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Reoffering Yield</u> ^(a)	<u>CUSIPS</u> ^(b)
2/15/2010	\$ 645,000	4.000%	4.100%		2/15/2017 ^(c)	\$ 900,000	4.550%	4.600%	
2/15/2011	675,000	4.100%	4.150%		2/15/2018 ^(c)	940,000	4.600%	4.650%	
2/15/2015 ^(c)	825,000	4.400%	4.450%		2/15/2019 ^(c)	985,000	4.650%	4.700%	
2/15/2016 ^(c)	855,000	4.500%	4.530%		2/15/2020 ^(c)	1,030,000	4.700%	4.750%	
					2/15/2021 ^(c)	1,080,000	4.750%	4.780%	

\$ 2,225,000 ^{(c)(e)} 5.250% Term Bonds Due February 15, 2014 to yield 4.330% ^(a) CUSIPS ^(b)
 \$ 9,280,000 ^{(c)(e)} 5.000% Term Bonds Due February 15, 2028 to yield 4.850% ^(a) CUSIPS ^(b)
 \$15,450,000 ^{(c)(e)} 5.000% Term Bonds Due February 15, 2036 to yield 4.900% ^(a) CUSIPS ^(b)

\$525,000 Taxable Education Revenue Bonds, Series 2006B ^(d)

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Reoffering Yield</u> ^(a)	<u>CUSIPS</u> ^(b)
2/15/2009	\$ 525,000	5.940%	5.940%	

(Interest to accrue from August 1, 2006)

- ^(a) The initial yields at which Bonds are priced are established by and are the sole responsibility of the Underwriters and may be changed at any time at the discretion of the Underwriters.
- ^(b) CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. Neither the Issuer, the Financial Advisor, the Borrower, nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.
- ^(c) The Issuer reserves the right, at the direction of the Borrower, to redeem Series 2006A Bonds having stated maturities on and after February 15, 2015, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2014, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. (See "THE BONDS – Optional Redemption").
- ^(d) The Series 2006B Bonds are not subject to optional redemption prior to their stated maturities.
- ^(e) Bonds are subject to Mandatory Sinking Fund Redemption as described herein. (See "THE BONDS - Mandatory Sinking Fund Redemption").

USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman, or other person has been authorized by the Texas Public Finance Authority Charter School Finance Corporation (the "Issuer") or the Underwriters to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by the Issuer or the Underwriters.

This Official Statement 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, and other related reports referenced or described in this Official Statement 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 Vinson & Elkins L.L.P., 1001 Fannin, Suite 2700, Houston, Texas 77002; Telephone: 713-758-2222.

The information set forth herein has been obtained from sources which are believed to be reliable; however, such information is not guaranteed as to accuracy or completeness by, and is not to be relied upon as, or construed as a promise or representation by, the Issuer or the Underwriters. In accordance with their responsibilities under the federal securities laws, the Underwriters have reviewed the information in this Official Statement, but do not guarantee its accuracy or completeness. All summaries herein of documents and agreements are qualified in their entirety by reference to such documents and agreements, and all summaries herein of the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture and the provisions with respect thereto included in the aforesaid documents and agreements. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement. Except for any information provided by Zions First National Bank concerning the Master Trustee and the Trustee, Zions First National Bank, has no responsibility for any information in this Official Statement. Neither the Issuer nor the Underwriters make any representation as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use in this Official Statement.

This Official Statement 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.**

ANY INFORMATION AND EXPRESSIONS OF OPINION HEREIN CONTAINED ARE SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT 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. THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAW PROVISIONS OF ANY JURISDICTION IN WHICH THE BONDS HAVE BEEN QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

Contact Information:

KIPP, Inc.

Mr. Mike Feinberg
Superintendent
10711 Kipp Way
Houston, Texas 77099
(713) 202-0549 - Phone
(713) 541-2046 – Fax
mfeinberg@kipp.org

Financial Advisor – Coastal Securities

Lewis A. Wilks
Partner
5555 San Felipe, Suite 2200
Houston, Texas 77056
(713) 435-4336 – Phone
(713) 435-4448 – Fax
law@coastalsecurities.com

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OFFICIAL STATEMENT

KIPP Inc.

Education Revenue Bonds

(Issued by the Texas Public Finance Authority Charter School Finance Corporation)

\$34,890,000 Education Revenue Bonds, Series 2006A and \$525,000 Taxable Education Revenue Bonds, Series 2006B

This Official Statement provides certain information in connection with the issuance by the Texas Public Finance Authority Charter School Finance Corporation (the “*Issuer*”) of its KIPP, Inc. Education Revenue Bonds consisting of \$34,890,000 Education Revenue Bonds, Series 2006A (the “*Series 2006A Bonds*”) and \$525,000 Taxable Education Revenue Bonds, Series 2006B (the “*Series 2006B Bonds*” and collectively with the Series 2006A Bonds, the “*Bonds*” and, together with any Additional Indebtedness (as defined in the Indenture hereinafter described), the “*Debt*”).

The Bonds are being issued pursuant to a Trust Indenture and Security Agreement dated as of August 1, 2006 (the “*Indenture*”), by and between the Issuer and Zions First National Bank, Houston, Texas, as trustee (the “*Trustee*”), and a Resolution of the Issuer (the “*Resolution*”). The proceeds from the sale thereof will be loaned to the KIPP, Inc. (the “*Borrower*”), which operates an open enrollment charter school under the laws of the State of Texas, to refinance certain outstanding obligations of the Borrower and finance the cost of constructing, equipping, and renovating certain “educational facilities” (as that term is defined within Chapter 53, Texas Education Code, as amended) and the purchase of sites therefore and facilities incidental, subordinate, or related thereto or appropriate in connection therewith for the Borrower’s campuses located at 10711 Kipp Way, Houston, Texas 77099, 3730 South Acres Drive, Houston, Texas 77047, and 3150 Yellowstone, Houston, Texas 77054 (the “*Project*”), and to pay the costs of issuing the Bonds.

The Bonds are limited obligations of the Issuer, payable solely out of the revenues derived from or in connection with the Loan Agreement dated as of August 1, 2006 (the “*Loan Agreement*”), by and between the Borrower and the Issuer, as amended from time to time, and the Taxable and Tax-Exempt Promissory Notes (the “*Issuer Master Notes*”) to be issued under the Master Trust Indenture and Security Agreement dated as of August 1, 2006, as supplemented by the Supplemented Master Trust Indenture Note, dated as of August 1, 2006 (together, the “*Master Indenture*”) and between the Issuer and Zions First National Bank, as Master Trustee (the “*Master Trustee*”), including all money and investments held for the credit of the funds and accounts established by or under the Indenture (except the Rebate Fund), and in certain events out of amounts secured through the exercise of the remedies provided in the Indenture, the Loan Agreement, the Issuer Master Notes, and the Deed of Trust upon occurrence of an Event of Default (as defined in the Indenture). The Bonds shall never be payable out of any funds of the Issuer except such revenues and amounts.

This Official Statement includes descriptions of, among other items, the Indenture, the Master Indenture, the Resolution, the Bonds, the Loan Agreement, the Issuer Master Notes, the Deed of Trust, the Issuer, the Borrower, and the system of charter schools under Texas 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 Master Indenture, the Loan Agreement, the Deed of Trust, the Resolution, and the Issuer Master Notes are available from Vinson & Elkins L.L.P., 1001 Fannin, Suite 2700, Houston, Texas 77002, Telephone: 713-758-2222.

Any capitalized term used herein and not otherwise defined will have the meaning set forth for such term in the Indenture or the Agreement, as appropriate.

PLAN OF FINANCING

Purpose

The Borrower is a nonprofit corporation created and operating under the Texas Non-Profit Corporation Act which operates an open enrollment charter school under Chapter 12, Texas Education Code, as amended. The Issuer is a nonprofit higher education finance corporation organized and operating 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 Project and paying the costs of issuance of the Bonds.

The Facilities and the Project

The Borrower currently operates two campuses located at 10711 KIPP Way, Houston, Texas 77099 and 4610 East Crosstimbers, Houston, Texas 77016, which presently accommodate approximately 2,400 students. The 10711 KIPP Way campus is subject to two separate mortgages for the benefit of Amegy Bank to secure a loan, as well as a line of credit. The Borrower operates KIPP Spirit Middle School and KIPP Liberation Middle School in leased facilities.

A portion of the proceeds of the Bonds will be used to pay the balance due on the above described loan, as well as the line of credit, at which time the mortgage will be released. The Borrower also anticipates the construction of a new lower school facility (SHINE Building) and the purchase of two new school sites located on Scott Street in Houston, Texas (KIPP Spirit Middle School) and on Telephone Road in Houston, Texas (KIPP Liberation Middle School) with a portion of the proceeds of the Bonds. Once completed, the campus will accommodate approximately 2,650 students. Proceeds from the sale of the Bonds will be used as listed below.

Summary of Project Expenses

Amegy Loan	\$ 7,515,000.00
Amegy Line of Credit	3,020,000.00
Land Acquisition (KIPP – SPIRIT – Pre-K – 12 th Grade)	2,600,000.00
Land Acquisition Site Prep Fund	1,000,000.00
Construction Project (SHINE – Pre-K – 4 th Grade)	8,200,000.00
Land Acquisition (KIPP Liberation – Pre-K – 8 th Grade)	<u>5,500,000.00</u>
Total Project Costs	<u>\$27,835,000.00</u>

Sources and Uses of Funds

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

Sources	
Bond Proceeds	\$35,415,000.00
Accrued Interest	273,166.81
Less: Net Premium	<u>278,291.85</u>
TOTAL	<u>\$35,930,458.66</u>

Uses	
Refunding Deposit	\$10,535,000.00
Project Fund	18,800,000.00
Debt Service Reserve Fund	2,347,827.50
Capitalized Interest	1,673,197.06
Costs of Issuance and Bond Insurance	1,768,799.28
Management Consulting Expense	300,000.00
Underwriters' Discount	261,716.85
Accrued Interest	237,166.81
Additional Proceeds	<u>6,751.16</u>
TOTAL	<u>\$35,930,458.66</u>

THE BONDS

Description

The Bonds will be issued in the aggregate principal amounts, 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 Official Statement. Interest on the Bonds will accrue from their dated date and be calculated on the basis of a 360-day year of twelve 30-day months. Interest is payable on February 15, 2007, and on each February 15 and August 15 thereafter until the earlier of maturity or redemption.

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 \$5,000.

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 last business day of the month next preceding such payment date (the "*Record Date*"). Upon written request of a registered owner of at least \$1,000,000 in principal amount of the Bonds, all payments of principal of, premium, if any, and interest on the Bonds will be paid by wire transfer (at the risk and expense of such registered owner) in immediately available funds to an account designated by such registered owner. 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 ("*DTC*") as described under "BOOK-ENTRY ONLY SYSTEM."

Mandatory Sinking Fund Redemption

The Bonds are subject to mandatory sinking fund redemption, and will be redeemed by the Issuer at a redemption price equal to the principal amount thereof plus interest accrued and unpaid thereon to the redemption date, and in the principal amounts shown in the following schedule:

Series 2006A Bonds (maturing 2/15/2014):

2/15/2012	\$705,000
2/15/2013	740,000
2/15/2014	780,000

Series 2006A Bonds (maturing 2/15/2028):

2/15/2022	\$1,135,000
2/15/2023	1,195,000
2/15/2024	1,255,000
2/15/2025	1,315,000
2/15/2026	1,385,000
2/15/2027	1,460,000
2/15/2028	1,535,000

Series 2006A Bonds (maturing 2/15/2036):

2/15/2029	\$1,610,000
2/15/2030	1,695,000
2/15/2031	1,780,000
2/15/2032	1,870,000
2/15/2033	1,965,000
2/15/2034	2,070,000
2/15/2035	2,175,000
2/15/2036	2,285,000

Redemption Provisions

Optional Redemption. The Series 2006A Bonds maturing on February 15, 2015, are subject to optional redemption prior to scheduled maturity, in whole or in part, on February 15, 2014, and on any date thereafter, at the option of the Borrower at a redemption price of par, plus accrued interest to the date of redemption. The Series 2006B Bonds are not subject to optional redemption.

Mandatory Redemption Upon Determination of Taxability. The Series 2006A Bonds will be redeemed in whole prior to maturity on a date selected by the Borrower which is not more than 120 days following the occurrence of a Determination of Taxability at a redemption price equal to 100% of the principal amount thereof plus interest to the redemption date.

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 Fund to the Debt Service Fund as excess proceeds upon 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 the 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 Agreement, the Project is not reconstructed, repaired, or replaced, with insurance proceeds transferred from the Construction Fund to the Debt Service Fund which, together with an amount required to be paid by the Borrower pursuant to the 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 Agreement, with excess insurance proceeds transferred from the Construction Fund to the Debt Service Fund for such purpose.

Redemption in Part. If less than all of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed will be selected by the Trustee at random by lot or other customary method within a maturity; provided, however, that portions of the Bonds will be redeemed in Authorized Denominations; and provided further, that no redemption will result in an outstanding Bond being less than an Authorized Denomination.

In case part, but not all, of a Bond is selected for redemption, the owner thereof or his attorney or legal representative must present and surrender the 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 therefore, in exchange for the unredeemed portion of the principal amount of such Bond so surrendered, a Bond of the same Stated 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, the Trustee will cause a written notice of such redemption to be mailed by first-class mail, postage prepaid, to the Owners of the Bonds to be redeemed, at such Owner's 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 or not 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 Bond.

BOND INSURANCE

The following information has been furnished by ACA Financial Guaranty Corporation ("ACA") for use in the Official Statement. Reference is made to Appendix G for a specimen of ACA's policy.

Payment Pursuant to Bond Insurance Policy

ACA has made a commitment to issue a bond insurance policy (the "Policy") relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Policy, ACA unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Trustee or paying agent (as designated in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of any owner, or, at the election of ACA, directly to such owner, that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Policy). ACA will make such payments to or for the benefit of each owner on the later of the day on which such principal and interest becomes Due for Payment or within one Business Day following the Business Day on which ACA shall have received Notice of Nonpayment (as such terms are defined in the Policy). The Policy is non-cancelable for any reason.

The Policy will insure an amount equal to (i) the principal of (either at the stated maturity or pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become Due for Payment but shall not be so paid by reason of Nonpayment by the Issuer (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than pursuant to a mandatory

sinking fund payment, the payments guaranteed by the Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final non-appealable order of a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Policy does not insure against loss of any redemption premium which may at any time be payable with respect to any Bond. The Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Policy also does not insure against nonpayment of principal or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or paying agent for the Bonds.

Upon receipt of telephonic or electronic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by ACA from the Trustee or paying agent or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, ACA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with the Trustee or paying agent, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by ACA, and appropriate instruments to effect the appointment of ACA as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to ACA, ACA shall disburse to such owners or the paying agent payment of the insured amounts due on such Bonds, less any amount held by the paying agent for the payment of such insured amounts and legally available therefor.

ACA's Rights Under the Financing Documents

Under the financing documents, ACA has certain rights to consents, notices and to control certain procedures, including, without limitation, the right to control proceedings, without the consent of bondholders, following an event of default under the financing documents. Reference is made to the provisions of the financing documents for a more complete description of ACA's rights thereunder.

ACA Financial Guaranty Corporation

ACA is domiciled in the State of Maryland and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands of the United States and the Territory of Guam. State laws regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by ACA, changes in control and transactions among affiliates. Additionally, ACA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

As of March 31, 2006, ACA had, on an unaudited basis, admitted assets of \$592,445,611, total liabilities of \$330,739,061, and total statutory capital of \$344,001,996, as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. Statutory capital consists of policyholders' surplus and statutory contingency reserve.

For further information about ACA, see the selected financial and statistical information for ACA Financial Guaranty Corporation at <http://www.aca.com/financials/index.html>. Copies of ACA's year-end financial statements prepared in accordance with statutory accounting practices are available without charge from ACA. The address of ACA is 140 Broadway 47th Floor, New York, New York 10005. The telephone number of ACA is (888) 427-2833.

Standard & Poor's Ratings Services ("S&P") has issued financial strength and financial enhancement ratings of "A" for ACA. The rating reflects S&P's current assessment of the creditworthiness of ACA and its ability to pay claims on its

policies of insurance. Any further explanation as to the significance of the above rating may be obtained only from S&P. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating may be subject to revision or withdrawal at any time by S&P. Any downward revision or withdrawal of any of the above rating may have an adverse effect on the market price of the Bonds. ACA does not guaranty the market price of the Bonds nor does it guaranty that the rating on the Bonds will not be revised or withdrawn.

OTHER THAN WITH RESPECT TO INFORMATION CONCERNING ACA FINANCIAL GUARANTY CORPORATION (“ACA”) CONTAINED UNDER THE CAPTION “BOND INSURANCE” HEREIN AND APPENDIX G HERETO, NONE OF THE INFORMATION IN THIS OFFICIAL STATEMENT HAS BEEN SUPPLIED OR VERIFIED BY ACA AND ACA MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO (I) THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION; (II) THE VALIDITY OF THE BONDS; OR (III) THE TAX EXEMPT STATUS OF THE INTEREST ON THE BONDS.

SECURITY AND SOURCE OF PAYMENT

Security for the Bonds

THE BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER, PAYABLE SOLELY FROM REVENUES TO BE DERIVED UNDER THE LOAN AGREEMENT, THE ISSUER MASTER NOTES AND, IN CERTAIN CIRCUMSTANCES, OUT OF AMOUNTS SECURED THROUGH THE EXERCISE OF REMEDIES PROVIDED IN THE INDENTURE, THE LOAN AGREEMENT, AND THE ISSUER MASTER NOTES. THE BONDS ARE NOT OBLIGATIONS OF THE STATE OF TEXAS (THE “STATE”), OR ANY ENTITY OTHER THAN THE ISSUER. NEITHER THE STATE, A STATE AGENCY OR ANY POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE SHALL BE OBLIGATED TO PAY THE BONDS OR THE INTEREST THEREON AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, OR ANY OTHER POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. THE ISSUER HAS NO TAXING POWER.

The Loan Agreement

The Bonds are payable from and secured by (i) a pledge and assignment to the Bond Trustee of the Issuer’s rights under the Loan Agreement and rights of the Issuer to receive loan payments thereunder (excluding certain fees and expenses and certain indemnity payments payable to the Issuer) and (ii) amounts payable by the Borrower under the Issuer Master Notes. Pursuant to the Loan Agreement, the Borrower agrees to make loan payments to the Issuer sufficient to provide funds to make required payments of principal, premium, if any, and interest on the Bonds in full, which loan shall be evidence by the Issuer Master Notes. All such loan payments are required to be made to the Bond Trustee by the Borrower.

The Issuer Master Notes

Pursuant to the Loan Agreement, the Borrower will execute and deliver to the Bond Trustee, as the designee of the Issuer, the Issuer Master Notes in the principal amounts equal to the principal amounts of the Bonds. Payments under the Issuer Master Notes are scheduled to be made at the times and in the amounts required to pay debt service on the Bonds and will be credited against the loan payments required to be made by the Borrower under the Loan Agreement.

The Master Indenture

The Issuer Master Notes issued by the Borrower to the Bond Trustee evidencing the obligation of the Borrower to make the payments required under the Loan Agreement are duly authorized promissory notes of the Borrower issued pursuant to and secured by the Master Indenture. Under the Master Indenture, the Borrower unconditionally and irrevocably covenants that it will promptly pay the principal of, premium, if any, an interest and any other amount due on every note issued under the Master Indenture, subject to certain limitations relating to fraudulent conveyance, insolvency, and other considerations, and has granted a security interest in its Revenues to the Master Trustee, which Revenues are pledged to the payment of the

Master Notes issued under the Master Indenture, including the Issuer Master Notes. The Borrower has also granted a lien on certain real and personal property for the benefit of the Master Trustee.

Revenue Fund

As security for the repayment of the Issue Master Notes and the performance by the Borrower of its other obligations under the Financing Documents, the Borrower will covenant and agree in the Master Indenture that, if an Event of Default under the Master Indenture shall occur and continue for a period of ten days, it will deliver or cause to be delivered to the Master Trustee within five Business Days from the day of receipt all of the Adjusted Revenues for deposit into the Revenue Fund held by the Master Trustee. The Master Trustee is authorized to hold all such Adjusted Revenues constituting the Revenue Fund, as bailee and custodian for the Issuer in accordance with the provisions of Sections 8.321 and 9.305 of the Texas Business and Commerce Code, as amended, and to apply and disburse such funds and proceeds in accordance with the Master Indenture.

The Master Trustee is required to immediately transfer funds on deposit in the Revenue Fund in accordance with the Master Indenture. To the extent funds in the Revenue Fund are transferred by the Master Trustee in accordance with the requirements of the Master Indenture and are sufficient for such purposes, the transfer and application of such funds for the purposes described in the Master Indenture shall be considered to satisfy the related Loan Payment obligations of the Borrower. To the extent funds in the Revenue Fund are ever insufficient to satisfy the transfer requirements of the Indenture, the Borrower may make the related Loan Payments from funds other than the Adjusted Revenues, if any.

The Master Indenture provides that the Master Trustee will immediately withdraw and pay or deposit from the amounts on deposit in the Revenue Fund the following amounts in the order of priority indicated:

- (1) to the Master Trustee any fees or expenses which are then due and payable;
- (2) equally and ratably to the Holder of each instrument evidencing an Issuer Master Note on which there has been a default pursuant to Section 601(a) an amount equal to all defaulted principal of (or premium, if any) and interest on such Issuer Master Note;
- (3) a transfer to the Interest Account of an amount necessary to accumulate in equal amounts the interest on the Issuer Master Notes due and payable on the next Interest Payment Date; provided, however, that to the extent available, each transfer made on the fifth Business Day before the end of the month immediately preceding each Interest Payment Date shall be in an amount to provide, together with amounts then on deposit in the Interest Account, the balance of the interest due on the Issuer Master Notes on the next succeeding Interest Payment Date. There shall be paid from the Interest Account equally and ratably to the Holder of each instrument evidencing an Issuer Master Note the amount of interest on each Issuer Master Note as such interest becomes due;
- (4) a transfer to the Principal Account of the amount necessary to accumulate in equal monthly installments the principal of the Issuer Master Notes maturing or subject to mandatory sinking fund redemption on the next Interest Payment Date taking into account with respect to each such payment (i) any other money actually available in the Principal Account for such purpose and (ii) any credit against amounts due on each Interest Payment Date granted pursuant to other provisions of this Indenture; provided, however, that to the extent available, the transfer made on the fifth Business Day before the end of each month immediately preceding such Interest Payment Date shall be in an amount to provide, together with amounts then on deposit in the Principal Account, the balance of the principal maturing or subject to mandatory sinking fund redemption on such Interest Payment Date. There shall be paid from the Principal Account equally and ratably to the Holder of each instrument evidencing an Issuer Master Note the amount of principal payments due on each Issuer Master Note, whether at maturity or earlier mandatory redemption (other than by reason of acceleration of maturity or other demand for payment), as such principal becomes due;
- (5) to the Holder of any Issuer Master Note entitled to maintain a reserve fund for the payment of such Issuer Master Note, an amount sufficient to cause the balance on deposit in such reserve fund to equal the required balance in 12 equal monthly installments; and

(6) to the Borrower, the amount specified in a Request as the amount of ordinary and necessary expenses of the Borrower for its operations for the following month.

Any balance remaining in the Revenue Fund on the later of the last day of any fiscal year or the day following the end of the month in which all Events of Default under the Master Indenture have been called, will be paid to the Borrower at its depository bank upon request to be used for any lawful purpose.

The Bond Indenture

Under the Indenture, the Issuer will grant to the Bond Trustee for the equal and ratable benefits of the holders of the Bonds, all of the Issuer's right, title, and interest in and to, among other things, the following: (i) the Loan Agreement, including all amounts payable thereunder, including but not limited to the Loan Payments, the Issuer Master Notes, any and all security heretofore or hereafter granted or held for the payment thereof, and the present and continuing right to bring actions and proceedings under the Agreement or for the enforcement thereof and to do any and all things which the Issuer is or may become entitled to do thereunder, but excluding the amounts agreed to be paid by the Borrower noted in such Loan Agreement, (ii) all money and investments held for the credit of the funds and accounts established by or under the Indenture (except the Purchase Fund and the Rebate Fund) as described in the Indenture, and (iii) any and all property that may, from time to time hereafter, by delivery or by writing of any kind, be subjected to the lien and security interest hereof by the Issuer or by anyone in its behalf, which subjection to the lien and security interest hereof of any such property as additional security may be made subject to any reservations, limitations, or conditions that shall be set forth in a written instrument executed by the Issuer or the Person so acting in its behalf or by the Bond Trustee respecting the use and disposition of such property or the proceeds thereof.

Debt Service Fund

The Indenture establishes a Debt Service Fund. The money deposited into the Debt Service Fund, together with all investments thereof and investment income therefrom, will be held in trust and applied solely as provided in the Indenture. The Trustee, on the date of issuance of the Bonds, will deposit the amount specified in an Issuer Order into the Capitalized Interest Account of the Debt Service Fund for the purpose of paying a portion of the interest on the Bonds. Thereafter, the Trustee will deposit to the credit of the Debt Service Fund immediately upon receipt: (i) amounts due and payable by the Company pursuant to the terms of the Agreement and the Issuer Master Notes, (ii) any other amounts required by the Indenture, and (iii) any other amounts delivered to the Trustee for deposit thereto. On each Interest Payment Date, the Trustee will withdraw money from the Debt Service Fund to pay the principal and interest due on the Bonds.

Debt Service Reserve Fund

The Indenture establishes a Debt Service Reserve Fund. There will initially be deposited in the Debt Service Reserve Fund from the proceeds of the Bonds an amount equal to the least of (i) the maximum annual principal and interest requirements of the Bonds, (ii) one hundred twenty-five percent (125%) of the average annual Debt Service on the Bonds, or (iii) ten percent (10%) of the sale proceeds of 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 Bond 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 Bond Trustee has applied funds in the Debt Service Reserve Fund to pay Debt Service on the Bonds, the Bond Trustee will promptly notify the Borrower in writing that a deficiency in the Debt Service Reserve Fund exists, and the Borrower will (1) within 30 days of receipt of such notice, pay to the Trustee the full amount needed to restore the Debt Service Fund to the Reserve Fund Requirement or (2) in twelve (12) consecutive equal monthly installments, the first of which shall be made within thirty (30) days from the date of receipt of such notice, pay such deficiency to the Bond 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. Notwithstanding the foregoing, moneys in the Debt Service Reserve Fund may be 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 all Outstanding Bonds, 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. If the balance of the Debt Service Reserve Fund is equal to or in excess of the aggregate requirements on the then outstanding Bonds, the Bond 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.

The Issuer may satisfy all or any part of the Reserve Fund Requirement by obtaining for the benefit of the Debt Service Reserve Fund one or more Reserve Fund Surety Policies. In the event the Issuer elects to substitute at any time a Reserve Fund Surety Policy for any funded amounts in the Debt Service Reserve Fund, it may apply any Bond proceeds thereby released, including investment earnings on Bond proceeds, to any purposes for which the Bonds were issued and any other funds thereby released to any purposes for which such funds may lawfully be used. In the event the Debt Service Reserve Fund contains one or more Reserve Fund Surety Policies, the Issuer shall not draw on a Reserve Fund Surety Policy unless no other cash or investments are otherwise available in the Debt Service Reserve Fund. Whenever amounts have been drawn on one or more Reserve Fund Surety Policies, amounts subsequently transferred to the Debt Service Reserve Fund shall be used to reimburse the provider (or if more than one, to the providers on a proportionate basis) of such Reserve Fund Surety Policies in accordance with the terms thereof, for the amounts advanced, interest thereon and any associated fees. The issuer(s) of such Reserve Fund Surety Policy or Policies shall be secured with respect to such reimbursement obligations by a lien on the Net Revenues, subject and subordinate to the lien securing the Bonds and the required deposits to the Debt Service Fund, and shall further be secured by a lien on amounts from time to time on deposit in and required to be deposited to the Debt Service Reserve Fund.

Deed of Trust

The Borrower will issue a Deed of Trust and Security Agreement with Assignment of Rents and Leases (the “Deed of Trust”), covering a portion of its real property comprising the KIPP, Inc. Campus in favor of the Master Trustee for the Benefit of the Holders of Master Debt.

Capitalized Interest

The financing plan includes capitalized interest through February 15, 2008, to provide for the payment of interest due on a portion of the Bonds during construction of the SHINE, KIPP Spirit, and the KIPP Liberation projects.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Recent Litigation Relating to the Texas Public School Finance System

In 1989, the Texas Supreme Court, in *Edgewood Independent School District v. Kirby*, 777 S.W.2d 391 (Tex. 1989) (“*Edgewood I*”), declared the Texas public school finance system then in effect unconstitutional. In *Edgewood I*, the Texas Supreme Court held that the public school finance system was not “efficient,” as required by Article VII, Section 1 of the Texas Constitution, because it relied heavily on property taxes levied by school districts with grossly disparate property wealth per student. In response to that decision and other Texas Supreme Court decisions, the Texas Legislature (the “Legislature”) enacted laws that modified the public school finance system, and in 1995, the constitutionality of the public school finance system, as amended in 1993, was upheld in all respects in an opinion of the Texas Supreme Court in the matter of *Edgewood Independent School District v. Meno*, 893 S.W.2d 450 (Tex. 1995) (“*Edgewood IV*”). In upholding the constitutionality of the public school finance system as amended in 1993, the Texas Supreme Court noted in its *Edgewood IV*

opinion that the public school finance system could be rendered unconstitutional in its entirety in the future, but stated that any future determination of unconstitutionality would not affect a district's authority to levy taxes necessary to retire previously issued bonds. The Texas Supreme Court noted in *Edgewood IV* that the constitutionality of the public school finance system could be challenged in the future on the basis of any failure by the Legislature to meet its duty to provide for a "general diffusion of knowledge statewide," either as a result of inadequate appropriations for education or failing to provide standards for accreditation.

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 property taxes levied for maintenance and operations (the "O&M Tax"), though imposed locally, had become in effect a state property tax, in violation of Article VIII, Section 1-e of the Texas Constitution, because the public school finance system precluded them and other school districts from having meaningful discretion to tax at rates below the legally authorized maximum rate. Forty school districts intervened in two groups, six with Edgewood ISD and thirty-four with Alvarado ISD. The intervenors alleged that the public school finance system was inefficient, inadequate, and unsuitable, in violation of Article VII, Section 1 of the Texas Constitution, because the State did not provide adequate funding. As described below, this case has twice reached the Texas 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 Texas Supreme Court back to the District Court in *West Orange-Cove I*, two hundred eighty five additional school districts were added as plaintiffs or intervenors. The plaintiffs joined the intervenors in their Article VII, Section 1 claims that the public school finance system was inadequate and unsuitable, but not in their claims that the public school finance system was inefficient.

On November 30, 2004, the District Court released its final judgment which reconsidered the issues remanded by the Texas Supreme Court in *West Orange-Cove I*. In its judgment, the District Court held that (1) the Texas public school finance system (as described below) violates Article VIII, Section 1-e of the Texas Constitution because the statutory maximum operation and maintenance tax rate of \$1.50 per \$100.00 of taxable assessed valuation had 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 of Texas (the "State"); and (3) the Texas public school 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.

As further described below, 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 then current Texas public school finance system until the Legislature conformed the public school finance system to meet Texas constitutional standards. 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 Texas public school finance system. The Texas Supreme Court granted a direct appeal, and oral argument was held in the case on July 6, 2005.

As noted above, in *West Orange-Cove II* the Texas Supreme Court ordered that the effective date of the stay of the Prospective Injunction be postponed until June 1, 2006, but did not order any other changes with respect to the Prospective Injunction. Following the Supreme Court's decision in *West-Orange Cove II*, the Legislature enacted and the Governor signed into law substantive changes to the Texas public school finance system designed to address the constitutional deficiencies noted by the Supreme Court, and as a result of the substantive changes the District Court dissolved the Prospective Injunction on May 25, 2006. For a discussion of the changes to the Texas public school finance system, see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS -- Funding Changes in Response to Litigation" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Special Legislative Sessions Called to Address Reforms to the Texas Public School Finance System."

Funding Changes in Response to Litigation

After the Texas Supreme Court extended the stay of the Prospective Injunction to June 1, 2005, the Governor of Texas called a special legislative session that ended on May 15, 2006. During such special legislative session, the Legislature enacted House Bill 1 ("HB 1"), which makes substantive changes to the Texas public school finance system, House Bill 2 ("HB 2"), which establishes a special fund in the Texas state treasury to be used to collect new tax revenues that are dedicated

under certain conditions for appropriation by the Legislature to reduce local school district ad valorem operation and maintenance tax rates, and House Bills 3, 4, and 5 through which 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 (HB1, HB 2, and House Bills 3, 4, and 5 are collectively referred to herein as the “Reform Legislation”). The combined effect of the Reform Legislation is to compel local school districts to reduce local operation and maintenance tax rates through changes in the laws relating to the establishment of local operation and maintenance tax rates and to provide alternative sources of funding from the State to offset the loss of local funding caused by lower operation and maintenance tax rates and to augment the total amount of funding available for the public school finance system. For a detailed discussion of the Reform Legislation, see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Special Legislative Sessions Called to Address Reforms to the Texas Public School Finance System.”

Recent Litigation Under HB 1

On June 14, 2006, an entity called Citizens Lowering Our Unfair Taxes PAC (“CLOUT”) filed a lawsuit 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”) 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 – Special Legislative Sessions Called to Address Reforms to the Texas Public School Finance System” 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 Travis County court dismissed the CLOUT lawsuit on August 7, 2006. The Borrower can make no representation or prediction concerning the likelihood of an appeal or ultimate outcome of the CLOUT Lawsuit or its effects on HB 1 and, consequently, its impact on the financial condition of the Borrower. 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 or the CLOUT Lawsuit on the Borrower. However, as a result of the Reform Legislation, the District Court dissolved the Prospective Injunction. For a discussion of the security for the Bonds, reference is made, in particular, to “THE BONDS – Source and Security for Payment”.

In *Edgewood IV*, the Texas 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 public school 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 Borrower can make no representations or predictions concerning the effect of pending or 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 the pending litigation or any future litigation could substantially adversely affect the financial condition 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 any legislation that may be enacted in the future to address school funding in Texas. See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM.”

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

General

The following description of the current public school finance system is subject to the provisions of the Reform Legislation, which is generally effective at the beginning of the 2006-07 fiscal year of the District. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Special Legislative Sessions Called to Address Reforms for the Texas Public School Finance System."

To limit disparities in school district funding abilities, the public school finance system (1) compels districts with taxable property wealth per weighted student higher than \$305,000 to reduce their wealth to such amount or to divert a portion of their tax revenues to other districts as described below and (2) provides various State funding allotments, including a basic funding allotment and other allotments for "enrichment" of the basic program, for debt service tax assistance and for new facilities construction.

State Funding for Local School Districts

The current public school finance system 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"). Tier One and Tier Two are generally referred to as the Foundation School Program. In addition, to the extent funded by the Legislature, the public school finance system includes, among other funding allotments, an allotment to subsidize existing debt service up to certain limits ("Tier Three"), the Instructional Facilities Allotment (the "IFA"), and an allotment to pay operational expenses associated with the opening of a new instructional facility. 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. To receive the State subsidy, a 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 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 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.

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 the 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 Tier Three) to produce a guaranteed yield (the "Tier Three Yield"), which for the 2006-2007 State Biennium is \$35.00 (subject to adjustment as described below) in revenue per student per penny of debt service tax levy; however, for bonds that became eligible for Tier Three funding after August 31, 2001, and prior to August 31, 2005, Tier Three assistance for such eligible bonds may be less than \$35 in revenue per student per penny of debt service tax, as a result of certain administrative delegations to the Commissioner under State law. For the 2004-2005 State Biennium, the portion of the local debt service rate that qualified for equalization funding by the State may not exceed \$0.29 per \$100 of valuation (at the date of this document, the Texas Education Agency has not determined the portion of the local debt service rate that may qualify for equalization during the 2006-2007 State Biennium). In general, a district's bonds are eligible for the allotment if, during the 2004-2005 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 not receive Tier Three funding for the principal and interest on a series of otherwise eligible bonds for which the district receives overlapping IFA funding.

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.

Other State Funding Provisions

The Texas Economic Development Act provides incentives for certain school districts to grant tax abatements to encourage development in their tax base. A school district is permitted to grant an application for a limitation on appraised value if a statutory minimum investment was reached (calculated based on the size of the school district's tax base). The limitation on appraised value of certain "eligible property" owned by a corporation or limited liability company and used in connection with manufacturing, research and development or renewable energy generation, would last for up to ten years and would only apply to taxes levied for maintenance and operations purposes. The Texas Education Code provides additional State funding for each year of a qualifying tax abatement agreement in the amount of the tax credit provided to the taxpayer by the district.

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.

Special Legislative Sessions Called to Address Reforms for the Texas Public School Finance System

In addition to the 79th Legislature Regular Session, which produced no reformatory legislation, the Governor has called four special sessions of the Legislature to address a series of subjects pertaining to the Texas public school finance system. Special legislative sessions were convened on April 20, 2004, June 21, 2005, July 21, 2005, and April 17, 2006, to consider changes to the Texas public school finance system.

During the special legislative session that convened on June 21, 2005, the Legislature appropriated funds for the Texas Education Agency for the 2006 - 2007 State fiscal biennium, which included funding for the Texas Education Agency, the Foundation School Program, the IFA, and Tier Three allotments as well as funding of the operation and funding for the administration of the Permanent School Fund Guarantee Program. The appropriation also included funding for outstanding school district bonds that qualified in prior budget cycles for IFA and Tier Three allotments, and provides additional IFA and

Tier Three funding for the State's 2006-2007 fiscal biennium.

The most recent special legislative session ended on May 15, 2006, during which the Legislature enacted the 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 public school finance system by the Reform Legislation are generally included in HB 1. The basic structure of the Finance System (Tier I, Tier II, Tier III, and IFA as described under "CURRENT SCHOOL FINANCE SYSTEM – State Funding for Local School Districts") was not modified, although HB 1 modifies the timing and method of allocations made to school districts by the State to fund Tier I and Tier II portions of the State's Foundation School Program. In particular, the basic allotment of Tier I, which under current law is \$2,537 per student in average daily attendance, 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 formulas in HB 1 and using information provided by the Texas Legislative Budget Board (the "LBB"), the basic allotment for the 2006 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 tax rates over two years, with tax levies declining by approximately 11% in fiscal 2006 and approximately another 22% in fiscal 2007. It is expected that the additional State funding needed to offset local tax rate reductions will be generated by the modified State franchise, motor vehicle and tobacco taxes or any other revenue source appropriated by the Legislature.

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 fiscal year. A basic component of the funding formulas in HB 1 is the "state compression percentage." The state compression percentage is required to be determined by the Commissioner of Education for each year after fiscal year 2007, and is the percentage of a school district's adopted maintenance and operations tax rate for the 2005 tax year that is used for purposes of determining the reduction in the local maintenance and operations tax rate under HB 1. The Commissioner of Education shall determine the state compression percentage for each school year based on the percentage by which a district is able to reduce its maintenance and operations tax rate for that year, as compared to the district's adopted maintenance and operations tax rate for the 2005 tax year, as a result of state funds appropriated for distribution for that year from the property tax relief fund established under HB 2, or from another funding source available for school district property tax relief.

HB 1 replaces the former provision of the Texas Education Code, Section 45.003, that in general limited the maintenance and operating tax rate of \$1.50 per \$100 of taxable assessed value, with a formula that takes into account the amount of funds appropriated by the Legislature for each fiscal year. 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 approximate 4% increase in funding for the 2006-07 fiscal year (which includes a \$2,000 across-the-board teacher salary increase funded by the State and a \$500 stipend for school district employee health insurance). In addition, for the 2006-07 and 2007-08 fiscal years, HB 1 provides that boards of trustees may generate additional local funds by raising their local tax rate by 4 cents without voter approval, and such amounts will generate equalized funding dollars from the State. In 2008-09, in general, if the voters approve a tax rate increase and the district taxed at \$1.50 for maintenance and operations purposes in fiscal year 2005, districts may increase their tax rate by \$0.02 cents more and receive State equalization funds for such taxing effort provided that the district does not tax at a level in excess of the 88th percentile of Texas school districts.

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 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 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 SCHOOL FINANCE SYSTEM – 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 public school finance system that are generally described above, HB 1 modifies other laws as described under "AD VALOREM TAX PROCEDURES," including provisions that, assuming passage of a constitutional amendment, reduce the amount of taxes for taxpayers 65 years of age or older that are "frozen" to be proportionate to the reduction in local ad valorem taxes, and provisions that modify how districts that have entered into tax

increment financing zones contribute to such districts. Among other reform measures included in HB 1 are provisions (i) mandating that all public schools in the State start the school year on a uniform date; (ii) establishing a statewide electronic student records system; (iii) requiring the Commissioner of Education and Texas Higher Education Coordinating Board to align high school and college curriculums; and (iv) establishing approximately \$300 million in incentive pay programs for campus and teacher incentive programs.

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.”

RISK FACTORS

General

THE BONDS ARE SPECULATIVE SECURITIES 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 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 Operations of the Borrower

Dependence on Per Student Revenues. The Borrower derived approximately 72.5% of its unrestricted revenues during the 2006-2007 school year from payments by the State of Texas based on the school district that a student would otherwise attend for each student in average daily attendance. The timely payment of principal and interest on the Bonds therefore depends on operations of the Borrower 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; Required Increases in Attendance for Payment of Future Debt Service” and “APPENDIX B – PROFORMA FINANCIAL PLAN.”

Growth of Student Population. The Borrower expects to receive approximately \$8,000 per student in average daily attendance for 2005-2006, 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 was 338 for the 2001-2002 fiscal year, 397 for the 2002-2003 fiscal year, 563 for the 2004 fiscal year, and 812 for fiscal year 2005. As of June 2, 2006, enrollment was approximately 1,012 and enrollment is projected to be 1,390 for fiscal year 2006-2007. The Borrower anticipates that it will be able to fulfill its enrollment projections based on past trends in enrollment. Failure to attract and retain students in amounts projected by the Borrower would adversely affect the Borrower’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; Required Increases in Attendance for Payment of Future Debt Service” and “APPENDIX B – PROFORMA FINANCIAL PLAN.”

Accuracy of Borrower Projections of Growth. To pay projected operations cost and debt service on the Bonds, the Borrower has projected increases in its student population to 1,829 by the fiscal year ending 2008 and 2,650 by fiscal year ending 2012. The bases for such projections are the applications for admissions for the Borrower’s grades currently in operation (grades Pre-K-12) and a strategy to grow the student population vertically rather than horizontally. Currently, there are 1,354 applications on the waiting list for admission. See “APPENDIX B – PROFORMA FINANCIAL PLAN.” These projections 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. Potential investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements. **The projections are from the Borrower, and neither the Issuer nor the Underwriters have 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 completion of the Project in a timely manner, continued provision for funding of the Borrower by the State at adequate levels, operations and maintenance of the Borrower, and competition from other public or private schools in the Houston area.** See “FINANCIAL AND OPERATIONS INFORMATION–Projections by the Borrower; Required Increases in Attendance for Payment of Future Debt Service” and “APPENDIX B – PROFORMA FINANCIAL PLAN.”

Risks of Non-Completion. The Borrower expects the construction portion of the Project for the new lower school building (SHINE facility) to be completed by June, 2007. This facility will be located at 10711 KIPP Way and is a part of the tract presently owned by the Borrower. Bond proceeds will be escrowed with the Trustee in a project fund until such time that a fixed-price construction contract is entered to complete the construction of the Project within the amounts available in the project fund and other available funds of the Borrower as necessary. Failure to complete the Project could negatively affect the Borrower’s ability to add additional students or to maintain sufficient students necessary to make timely payment of Loan Payments.

Risks of Construction Contract. The Borrower does not anticipate entering into a fixed-price construction contract for construction of the Project prior to closing. The Borrower has been advised by its architect that the proceeds of the Bonds will be sufficient for project completion. If proceeds are not in fact sufficient, the restrictions on issuance of additional debt by the Borrower contained in the Agreement could limit the ability of the Borrower to borrow funds necessary for Project completion, which could adversely affect payment of the Bonds.

Completion may be at risk in the event of failures of the contractor or of any underlying bonding companies. As noted, restrictions on issuance of additional debt by the Borrower contained in the Agreement could limit the ability of the Borrower to borrow additional funds necessary for Project completion, which could adversely affect payment of the Bonds.

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 KIPP, Inc. since 1994. Construction of the new facility is necessary to reach projected average daily attendance. The Borrower’s revenues per student should equal the revenues per student of traditional public schools available for operations and maintenance, but do not include the revenues available for capital outlays, and are significantly less than revenues charged by many private schools in the Houston area. As a relatively new venture, a potential investor should anticipate that significant operational difficulties will exist for the Borrower which may not exist for traditional public schools or for established private schools.

Further, the system of charter schools in Texas was only established in 1995. Potential purchasers should therefore be aware that in addition to the Borrower itself being a new venture, the system under which the Borrower operates is also relatively new and future operations of the Borrower could be significantly affected by unforeseen problems arising from the statutory provisions governing charter schools in Texas or future changes therein. See “–Dependence on the State–Changes in the System of Charter Schools” and “THE SYSTEM OF CHARTER SCHOOLS IN TEXAS”. In 1995, the Texas Legislature authorized the creation of 20 open-enrollment charter schools (Texas Education Code (TEC) 12.101-120), which are traditional public schools substantially released from state education regulations. Subsequent legislative modifications of the statutes require an annual evaluation of operation of Texas charter schools and is available from the Division of Charter Schools, Texas Education Agency, 1701 N. Congress Ave., Austin, TX 78701-1494; Telephone 512-463-9732. The evaluation for each of the years 1996-2003 can be reviewed at the Texas Education Agency’s website: www.tea.state.tx.us/charter.

Competition. Unlike school districts, the Borrower must attract students from other schools, both public and private, within the Houston area. No students are required to attend the Borrower’s charter school, and students at the Borrower’s charter school may subsequently transfer to other public or private schools at will. There are numerous public and private

schools in the immediate area, many of which may be closer to the homes of present or prospective students of the Borrower's charter school. 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.

Risks Associated with Schools. There are a number of factors affecting schools in general that could have an adverse effect on the Borrower'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 Borrower's work force with consequent impact on wage scales and operating costs of the Borrower; the ability to attract a sufficient number of students and to maintain faculty meeting appropriate standards; and changes in existing statutes pertaining to the powers and minimum funding levels for charter schools. School operations also present significant risks and operational and management issues not encountered in other enterprises. While Texas law provides that the Borrower is 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 Borrower provides services to children, any failure in the Borrower's operation and management could result in liability risks to the Borrower which would not be present for other enterprises not engaged in providing such services.

Limited Assets of the Borrower. If the Borrower does not generate sufficient revenues to pay all of the Borrower's loan obligations and operating expenses, the Borrower may have no other source of funds to make such payments. Further, while the payments of Debt Service are prior to payments of the Borrower's operating expenses, a failure to make such operating payments would presumably ultimately result in the inability of the Borrower to attract students or maintain sufficient revenues for payment of its Loan Payments.

No Taxing Power. The Borrower has no taxing power.

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 covenants and agrees in the Agreement that, without demand by the Trustee, it will deliver or cause to be delivered to the Trustee within five Business Days from the day of receipt the Revenues to be so deposited. The only remedy available to the Trustee and/or Bondholders would be a suit against the Borrower to enforce the provisions of the Agreement

Assumptions Regarding Enrollment and State Funding

The Borrower has prepared the prospective PROFORMA FINANCIAL PLAN (the "Projections"), a copy of which is reproduced as APPENDIX B hereto. The Projections contain information material to a decision to purchase the Bonds and should be read by potential investors in their entirety. The Projections contain (a) forecasts of gross revenues, net revenues, and cash flows of the project, (b) projection of future demand for the service of the Project, and (c) debt service requirements. The Projections set forth a number of assumptions on which the Projections are based, including but not limited to, the projected enrollment of the Borrower and the per student amounts to be paid from State and local sources. Such assumptions are based on present circumstances and information currently available, which has been furnished by the Borrower, as well as other sources. Such information may be incomplete and may not necessarily disclose all material facts that might affect the project and the analysis contained in the Projections in light of the circumstances then prevailing. The projections contained in its report are based solely on the business plan of the Borrower. The accuracy of the Projections are dependent on the occurrence of specified assumptions and other future events which cannot be assured, and therefore, the actual results achieved during the period will vary from those forecasts and other differences may be material and adverse. See APPENDIX B – "PROFORMA FINANCIAL PLAN." Neither the Issuer or the Underwriters have independently verified the statistical data included therein and none of such parties make any representations or gives any assurances that such data are complete or correct. Further, neither the Issuer nor the Underwriters make any representations or give any assurances that the assumptions incorporated in the Projections are valid. The ability of the Borrower to achieve and maintain financially sustaining levels of enrollment on a continuing basis is subject to a number of factors; including, but not limited to, the physical condition of the Project, the programs provided for students, accreditation of the Borrower and the supply of other public, private, and charter

schools elsewhere. In addition, the Projections are only for the 12-month periods ending August 31st for the years 2007 through 2013 and, consequently, does not cover the whole period during which the Bonds may be outstanding.

Tax-Exempt Status of 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 Internal Revenue Service (“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 Series 2006A 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 501(c)(3) 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 Series 2006A Bonds and defaults in covenants regarding the Series 2006A 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 is imposing 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 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 of 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.

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 based on 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.”

Revocation or Non-renewal of Charter. The Borrower’s charter has been renewed for 10 years and will expire July 31, 2013. However, the Borrower’s charter may be revoked if the person operating the Borrower’s school 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, failure to protect the health, safety, or welfare of the students enrolled at the school, or failure to comply with the provisions of the Chapter 12 of the Texas Education Code, as amended, or other applicable laws or rules. The Borrower believes that there is no current condition which would cause revocation of its charter. See “THE SYSTEM OF CHARTER SCHOOLS IN TEXAS.”

Payment of State Revenues to Trustee. The Indenture provides that all of the Revenues (including State Revenues) required so to be deposited under the Agreement will be deposited into the Facilities Revenue Fund held by the Trustee, and the School will covenant and agree in the Agreement that, without demand by the Trustee, it will deliver or cause to be

delivered to the Trustee within five Business Days from the day of receipt the Revenues to be so deposited. The only remedy available to the Trustee or and Bondholder would be a suit against the School to enforce the provisions of the Agreement.

Risk of Catastrophic Loss

In the event a natural or man-made disaster, such as a hurricane, fire, earthquake, tornado, or war destroyed the Borrower's school (or significant outlying improvements, once constructed), the revenues of the Borrower could be drastically reduced. Moreover, the market value of the property pledged under the Deed of Trust could 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 (during both the period of construction and the period subsequent to completion of 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 Agreement to provide general liability, comprehensive professional liability, comprehensive automobile 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 Agreement) of 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 \$100,000 from damage, destruction, or condemnation in an amount greater than \$100,000, the Agreement requires transfer of such amounts to the Trustee under the conditions set forth in the 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 school will be sufficient, or that a sufficient number of students would wish to attend the school following rebuilding. Even if insurance proceeds are available and the Borrower has rebuilt the school, there could be a lengthy period of time during 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 Notes 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 special and 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 “– Limited Obligations.”

Remedies with respect to foreclosure under the Deed of Trust for the benefit of the Beneficiaries thereunder 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 of Bankruptcy”.

Risk of Bankruptcy

As is true with many entities which issue debt, there is a risk that the Issuer may file for bankruptcy and afford itself the protection of the federal Bankruptcy Code. In that case, the Issuer would receive the benefit of the automatic stay and creditors, such as the owners of the Bonds, would not be able to pursue their remedies against it without the permission of the Bankruptcy Court. The Issuer would also have the right to reorganize and adjust its debts with the approval of the Bankruptcy Court. While the relevant law on this point is not clear, it may be possible for the Issuer to be forced into involuntary

bankruptcy of one or more creditors. A bankruptcy filing by or against the Issuer could adversely affect the receipt of principal of and interest on the Bonds.

Similarly, 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 would receive the benefit of the automatic stay and creditors, such as the owners of the Bonds, would not be able to pursue their remedies against it without the permission of the Bankruptcy Court. The Borrower would also have the right to reorganize and adjust its debts with the approval of the Bankruptcy Court. While the Borrower is a nonprofit corporation, the Borrower is 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 of and interest on the Bonds.

Value of Land and Improvements

Under the Deed of Trust, the Borrower will grant to the Mortgage Trustee a first lien on and security interest in the Land and Improvements. The Land and Improvements are located in the City of Houston, Texas, 77099 at 10711 KIPP Way.

No independent appraisal on the property has been performed at the request of the Issuer or the Underwriters, and there is no guarantee that the foreclosure value of the Land and/or Improvements will be adequate in the event of any foreclosure to pay defaulted and accelerated Debt Service. Additionally, the value of Land and Improvements may be less than comparable commercial properties in the area, especially in light of the special nature of the Improvements and their limited use. Failure of completing of the renovation of the Project could negatively affect any sale of the Project pursuant to the Deed of Trust.

Inability to Liquidate or Delay in Liquidating the Project

An event of default gives the Mortgage Trustee the right to sell the Project pursuant to a sale under the Deed of Trust. The Project is intended to be used solely for educational purposes of the Borrower. Because of such use, a potential purchaser of the Bonds should not anticipate that a sale of the Project could be accomplished rapidly or at all. Any sale of the Project may require compliance with the laws of the State applicable thereto. Such compliance may be difficult, time-consuming, and/or expensive. Any delays in the ability of the Mortgage Trustee to sell the Project will result in delays in the payment of the Bonds.

The Project is specifically constructed for use as a school facility and may not be readily adaptable to other uses. As a result, in the event of a sale of the Project, the number of uses which could be made of the property, and the number of entities which would be interested in purchasing the Project, could be limited, and the sale price would thus be affected. The location of the Project may also limit the number of potential purchasers. The ability of the Mortgage Trustee to sell the Project to third parties, thereby liquidating the investment, would 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 sale of the Project will be fully sufficient to pay and discharge the Bonds. In particular, there can be no representation that the cost of the property included in the Project constitutes a realizable amount upon any forced sale thereof. Failure of completion of the renovation of the Project could negatively affect any sale of the Project pursuant to the Deed of Trust.

Risk of Increased Debt

Subject to certain conditions provided in the Indenture, the Issuer has reserved the right to issue Additional Debt (as defined in the Master Indenture) which are secured under the Indenture on an equal basis with the Bonds. The issuance of Additional Indebtedness may adversely affect the investment security of the Bonds. For a description of the circumstances under which Additional Debt may be issued, see “APPENDIX D – MASTER INDENTURE – Additional Debt.”

Risk of Failure to Comply with Certain Covenants

Failure of the Issuer to comply with certain covenants contained in the Indenture or of the Borrower with certain covenants in the 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 Underwriters 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.

BOOK-ENTRY ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and accredited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Issuer believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds (the “Securities”). The Securities will be issued as fully-registered securities in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, 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 and Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporation, 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, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, 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 and www.dtc.org.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“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 confirmation 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 Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede & Co. or such other nominee, do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities 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 the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Securities 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 the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Securities 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 Trustee on the 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 redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and reimbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

THE SYSTEM OF CHARTER SCHOOLS IN TEXAS

General

The Texas legislature adopted the Texas charter school system in 1995 to offer publicly funded choices to parents within the public school system. Texas 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 school operates under an open-enrollment charter. 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), Internal Revenue Code of 1986, as amended, or a governmental entity.

For a discussion of potential changes in the system of charter school finance in Texas, see "RISK FACTORS – Dependence on the State."

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. Applicants are required to meet financial, governing, and operating standards adopted by the Texas Commissioner of Education.

Authority Under Charter

An open-enrollment charter school will provide instruction to students at one or more elementary or secondary grade levels as provided by the charter; will 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 ("*Title 2*"), which generally governs public primary and secondary education in Texas. 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 such title or a rule adopted under Title 2 relating to specific provisions governing the Public Education Information Management System ("*PEIMS*"), criminal history records; certain reading programs, assessment instruments, and accelerated instruction; high school graduation; special education programs; bilingual education; pre-kindergarten programs; extracurricular activities; discipline management practices; health and safety; public school accountability (including testing requirements, and requirements to report an educator's misconduct).

An open-enrollment charter school is part of the public school system of the State. The board members of the governing body of the school are considered a governmental body for purposes of Chapters 551 and 552, Texas Government Code, as amended, governing open meetings and open records. In matters relating to operation of the school, 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. Members of the governing body of a charter school are immune from liability to the same extent as a school district trustee. An employee of an open-enrollment charter school who qualifies for membership in the Teacher Retirement System of Texas will 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 was 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, 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 below.

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 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.

An open-enrollment charter school operating on September 1, 2001, including the school, receives:

for the 2006-2007 school year, 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;

for the 2007-2008 school year, 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;

for the 2008-2009 school year, 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;

for the 2009-2010 school year, 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;

for the 2010-2011 school year, 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;

for the 2011-2012 school year, 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 for the 2012-2013 school year and subsequent school years, 100 percent of its funding according to the change.

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 pre-kindergarten 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. Each school district is guaranteed a specified amount per weighted student in State and local funds for each cent of tax effort (excluding the bond debt service tax effort, and as may be reduced by the district’s prior 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. The guaranteed specified amount per weighted student in State and local funds for each cent of tax effort (the Tier Two allotment) is \$25.81 for 2001-2002 and to \$27.14 for 2002-2003, in part to fund the costs of the school district health care system described below. The State’s share of the school district’s health care system, effective September 1, 2002, is funded, in general terms, by a dedication of 75% of the additional funds to which a school district is entitled due to the increase in the equalized wealth level or the Tier Two allotment.

The Borrower’s total per student funding for 2004-2005, including both the State share and the local share described under the following heading, was approximately \$8,000 per student. The Borrower’s total per student funding for 2005-2006 is approximately \$8,000 per student (plus food and transportation expenses). The Borrower’s total per student funding budgeted for 2006-2007 is approximately \$8,000 per student.

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.

An open-enrollment charter school may not charge tuition to an eligible 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.

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 must describe 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 powers and duties of the governing body of the school; specify the manner in which the school will distribute certain information to parents; 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 this 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 grant of a charter school does not create an entitlement to renewal of the charter. A revision of a charter of an open-enrollment charter school may be made only with the approval of the State Board of Education.

Not more than once a year, an open-enrollment charter school may request approval to revise the maximum student enrollment.

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

The Commissioner of Education may modify, place on probation, revoke, or deny renewal of the charter of an open-enrollment charter school if the Commissioner determines that the charter holder committed 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; failure to protect the health, safety, or welfare of students; or failure to comply with any applicable law or rule. The action by the Commissioner with respect to modification, probation, revocation, or denial of renewal of a charter must be based on the best interest of the school's students, the severity of the violation, and any previous violation the school has committed. The Commissioner will adopt a procedure to be used for 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 school. 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 school, and students' satisfaction with their school. 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; the effect of open-enrollment charter schools on school districts and on teachers, students, and parents in those districts; and other areas determined by the Commissioner.

THE BORROWER

History

The KIPP (Knowledge is Power Program) concept was formulated in 1992 and begun in 1994 when the founders, Mike Feinberg and Dave Levin, launched a program for fifth graders at Garcia Elementary in northeast Houston. While only half of the students passed their fourth grade tests before enrolling in KIPP, more than 90% passed the Texas fifth grade exams in English and mathematics after one year at KIPP. In 1995, KIPP Academy became a charter school serving fifth grade students from the Gulfton community of Houston, Texas. Growing one grade level per year, KIPP Academy became a full-size middle school serving students from over 70 different zip codes in Houston.

In 2001, KIPP added a second middle school in Houston, *KIPP 3D Academy*, now serving grades 5 through 8. In 2004, KIPP grew up to begin a high school and grew down to begin an early childhood and elementary school.

As the hub of a national movement, KIPP Academy serves as a model for successful education reform throughout the nation. In 2005-06, there are 44 KIPP schools serving children in 16 states and the District of Columbia.

Mission

To prepare students with the academic skills, intellectual habits, and qualities of character necessary to succeed in college and the competitive world beyond.

KIPP: HOUSTON

KIPP is a family of academically rigorous, college preparatory public schools in Houston serving at-risk students in grades Pre-Kindergarten and five through ten and plans to expand to grades Pre-K through twelve by fiscal 2008.

KIPP SHINE Prep, which opened in August 2004, is the early childhood and elementary school, currently serving students in Pre-Kindergarten and Kindergarten and expanding one grade level per year through fourth grade. The 114 Pre-K students are in school from 7:45 a.m. – 4:00 p.m. every day for ten months out of the year, and the 117 Kindergarten students are in school from 7:45 a.m. until 5:00 p.m. every day. SHINE has also created a strong Family Literacy program to ensure parents are able to help their children as they begin their schooling.

KIPP DREAM Prep. KIPP's early childhood and elementary school, will open with its first Pre-Kindergarten class in August 2006 on the first floor of KIP 3D Academy, where they will continue their student careers in grades five through eight.

KIPP Academy Middle School and *KIPP 3D Academy* each serve 351 and 337 students, respectively in grades 5 through 8. Students and parents sign a written Commitment to Excellence Form that specifies attendance from 7:25 a.m. to 5:00 p.m. Monday through Friday, four hours on two Saturdays a month, and one month each summer. This agreement obligates parents to reinforce students' commitments, ensure attendance, and help with two to three hours of homework each evening.

Two new middle schools, *KIPP Liberation College Prep* and *KIPP Sprint College Prep*, will open their doors for the first time in Summer 2006, serving children in the Third Ward and Sunnyside communities of Houston. The two middle schools will be housed in portable buildings until permanent facilities are constructed in future years.

KIPP Houston High School, opened in August 2004, and current serves 93 ninth graders and 60 tenth graders. KHHS started with half as many students per grade to allow for detailed planning, documentation, and curriculum building over a four year period. It is scheduled to grow one grade level per year to ultimately serve 450 students in grades 9-12.

Students

1,012 students enrolled in grades Pre-K and K, 5 through 10.

81% are Hispanic, 17% are African-American, 1% are Asian American and 1% are Caucasian.

91% are eligible for federal free or reduced fee breakfast and lunch program.

Results to Date

KIPP Academy was honored by the U.S. Department of Education as a 2003 Blue Ribbon School – the first charter school in Texas to receive this award. KIPP has been named an Exemplary or Recognized School by the Texas Education Agency each year during its first decade. To date, KIPP Alumni number approximately two hundred eighty attending 63 different schools in 19 states. From 1999-2005, KIPP students earned more than \$15 million dollars in scholarships for high school and college and were accepted into some of Houston's and the nation's prestigious academic institutions.

Anticipated Growth

The Bonds represent the first step in expanding the KIPP experience throughout the Houston Metroplex. The Borrower intends to open several additional campuses over the next 10 years. The Borrower anticipates issuing additional debt to finance such expansion. However, the Borrower does not anticipate using Additional Indebtedness during the next 12 months.

Organization

The Borrower is a non-profit corporation established under the laws of the State of Delaware on March 1998.

Management

The governance of the charter school is provided by a 23-member board of directors. The board is comprised of the following members who have two year staggered terms of service:

Board of Directors and Advisory Board Members

<u>Directors</u>	<u>Occupation</u>	<u>Length of Service on Board</u>	<u>Term Expires</u>
Shawn Hurwitz	President & CEO, MAXXAM Property Company	8 Years	2007
Phyllis Childress Abayd	Marketing Consultant, Heritage Texas Properties	8 Years	2010
John D. Arnold	President, Centaurus Energy, LP	1 Year	2010
Laurie Bieber	Principal & Partner, McKibben Group	5 Years	2007
Gracie Cavnar	Freelance Journalist & Community Volunteer	1 Year	2011
David Doll	President & COO, Kanaly Trust Co.	8 Years	2005
Denise Duvernay	KIPP Alumna Parent	6 Years	2006
Karen Feldman	Tindall & Foster	1 Year	2010

<u>Directors</u>	<u>Occupation</u>	<u>Length of Service on Board</u>	<u>Term Expires</u>
Ricardo Garcia-Moreno	Shareholder, Winstead Sechrest & Minick PC	1 Year	2010
Steven J. Graubart	Chairman & CEO, U.S. Fiduciary LP	2 Years	2009
James Hernandez*	Partner, Andrews Kurth LLP	3 Years	2008
Jeff Hines	President, Hines Interest	2 Years	2009
Debbie Hurwitz	Community Volunteer	3 Years	2008
Ann Johnson	Reading Teacher, KIPP Houston High School	7 Years	2005
Jim Looke	Walter Oil & Gas	3 Years	2008
David Magdol	Managing Director, Main Street Capital Partners, LLC	1 Year	2010
Dwight Scott	GSO Capital Partners	2 Years	2009
Vanessa Ramirez	KIPP Alum	1 Year	2011
Leslie Weiss	Community Volunteer	3 Years	2008
Beth Yudofsky	Assistant Professor, Baylor College of Medicine	2 Years	2009
<u>Emeritus Directors</u>	<u>Occupation</u>		
Barbara Hurwitz	Community Volunteer		
Karol Musher	Speech and Language Pathologist Texas Children's Hospital		

*Mr. Hernandez' law firm is acting as counsel to the Underwriters.

Advisory Board**Occupation**

Harriett Ball	Founder & CEO, Musical BallPoints
Ned Becker	Headmaster, Episcopal High School
Sharon Bush	Community Volunteer
Cheryl Butler	Professor, University of Houston Law Center
Hank Coleman*	Partner, Vinson & Elkins
Stuart Dow	Head of School, The Emery/ Weiner School
The Honorable Mark Ellis	Houston City Council, Member at Large
Dr. Ted Estess	Dean of Honors College University of Houston
Rafe Esquith	1992 Disney Teach of the Year Hobart Boulevard Elementary Los Angeles USD
The Honorable Sylvia Garcia	Harris County Commissioner Precinct 2
Kathryn Hooper	Principal, Presbyterian School
Jodie L. Jiles	KIPP Alumnus Parent
Kenneth Katz	Commercial Real Estate Broker
Marvin Katz	Partner, Mayer, Brown & Platt
Wendy Kopp	Founder & President, Teach for America
Jim McIngvale	Founder & President Gallery Furniture

*Mr. Coleman's law firm is acting as Bond Counsel.

Advisory Board

Moses Mercado	Deputy Chief of Staff The Honorable Richard Gephardt
Shannon Moore	Private Banker Northern Trust Bank
Marisa Ramirez	Community Volunteer
Courtney Lanier Sarofim	Vice President of Acquisitions, Landar Corp.
Raquel Segal	Community Volunteer
Kathleen Sutton	Principal & Partner, The Dini Partners

<u>Leadership Team</u>	<u>Occupation</u>	<u>Length of Service at School</u>
Mike Feinberg	KIPP Co-Founder & Superintendent	12 Years
Katy Gill	Asst. Superintendent of Institutional Advancement	2 Years
Eric Kot	Director of Operations & Planning	New
Anne Patterson	School Leadership Coach	1 Year
Ulysses Soria	Director of Technology	7 Years
Aaron Brenner	School Leader, KIPP SHINE Prep.	3 Years
Dan Caesar	School Leader, KIPP 3D Academy	10 Years
Tori Dugar	School Leader, KIPP Liberation College Prep. (opening in the Fall)	1 Year
Claudia Macias	School Leader, KIPP Dream Prep. (opening in the Fall)	1 Year
Julene Mohr	School Leader, KIPP Houston High School	10 Years
Elliott Whitney	School Leader, KIPP Academy Middle School	7 Years
Stephanie Wilkins	School Leader, KIPP Spirit College Prep. (opening in the Fall)	1 Year

Terms of Operation Under The Charter

The Borrower was granted the open-enrollment charter from the Texas Education Agency to operate the School as an open enrollment charter school in 1998. The initial term of the KIPP State approved charter was for five years from January 1, 1998, through July 31, 2003. The charter has been renewed for a ten-year term from August 1, 2003, through July 31, 2013 (unless earlier renewed or terminated). As of May 30, 2006, Charters for KIPP, Inc. and KIPP Southwest have been approved for 6 campuses and up to 6,600 students for grades Pre-K-12. The Project is intended to accommodate the projected increase in enrollment to 1,570 plus the purchase of sites for two new locations. Plans are to open two additional schools (KIPP Spirit and Liberation) in the Spring of 2006.

TABLE 1 – STUDENTS’ RESIDENT DISTRICT ^(a)

As of June 2, 2006, the School had approximately 1,012 students, excluding NOW (New Orleans West), which will remain open for only one more year. The students reside in the following school districts:

<u>District Name</u>	<u>Number of Students</u>	<u>Percent of Enrollment</u>
Aldine	15	1.48%
Alief	221	21.84
Channelview	2	0.20
Cy Fair	19	1.88
Fort Bend	93	9.19
Galena Park	5	0.49
Houston	599	59.19
Katy	10	0.99
Lamar Consolidated	4	0.40
North Forest	12	1.19
Pasadena	15	1.48
Pearland	5	0.49
Sheldon	1	0.10
Spring Branch	<u>11</u>	<u>1.09</u>
	1,012	100.01%

^(a) Information provided by the Borrower.

TABLE 2 – LOTTERY POOL BY ENTERING GRADE (as of June 2, 2006)

<u>SCHOOL ENTRY POINTS</u>	<u>APPLICANT POOL</u>	<u>AVAILABLE SPACES</u>	<u>COVERAGE</u>
KIPP Academy			
Pre-K	294	114	2.6 *
5th	360	90	4.0**
KIPP 3-D			
Pre-K	213	114	1.9 ***
5 th	293	90	3.3 **
KIPP Spirit			
5 th	96	90	1.1 ***
KIPP Liberation			
5th	<u>98</u>	<u>90</u>	1.1 ***
	<u>1,354</u>	<u>588</u>	

Source: Stradian Analysis of KIPP data as of June 2, 2006

* School still in Ramp-up Period

** Fully Populated Schools

*** New Schools in 06-07

Note: While 95% of new KIPP enrollment occurs at the Pre-K and 5th grade levels, KIPP does allow a very limited number of students to enter at other entry points where space is available.

TABLE 3 – AREA CHARTER SCHOOLS

Other Houston, Texas, area charter schools:

Academy of Accelerated Learning, Inc.	Accelerated Intermediate Academy
Alief Montessori Community School	Alphonso Crutch's-Life Support Center
American Academy of Excellence Charter School	Amigos Por Vida-Friends for Life Public Charter School
Beatrice Mayes Institute Charter School	Benji's Special Educational Academy Charter School
Brazos School for Inquiry & Creativity	Calvin Nelms Charter School
Children First Academy of Houston	Crossroads Community Ed Center Charter School
Draw Academy	George I. Sanchez Charter
Girls & Boys Prep Academy	Gulf Shores Academy
Harmony Elementary	Harmony School of Excellence
Harmony Science Academy	Harris County Juvenile Justice Charter School
Houston Alternative Preparatory Charter School	Houston Can Academy Charter School
Houston Gateway Academy, Inc.	Houston Heights High School
Houston Heights Learning Academy, Inc.	Jamie's House Charter School
Jesse Jackson Academy	Juan B. Galaviz Charter School
La Amistad Love & Learning Academy	Medical Center Charter School
Meyerpark Elementary	North Houston H.S. for Business
Northwest Mathematics Science & Language Academy	Northwest Preparatory
Raul Yzaguirre School for Success	Richard Milburn Academy (Suburban Houston)
Ripley House Charter School	Ser-Ninos Charter School
Southwest School	Texas Serenity Academy
Two Dimensions Preparatory Academy	University of Houston Charter School
University of Texas Charter School	Varnett Charter School
Yes College Preparatory School	Zoe Learning Academy

TABLE 4 –PROFESSIONAL STAFF AND FACULTY ^(a)

STAFF	2005-2006	2004-2005	2003-2004
Teachers	44	31.5	39.3
Professional Support	4	8.2	8.1
Campus, Administration (School Leadership)	2	3.7	3.9
Central Administration	<u>19</u>	<u>2.0</u>	<u>1.0</u>
TOTAL	69	45.4	52.3

FACULTY	2005-2006	2004-2005	2003-2004
Beginning Teachers	2	3.7	6.9
1-5 Years Experience	20	17.0	20.6
6-10 Years Experience	12	6.8	9.8
11-20 Years Experience	8	4.0	2.0
Over 20 Years Experience	2	0.0	0.0
Number of Students Per Teacher	14.75	16.1	15.0

^(a) Information obtained from TEA.

TABLE 5 –ENROLLMENT HISTORY BY GRADE

	<u>2006-2007^(a)</u>	<u>2005-2006</u>	<u>2004-2005</u>	<u>2003-2004</u>
Early Childhood	0	0	0	0
Pre-Kindergarten	228	114	81	0
Kindergarten	110	114	33	0
Grade 1	110	0	0	0
Grade 2	0	0	0	0
Grade 3	0	0	0	0
Grade 4	0	0	0	0
Grade 5	180	180	173	173
Grade 6	174	177	178	157
Grade 7	166	163	156	151
Grade 8	156	140	131	82
Grade 9	113	100	60	0
Grade 10	98	55	0	0
Grade 11	55	0	0	0
Grade 12	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	1,390	1,043	812	563

^(a) Projected. Information obtained from the Borrower.

TABLE 6 –STUDENT DEMOGRAPHICS

	<u>2005-2006</u>	<u>2004-2005</u>	<u>2004-2003</u>
ETHNICITY (%)			
African American	16	158	91
Hispanic	81	413	293
White	1	12	5
Native American	0	0	8
Asian/Pacific Islander	2	6	0
% Rate Attendance	95	97.9	98.8
% Economically Disadvantaged	89	81.7	83.6
DROPOUTS			
% Dropouts	3.25	0	0

TABLE 7 – ASSESSMENT TESTING AND ACCOUNTABILITY RATINGS

Along with other public schools in the State, students at the Borrower’s school are subject to the Texas Assessment of Knowledge and Skills (TAKS) test and end-of-course examinations. TAKS measures the statewide curriculum in reading and mathematics at grades 3 through 8 and the exit level; in writing in grades 4, 8, and the exit level; and in science and social studies at grade 8. Spanish-version TAKS tests are administered at grades 3 through 6. Satisfactory performance on the TAKS exit level tests is prerequisite to a high school diploma. End-of-course examinations measure the statewide curriculum of certain high school courses (Algebra I, Biology I, English II, and U.S. History) in order to ensure that high academic standards are being met. Demonstrating satisfactory performance on end-of-course tests became an additional means for students to be eligible to graduate beginning in the 2001-2002 school year. Following are the summaries of student results for TAKS testing at the KIPP, Inc..

<i><u>DATA ELEMENT</u></i>	<u>2005</u>		<u>2004</u>		<u>2003</u>	
	<i><u>KIPP</u></i>	<i><u>STATEWIDE AVERAGES</u></i>	<i><u>KIPP</u></i>	<i><u>STATEWIDE AVERAGES</u></i>	<i><u>KIPP</u></i>	<i><u>STATEWIDE AVERAGES</u></i>
Reading	96%	83%	83%	85%	82%	73%
Math	94	72	85	76	77	57
Writing	99	90	99	91	91	78
Science	58	66	57	72	28	42
Soc. Studies	99	88	99	91	99	76
All Tests	86	62	72	68	62	47

TEA hired an independent organization to study the 2005 TAKS results and determine if any school had test results with the following inconsistencies:

- All the students had the same or similar answers,
- Excessive eraser marks on the test forms,
- Many students answered the more difficult questions correct and the easier questions incorrect, or
- The students made remarkable progress over the previous year’s test score

As a result of the study, approximately 600 schools across the state were flagged for one or more of the above reasons. KIPP Academy Middle School was flagged for remarkable progress on the 7th grade math test. KIPP reviewed the

testing procedures just to ensure that there were no impropriety. The review of the testing procedures found that the 7th grade math teacher was proctoring a different grade level and not in the room with the 7th grade students during the test.

The independent study and subsequent list of schools did not imply cheating or improprieties of any school. The list was provided to TEA so that investigations, if necessary, could be performed. KIPP has not been the subject of a TEA investigation regarding these matters.

Academic Excellence Indicator System

The Campus was approved by TEA to be evaluated under the Alternative Accountability System. The results for 2005 are as follows:

<u>Category</u>	<u>Result</u>
Dropout Rate	0%
TAAS	N/A
Attendance Rate	94.5
% Credits Earned/Credits Attempted	N/A
GED Completion Rate*	N/A

FINANCIAL AND OPERATIONS INFORMATION

TABLE 8 – DEBT SERVICE REQUIREMENTS ON THE BONDS

FYE 31-Aug	Outstanding Debt Service	THE BONDS						Total Debt Service	CAPI/Accrued Interest	Estimated Earnings on Debt Service Reserve Fund ^(a)	Net Debt Service
		Principal	Series 2006A Interest	Total	Principal	Series 2006B Interest	Total				
2006	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2007	-	-	1,777,814	1,777,814	-	32,398	32,398	1,810,212	1,196,161	95,381	518,670
2008	-	-	1,711,265	1,711,265	-	31,185	31,185	1,742,450	781,589	105,652	855,209
2009	-	-	1,711,265	1,711,265	525,000	15,593	540,593	2,251,858	(783)	105,652	2,146,988
2010	-	645,000	1,698,365	2,343,365	-	-	-	2,343,365	(1,566)	105,652	2,239,279
2011	-	675,000	1,671,628	2,346,628	-	-	-	2,346,628	(1,566)	105,652	2,242,541
2012	-	705,000	1,639,284	2,344,284	-	-	-	2,344,284	(1,566)	105,652	2,240,198
2013	-	740,000	1,601,353	2,341,353	-	-	-	2,341,353	(1,566)	105,652	2,237,266
2014	-	780,000	1,561,453	2,341,453	-	-	-	2,341,453	(1,566)	105,652	2,237,366
2015	-	825,000	1,522,828	2,347,828	-	-	-	2,347,828	(1,566)	105,652	2,243,741
2016	-	855,000	1,485,440	2,340,440	-	-	-	2,340,440	(1,566)	105,652	2,236,354
2017	-	900,000	1,445,728	2,345,728	-	-	-	2,345,728	(1,566)	105,652	2,241,641
2018	-	940,000	1,403,633	2,343,633	-	-	-	2,343,633	(1,566)	105,652	2,239,546
2019	-	985,000	1,359,111	2,344,111	-	-	-	2,344,111	(1,566)	105,652	2,240,025
2020	-	1,030,000	1,312,005	2,342,005	-	-	-	2,342,005	(1,566)	105,652	2,237,919
2021	-	1,080,000	1,262,150	2,342,150	-	-	-	2,342,150	(1,566)	105,652	2,238,064
2022	-	1,135,000	1,208,125	2,343,125	-	-	-	2,343,125	(1,566)	105,652	2,239,039
2023	-	1,195,000	1,149,875	2,344,875	-	-	-	2,344,875	(1,566)	105,652	2,240,789
2024	-	1,255,000	1,088,625	2,343,625	-	-	-	2,343,625	(1,566)	105,652	2,239,539
2025	-	1,315,000	1,024,375	2,339,375	-	-	-	2,339,375	(1,566)	105,652	2,235,289
2026	-	1,385,000	956,875	2,341,875	-	-	-	2,341,875	(1,566)	105,652	2,237,789
2027	-	1,460,000	885,750	2,345,750	-	-	-	2,345,750	(1,566)	105,652	2,241,664
2028	-	1,535,000	810,875	2,345,875	-	-	-	2,345,875	(1,566)	105,652	2,241,789
2029	-	1,610,000	732,250	2,342,250	-	-	-	2,342,250	(1,566)	105,652	2,238,164
2030	-	1,695,000	649,625	2,344,625	-	-	-	2,344,625	(1,566)	105,652	2,240,539
2031	-	1,780,000	562,750	2,342,750	-	-	-	2,342,750	(1,566)	105,652	2,238,664
2032	-	1,870,000	471,500	2,341,500	-	-	-	2,341,500	(1,566)	105,652	2,237,414
2033	-	1,965,000	375,625	2,340,625	-	-	-	2,340,625	(1,566)	105,652	2,236,539
2034	-	2,070,000	274,750	2,344,750	-	-	-	2,344,750	(1,566)	105,652	2,240,664
2035	-	2,175,000	168,625	2,343,625	-	-	-	2,343,625	(1,566)	105,652	2,239,539
2036	-	2,285,000	57,125	2,342,125	-	-	-	2,342,125	41,505	2,400,654	(100,033)
	\$ -	\$ 34,890,000	\$ 33,580,069	\$ 68,470,069	\$ 525,000	\$ 79,175	\$ 604,175	\$ 69,074,244	\$ 1,977,750	\$ 5,454,297	\$ 61,642,197

Average Annual Debt Service Requirements (2007-2036):

\$ 2,302,475

Maximum Annual Debt Service Requirements (2015):

\$ 2,347,828

Statement of Financial Position for the Years Ended August 31, 2005, 2004, and 2003

The following is derived from the Borrower's audited financial statements for fiscal years 2005, 2004, and 2003. The Borrower has not sought or obtained the consent of its auditors for inclusion of the audited financial information.

	<u>FYE</u> <u>2005 TOTAL</u>	<u>FYE</u> <u>2004 TOTAL</u>	<u>FYE</u> <u>2003 TOTAL</u>
<u>Assets:</u>			
Cash and cash equivalents	\$ 4,255,590	\$ 2,810,425	\$ 2,424,570
Accounts receivables	99,679	401,600	270,821
Prepaid expenses	30,809	57,559	13,084
Pledges receivable, net	3,612,226	1,339,011	653,587
Cash restricted for long-term purposes	463,784	-	280,000
Property and equipment, net	<u>9,660,394</u>	<u>10,216,197</u>	<u>6,659,142</u>
TOTAL ASSETS	<u>\$ 18,122,482</u>	<u>\$ 14,824,792</u>	<u>\$ 10,301,204</u>
<u>Liabilities:</u>			
Account payable and accrued expenses	1,093,103	1,151,553	403,068
Notes payable	<u>5,970,551</u>	<u>5,517,077</u>	<u>2,427,142</u>
TOTAL LIABILITIES	<u>\$ 7,063,654</u>	<u>\$ 6,668,630</u>	<u>\$ 2,830,210</u>
<u>Net Assets</u>			
Unrestricted	6,620,891	6,580,244	6,416,957
Temporarily restricted	4,347,937	1,485,918	964,037
Permanently restricted	<u>90,000</u>	<u>90,000</u>	<u>90,000</u>
TOTAL NET ASSETS	<u>\$ 11,058,828</u>	<u>\$ 8,156,162</u>	<u>\$ 7,470,994</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,122,482</u>	<u>\$ 14,824,792</u>	<u>\$ 10,301,204</u>

Statement of Activities for the Years Ended August 31, 2005, 2004, and 2003

The following is derived from the Borrower's audited financial statements for fiscal years 2005, 2004, and 2003. The Borrower has not sought or obtained the consent of its auditors for inclusion of the audited financial information.

	<u>FYE</u> <u>2005 Total</u>	<u>FYE</u> <u>2004 Total</u>	<u>FYE</u> <u>2003 Total</u>
<u>REVENUES AND OTHER SUPPORT</u>			
Government grants	\$ 5,998,064	\$ 4,264,584	\$ 3,773,807
Contributions	5,395,049	2,112,586	1,235,752
Special events	442,188	387,542	323,900
Cost of direct benefits provided to donor	(53,549)	(80,648)	(78,910)
Interest income	73,621	23,983	20,875
Other revenue	<u>423,559</u>	<u>326,495</u>	<u>181,571</u>
Total revenue	<u>\$ 12,278,932</u>	<u>\$ 7,034,542</u>	<u>\$ 5,456,995</u>
<u>EXPENSES</u>			
Instructional program	\$ 7,179,298	\$ 4,908,217	\$ 3,391,359
Auxiliary services	1,065,206	801,158	910,765
General and administrative	721,713	425,571	453,703
Fund-raising	<u>410,049</u>	<u>214,428</u>	<u>95,873</u>
Total Expenses	<u>\$ 9,376,266</u>	<u>\$ 6,349,374</u>	<u>\$ 4,851,700</u>
CHANGE IN NET ASSETS	2,902,666	685,168	605,295
<u>NET ASSETS – BEGINNING OF YEAR</u>	<u>8,156,162</u>	<u>7,470,994</u>	<u>6,865,699</u>
<u>NET ASSETS – END OF YEAR</u>	<u>\$ 11,058,828</u>	<u>\$ 8,156,162</u>	<u>\$ 7,470,994</u>

Statements of Functional Expenses for the Years Ended August 31, 2005, 2004, and 2003

The following is derived from the Borrower's audited financial statements for fiscal years 2005, 2004, and 2003. The Borrower has not sought or obtained the consent of its auditors for inclusion of the audited financial information. For a breakdown of program services and support services, see APPENDIX A.

	FYE <u>2005 Total</u>	FYE <u>2004 Total</u>	FYE <u>2003 Total</u>
Services	\$ 8,244,504	\$ 5,709,375	\$ 4,302,124
Fundraising	410,049	214,428	95,873
Administrative	<u>721,713</u>	<u>425,571</u>	<u>453,703</u>
Total Expenses	<u>\$ 9,376,266</u>	<u>\$ 6,349,374</u>	<u>\$ 4,851,700</u>

Audited Financial Information

Audited financial statements for the Borrower for the fiscal years ending August 31, 2004 and 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.

Projections by the Borrower; Required Increases in Attendance for Payment of Future Debt Service

The Borrower has projected revenues over the period from 2006-2007 through 2012-2013, which include substantial increases in revenues. Such projections are attached hereto as APPENDIX B. See "RISK FACTORS—Dependence on the Borrower—Growth of Student Population" and "—Accuracy of Borrower Projections of Growth". The increase in revenues contained in the Borrower's projections are based on both stability in the system of charter schools in Texas, continued state funding at current levels, and growth in student populations. See "RISK FACTORS—Dependence on the Borrower" and "—Dependence on the State" and "THE SYSTEM OF CHARTER SCHOOLS IN TEXAS".

The maximum annual combined debt service including the Bonds is \$2,237,150 (2017). Based on the analysis provided by the Borrower, a copy of which is reproduced as APPENDIX B – PROFORMA FINANCIAL PLAN and, assuming the Borrower's projected operating expenditures (less any contingencies and surplus included in projections of expenses by the Borrower), student attendance of approximately 1,400 or greater will support the projected maximum annual debt service of approximately \$2,200,000 and operating expenses. Based on the projections of the Borrower, the net debt service coverage is at least 1.25 times the annual principal and interest requirements of the Bonds, less projected interest earnings on the debt service reserve fund. The projections by the Borrower assume State and local funding of approximately \$8,000 per average daily attendance.

RATING

Standard and Poor's Ratings Group ("S&P") has assigned its municipal rating of "A" to the Bonds pursuant to a municipal bond insurance policy provided by ACA Financial Guaranty Corporation. An explanation of the rating may be obtained from S&P. The rating reflects only the views of S&P and the Borrower makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company if in the judgment of the company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

THE ISSUER

Creation and Authority

The Texas Public Finance Authority Charter School Finance Corporation is a public non-profit corporation created by the Texas Public Finance Authority (the “Authority” or “Sponsoring Entity”) and existing as an instrumentality of the Authority pursuant to Chapter 53 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 any authorized charter schools for the purpose of aiding such schools 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 Board of Directors of the Authority. Board members serve two-year terms, and each Board member may serve an unlimited number of two-year terms.

The officers of the Issuer consist of a president, a vice president, and a secretary, each selected by the Board from among its members, and whose duties are described in the Issuer’s bylaws. All officers are subject to removal from office, with or without cause, at any time by a vote of a majority of the entire Board, while vacancies may be filled by a vote of a majority of the Board.

Neither 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. Other than legal counsel, the Issuer has not engaged any consultant or other professional. THE ISSUER HAS NO TAXING POWER.

The Issuer is receiving a fee of approximately \$2,000 in connection with the issuance of the Bonds, which amount shall 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 Agreement solely to carry out the Issuer’s statutory purposes as a higher education authority, and the Issuer makes no representations 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 Agreement. The Borrower has agreed to indemnify the Issuer for certain matters under the Agreement.

LEGAL MATTERS

Legal Proceedings

Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding limited obligations of the Issuer under the Constitution and laws of the State of Texas 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 Agreement, as evidenced by the Issuer Master Notes, 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 Vinson & Elkins L.L.P., Houston, 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 the Official Statement, 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 Official Statement under the captions “SECURITY AND SOURCE OF PAYMENT,” “THE BONDS,” “LEGAL MATTERS,” “TAX MATTERS,” “THE SYSTEM OF CHARTER SCHOOLS IN TEXAS,” “LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS,” “CONTINUING DISCLOSURE OF INFORMATION,” “APPENDIX D – THE MASTER INDENTURE,” “APPENDIX E – THE INDENTURE,” and “APPENDIX F – THE LOAN AGREEMENT” solely to determine whether such information fairly summarizes the documents referred to therein and is correct as to matters of law.

No-Litigation Certificates

The Issuer will furnish the Underwriters 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.

The Borrower will furnish the Underwriters 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 Notes, the Deed of Trust, or the title of the officers thereof to their respective offices.

TAX MATTERS

Tax-Exempt Bonds

In the opinion of Vinson & Elkins L.L.P., Bond Counsel, assuming compliance with certain covenants and based on certain representations, (i) interest on the Series 2006A Bonds (the “Tax-Exempt Bonds”) is excludable from gross income for federal income tax purposes under existing law, (ii) the Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds are “qualified 501(c)(3) bonds,” Bond Counsel will rely upon representations of the Issuer, Borrower, and the Underwriter in the Indenture and the Loan Agreement and will assume continuing compliance with the covenants of 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 Tax-Exempt 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 Indenture and the Loan Agreement or the foregoing representations should be determined to be incorrect, inaccurate or incomplete, interest on the Tax-Exempt Bonds could become includable in gross income for federal income tax purposes from the date of delivery of the Tax-Exempt 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 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 Tax-Exempt Bonds, is included in a corporation's adjusted current earnings, ownership of the Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 Beneficial Owners of the Tax-Exempt 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 Tax-Exempt Bonds as includable in gross income for federal income tax purposes.

Collateral Tax Consequences

Prospective purchasers of the Tax-Exempt 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, individuals 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 Tax-Exempt Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Tax Accounting Treatment of Tax-Exempt Original Issue Discount Bonds

The initial offering price to be paid for certain Tax-Exempt Bonds (the "Tax-Exempt Original Issue Discount Bonds") may be less than the principal amount thereof. In such case, the difference between (i) the amount payable at the maturity of each Tax-Exempt Original Issue Discount Bond, and (ii) the initial offering price to the public of such Tax-Exempt Original Issue Discount Bond constitutes original issue discount with respect to such Tax-Exempt Original Issue Discount Bond in the hands of any owner who has purchased such Tax-Exempt Original Issue Discount Bond at the initial offering price in the initial public offering of the Tax-Exempt 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 Tax-Exempt Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Tax-Exempt 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 a Tax-Exempt Original Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering of the Bonds, and should be considered in connection with the discussion in this portion of the Official Statement.

In the event of the redemption, sale or other taxable disposition of such Tax-Exempt Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Tax-Exempt 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 Tax-Exempt Original Issue Discount Bond was held by such initial owner) is includable in gross income.

The foregoing discussion is based on the assumptions that (i) the Underwriter has purchased the Bonds for contemporaneous sale to the public and (ii) all of the Tax-Exempt 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 warrants that the Tax-Exempt Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original discount on each Tax-Exempt Original Issue Discount Bonds accrued daily to the stated maturity thereof (in amounts calculated as described below for a six-month period ending on the date before the semi-annual 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 the Tax-Exempt 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 (i) 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 (ii) 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 the Tax-Exempt Original Issue Discount Bonds which are not purchased in the initial offering price may be determined according to rules which differ from those described above. All owners of the Tax-Exempt Original Issue Discount Bonds could 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 the Tax-Exempt Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of purchase, ownership, redemption, sale or other disposition of the Tax-Exempt Original Issue Discount Bonds.

Tax Accounting Treatment of Tax-Exempt Original Issue Premium

The initial offering price for certain of the Tax-Exempt Bonds may exceed the stated redemption price payable at maturity of the Tax-Exempt Bonds. The Tax-Exempt Bonds (the “Tax-Exempt Premium Bonds”) will be considered for federal income tax purposes to have “bond premium” equal to the amount of such excess. The basis of a Tax-Exempt 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 the Tax-Exempt 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 Tax-Exempt Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes, however, for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Tax-Exempt Premium Bond which is amortizable each year (or shorter period in the event of a sale or disposition of a Tax-Exempt Premium Bond) is determined using the yield to maturity on the Tax-Exempt Premium Bond based on the initial offering price of the Tax-Exempt Premium Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Tax-Exempt Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Tax-Exempt 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 Tax-Exempt 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 the Tax-Exempt Premium Bonds.

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 (the “Taxable 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 Official Statement may affect the tax consequences described herein.

This summary discusses only the Taxable 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 Taxable 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 Taxable Bonds, including the advisability of making any of the elections described below, before determining whether to purchase the Taxable 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 Taxable 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 Taxable Bond by an Owner is subject to U.S. federal income taxation. In addition, a Taxable 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 Taxable 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 Taxable 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 Taxable 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 Taxable 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 Taxable Bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity). A Taxable Bond having original issue discount equal to or greater than a de minimis amount will be referred to as “Taxable Original Issue Discount Bond.” Owners of Taxable 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 Taxable Bond. The stated redemption price at maturity of a Taxable Bond includes all payments on the Taxable 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 Taxable Bonds for contemporaneous sale to the general public and not for investment purposes, (ii) all of the Taxable 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 Official Statement, and (iii) the respective initial offering prices of the Taxable Bonds to the general public are equal to the fair market value thereof. Neither the Borrower nor Bond Counsel warrants that the Taxable Bonds will be offered and sold in accordance with such assumptions.

Acquisition Premium. In the event that an Owner purchases a Taxable 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 Taxable 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 Taxable 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 Taxable 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 Taxable Bond into ordinary income. A Taxable Bond will have market discount to the extent the "revised issue price" (as defined in section 1278 of the Code) of the Taxable Bond exceeds, by more than a de minimis amount, the Owner's tax basis in the Taxable Bond immediately after the Owner acquires the Taxable Bond. The "revised issue price" generally equals the issue price of the Taxable Bond plus the amount of the original issue discount (computed without regard to any "acquisition premium" described above) that had accrued on the Taxable Bond as the date the owner acquired the Taxable Bond and reduced by the stated interest previously paid with respect to the Taxable 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 Taxable Bond will be taxable as ordinary income to the extent any market discount has accrued on such Taxable Bond. Market discount on a Taxable Bond would accrue ratably each day between the date an Owner purchases the Taxable 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 Taxable Bond purchased with market discount is disposed of in a nontaxable transaction (other than a non-recognition 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 Taxable Bond at its then fair market value. An Owner of a Taxable 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 Taxable Bond until the deferred income is realized.

Amortizable Premium. An Owner that purchases a Taxable 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 Taxable 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 Taxable 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 Taxable Bond’s yield to maturity. If an Owner makes the election under section 171(c)(2), the election also shall apply to all taxable bonds held by the Owner at the beginning of the first taxable year to which the election applies and to all such taxable 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 Taxable 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 Taxable 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 Taxable Bond (i.e., the excess of all remaining payments to be received on the Taxable Bond over the amount paid for the Taxable Bond by such Owner), based on the compounding of interest at a constant rate. Such an election for a Taxable 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 Taxable Bond, or upon the retirement of a Taxable 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 Taxable Bond. An Owner’s tax basis for determining gain or loss on the disposition or retirement of a Taxable Bond will be the cost of the Taxable 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 Taxable Bond, and decreased by the amount of any payments under the Taxable Bond that are part of its stated redemption price at maturity (i.e., all stated interest payments with respect to the Taxable 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 Taxable 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 Taxable Bond has been held for more than one year.

Information Reporting and Backup Withholding. The Corporation is required to report to the IRS payments of interest and accruals of original issue discount (if any) on the Taxable 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 Taxable Bond for federal income tax reporting purposes. The amount of original issue discount required to be reported by the Corporation may not be equal to the amount required to be reported as taxable income by an Owner of an OID Bond that acquired the Taxable Bond subsequent to its original issuance.

Interest paid to an Owner of a Taxable 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 after January 1, 2011) may apply, however, to payments made in respect of the Taxable Bonds, as well as payments of proceeds from the sale of the Taxable 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 Taxable Bond (who is not an exempt recipient) (i) fails to furnish to the Corporation such Owner’s social security number or other taxpayer identification number (“TIN”), (ii) furnishes the Corporation 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 Corporation or such Owner's broker with a certified statement, signed under penalty of perjury, that the TIN provided to the Corporation 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 TAXABLE 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

Financial Advisor

Coastal Securities ("Coastal") is employed as Financial Advisor to KIPP, Inc. in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Coastal, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending, or future actions taken by any legislative or judicial bodies.

Coastal has reviewed the information in this Official Statement in accordance with its responsibilities to KIPP, Inc. and, as applicable, to investors under federal securities laws as applied to the facts and circumstances of this transaction, but Coastal does not guarantee the accuracy or completeness of such information.

The Underwriters

The Bonds are being purchased by the Underwriters, pursuant to a purchase contract with the Issuer as approved by the Borrower, at a price of \$35,431,575.00, which reflects the par amount of the Bonds less an underwriting discount of \$261,716.85, plus premium of \$278,291.85 plus accrued interest to the date of delivery. The Underwriters' obligation to purchase the Bonds is subject to certain conditions precedent, and the Underwriters 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 Underwriters.

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the Issuer of a certificate executed and delivered by the Underwriters 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 Underwriters or wholesaler. Otherwise, the Issuer has no understanding with the Underwriters regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Underwriters.

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time to time by the Underwriters 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 Underwriters 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. If there is 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 Security Procedures Act (Texas Government Code, Chapter 1201, as amended), 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, as amended), 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 “RATING” herein. However, political subdivisions otherwise subject to the Public Funds Investment Act may have additional statutory authority to invest in the Bonds independent of the Public Funds Investment Act. 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 combined capital, and savings and loan associations. No review 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 in the Agreement has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The Borrower is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the Borrower will be obligated to provide certain updated financial information and operating data upon request to any person or, at the option of the Borrower, at least annually to the appropriate state information depository (“SID”) and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports

The Borrower will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data of the general type included in this Official Statement in APPENDIX A, Tables 1 through 4 and Tables 7 through 10, and APPENDIX B. The Borrower will update and provide this information within six months after the end of each fiscal year. The Borrower will provide updated information to each nationally recognized municipal securities information repository (“NRMSIR”) and to any state information repository (“SID”) that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the “SEC”), and may provide such information through a central post office facility.

The Borrower may provide updated information in full text or may incorporate by reference other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements if the Borrower commissions an audit and the audit is completed by the required time. If audited financial statements are not available by the required time, the Borrower will provide such financial statements on an unaudited basis within the required time and audited financial statements when they become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX A or such other accounting principles as the Borrower may be required to employ from time to time pursuant to State law or regulation.

The Borrower’s current fiscal year-end is the last day of August. Accordingly, the Borrower must provide updated information by the last day of February in each year, unless the Borrower changes its fiscal year. If the Borrower changes its fiscal year, it will notify each NRMSIR and any SID of the change.

Material Event Notices

The Borrower also will provide timely notices of certain events to certain information vendors. Specifically, the Borrower will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. Neither the Bonds nor the Agreement make any provision for liquidity enhancement. In addition, the Borrower will provide timely notice of any failure by the Borrower to provide annual financial information, data, or financial statements in accordance with its agreement described above under “Annual Reports.” The Borrower will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board (the “MSRB”).

Availability of Information from NRMSIRs and SID

The Borrower has agreed to provide the foregoing information only to the SID and with respect to Material Event Notices to either each NRMSIR or the MSRB. The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

Information agreed to be provided by the Borrower on request may be obtained by contacting the Borrower at 10711 Kipp Way, Houston, Texas 77099, and its telephone number is (832) 328-1051.

The Municipal Advisory Council of Texas has been designated by the State as a SID and the SEC has determined that it is a qualified SID. The address of the Municipal Advisory Council is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is (512) 476-6947.

Limitations and Amendments

The Borrower has agreed to update information and to provide notices of material events only as described above. The Borrower has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that has been provided except as described above. The Borrower makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Borrower disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the Borrower to comply with its agreement. Nothing in this paragraph is intended or shall act to disclaim, waive, or limit the Borrower's duties under federal or state securities laws.

The continuing disclosure agreement may be amended by the Borrower from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Borrower, but only if (1) the agreement, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Indenture) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the Borrower (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the registered owners and beneficial owners of the Bonds. The Borrower may also amend or repeal the provisions of the continuing disclosure agreement if the SEC amends or repeals the applicable provisions of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an Underwriters from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the Borrower amends its agreements, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

The Borrower is subject to periodic reporting and audit requirements under the statutes and rules governing charter schools, including participation in the Texas PEIMS system. See "THE SYSTEM OF CHARTER SCHOOLS IN TEXAS" Such records are open records under the Texas Open Records Act, Chapter 552, Texas Government Code, as amended, and, subject to exemptions contained therein, would be available to any person from the Borrower or the Texas Education Agency upon payment of costs.

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

The financial data and other information contained in this Official Statement 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 Official Statement 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 Official Statement 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 Official Statement

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 Official Statement was approved by the Board of Directors of the Issuer, as of the date shown on the cover page.

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COASTAL SECURITIES

Financial Advisor to KIPP, Inc.

APPENDIX A

AUDITED FINANCIALS OF BORROWER

FOR YEAR ENDED AUGUST 31, 2005, AND AUGUST 31, 2004

APPENDIX B

PROFORMA FINANCIAL PLAN

KIPP, INC.

August 31, 2007, through August 31, 2013

KIPP, INC.
PROFORMA FINANCIAL PLAN

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
REVENUE								
State								
Federal	1,038,000	1,454,055	1,716,310	2,072,272	2,219,574	2,371,166	2,442,301	2,515,570
State	8,663,840	12,136,512	14,325,464	17,296,563	18,526,048	19,791,330	20,385,069	20,996,622
Local	-	-	-	-	-	-	-	-
Transportation	352,920	494,379	583,545	704,572	754,655	806,196	830,382	855,294
Food	1,245,600	1,744,866	2,059,572	2,486,726	2,663,489	2,845,399	2,930,761	3,018,684
State	11,300,360	15,829,812	18,684,891	22,560,133	24,163,767	25,814,090	26,588,513	27,386,169
Other Revenue								
Field Lessons	96,220	115,731	127,195	137,741	142,441	147,281	151,699	156,250
After School Programs	48,440	67,856	80,094	96,706	103,580	110,654	113,974	117,393
Insurance	6,920	9,694	11,442	13,815	14,797	15,808	16,282	16,770
Technology Reimbursement	69,660	96,736	112,019	133,597	141,983	150,108	154,611	159,250
Other Admin	173,000	242,343	286,052	345,379	369,929	395,194	407,050	419,262
Other Revenue	276,800	387,748	457,683	552,606	591,887	632,311	651,280	670,819
Other Revenue	671,040	920,107	1,074,484	1,279,844	1,364,617	1,451,356	1,494,897	1,539,744
ADA Discount	(151,869)	(316,596)	(373,698)	(451,203)	(483,275)	(516,282)	(531,770)	(547,723)
TOTAL REVENUE	11,819,531	16,433,322	19,385,677	23,388,774	25,045,108	26,749,165	27,551,640	28,378,189

KIPP, INC.
PROFORMA FINANCIAL PLAN

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
SCHOOL COSTS							
Workforce							
Teacher	3,922,320	5,319,806	6,279,340	7,519,885	8,044,304	8,593,420	8,851,223
Teacher Assistants	672,600	1,130,322	1,276,899	1,624,667	1,713,250	1,805,685	1,859,856
Special Programs	955,800	1,148,553	1,352,011	1,450,595	1,553,877	1,600,494	1,648,509
School Leader/Business Manager	572,300	589,469	607,153	625,368	644,129	663,453	683,356
Admin Staff	453,120	544,499	600,894	742,705	764,986	787,935	811,573
Facilities Staff	141,600	145,848	180,268	216,622	223,121	229,814	236,709
Overhead Management	-	-	-	-	-	-	-
Travel - Teacher	54,750	74,160	87,524	104,902	112,270	119,985	123,584
Travel - School Leader	10,000	10,300	10,609	10,927	11,255	11,593	11,941
Travel - Recruiting	-	-	-	-	-	-	-
Travel - Corp	-	-	-	-	-	-	-
Professional Development	124,263	169,278	195,619	233,244	248,136	262,551	270,427
Workforce	6,906,753	9,132,235	10,590,317	12,528,914	13,315,327	14,074,930	14,497,178
Transportation							
Transportation Contract	741,719	947,672	1,071,377	1,249,105	1,317,012	1,382,434	1,423,907
Fuel	16,483	21,059	23,808	27,758	29,267	30,721	31,642
Vehicles	65,931	84,238	95,233	111,032	117,068	122,883	126,570
Transportation	824,132	1,052,969	1,190,418	1,387,894	1,463,347	1,536,038	1,582,119
Food							
Food	1,107,200	1,507,096	1,778,917	2,147,864	2,300,540	2,261,048	2,151,682
After School Programs	34,600	47,097	55,591	67,121	71,892	76,802	79,106
Food	1,141,800	1,554,193	1,834,508	2,214,985	2,372,432	2,337,850	2,230,788
Direct Expenses							
Uniforms	151,400	207,597	245,492	294,708	314,580	335,030	345,081
Textbooks	7,980	9,981	10,280	12,457	14,755	15,198	17,696
Instruction Supplies	276,800	376,774	444,729	536,966	575,135	614,415	632,848
Other Student Supplies	83,040	113,032	133,419	161,090	172,541	184,325	189,854
Classroom Equipment	91,500	135,445	93,359	94,521	102,984	148,387	130,152
Athletic & Fine Arts	184,110	234,133	276,603	315,328	334,135	355,318	365,977
After School Programs	13,840	18,839	22,236	26,848	28,757	30,721	31,642
Field Lessons	584,900	703,567	784,748	870,576	907,723	945,968	974,347
Computers	77,000	106,708	124,762	149,157	159,147	168,790	173,854
Cell Phones	66,000	91,464	106,939	127,849	136,412	144,677	149,018
Direct Expenses	1,536,570	1,997,540	2,242,568	2,589,501	2,746,168	2,942,829	3,010,469
Equipment & Supplies							
Computers	72,800	90,846	104,711	120,091	122,906	130,650	138,749
Cell Phones	11,400	12,978	14,004	16,391	16,883	17,389	17,911
Office Equipment	50,000	51,500	53,045	54,636	56,275	57,964	59,703
Office Supplies	76,311	88,337	102,462	114,846	123,243	133,317	137,316
Office Furniture	15,500	3,605	3,713	3,825	3,939	4,057	4,179
Facilities Services	80,000	82,400	84,872	87,418	90,041	92,742	95,524
Other Admin	45,307	50,509	56,680	61,773	65,420	69,556	71,643
Equipment & Supplies	351,318	380,175	419,487	458,979	478,707	505,675	525,025
Services & Insurance							
Insurance	-	-	-	-	-	-	-
Utilities	300,000	309,000	318,270	327,818	337,653	347,782	358,216
Software	-	-	-	-	-	-	-
Admin Services	-	-	-	-	-	-	-
KIPP Foundation Fee	67,802	92,291	108,936	131,530	140,879	150,501	155,016
Other Admin	-	-	-	-	-	-	-
Services & Insurance	367,802	401,291	427,206	459,348	478,532	498,283	513,232
TOTAL SCHOOL COSTS	11,410,375	14,808,862	17,003,679	19,947,770	21,171,907	22,222,521	22,695,534
NET CASH FLOW	409,156	1,624,461	2,381,998	3,441,004	3,873,201	4,526,643	4,856,106
CONTRIBUTION	3%	10%	12%	15%	15%	17%	18%

KIPP, INC.
PROFORMA FINANCIAL PLAN

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
FACILITIES							
Facilities and Debt Service							
Modulars	64,000	65,920	67,898	69,935	72,033	74,194	76,419
Lease Fees	181,600	232,368	284,321	389,885	445,701	503,125	518,219
Bank Note A	-	-	-	-	-	-	-
Bank Note B	-	-	-	-	-	-	-
Bank Note C	-	-	-	-	-	-	-
Debt Service A	326,000	894,000	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000
Debt Service B	-	-	-	-	-	-	-
Debt Service C	-	-	-	-	-	-	-
Facilities and Debt Service	571,600	1,192,288	2,252,219	2,359,820	2,417,734	2,477,318	2,494,638
NET CASH FLOW AFTER FACILITIES	(162,444)	432,173	129,779	1,081,184	1,455,467	2,049,325	2,361,468
SHARE OF CORPORATE REVENUES							
General Fundraising Revenues	338,400	394,387	434,545	487,028	512,669	539,062	555,234
NET CASH FLOW AFTER CORP REVENUES	175,956	826,560	564,324	1,568,213	1,968,136	2,588,387	2,916,702
DRIVERS							
Students	1,384	1,829	2,096	2,457	2,555	2,650	2,650
Teachers	73	96	110	128	133	138	138
Teacher Assistants	19	31	34	42	43	44	44
Special Program Teachers	18	21	24	25	26	26	26
Campus Business Manager	2	2	2	2	2	2	2
School Leader	5	5	5	5	5	5	5
Admin Staff	12	14	15	18	18	18	18
Facilities Staff	5	5	6	7	7	7	7
Overhead Management Staff	-	-	-	-	-	-	-
Classrooms	85	110	124	133	138	142	142
Schools (Campus OH Only)	5	5	5	5	5	5	5
Grade Levels	15	19	21	24	25	26	26
Transport Efficiency Factor							
Athletic & Fine Arts Factor							
Office Supplies Factor							
Other Admin Factor							
Building Value							
Land Value							

KIPP, INC.
PROFORMA FINANCIAL PLAN

DEBT SERVICE COVERAGE

Applicable Revenues							
State Funding	11,300,360	15,829,812	18,684,891	22,560,133	24,163,767	25,814,090	26,588,513
Other Revenues	671,040	920,107	1,074,484	1,279,844	1,364,617	1,451,356	1,494,897
ADA Discount	(151,869)	(316,596)	(373,698)	(451,203)	(483,275)	(516,282)	(531,770)
Fundraising (General Fund)	338,400	394,387	434,545	487,028	512,669	539,062	555,234
Total Revenues	12,157,931	16,827,709	19,820,221	23,875,803	25,557,777	27,288,227	28,106,874
Applicable Operating Costs							
Total Operating Costs	11,410,375	14,808,862	17,003,679	19,947,770	21,171,907	22,222,521	22,695,534
Exclusions - Discretionary							
Non-Traditional Payroll (Summer School)	333,043	455,921	534,495	635,709	678,686	719,976	741,575
Non-Traditional Payroll (Saturday School)	55,507	75,987	89,082	105,951	113,114	119,996	123,596
Non-Traditional Payroll (Extended Day)	333,043	455,921	534,495	635,709	678,686	719,976	741,575
Non-Traditional Payroll (Signing Bonus)	55,507	75,987	89,082	105,951	113,114	119,996	123,596
Non-Traditional Payroll (Performance Bonus)	111,014	151,974	178,165	211,903	226,229	239,992	247,192
Travel - Teacher	54,750	74,160	87,524	104,902	112,270	119,985	123,584
Travel - School Leader	10,000	10,300	10,609	10,927	11,255	11,593	11,941
Professional Development	124,263	169,278	195,619	233,244	248,136	262,551	270,427
Field Lessons	584,900	703,567	784,748	870,576	907,723	945,968	974,347
KIPP Foundation Fee	67,802	92,291	108,936	131,530	140,879	150,501	155,016
Inclusions							
Modular Costs	64,000	65,920	67,898	69,935	72,033	74,194	76,419
Lease Fees	181,600	232,368	284,321	389,885	445,701	503,125	518,219
Total Dedicated Operating Costs	9,926,145	12,841,765	14,743,141	17,361,188	18,459,549	19,389,307	19,777,323
Net Operating Funds Available	2,231,786	3,985,944	5,077,081	6,514,614	7,098,228	7,898,920	8,329,551
Net Debt Service	326,000	894,000	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000
Debt Coverage Ratio	6.85	4.46	2.67	3.43	3.74	4.16	4.38

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

CLOSING DATE]

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

Zions First National Bank, National Association, as Trustee
1801 Main Street 8th Floor
Houston, Texas 77002

Re: KIPP, Inc. Education Revenue Bonds (Issued by Texas Public Finance Authority Charter School Finance Corporation) Series 2006A

KIPP, Inc. Taxable Education Revenue Bonds (Issued by Texas Public Finance Authority Charter School Finance Corporation) Series 2006

Ladies and Gentlemen:

We have been engaged by KIPP, Inc. (the “Company”) to serve as bond counsel in connection with the issuance by the Texas Public Finance Authority Charter School Finance Corporation (the “Issuer”) of its KIPP, Inc. Education Revenue Bonds, Series 2006A (the “Series 2006A Bonds”) and its KIPP, Inc. Taxable Education Revenue Bonds, 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 “Bond Indenture”), between the Issuer and Zions First National Bank, National Association, as trustee (the “Trustee”). The proceeds of the Bonds will be loaned by the Issuer to the Company, pursuant to a Loan Agreement (the “Loan Agreement”), dated as of September 1, 2006, between the Issuer and the Company, which loan will be evidenced by two promissory notes (the “Series 2006 Notes”), issued pursuant to the Master Trust Indenture and Security Agreement, dated as of September 1, 2006 (as amended and supplemented as set forth herein, the “Master Indenture”), between the Company and Zions First National Bank, National Association, as master trustee (the “Master Trustee”), as amended and supplemented by the Supplemental Master Trust Indenture No. 1, dated as of September 1, 2006, between the Company and the Master Trustee. Under the Loan Agreement, the Company has agreed to make payments to or for the account of the Issuer in amounts necessary to pay when due the principal of, 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) and the Series 2006 Notes are pledged and assigned by the Issuer under the Bond Indenture to the Trustee as security for the Bonds. Capitalized terms not otherwise defined herein have the meanings assigned to such terms in the Bond Indenture, the Loan Agreement and the Master Indenture. 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 Company contained in the Loan Agreement, the Bond Indenture and the Master Indenture and upon certain, certified proceedings furnished to us by or on behalf of the Company, 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 the 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 Bond Indenture and the Loan Agreement and issue the Bonds.
2. Each of the Bond Indenture and the Loan Agreement has 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. By the terms of the Bond Indenture, (i) all of the Issuer's right, title and interest in and to the Loan Agreement (except for the right of the Issuer to certain rebate payments, indemnification and the payment of fees, costs and expenses), the Series 2006 Notes, and all Adjusted Revenues derived by the Issuer from the Loan Agreement and the Series 2006 Notes (including the Loan Payments), and (ii) amounts on deposit or held for the credit of the funds and accounts held by the Trustee pursuant to the terms of the Bond Indenture (other than the Rebate Fund), have been assigned to the Trustee.
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. The Series 2006A Bonds are "qualified 501(c)(3) bonds" within the meaning of section 145 of the Internal Revenue Code of 1986, as amended (the "Code"), and 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 Company with respect to certain material facts, estimates and expectations which are solely within the knowledge of the Company and which we have not independently verified. In addition, in rendering the opinions set forth in paragraphs 4 and 5, we have assumed continuing compliance with the covenants in the Loan Agreement and the Bond Indenture pertaining to those sections of the Code that affect the status of the Company 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 Company 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.

Certain actions may be taken or omitted subject to the terms and conditions set forth in the Indenture and related documents, upon the advice or with an approving opinion of Bond Counsel. Bond Counsel expresses no opinion with respect to Bond Counsel's ability to render an opinion that such actions, if taken or omitted,

will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2006A Bonds.

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 Bond Indenture and the Company 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 Bond 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.

APPENDIX D

THE MASTER TRUST INDENTURE

MASTER TRUST INDENTURE AND SECURITY AGREEMENT

between

KIPP, INC.

and

ZIONS FIRST NATIONAL BANK, NATIONAL ASSOCIATION
as Master Trustee

Dated as of
September 1, 2006

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MASTER TRUST INDENTURE AND SECURITY AGREEMENT

THIS MASTER TRUST INDENTURE AND SECURITY AGREEMENT (this “Master Indenture”), dated as of September 1, 2006, is between KIPP, INC., a Texas non-profit corporation (the “Company”), and ZIONS FIRST NATIONAL BANK, NATIONAL ASSOCIATION, a national banking association with a corporate trust office in [Houston, Texas], not in its individual capacity but solely as the Master Trustee (the “Master Trustee”).

WITNESSETH:

WHEREAS, the Company is authorized by law and deems it necessary and desirable to enter into this Master Indenture for the purpose of providing for the incurrence of Debt and the issuance of Notes hereunder to evidence and secure such Debt.

WHEREAS, all acts and things necessary to constitute these presents a valid indenture and agreement according to its terms, have been done and performed and the execution of this Master Indenture has in all respects been duly authorized, and the Company, in the exercise of the legal right and power vested in it has executed this Master Indenture and may incur Debt and make, execute, issue and deliver Notes hereunder.

NOW, THEREFORE, THIS MASTER INDENTURE WITNESSETH:

GRANTING CLAUSES

In order to declare the terms and conditions upon which Notes are to be authenticated, issued and delivered, and to secure the payment of Notes and the performance and observance of all of the covenants and conditions herein or therein contained, and in consideration of the premises, of the purchase and acceptance of Notes by the Holders thereof and of the sum of One Dollar to them duly paid by the Master Trustee at the execution of these presents, the receipt and sufficiency of which is hereby acknowledged, the Company has executed and delivered this Master Indenture and by these presents does hereby convey, grant, assign, transfer, pledge, set over, confirm and grant a security interest in and to the Master Trustee, its successor or successors and its or their assigns forever, all and singular the property, real and personal, hereinafter described (said property being herein sometimes referred to as the “Trust Estate”) to wit:

(a) all Adjusted Revenues of the Company except and excluding all such items, whether now owned or hereafter acquired by the Company, which by their terms or by reason of applicable law would become void or voidable if granted, assigned, or pledged hereunder by the Company, or which cannot be granted, pledged, or assigned hereunder without the consent of other parties whose consent is not secured, or without subjecting the Master Trustee to a liability not otherwise contemplated by the provisions hereof, or which otherwise may not be, or are not, hereby lawfully and effectively granted, pledged, and assigned by the Company, provided that the Company may subject to the lien hereof any such excepted property, whereupon the same shall cease to be excepted property;

(b) all moneys and securities, if any, at any time held by the Master Trustee in the Revenue Fund and any other fund or account established under the terms of this Master Indenture, or held by other banks or fiduciary institutions which are collaterally assigned to the Master Trustee as security for the Notes including the depository account specified in the Deposit Account Control Agreement and all securities, financial assets (as defined in Section 8-102(a)(9) of the UCC) and securities entitlements (within the meaning of Section 8-102(a)(17) of the UCC) and, with respect to Book-Entry Securities, in the applicable Federal Book Entry Regulations, carried in or credited to such fund or account;

(c) any and all other property of every kind and nature from time to time hereafter, by delivery or

by writing of any kind, conveyed, pledged, assigned or transferred as additional security hereunder by the Company or by anyone on its behalf to the Master Trustee, subject to the terms thereof, including without limitation, funds of the Company held by the Master Trustee as security for the Notes;

- (d) the lien of the Deed of Trust (as hereinafter defined); and
- (e) proceeds of the foregoing.

In addition to the foregoing, the “Trust Estate” includes all goods, documents, instruments, tangible and electronic chattel paper, letter of credit rights, investment property, accounts, deposit accounts, general intangibles (including payment intangibles and software), money and other items of personal property, including proceeds (as each such term is defined in the UCC) which constitute any of the property described in the foregoing Granting Clauses.

TO HAVE AND TO HOLD IN TRUST, upon the terms herein set forth, subject to Section 210 hereof, for the equal and proportionate benefit, security, and protection of all Holders of the Notes issued under and secured by this Master Indenture without privilege, priority or distinction as to the lien or otherwise of any of the Notes over any other; provided, however, that if the Company shall pay, or cause to be paid, the principal of the Notes or the obligations secured thereby and the redemption or prepayment premium, if any, and the interest and any other amounts due or to become due thereon in full at the times and in the manner mentioned in the Notes according to the true intent and meaning thereof, and the Company shall keep, perform and observe all the covenants and conditions pursuant to the terms of this Master Indenture to be kept, performed and observed by it, and shall pay or cause to be paid to the Master Trustee all sums of money due or to become due to it in accordance with the terms and provisions hereof, then upon such final payment this Master Indenture and the rights hereby granted and the restrictions hereby incurred shall cease, determine and be void; otherwise this Master Indenture shall be and remain in full force and effect. Notwithstanding anything in this Master Indenture to the contrary, when all of the Notes are no longer Outstanding, the Master Trustee may execute a release of the lien of this Master Indenture on the Deed of Trust and any property of the Company encumbered thereby.

NOW, THEREFORE, in consideration of the premises, the Company covenants and agrees with the Master Trustee, for the equal and proportionate benefit of the respective Holders from time to time of the Notes, as follows:

SCHEDULE I

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

1.1 Construction of Terms; Definitions.

- (a) For all purposes of this Master Indenture, except as otherwise expressly provided or unless the context otherwise requires:

1.1.1.1 The term this “Master Indenture” means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof.

1.1.1.2 All references in this instrument to designated “Articles”, “Sections” and other subdivisions are to the designated Articles, Sections and other subdivisions of this instrument as originally executed. The words “herein”, “hereof” and “hereunder” and other

words of similar import refer to this Master Indenture as a whole and not to any particular Article, Section or other subdivision.

1.1.1.3 The terms defined in this Article have the meanings assigned to them in this Article throughout this Master Indenture, and include the plural as well as the singular. Reference to any Person means that Person and its successors and assigns.

1.1.1.4 All accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles.

1.1.1.5 The terms used in this Master Indenture and not defined herein have the meanings assigned to them in the Related Bond Documents.

(b) The following terms have the meanings assigned to them below whenever they are used in this Master Indenture:

“Accountant” means a Person engaged in the practice of accounting who is a certified public accountant and who (except as otherwise expressly provided herein) may be employed by or affiliated with the Company.

“Adjusted Revenues” means, for any period of calculation, the total of all operating and nonoperating revenues of the Company, including but not limited to State Revenues, federal and local funds for school lunches and other food programs, special education, and transportation, including accounts receivable and rights to receive the same plus investment and other income or loss of the Company for such period; provided, however, that no determination thereof shall take into account (a) income derived from Defeasance Obligations that are irrevocably deposited in escrow to pay the principal of or interest on Debt or Related Bonds, (b) any gains or losses resulting from the early extinguishment of Debt, the sale, exchange or other disposition of Property not in the ordinary course of business, or the reappraisal, reevaluation or write-up of assets, or any other extraordinary gains or losses, (c) gifts, grants (excluding grants from the State), bequests or donations and income thereon restricted as to use by the donor or grantor for a purpose inconsistent with the payment of debt service on Debt or Related Bonds or Notes (i.e., unrelated to the purposes for which such obligations were issued), (d) net unrealized gain (losses) on investments and Financial Products Agreements, (e) proceeds of borrowing and (f) all grant, pledge, contribution, donation and subscription agreements and instruments (or other writings creating or evidencing a grant, pledge, contribution, donation or gift), matching funds agreements and similar agreements, instruments or writings (howsoever evidenced or denominated and whether conditional or unconditional) in favor of the Company in connection with any capital campaign conducted by the Company seeking pledges and contributions to support (1) the Related Project which is the subject of the \$[29,725,000] KIPP, Inc. Higher Education Finance Corporation Education Revenue Bonds Series 2006A and \$[265,000] KIPP, Inc. Taxable Education Revenue Bonds Series 2006B (issued by the Texas Public Finance Authority Charter School Finance Corporation) and (2) certain expenditures relating to such Related Project, including fees and expenses of professional advisors, whether now in existence or from time to time hereafter existing, created or arising; provided, however, that for purposes of any calculation that is made with reference to both revenues and Expenses, any deduction or reduction from revenues otherwise required by the preceding provisions of this definition shall not be made if and to the extent that the amount of such deduction is included in Expenses.

“Annual Debt Service Requirements” of any specified Person means, for any Fiscal Year, the principal of (and premium, if any) and interest and other debt service charges (which include for purposes hereof, any fees or premiums for any letter of credit, surety bond, policy of insurance, bond purchase agreement, or any similar credit or liquidity support secured in connection therewith) on all Long Term Debt of such Person coming due at Maturity or Stated Maturity, and, for such purposes, any one or more of the following rules shall

apply:

(a) Committed Take Out - if such Person has received a binding commitment, within normal commercial practice, from any bank, savings and loan association, insurance company, or similar institution to refund or purchase any of its Long Term Debt at its Stated Maturity (or, if due on demand, or payable in respect of any required purchase of such Debt by such Person, at any date on which demand may be made), then the portion of the Long Term Debt committed to be refunded or purchased shall be excluded from such calculation and the principal of (and premium, if any) and interest on the Long Term Debt incurred for such refunding or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Maturity or purchase date of the Long Term Debt to be refunded or purchased, shall be added;

(b) Pro Forma Refunding - in the case of Balloon Debt, if the Person obligated thereon shall deliver to the Master Trustee a certificate of a nationally recognized firm of investment bankers or financial consultants dated within 90 days prior to the date of delivery of such certificate to the Master Trustee stating that financing at a stated interest rate (which shall not be less than the Bond Buyer Revenue Bond Index or, if the Bond Buyer Revenue Bond Index is unavailable, a comparable index chosen by the Master Trustee) with a Stated Maturity not greater than 30 years is reasonably attainable (and such opinion is reasonably acceptable to Banks) on the date of such certificate to refund any of such Balloon Debt, then for the purpose of calculating what future annual debt service requirements will be, any installment of principal of (and premium, if any) and interest and other debt service charges on such Balloon Debt that could so be refunded shall be excluded from such calculation and the principal plus interest of the refunding debt shall be evenly allocated over the life of the refunding debt with equal principal payments plus interest deemed due each year but solely for the purpose of spreading the principal requirements for calculation of coverage;

(c) Prefunded Payments - principal of (and premium, if any) and interest and other debt service charges on Debt, or portions thereof, shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year for which such principal, premium, interest, or other debt service charges are payable from funds irrevocably deposited or set aside in trust for the payment thereof at the time of such calculations (including without limitation capitalized interest and accrued interest so deposited or set aside in trust or escrowed with the Master Trustee or another Independent Person approved by the Master Trustee);

(d) Variable Rate Debt - as to any Debt that bears interest at a variable interest rate which cannot be ascertained at the time of calculation, an interest rate equal to the lesser of an annual interest rate equal to the Bond Buyer Revenue Bond Index (or, if the Bond Buyer Revenue Bond Index is unavailable, a comparable index chosen by the Master Trustee) and the weighted average rate of interest born by such Debt (or other indebtedness of comparable credit quality, maturity and purchase terms in the event that such Debt was not outstanding) during the preceding Fiscal Year (or any period of comparable length ending within 180 days) prior to the date of calculation shall be presumed to apply for all future dates and the principal shall be evenly allocated over the

life of the Bond issue with an equal amount of principal deemed due each year but solely for the purpose of spreading the principal requirements for calculation of coverage;

(e) Contingent Obligations - in the case of any guarantees or other Debt described in clause (3) of the definition of Debt, the principal of (and premium, if any) and interest and other debt service charges on such Debt for any Fiscal Year shall be deemed to be 25% of the principal of (and premium, if any) and interest and other debt service charges on the indebtedness guaranteed due in such Fiscal Year; provided, however, that if the Person which guarantees or is otherwise obligated in respect of such Debt is actually required to make any payment in respect of such Debt, the total amount payable by such Person in respect of such guarantee or other obligation in such Fiscal Year shall be included in any computation of the Annual Debt Service Requirements of such Person for such year and the amount payable by such Person in respect of such guarantee or other obligation in any future Fiscal Year shall be included in any computation of the estimated Annual Debt Service Requirements for such Fiscal Year; and

(f) Financial Products - in the event there shall have been issued or entered into in respect of all or a portion of any Debt a Financial Products Agreement with respect to Long Term Debt, interest on such Long Term Debt shall be included in the calculation of Annual Debt Service Requirements by including for such period an amount equal to the amount payable on such Long Term Debt in such period at the rate or rates stated in such Long Term Debt plus any payments payable by such Person in respect of such Financial Products Agreement minus any payments receivable by such Person in respect of such Financial Products Agreement.

“Authorized Denominations” means the amounts, if any, set forth therefor in the Supplemental Indenture authorizing any series of Notes.

“Authorized Representative” means the Chairman of the Board of Directors and the Superintendent of the Company, the Board of Directors of the KIPP Finance Corporation, or any other person duly appointed by the Board of Directors of the Company to act on behalf of the Company, each as evidenced by a written certificate furnished to the Master Trustee and any Bond Insurer containing the specimen signature of such person or persons and signed on behalf of the Company by an authorized officer of the Company. The Master Trustee and any Bond Insurer may rely on such written certificate until it is given written notice to the contrary.

“Available Revenues” means, for any period of determination thereof, the amount of excess (deficit) of Adjusted Revenues over Expenses for such period, plus (a) any gifts, grants, requests or donations and income thereon restricted as to use by the donor or grantor for the sole purpose of paying Expenses of the Company, and (b) amounts which have been deducted for such period for or to make provision for:

- (i) interest and other debt service charges on Long Term Debt;
- (ii) amortization of Debt discount; and
- (iii) property retirement, depreciation, depletion, obsolescence, and other items not requiring an outlay of cash;

but less: (a) any income from any amounts irrevocably deposited for payment of principal (and premium, if any) and interest and other debt service charges on defeased debt, (b) pledges for

such period to make a donation, gift, or other charitable contribution to the extent encumbered, as permitted herein to secure the payment of Debt that is not Long Term Debt, and (c) insurance (other than business interruption) and condemnation proceeds.

“Balloon Debt” means Long Term Debt where the principal of (and premium, if any) and interest and other debt service charges on such Long Term Debt due (or payable in respect of any required purchase of such Debt by such Person on demand) in any Fiscal Year either are equal to at least 25% of the total principal of (any premium, if any) and interest and other debt service charges on such Long Term Debt or exceed by more than 50% the greatest amount of principal of (and premium, if any) and interest and other debt service charges on such Long Term Debt due in any preceding or succeeding Fiscal Year.

“Board Resolution” means a copy of a resolution certified by the Person responsible for maintaining the records of the Governing Body to have been duly adopted by the Governing Body and to be in full force and effect on the date of such certification and delivered to the Master Trustee.

“Bond Insurer” means any insurance provider that is providing bond insurance for any series of Related Bonds.

“Bond Trustee” means Zions First National Bank, National Association as trustee (the “Bond Trustee”) pursuant to that certain Trust Indenture and Security Agreement, dated as of September 1, 2006, among the Texas Public Finance Authority Charter School Finance Corporation and the Bond Trustee.

“Code” means the Internal Revenue Code of 1986, as amended from time to time and the corresponding provisions, if any, of any successor internal revenue laws of the United States.

“Company” means KIPP, Inc., a Texas non-profit corporation, its permitted successors and assigns, and any resulting, surviving or transferee Person permitted hereunder.

“Consent,” “Order,” and “Request” means a written consent, order or request signed in the name of the Company and delivered to the Master Trustee by the chairman of the Governing Body, [the president, an executive or senior vice president, the chief financial officer] or any other Person designated by the Company to execute any such instrument on behalf of the Company as evidenced by an Officer’s Certificate.

“Corporate Trust Office” means the address or addresses of the Master Trustee designated from time to time in accordance with Section 104.

“Debt” means all:

(i) indebtedness incurred or assumed by the Company for borrowed money or for the acquisition, construction or improvement of property other than goods that are acquired in the ordinary course of business of the Company;

(ii) lease obligations of the Company that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet;

(iii) all indebtedness (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or the acquisition, construction or improvement of property or capitalized lease obligations guaranteed, directly or indirectly, in any manner by the Company, or in effect guaranteed, directly or indirectly, by the Company through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise; and

(iv) all indebtedness secured by any mortgage, lien, charge, encumbrance, pledge or other security interest upon property owned by the Company whether or not the Company has assumed or become liable for the payment thereof.

For the purpose of computing the “Debt”, there shall be excluded any particular Debt if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository in trust the necessary funds (or evidences of such Debt or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption or satisfaction of such Debt; and thereafter such funds, evidences of Debt and investments so deposited shall not be included in any computation of the assets of the Company, and the income from any such deposits shall not be included in the calculation of Adjusted Revenues or Available Revenues.

“Deed of Trust” means that certain Deed of Trust and Security Agreement (with Assignment of Rents and Leases), dated as of even date herewith from the Company to the Master Trustee, as such Deed of Trust may be amended, supplemented or restated, and/or any security instrument executed in substitution therefore or in addition thereto, as such substitute or additional security instrument may be amended, supplemented or restated from time to time.

“Defeasance Obligations” means any obligations authorized under Texas law and the related financing documents to be deposited in escrow for the defeasance of any Debt.

“Deposit Account Control Agreement” means the Deposit Account Control Agreement, dated September 1, 2006, entered into among the Company, the Master Trustee and the Depository Bank, and any other deposit account control agreement entered into by the Company, the Master Trustee and a Depository Bank from time to time.

“Depository Bank” means any bank designated by the Company as its depository bank pursuant to the Texas Education Code, as amended, Section 45.202.

“Event of Default” is defined in Section 601 of this Master Indenture.

“Expenses” means, for any period of time for which calculated, the total of all operating and non-operating expenses or losses incurred during such period by the Company for which such calculation is made, determined in accordance with generally accepted accounting principles, other than (a) interest expense, (b) depreciation and amortization, and (c) extraordinary losses resulting from the early extinguishment of debt, the sale or other disposition of assets not in the ordinary course of business or any reappraisal, revaluation or write-down of assets, and any other extraordinary losses or expenses.

“Financial Products Agreement” means any type of financial management instrument or contract, which shall include, but not be limited to, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or a series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk forward supply agreements; and (v) any other type of contract or arrangement that the Governing Body of the Company determines is to be used, or is intended to be used, to manage or reduce the cost of debt (including but not limited to a bond insurance policy), to convert any element of debt from one form to another, to maximize or increase investment return, to minimize investment return risk or to protect against any type of financial risk or uncertainty.

“Fiscal Year” means any twelve-month period beginning on September 1 of any calendar year and ending on August 31 of the following year or such other twelve-month period selected by the Company as the fiscal year for the Company; provided that, if any Bond Insurer is providing bond insurance for any series of

Related Bonds Outstanding, such Bond Insurer shall pre-approve in writing any change to such Fiscal Year and Company shall give written notice of any such change to the Master Trustee.

“Governing Body” means the board of directors of the Company or any duly authorized committee of that board.

“Holder” or “Note Holder” means a Person in whose name a Note is registered in the Note Register.

“Independent” when used with respect to any specified Person means such a Person who (i) is in fact independent, (ii) does not have any direct financial interest or any material indirect financial interest in the Company, and (iii) is not connected with the Company as an officer, employee, promoter, trustee, partner, director or person performing similar functions. Whenever it is provided that any Independent Person’s opinion or certificate shall be furnished to the Master Trustee, such Person shall be appointed by Order and such opinion or certificate shall state that the signer has read this definition and that the signer is Independent within the meaning hereof.

“Insurance Consultant” means a firm of Independent professional insurance consultants approved by each Bond Insurer knowledgeable in the operations of educational facilities and having a favorable reputation for skill and experience in the field of educational facilities insurance consultation and which may include a broker or agent with whom the Company transacts business.

“Interest Payment Date” means the Stated Maturity of an installment of interest on any Note.

“KFC” means the KIPP Finance Corporation, a non-profit corporation organized by the Company under the laws of the State.

“Long Term Debt” means all Debt created, assumed or guaranteed by the Company that matures by its terms (in the absence of the exercise of any earlier right of demand), or is renewable at the option of the Company to a date, more than one year after the original creation, assumption, or guarantee of such Debt by the Company.

“Management Consultant” means a firm of Independent professional management consultants, or an independent school management organization, knowledgeable in the operation of public or private schools and having a favorable reputation for skill and experience in the field of public or private school management consultation; provided that, if any Bond Insurer is currently providing bond insurance for any series of Related Bonds, such Bond Insurer shall preapprove in writing such management consultant.

“Master Indenture” means this Master Trust Indenture, as amended and supplemented from time to time in accordance with its terms.

“Master Trustee” means Zions First National Bank, National Association, a national banking association with a corporate trust office in [Houston, Texas], serving as trustee pursuant to this Master Indenture, and its successors and assigns.

“Maturity” when used with respect to any Debt (or any Note) means the date on which the principal of such Debt (or Note) becomes due and payable as therein or herein provided, whether at the Stated Maturity thereof or by declaration of acceleration, call for redemption 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 any Debt) requirements with respect to all Outstanding Debt for any succeeding Fiscal Year.

“Note” means any obligation of the Company issued pursuant to Section 201 of this Master Indenture and executed, authenticated, and delivered pursuant to Section 203 hereof.

“Note Register” and “Note Registrar” have the respective meanings specified in Section 205 hereof.

“Notice of Exclusive Control” means the Notice of Exclusive Control specified in the Deposit Account Control Agreement.

“Officer’s Certificate” means a certificate of the Company signed by the chairman of the Governing Body, [president, an executive or senior vice president, chief financial officer] or any other Person designated by any of such Persons to execute an Officer’s Certificate as evidenced by a certificate of the Company

delivered to the Master Trustee.

“Opinion of Counsel” means a written opinion of counsel selected by the Company, who may (except as otherwise expressly provided) be counsel to any party to any transaction involving the issuance of Notes pursuant to Section 201 hereof.

“Outstanding” when used with respect to the Notes means, as of the date of determination, all Notes theretofore authenticated and delivered under this Master Indenture, except:

(i) Notes theretofore cancelled by the Master Trustee or the Paying Agent;

(ii) Notes for whose payment or redemption money (or Defeasance Obligations to the extent permitted by Section 902 of this Master Indenture) in the necessary amount has been theretofore deposited with the Master Trustee or any Paying Agent for such Notes in trust for the Holders of such Notes pursuant to this Master Indenture or any Supplemental Master Indenture authorizing such Notes; provided, that if such Notes are to be redeemed, notice of such redemption has been duly given pursuant to this Master Indenture or irrevocable provision therefor satisfactory to the Master Trustee has been made; and

(iii) Notes upon transfer of or in exchange for or in lieu of which other Notes have been authenticated and delivered pursuant to this Master Indenture or any Supplemental Master Indenture authorizing such Notes; provided, however, that in determining whether the Holders of the requisite principal amount of Outstanding Notes have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Notes owned by the Company shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Master Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Notes which the Master Trustee knows to be so owned shall be so disregarded. Notes so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Master Trustee the pledgee’s right so to act with respect to such Notes and that the pledgee is not the Company or any other obligor upon the Notes or any other Person Obligated thereon. If there is any conflict between the aforementioned provisions of this subsection (iii) and Section 103 of this Master Indenture, Section 103 shall control.

“Paying Agent” means the Master Trustee or any other Person authorized by the Company to pay the principal of (and premium, if any) or interest on any series of Notes.

“Person” means any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Place of Payment” for any series of Notes means a city or any political subdivision thereof designated as such in the Notes of such series.

“Property” means any and all rights, titles and interests of the Company in and to any and all property whether real or personal, tangible or intangible, and wherever situated including cash.

“Qualified Provider” means any financial institution or insurance company which is a party to a Financial Products Agreement if the unsecured long term debt obligations of such financial institution or insurance company (or of the parent or a subsidiary of such financial institution or insurance company if such parent or subsidiary guarantees the performance of such financial institution or insurance company under such Financial Products Agreement), or obligations secured or supported by a letter of credit, contract, guarantee, agreement, insurance policy or surety bond issued by such financial institution or insurance company (or such

guarantor parent or subsidiary), are rated in one of the two highest rating categories of a Rating Service at the time of the execution and delivery of the Financial Products Agreement.

“Rating Service” means each nationally recognized securities rating service which at the time has a credit rating assigned to any series of Notes (or any other indebtedness secured by Notes) at the request of the Company.

“Record Date” means the regular record date specified for each series of Notes.

“Related Bond Documents” means the Related Bond Indenture, the Related Loan Documents, and the Related Deed of Trust.

“Related Bond Indenture” means any indenture, bond resolution or similar instrument pursuant to which any series of Related Bonds is issued.

“Related Bonds” means the bonds with respect to which any Notes are issued and any other revenue bonds or similar obligations issued by any state of the United States or any municipal corporation or other political subdivision formed under the laws thereof or any constituted authority, agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, the proceeds of which are loaned or otherwise made available to the Company in consideration, whether in whole or in part, of the execution, authentication and delivery of a Note or Notes to such governmental issuer.

“Related Bonds Outstanding” or “Outstanding Related Bonds” means all Related Bonds which have been duly authenticated and delivered by a Related Bond Trustee under a Related Bond Indenture, except:

(i) Related Bonds theretofore cancelled by the Related Bond Trustee or delivered to the Related Bond Trustee for cancellation;

(ii) Related Bonds for whose payment or redemption money (or defeasance obligations to the extent permitted by the Related Bond Indenture) in the necessary amounts has been theretofore deposited with the Related Bond Trustee or any paying agent for such Related Bonds in trust for the holders of such Related Bonds pursuant to the Related Bond Indenture; provided, that, if such Related Bonds are to be redeemed, notice of such redemption has been duly given pursuant to the Related Bond Indenture or irrevocable provision therefor satisfactory to the Related Bond Trustee has been made;

(iii) Related Bonds upon transfer of or in exchange for or in lieu of which other Related Bonds have been authenticated and delivered pursuant to the Related Bond Indenture; provided, however, that in determining whether the holders of the requisite principal amount of Outstanding Related Bonds have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Related Bonds owned by the Company or any other obligor thereon shall be disregarded and deemed not to be Outstanding except that, in determining whether the Related Bond Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Related Bonds which the Related Bond Trustee knows to be so owned shall be so disregarded. Related Bonds so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to satisfaction of the Related Bond Trustee the pledgee’s right so to act with respect to such Related Bonds and that the pledgee is not the Company or any other obligor upon the Related Bonds or any other Person obligated thereon. If there is any conflict between the aforementioned provisions in this subsection (iii) and Section 103 of this Master Indenture, Section 103 shall control; and

(iv) Related Bonds owned or held by or for the account of the Company, for the purpose of consent or other action or any calculation of Outstanding Related Bonds provided for in this Master Indenture.

“Related Bond Trustee” means any trustee under any Related Bond Indenture and any successor trustee thereunder or, if no trustee is appointed under a Related Bond Indenture, the Related Issuer.

“Related Deed of Trust” means any deed of trust or other mortgage instrument delivered by the Company to the Master Trustee in connection with Related Bonds or any Debt.

“Related Issuer” means any issuer of a series of Related Bonds.

“Related Loan Documents” means any loan agreement, credit agreement or other document pursuant to which a Related Issuer loans the proceeds of a series of Related Bonds to the Company.

“Related Project” means any project financed by Debt issued under this Master Indenture and for which Debt remains outstanding.

“Responsible Officer” when used with respect to the Master Trustee means the officer in the Corporate Trust Office of the Master Trustee having direct responsibility for administration of this Master Indenture.

“Revenue Fund” has the meaning specified in Section 406 hereof.

“Series 2006 Notes” shall mean any Notes issued pursuant to a Supplemental Master Indenture and secured by this Master Indenture to evidence payment obligations of the Company with respect to the KIPP, Inc. Education Revenue Bonds (Issued by Texas Public Finance Authority Charter School Finance Corporation) Series 2006A and the KIPP, Inc. Taxable Education Revenue Bonds (Issued by Texas Public Finance Authority Charter School Finance Corporation) Series 2006B.

“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 Company from the State during such period.

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

“Supplemental Master Indenture” means an indenture amending or supplementing this Master Indenture entered into pursuant to Article VIII hereof.

“Trust Estate” means the property described as the Trust Estate in the Granting Clauses of this Master Indenture or any Supplemental Master Indenture that is subject to the lien and security interest of this Master Indenture.

“UCC” means the Uniform Commercial Code as in effect in the State of Texas.

1.2 **Form of Documents Delivered to Trustee.** Every certificate and every Opinion of Counsel with respect to compliance with a condition or covenant provided for in this Master Indenture shall include a statement that the person making such certification or opinion has read such covenant or condition and the definitions relating thereto, has made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether such covenant or condition has been complied with, and a statement whether such condition or covenant has been complied with. In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of any officer of a Person may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of a specified Person stating that the information with respect to such factual matters is in the possession of such Person, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Master Indenture, they may, but need not, be consolidated and form one instrument.

1.3 **Acts of Note Holders.**

- (a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Master Indenture to be given or taken by Note Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Note Holders in person or by agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Master Trustee or Paying Agent, and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the “Act” of the Note Holders signing such instrument or instruments. Proof of execution of any such instrument, or of a writing appointing any such agent, shall be sufficient for any purpose of this Master Indenture and (subject to Section 801) conclusive in favor of the Master Trustee and the Company, if made in the manner provided in this Section.
- (b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by the certificate of any notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by an officer of a corporation or a member of a partnership, on behalf of such corporation or partnership, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the person executing the same, may also be proved in any other manner which the Master Trustee deems sufficient.
- (c) The ownership of Notes shall be proved by the Note Register.
- (d) Any request, demand, authorization, direction, notice, consent, waiver or other action by any Note Holder shall bind every Holder of any Note issued upon the transfer thereof or in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Master Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Note.

- (e) The ownership of Related Bonds may be proved by the registration books for such Related Bonds maintained pursuant to the Related Bond Indenture.
- (f) In determining whether the Holders of the requisite aggregate principal amount of Notes have concurred in any demand, direction, request, notice, consent, waiver or other action under this Master Indenture, or for any other purpose of this Master Indenture, Notes or Related Bonds that are owned by the Company shall be disregarded and deemed not to be Outstanding or outstanding under the Related Bond Indenture, as the case may be, for the purpose of any such determination, provided that for the purposes of determining whether the Master Trustee shall be protected in relying on any such direction, consent or waiver, only such Notes or Related Bonds which the Master Trustee has actual notice or knowledge are so owned shall be so disregarded and deemed not to be Outstanding Notes or Outstanding Related Bonds. Notes or Related Bonds so owned that have been pledged in good faith may be regarded as outstanding or outstanding under the Related Bond Indenture, as the case may be, for purposes of this Section, if the pledgee shall establish to the satisfaction of the Master Trustee the pledgee's right to vote such Notes or Related Bonds. In case of a dispute as to such right, any decision by the Master Trustee taken upon the advice of counsel shall be full protection to the Master Trustee. In the event that a Note secures the obligation of a Person under an agreement or instrument that provides for the making of advances to or on behalf of such Person, such Note shall only be counted to be Outstanding in a principal amount equal to the amount so advanced or otherwise due and owing under the terms of such agreement (and only if such amount remains outstanding or unpaid) to or on behalf of such Person. In the event that a Note secures a Financial Products Agreement, such Note shall only be deemed to be Outstanding in a principal amount equal to any amount with which the Company is in default with respect to the payment thereof. In no event however, shall the amount owed to a holder be counted twice because there are the same amounts due and owing under two Notes relating to the same obligations (e.g., the principal amount reimbursable to the provider of a liquidity facility as the holder of bonds purchased by such liquidity provider as well as the principal amount of such purchased bonds by such liquidity provider as holder of the purchased bonds).
- (g) At any time prior to (but not after) the time the Master Trustee takes action in reliance upon evidence, as provided in this Section 103, of the taking of any action by the Holders of the percentage in aggregate principal amount of Notes specified herein in connection with such action, any Holder of such Note or Related Bond that is shown by such evidence to be included in Notes the Holders of which have consented to such action may, by filing written notice with the Master Trustee and upon proof of holding as provided in this Section 103, revoke such action so far as concerns such Note or Related Bond. Except upon such revocation or such action taken by the Holder of a Note or Related Bond in any direction, demand, request, waiver, consent, vote or other action of the Holder of such Note or Related Bond which by any provision hereof is required or permitted to be given shall be conclusive and binding upon such Holder and upon

all future Holders and owners of such Note or Related Bond, and of any Note or Related Bond issued in lieu thereof, whether or not any notation in regard thereto is made upon such Note or Related Bond. Any action taken by the Holders of the percentage in aggregate principal amount of Notes specified herein in connection with such action shall be conclusively binding upon the Company, the Master Trustee and the Holders of all of such Notes or Related Bonds.

- 1.4 **Notices, etc., to Master Trustee and Company.** Any request, demand, authorization, direction, notice, consent, waiver or Act of Note Holders or other document provided or permitted by this Master Indenture to be made upon, given or furnished to, or filed with:
- 1.1.1.6 the Master Trustee by any Note Holder or by any specified Person shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with and actually received by a Responsible Officer of the Master Trustee at Zions First National Bank, National Association, One South Main St., 12th Floor, Salt Lake City, Utah 84111, Attention: Brandon Elzinga, Corporate Trust Administrator, or at any other address subsequently furnished in writing to the Company and the Holders by the Master Trustee;
- 1.1.1.7 the Company by any Note Holder or by any Person shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid, to the Company at 10711 Kipp Way, Houston, Texas 77099, Attention: Shawn Hurwitz, or at any other address subsequently furnished in writing to the Master Trustee by the Company; or
- 1.1.1.8 The Bond Insurer shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid, to the Bond Insurer at the address specified in the Related Bond Documents.
- 1.5 **Notices to Note Holders; Waiver.** Where this Master Indenture provides for notice to Note Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Note Holder affected by such event, at his address as it appears on the Note Register, not later than the latest date, and not earlier than the earliest date, prescribed for the first giving of such notice. In any case where notice to Note Holders is given by mail, neither the failure to mail such notice, nor any default in any notice so mailed to any particular Note Holder shall affect the sufficiency of such notice with respect to other Note Holders. Where this Master Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders of Notes shall be filed with the Master Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.
- 1.6 **Successors and Assigns.** All covenants and agreements in this Master Indenture by the Company and the Master Trustee shall bind their respective successors and assigns, whether so expressed or not.
- 1.7 **Severability Clause.** If any provision of this Master Indenture shall be held or deemed to be, or shall in fact be, inoperative or unenforceable as applied to any particular case in any jurisdiction or jurisdictions, or in all jurisdictions or in all cases because of the

conflicting of any provision with any constitution or statute or rule of public policy or for any other reasons, such circumstance shall not have the effect of rendering the provision or provisions in question inoperative or unenforceable in any other jurisdiction or in any other case or circumstance or of rendering any other provision or provisions herein contained invalid, inoperative or unenforceable to the extent that such other provisions are not themselves actually in conflict with such constitution, statute or rule of public policy.

- 1.8 **Benefits of Master Indenture.** Nothing in this Master Indenture or in the Notes, express or implied, shall give to any Person, other than the parties hereto, and their successors hereunder and the Holders of the Notes, any benefit or any legal or equitable right, remedy or claim under this Master Indenture.
- 1.9 **Governing Law.** This Master Indenture shall be governed, in all respects including validity, interpretation and effect by, and shall be enforceable in accordance with, the law of the State.
- 1.10 **Effect of Headings and Table of Contents.** The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

SCHEDULE II

ISSUANCE AND FORM OF NOTES

- 2.1 **Series, Amount and Denomination of Notes.**
- (a) At any time and from time to time after the execution and delivery of this Master Indenture, Notes shall be issued under this Master Indenture in series issued pursuant to a Supplemental Master Indenture. Each series shall be designated to differentiate the Notes of such series from the Notes of any other series. Notes shall be issued as fully registered notes with the Notes of each series to be lettered and numbered MR-1 upwards (with such prefix as may be designated in the Supplemental Master Indenture authorizing any series). The aggregate principal amount of Notes of each series that may be created under this Master Indenture is not limited, except by the additional Long Term Debt limitations provided in this Master Indenture. A series of Notes may consist of a single Note or more than one Note.
- (b) Notes may be issued hereunder to evidence (i) any type of Debt, including without limitation any Debt in a form other than a promissory note (such as commercial paper, bonds, or similar debt instruments), (ii) any obligation to make payments pursuant to a Financial Products Agreement, or (iii) debt consisting of an obligation to reimburse payments made under a letter of credit, surety bond, bond insurance policy, standby bond purchase agreement or similar credit or liquidity support obtained to secure payment of other Debt. The Supplemental Master Indenture pursuant to which any Notes are issued may provide for such supplements or amendments to the provisions hereof, including

without limitation Article II hereof, as are necessary to permit the issuance of such Notes hereunder. Any Note evidencing obligations under a Financial Products Agreement shall be equally and ratably secured hereunder with all other Notes issued hereunder, except as otherwise expressly provided herein; provided, however, that (i) to be secured hereunder, the Master Trustee must receive, at the time of execution and delivery of such Financial Products Agreement, an Officer's Certificate stating that such Financial Products Agreement was entered into by the Company with a Qualified Provider, as provided hereunder, and is entitled to the benefits of the Master Indenture and (ii) such Note, with respect to such Financial Products Agreement, shall be deemed to be Outstanding hereunder solely for the purpose of receiving payment hereunder and the Qualified Provider shall not be entitled to exercise any rights of a Holder hereunder unless amounts payable by the Company are due and unpaid.

2.2 **Conditions to Issuance of Notes.** Any Note or series of Notes shall be authenticated by the Master Trustee and delivered to the lender or purchaser only upon its receipt of the following:

- (a) An Officer's Certificate stating (1) that no Event of Default under this Master Indenture has occurred or will result from the issuance of such Note or series of Notes; (2) that the Governing Body has authorized or approved the issuance of such Note or series of Notes; and (3) that the Supplemental Master Indenture relating thereto authorizes such Debt and that such Supplemental Master Indenture complies with the provisions of Article VIII hereof;
- (b) An original executed counterpart of a Supplemental Master Indenture providing for the issuance of such Note or series of Notes by any qualified issuer, which Supplemental Master Indenture shall set forth the purpose for which the Debt evidenced thereby is being incurred, the principal amount, maturity date or dates, interest rate or rates and the other pertinent terms of the Note or series of Notes and the name of the Company; and
- (c) Other than in connection with the Series 2006 Notes, an Opinion of Counsel to the effect that (1) the conditions to issuance of any particular Note or series of Notes set forth in this Section 202 and in Sections 212 and 407 of this Master Indenture have been satisfied, (2) upon the execution of such Note or series of Notes by the Company and the authentication thereof by the Master Trustee, such Notes will be the valid and binding obligations of the Company enforceable in accordance with its (their) terms, subject to the customary bankruptcy, insolvency and equitable principles exceptions and such other exceptions as may be acceptable to the initial payee thereof, (3) registration of such Note or series of Notes under the Securities Act of 1933, as amended, is not required, or, if such registration is required, that the Company has complied with all applicable provisions of said Act and (4) qualification of the Master Indenture and any Supplemental Master Trust Indenture providing for the issuance of such Note or series of Notes under the Trust Indenture Act of 1939 is not required, or if such qualification is required, that the Company has complied will all applicable provisions of such Act.

- (d) The title insurance policy, or endorsement thereof, required by Section 212 or 408, if necessary.
- (e) If in connection with the issuance of additional Debt, any other certificate, report or other item required under Section 212.

2.3 **Execution, Authentication and Delivery.**

- (a) Notes shall be executed by the Company through the chairman of its Governing Body or its president or any officer authorized by the Governing Body and attested to by the secretary or an assistant secretary of the Company, as appropriate, and Notes may have the corporate seal impressed or reproduced thereon. The signature of any officer on the Notes may be manual or facsimile.
- (b) Notes bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Notes or did not hold such offices at the date of such Notes.
- (c) At any time, and from time to time, after the execution and delivery of this Master Indenture, the Company may deliver executed Notes to the Master Trustee together with the Supplemental Master Indenture creating such series; and upon the receipt of the Supplemental Master Indenture, the Master Trustee shall authenticate and deliver such Notes as in this Master Indenture and the relevant Supplemental Master Indenture provided.
- (d) No Note shall be entitled to any benefit under this Master Indenture or be valid or obligatory for any purpose, unless there appears on or attached to such Note a certificate of authentication substantially in the form set forth below executed by the Master Trustee by its manual signature, and such certificate upon any Note shall be conclusive evidence, and the only evidence, that such Note has been duly authenticated and delivered hereunder. The form of certificate of authentication shall be as follows:

CERTIFICATE OF AUTHENTICATION

This is one of the Notes referred to in the Master Indenture.

Date of Authentication:

ZIONS FIRST NATIONAL BANK, NATIONAL
ASSOCIATION, as Master Trustee, or its agent

By: _____
Authorized Signature

2.4 **Form and Terms of Notes.** The Notes of each series of Notes shall contain such terms, and be in substantially the form set forth in the Supplemental Master Indenture creating such series, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Master Indenture and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any regulatory body, or as may, consistently herewith, be determined by the officers executing such Notes, as evidenced by their signing of the Notes. The Notes of any series or the relevant Supplemental Master Indenture may contain additional (or different) representations, warranties, covenants, defaults and remedies and other provisions which do not contradict the terms of this Master Indenture, to the extent provided in the related Supplemental Master Indenture, and such additional terms shall supplement and be in addition to the terms of this Master Indenture. Unless the Notes of a series have been registered under the Securities Act of 1933, as amended, each Note of such series shall be endorsed with a legend which shall read substantially as follows: “This Note has not been registered under the Securities Act of 1933, as amended.”

2.5 **Registration, Transfer and Exchange.**

- (a) The Company shall cause to be kept at the corporate trust office of the Master Trustee in _____, or the payment office of the Master Trustee in _____, a register (sometimes herein referred to as the “Note Register”) in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Notes and of transfers of Notes. The Master Trustee is hereby appointed Note Registrar (the “Note Registrar”) for the purpose of registering Notes and transfers of Notes as herein provided. The Master Trustee may delegate any of its duties hereunder pursuant to the terms of a Supplemental Master Indenture. In such case, the Note Register may consist of one or more records of ownership of the various series of Notes and any part of such register may be maintained by the agent of the Master Trustee relating to such series.
- (b) Upon surrender for transfer of any Note at the office or agency of the Company in a Place of Payment, the Company shall execute, and the Master Trustee or its designated agent shall authenticate and deliver, in the name of the designated transferee, one or more new Notes of any Authorized Denominations, of a like aggregate principal amount, series, Stated Maturity and interest rate.
- (c) At the option of the Holder, Notes may be exchanged for Notes of any Authorized Denomination, of a like aggregate principal amount, series, Stated Maturity and interest rate, upon the surrender of the Notes to be exchanged at such office or agency. Whenever any Notes are so surrendered for exchange, the Master Trustee or its designated agent shall authenticate and deliver the Notes which the Note Holder making the exchange is entitled to receive.
- (d) All Notes issued upon any transfer or exchange of Notes shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same

benefits under this Master Indenture as the Notes surrendered upon such transfer or exchange.

- (e) Every Note presented or surrendered for transfer or exchange shall (if so required by the Company or the Master Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Master Trustee or its designated agent duly executed by the Holder thereof or his attorney duly authorized in writing.
- (f) No charge shall be made for any transfer or exchange of Notes, and any transfer or exchange of Notes shall be made without expense or without charge to Holders.

2.6 **Mutilated, Destroyed, Lost and Stolen Notes.**

- (a) If (i) any mutilated Note is surrendered to the Master Trustee or the Paying Agent, and the Master Trustee receives evidence to its satisfaction of the destruction, loss or theft of any Note, and (ii) there is delivered to the Master Trustee such security or indemnity as may be required by the Master Trustee to save each of the Master Trustee and the Company harmless, then, in the absence of notice to the Company or the Master Trustee that such Note has been acquired by a bona fide purchaser, the Company shall execute and, upon its request, the Master Trustee shall authenticate and deliver in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Note, a new Note of like tenor, series, interest rate and principal amount, bearing a number not contemporaneously outstanding.
- (b) In case any such mutilated, destroyed, lost or stolen Note has become or is about to become due and payable, the Company may, in its discretion, instead of issuing a new Note, pay such Note.
- (c) Upon the issuance of any new Note under this Section, the Master Trustee or its designated agent under any Supplemental Master Indenture may require the payment by the Company of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Master Trustee) connected therewith.
- (d) Every new Note issued pursuant to this Section in lieu of any destroyed, lost or stolen Note shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Note shall be at any time enforceable by anyone, and shall be entitled to all the benefits and security of this Master Indenture equally and proportionately with any and all other Notes duly issued hereunder.
- (e) The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes.

2.7 **Method of Payment of Notes.**

- (a) The principal of, premium, if any, and interest on the Notes shall be payable in any currency of the United States of America which, at the respective dates of payment thereof, is legal tender for the payment of public and private debts, and such principal, premium, if any, and interest shall be payable at the principal payment office of the Master Trustee in _____, or at the office of any alternate Paying Agent or agents named in any such Notes. Unless contrary provision is made in the Supplemental Master Indenture pursuant to which such Note is issued or the election referred to in the next sentence is made, payment of the interest on the Notes and payment of any redemption or prepayment price on any Note pursuant to Section 303 hereof shall be made to the Person appearing on the Note Register as the Holder thereof and shall be paid by check or draft mailed to the Holder thereof at his address as it appears on such registration books or at such other address as is furnished the Master Trustee in writing by such Holder; provided, however, that any Supplemental Master Indenture creating any Note may provide that interest on such Note may be paid, upon the request of the Holder of such Note, by wire transfer. Anything to the contrary in this Master Indenture notwithstanding, if an Event of Default has not occurred and is not continuing hereunder and the Company so elects, payments on a Note shall be made directly by the Company, by check or draft hand delivered to the Holder thereof or its designee or shall be made by the Company by wire transfer to such Holder, in either case delivered on or prior to the date on which such payment is due. The Company may give notice (on which the Master Trustee may conclusively rely) of any such payment to the Master Trustee concurrently with the making thereof, specifying the amount paid and identifying the Note or Notes with respect to which such payment was made by series designation, number and Holder thereof. Except with respect to Notes directly paid, the Company agrees to deposit with the Master Trustee on or prior to each due date, as specified in the Related Bond Documents, a sum sufficient to pay the principal of, premium, if any, and interest on any of the Notes due on such date. Any such moneys shall, upon direction of the Company set forth in an Officer's Certificate, be invested as set forth therein. The foregoing notwithstanding, amounts deposited with the Master Trustee to provide for the payment of Notes pledged to the payment of Related Bonds shall be invested in accordance with the provisions of the Related Bond Indenture and Related Loan Document. The Master Trustee shall not be liable or responsible for any loss resulting from any such investments, and shall not be responsible for determining whether any such investment is permitted hereunder or in accordance with any such Related Bond Indenture or Related Loan Agreement.
- (b) Subject to the foregoing provisions of this Section 207, each Note delivered under this Master Indenture upon transfer of or in exchange for or in lieu of any other Note shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Notes.

2.8 **Persons Deemed Owners.** The Company, the Master Trustee and any agent thereof may treat the Person in whose name any Note is registered as the owner of such Note for

the purpose of receiving payment of principal of (and premium, if any) and interest on such Note and for all other purposes whatsoever whether or not such payment is past due, and neither the Company, the Master Trustee, nor any agent of the Company or the Master Trustee shall be affected by notice to the contrary.

2.9 **Cancellation.** All Notes surrendered for payment, redemption, transfer or exchange shall, if delivered to any Person other than the Master Trustee, be delivered to the Master Trustee and, if not already cancelled or required to be otherwise delivered by the terms of the Supplemental Master Indenture authorizing the series of Notes of which such Note is a part, shall be promptly cancelled by the Master Trustee. The Company may at any time deliver to the Master Trustee for cancellation any Notes previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and all Notes so delivered shall be promptly cancelled by the Master Trustee. No Notes shall be authenticated in lieu of or in exchange for any Notes cancelled as provided in this Section, except as expressly permitted by this Master Indenture. All cancelled Notes held by the Master Trustee shall be disposed of according to the retention policies of the Master Trustee.

2.10 **Security for Notes.**

- (a) All Notes issued and Outstanding under this Master Indenture are equally and ratably secured by the pledge and assignment of a security interest in the Trust Estate pursuant to the Granting Clauses of this Master Indenture. Any one or more series of Notes issued hereunder may be secured by additional and separate security (including without limitation letters or lines of credit, property or security interests in debt service reserve funds or debt service, purchase, construction or similar funds or guarantees of payment by third parties). Such security need not extend to any other Debt (including any other Notes or series of Notes) unless so specified and may contain provisions not inconsistent with this Master Indenture which provide for separate realization upon such security. Except as otherwise expressly provided herein or in any Supplemental Master Indenture pursuant to which such Note is issued, all Notes issued hereunder shall be equally and ratably secured by any lien created pursuant to or constituting a part of the Trust Estate under this Master Indenture.
- (b) To the extent that any Debt which is permitted to be issued pursuant to this Master Indenture is not issued directly in the form of a Note, a Note may be issued hereunder and pledged as security for the payment of such Debt in lieu of directly issuing such Debt as a Note hereunder.

2.11 **Mortgage, Pledge and Assignment; Further Assurances.**

- (a) Subject only to the provisions of this Master Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein and in order to secure the payment of the Notes and the performance of the duties and obligations of the Company under the Notes and this Master Indenture, the Company has pledged and assigned unto the Master Trustee and its successors and assigns forever, and granted a security interest thereunto in, among other

things, all of the Adjusted Revenues and any other amounts (including proceeds of the sale of Bonds) held in the Revenue Fund to secure the payment of the principal of and interest on the Notes in accordance with their terms and the provisions of this Master Indenture and the Deed of Trust. Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery of the Notes and the execution of the Deposit Account Control Agreement, without any physical delivery thereof or further act.

In order to perfect the Master Trustee's security interest in the Adjusted Revenues as security for the payment of the Notes, the Master Trustee is authorized and directed to enter into, and shall be indemnified for (pursuant to Article VII hereof), the Deposit Account Control Agreement; provided, that the Master Trustee shall have no duty or responsibility to determine the existence of, or the necessity of perfecting any security interest of the Master Trustee in, any fund or account in which the Master Trustee has been granted a security interest, including without limitation, as described in Granting Clause (b) of this Master Indenture.

Upon the occurrence of an Event of Default, the Master Trustee shall be entitled to, subject to its rights to be indemnified pursuant to Article VII, (i) at the direction of each Bond Insurer, issue a Notice of Exclusive Control under the Deposit Account Control Agreement and (ii) collect and receive all of the Adjusted Revenues. The Master Trustee also shall be entitled to and shall (1) enforce the terms, covenants and conditions of, and preserve and protect the priority of its interest in and under this Master Indenture and the Deed of Trust and (2) assure compliance with all covenants, agreements and conditions of the Company contained in this Master Indenture with respect to the Adjusted Revenues; provided that, without limiting the generality of any of the provisions of this Master Indenture or the Deed of Trust, the Master Trustee need not foreclose the Deed of Trust (or accept a deed in lieu of foreclosure or otherwise exercise remedies with respect to the Mortgaged Property) if the effect of any such foreclosure (or acceptance of a deed in lieu of foreclosure, or other exercise of remedies with respect to the Mortgaged Property) would be to cause the Master Trustee to: (i) incur financial liability for any then existing environmental contamination at or from the Mortgaged Property or (ii) risk its own funds for the remediation of any such existing environmental contamination.

- (b) The Company shall, at its own expense, take all necessary action to maintain and preserve the security interest in the property granted by this Master Indenture and the Deed of Trust so long as any Notes are Outstanding. In addition, the Company shall, immediately after the execution and delivery of this Agreement and thereafter from time to time, cause the Deed of Trust and any financing statements in respect thereof to be filed, registered and recorded in such manner and in such places as may be required by law in order to fully perfect and protect such security interest and from time to time will perform or cause to be performed any other act as provided by law and will execute or cause to be executed and filed as provided herein any and all continuation statements as required for such perfection and protection. Copies of all filings and recordings hereunder shall be promptly filed with the Master Trustee and any Bond Insurer. Except to the extent it is exempt therefrom, the Company shall pay or cause to be paid all filing, registration and recording fees and all expenses incident to the preparation, execution and acknowledgment of such instruments of perfection, and all federal or state fees and other similar fees, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of the

Deed of Trust and such instruments of perfection. The Master Trustee shall not be responsible for the sufficiency of or the recording of this instrument, any supplemental indenture, any mortgage, deed of trust, other security or other instruments of further assurance or for filing any financing statements or any continuation statements related thereto.

- (c) The Company covenants not to take any action that would create or allow any liens to exist, except any Permitted Encumbrances (as defined in the Deed of Trust), on any real property owned by the Company other than a lien arising in connection with the issuance of additional Debt.

2.12 **Additional Debt.**

- (a) Upon satisfaction of the applicable requirements of Section 202, one or more series of Debt payable from the Adjusted Revenues of the Company may be delivered pursuant to this Master Indenture for the purposes provided in the Act, to pay the costs associated with such Debt, and/or for the purpose of refunding any Outstanding Debt if the following conditions are met:

1.1.1.9 No Default. Delivery of an Officer's Certificate stating that this Master Indenture is in effect and no Event of Default is then existing under this Master Indenture or any Debt Outstanding or any agreement entered into in conjunction with such Debt;

1.1.1.10 Parity Pledge. Such Debt shall be secured on a parity with respect to the Trust Estate and shall be payable by the issuer solely from the Adjusted Revenues and other amounts derived from the loan agreement relating to such debt (except to the extent paid out of moneys attributable to the proceeds derived from the sale of the additional Debt or to income from the temporary investment thereof);

1.1.1.11 Historical Coverage on Outstanding Debt. Delivery of an Officer's Certificate stating that, for either the Company's most recent completed Fiscal Year or for any consecutive 12 months out of the most recent 18 months immediately preceding the issuance of the additional Debt, the Available Revenues equal at least 1.20 times Maximum Annual Debt Service on all Debt then Outstanding; and

1.1.1.11.1 Projected Coverage for Additional Debt. An Independent consultant selected by the Company and approved by each Bond Insurer provides a written report setting forth projections which indicate that the estimated Available Revenues for the Fiscal Year immediately following the issuance of the Additional Debt are equal to at least 1.20 times Maximum Annual Debt Service on all Debt then Outstanding during each such respective Fiscal Year plus the additional Maximum Annual Debt Service Requirements for the Additional Debt to be issued. The report of the Independent consultant shall take into account (i) the audited results of operations and verified enrollment of the Project for the most recently completed Fiscal Year and (ii) the projected enrollment for the Fiscal Year immediately following the issuance of Additional Debt, and shall assume that the proposed Additional Debt shall have been outstanding for the entire year;

1.1.1.12 Alternate Coverage for Additional Debt. In lieu of the requirements described in Section 212(a)(3) above, the Company may deliver an Officer's Certificate stating that,

based on the audited results of the operations for the most recently completed Fiscal Year, the Adjusted Revenues equal at least 1.10 times Maximum Annual Debt Service on all Debt then Outstanding as well as the additional Debt;

1.1.1.13 [RESERVED];

1.1.1.14 Bond Counsel Opinion. Bond Counsel shall render an opinion to the Master Trustee and each Bond Insurer to the effect that the issuance of the proposed additional Debt will not cause the interest on the Related Bonds Outstanding issued as tax-exempt bonds to be includable in the gross income of the Owners thereof for purposes of federal income taxation; and

1.1.1.15 Opinion of Counsel. The Company shall obtain and provide to the Master Trustee and any Bond Insurer on or prior to the closing date of the proposed additional Debt, an Opinion of Counsel addressed to the Master Trustee and the Bond Insurer to the effect that the security interest in fixtures and equipment and personal property granted under the Deed of Trust has been created and perfected under the Uniform Commercial Code as currently in effect in the State, including but not limited to, Article 9, as amended; and

1.1.1.16 Title Insurance. So long as the Trust Estate contains the lien of the Deed of Trust upon any real property of the Company, the Company shall obtain and provide to the Master Trustee an endorsement of the title insurance policy issued in connection with the Debt increasing the coverage thereunder by an amount equal to the aggregate principal amount of the additional Debt.

The satisfaction of the conditions set forth in paragraphs (1) through (9) above shall be evidenced to the Master Trustee in a manner (which may include certificates and opinions) satisfactory to the Master Trustee.

- (b) If additional Debt is being issued for the purpose of refunding any Outstanding Debt, the report required by Section 212(a)(3) to be delivered shall not apply so long as both the total and Maximum Annual Debt Service Requirements on all Outstanding Debt after issuance of the additional Debt will not exceed both the total and the Maximum Annual Debt Service Requirements on all Outstanding Debt prior to the issuance of such additional Debt.
- (c) In the event such additional Debt is being issued or incurred for the purpose of completing any Project (as that term is defined from time to time in connection with the issuance of additional Debt) for which additional Debt is issued or incurred, such series of completion bonds may be issued in amounts not to exceed 10% of the principal amount of the Debt originally issued for such Project upon delivery of an Officer's Certificate that such additional Debt is required to fund the costs of completion; provided that, such additional Debt must comply with any applicable requirements imposed by the Related Bond Indenture and Related Loan Documents.
- (d) Notwithstanding the foregoing, if any Bond Insurer is providing bond insurance for any series of Related Bonds Outstanding, such conditions and requirements as are set forth in the Related Bond Indenture and Related Loan Documents related to such series of Related Bonds shall be met prior to the issuance of

additional Debt, as evidenced by the written approval or appropriate waiver of such Bond Insurer delivered to the Master Trustee.

- (e) The Series 2006 Notes and related KIPP, Inc. Education Revenue Bonds, Series 2006A and Taxable Education Revenue Bonds, Series 2006B (Issued by Texas Public Finance Authority Charter School Finance Corporation) shall not be considered additional Debt and are not subject to the provisions of this Section 212.
- (f) Except for the parity additional Debt authorized by this Section 212, no other additional Debt shall be issued by the Company, whether or not issued under this Master Trust Indenture, without the prior written consent of each Bond Insurer.

2.13 **Insurance.** (a) The Company shall at all times following completion of any Related Project, keep and maintain such Related Project insured against such risks and in such amounts, with such deductible provisions, as are customary in connection with the operation of facilities of the type and size comparable to the Related Project and consistent with the requirements of state law. Subject to subsection (c) hereof, the Company shall carry and maintain, or cause to be carried and maintained, and pay or cause to be paid timely the premiums for, at least the following insurance with respect to the Related Project and the Company:

1.1.1.17 insurance coverage for buildings and contents, including steam boilers, fired pressure vessels and certain other machinery for fire, lightning, windstorm and hail, explosion, aircraft and vehicles, sprinkler leakage, elevator, and all other risks of direct physical loss, at all times in an amount not less than (A) an amount necessary to pay and retire and redeem all outstanding Debt associated with the Related Project for which insurance is being provided in accordance with the provisions of the Indenture (including, without limiting the foregoing, principal, interest to maturity or the earliest practicable redemption date, as the case may be, redemption prices, expenses of redemption and Paying Agents' and Trustee fees), or (B) the replacement cost of the Related Project, whichever is less;

1.1.1.18 during the course of any construction, reconstruction, remodeling or repair of the Related Project, builders' all risk extended coverage insurance (non-reporting Completed Value with Special Cause of Loss form) in amounts based upon the completed replacement value of the Related Project, including soft costs and, to the extent not covered by (6) below, coverage for lost gross revenues due to damage or destruction of the Related Project prior to construction in an amount consistent with (6) below, and endorsed to provide that occupancy by any person shall not void such coverage;

1.1.1.19 general liability (other than as set forth in subsection (4) of this subsection (a));

1.1.1.20 comprehensive professional liability insurance, including malpractice and other professional liability insurance (other than as set forth in subparagraph (3) of this subsection (a));

1.1.1.21 worker's compensation insurance as required by the laws of the State; and

- 1.1.1.22 business interruption insurance covering actual losses in gross revenues from the Related Project resulting directly from necessary interruption of the operation of the Company caused by damage to or destruction (resulting from fire and lightning; accident to a fired pressure vessel or machinery; and other perils, including windstorm and hail, explosion, civil commotion, aircraft and vehicles, sprinkler leakage, smoke, vandalism and malicious mischief, and accident) to real or personal property constituting part of the Related Project, less charges and expenses which do not necessarily continue during the interruption of business, 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) with limits equal to at least 100 percent of the maximum annual principal and interest requirements on the Outstanding Bonds for the current or any subsequent Fiscal Year.

If it is ever determined that any structure within the Related Project is located in a flood plain (as defined by federal regulations), the Company shall carry and maintain, or cause to be carried and maintained, and pay or cause to be paid timely the premiums for flood insurance for the Related Project. Such flood insurance shall constitute the type of such insurance that is available at the time and as is customary in connection with the operation of facilities of the type and size comparable to the Related Project.

- (b) Insurers and Policies. Each insurance policy required by subparagraph (a) above (i) shall be issued or written by such insurer (or insurers) as mutually acceptable to the Company and each Bond Insurer, or by an insurance fund established by the United States or State or an agency or instrumentality thereof unless such insurance is not otherwise available on commercially reasonable terms from an insurer rated at least “A” by S&P or “Excellent (A or A-) by Best, (ii) shall be in such form and with such provisions (including, without limitation and where applicable, loss payable clauses payable to the Master Trustee, waiver of subrogation clauses, provisions relieving the insurer of liability to the extent of minor claims and the designation of the named insureds) as are generally considered standard provisions for the type of insurance involved, (iii) shall prohibit cancellation or substantial modification by the insurer without at least thirty days’ prior written notice to the Master Trustee, each Bond Insurer and the Company and (iv) shall name the Master Trustee and the Bond Insurer as additional insured. Without limiting the generality of the foregoing, all insurance policies carried pursuant to clause (a)(1) of this Section 213 contain a standard NY Mortgagee clause in favor of the Master Trustee and the Bond Insurer (as mortgagee/loss payee) shall name the Master Trustee, the Bond Insurer and the Company as parties insured thereunder as the respective interest of each of such parties may appear, and loss thereunder shall be made payable and shall be applied as provided in the Related Loan Documents. The Company shall deliver to each Bond Insurer, no later than the date on which it is required to obtain an insurance policy pursuant to Section 213(a), proof of each such insurance policy.
- (c) Insurance Consultant. The Company covenants to review each year the insurance carried by the Company with respect to the Company and the Related Project and, to the extent feasible, will carry insurance insuring against risks and hazards specified in Section 213(a) to the same extent that other entities comparable to the Company and owning or operating facilities of the size and

type comparable to the Related Project carry such insurance. At least once every two years, from and after the date hereof, the Company shall retain an Independent Insurance Consultant, for the purpose of reviewing the insurance coverage of, and the insurance required for, the Company and the Related Project and making recommendations respecting the types, amounts and provisions of insurance that should be carried with respect to the Company and the Related Project and their operation, maintenance and administration. A signed copy of the report of the Independent Insurance Consultant shall be filed with the Master Trustee and each Bond Insurer. The insurance requirements of Section 213(a) and this subsection (c) shall be deemed modified or superseded as necessary to conform with the recommendations contained in said report to the extent the report recommends additional or increased coverage.

- (d) Certifications. The Company shall, on the closing date for any Debt and thereafter within 120 days after the end of each of its Fiscal Years submit to the Master Trustee and each Bond Insurer an Officer's Certificate verifying that (i) all insurance required by this Master Indenture is in full force and effect as of the date of such Officer's Certificate and (ii) all Impositions (as defined in Section 4.1(k) of the Deed of Trust) have been paid. The Master Trustee shall have no responsibility for monitoring the existence of or maintaining any insurance policies other than to receive the certificate required by this Section 213(d).

SCHEDULE III

REDEMPTION OR PREPAYMENT OF NOTES

- 3.1 **Redemption or Prepayment.** Notes of each series shall be subject to optional and mandatory redemption or prepayment (subject to Section 602) in whole or in part and may be redeemed prior to Stated Maturity only as provided in the Supplemental Master Indenture creating such series. Unless otherwise provided by the Supplemental Master Indenture creating a series of Notes, the provisions of Sections 302 through 305 of this Master Indenture shall also apply to the redemption of Notes.
- 3.2 **Election to Redeem or Prepay; Notice to Master Trustee.** The Company shall notify the Master Trustee in writing of the election of the Company to redeem or prepay all or any portion of the Notes of any series, together with the redemption or prepayment date and the principal amount of Notes of each Stated Maturity and series to be redeemed or prepaid, at least 45 days prior to the redemption or prepayment date fixed by the Company, unless a shorter notice shall be satisfactory to the Master Trustee.
- 3.3 **Deposit of Redemption or Prepayment Price.** On or prior to any redemption or prepayment date, the Company shall deposit with the Master Trustee or its designated agent an amount of money sufficient to pay the redemption or prepayment price of all the Notes which are to be redeemed or prepaid on such date.

3.4 **Notes Payable on Redemption or Prepayment Date.**

- (a) Notice of redemption or prepayment having been given as aforesaid, and the monies for redemption or prepayment having been deposited as described in Section 303, the Notes to be redeemed or prepaid shall become due and payable on the redemption or prepayment date at the redemption or prepayment price therein specified, and from and after such date such Notes shall cease to bear interest. Upon surrender of any such Note for redemption or prepayment in accordance with said notice, such Note shall be paid by the Company at the redemption or prepayment price. Installments of interest whose Stated Maturity is on or prior to the redemption date shall be payable to the registered Note Holders on the relevant Record Dates according to their terms.
- (b) If any Note called for redemption shall not be so paid upon surrender thereof for redemption, the principal (and premium, if any) shall, until paid, bear interest from the redemption date at the rate borne by the Note.

3.5 **Notes Redeemed or Prepaid in Part.** Any Note which is to be redeemed or prepaid only in part shall be surrendered at a Place of Payment (with, if the Company or the Master Trustee so requires, due endorsement by, or a written instrument of transfer satisfactory in form to, the Company and the Master Trustee, and duly executed by the Holder thereof or by his attorney who has been duly authorized in writing) and the Company shall execute and the Master Trustee shall authenticate and deliver without service charge a new Note or Notes of the same series, interest rate and maturity, and of any Authorized Denomination, to the Holder of such Note as requested by such Holder in aggregate principal amount equal to and in exchange for the unredeemed or unpaid portion of the principal of the Note so surrendered.

SCHEDULE IV

COVENANTS OF THE COMPANY

- 4.1 **Payment of Debt Service.** The Company unconditionally and irrevocably covenants that it will promptly pay the principal of, premium, if any, and interest and any other amount due on every Note issued under this Master Indenture at any time at the place, on the dates and in the manner provided in said Notes according to the true intent and meaning thereof. Notwithstanding any schedule of payments upon the Notes set forth in the Notes, the Company unconditionally and irrevocably covenants and agrees to make payments upon each Note and be liable therefor at the times and in the amounts (including principal, interest and premium, if any) equal to the amounts to be paid as interest, principal at maturity or by mandatory sinking fund redemption, or premium, or purchase price, if any, upon any Notes or Related Bonds from time to time outstanding.
- 4.2 **Rating.** The Company covenants that it will not knowingly take any action that would likely result in the reduction of the then current municipal ratings of the Notes (or any other indebtedness secured by the Notes) by Fitch, Inc., Moody's Investors Services, Inc., or Standard & Poors Ratings Services, Inc.

4.3 **Money for Note Payments to be Held in Trust; Appointment of Paying Agents.**

- (a) The Company may appoint a Paying Agent for each series of the Notes.
- (b) Each such Paying Agent appointed by the Company shall be (i) a corporation organized and doing business under the laws of the United States of America or of any state, (ii) authorized under such laws to exercise corporate trust powers, (iii) have a combined capital and surplus of at least \$50,000,000, and (iv) be subject to supervision or examination by federal or state authority.
- (c) Subject to Section 207 hereof, the Company will, on or prior to each due date of the principal of (and premium, if any) or interest or any other amounts on any Notes, deposit with the Master Trustee which shall thereupon deposit such with the Paying Agent, a sum sufficient to pay the principal (and premium, if any) or interest or purchase price so becoming due and any other amounts due in accordance with the terms of the Notes and this Master Indenture, such sum to be held in trust for the benefit of the Holders of such Notes, and the Company will promptly notify the Master Trustee of its action or failure so to act unless such Paying Agent is the Master Trustee.
- (d) The Company will cause each Paying Agent other than the Master Trustee to execute and deliver to the Master Trustee an instrument in which such Paying Agent shall agree with the Master Trustee, subject to the provisions of this Subsection, that such Paying Agent will
 - 1.1.1.23 hold all sums held by it for the payment of principal of (and premium, if any) or interest or any other amounts on the Notes in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;
 - 1.1.1.24 give the Master Trustee notice of any default by the Company or any other obligor upon the Notes in the making of any such payment of principal (and premium, if any) or interest or any other amounts; and
 - 1.1.1.25 upon request by the Master Trustee, pay to the Master Trustee all sums so held in trust by such Paying Agent forthwith at any time during the continuance of such default.
- (e) For the purpose of obtaining the satisfaction and discharge of this Master Indenture or for any other purpose, the Company may at any time by Order direct any Paying Agent to pay to the Master Trustee all sums held in trust by such Paying Agent, such sums to be held by the Master Trustee upon the same trusts as those upon which such sums were held by such Paying Agent. Upon such payment by any Paying Agent to the Master Trustee, such Paying Agent shall be released from all further liability with respect to such money.
- (f) Subject to applicable escheat laws of the State, any money deposited in trust with the Master Trustee or any Paying Agent for the payment of the principal of (and premium, if any) or interest on any Notes and remaining unclaimed for the later

of (i) the first anniversary of the Stated Maturity of the Notes or the installment of interest for the payment of which such money is held or (ii) two years after such principal (and premium, if any) or interest has become due and payable shall to the extent permitted by law be paid to the Company on its Request (which Request shall include the Company's representation that it is entitled to such funds under applicable escheatment laws and its agreement to comply with such laws) and the Holder of such Note shall thereafter, to the extent of any legal right or claim, be deemed to be an unsecured general creditor, and shall look only to the Company for payment thereof, and all liability of the Master Trustee or such Paying Agent with respect to such trust money, and all liability of the Company, shall thereupon cease; provided, however, that the Master Trustee or such Paying Agent, before being required to make any such repayment, may publish notice in an Authorized Newspaper at the expense of the Company that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company; provided further, notwithstanding the foregoing, the Master Trustee shall be entitled to deliver any such funds to any escheatment authority in accordance with the Master Trustee's customary procedures. The Master Trustee shall hold any such funds in trust uninvested (without liability for interest accrued after the date of deposit or other compensation) for the benefit of holders entitled thereto.

- 4.4 **Notice of Non-Compliance.** Promptly upon the discovery of any default, the Company will deliver to the Master Trustee a written statement describing each default and status thereof which has not been cured or waived under any Note. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default.
- 4.5 **Corporate Existence.** Subject to Sections 501 and 502, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, rights (charter and statutory), and franchises; provided, however, that the Company shall not be required to preserve any right or franchise if the Governing Body shall determine that the preservation thereof is no longer desirable in the conduct of its business and that the loss thereof is not disadvantageous in any material respect to the Holders of the Notes.

4.6 Revenue Fund.

- (a) There is hereby created by the Company and established with the Master Trustee the special fund of the Company designated the “KIPP Education Revenue Fund” (herein referred to as the “Revenue Fund”). The Revenue Fund shall contain a principal account (the “Principal Account”) and an interest account (the “Interest Account”) and such other accounts as the Master Trustee finds necessary or desirable, provided, the Master Trustee shall have no duty to establish and maintain the Revenue Fund prior to the occurrence and continuance of an Event of Default. The money deposited to the Revenue Fund, together with all investments thereof and investment income therefrom, shall be held in trust and applied solely as provided in this Section and in Section 606.
- (b) If, and only if, an Event of Default this Master Indenture shall occur, the Company shall deposit, within five (5) business days from the date of receipt, with the Master Trustee, for credit to the Revenue Fund all of its Adjusted Revenues, including without limitation amounts subject to the Deposit Account Control Agreement for which a Notice of Exclusive Control has been delivered, (except to the extent otherwise provided by or inconsistent with any permitted instrument creating any mortgage, lien, charge, encumbrance, pledge or other security interest granted, created, assumed, incurred or existing) as well as any insurance and condemnation proceeds, during each succeeding month, beginning on the first day thereof and on each day thereafter, until no default under Section 601(a) of this Indenture then exists.
- (c) Immediately upon receipt of any payments to the Master Trustee for deposit into the Revenue Fund, the Master Trustee shall withdraw and pay or deposit from the amounts on deposit in the Revenue Fund the following amounts in the order indicated:

1.1.1.26 to the Master Trustee any fees or expenses which are then payable;

1.1.1.27 equally and ratably to the Holder of each instrument evidencing a Note on which there has been a default pursuant to Section 601(a) an amount equal to all defaulted principal of (or premium, if any) and interest on such Note;

1.1.1.28 a transfer to the Interest Account of an amount necessary to accumulate in equal monthly installments the interest on the Notes due and payable on the next Interest Payment Date, provided, however, that to the extent available, each transfer made on the fifth Business Day before the end of each month immediately preceding each Interest Payment Date shall be in an amount to provide, together with amounts then on deposit in the Interest Account, the balance of the interest due on the Notes on the next succeeding Interest Payment Date. There shall be paid from the Interest Account equally and ratably to the Holder of each instrument evidencing a Note the amount of interest on each Note as such interest becomes due;

1.1.1.29 a transfer to the Principal Account of the amount necessary to accumulate in equal monthly installments the principal of the Notes maturing or subject to mandatory

sinking fund redemption on the next Interest Payment Date taking into account with respect to each such payment (i) any other money actually available in the Principal Account for such purpose and (ii) any credit against amounts due on each Interest Payment Date granted pursuant to other provisions of this Master Indenture; provided, however, that to the extent available, the transfer made on the fifth Business Day before the end of each month immediately preceding such Interest Payment Date shall be in an amount to provide, together with amounts then on deposit in the Principal Account, the balance of the principal maturing or subject to mandatory sinking fund redemption on such Interest Payment Date. There shall be paid from the Principal Account equally and ratably to the Holder of each instrument evidencing a Note the amount of principal payments due on each Note, whether at maturity or earlier mandatory redemption (other than by reason of acceleration of maturity or other demand for payment), as such principal becomes due;

1.1.1.30 to the Holder of any Note entitled to maintain a reserve fund for the payment of such Note, an amount sufficient to cause the balance on deposit in such reserve fund to equal the required balance in 12 equal monthly installments or as otherwise in such amounts required by the applicable Related Bond Documents; and

1.1.1.31 to the Company, the amount specified in a Request as the amount of ordinary and necessary expenses of the Company for its operations for the following month.

(d) Any amounts remaining on deposit in the Revenue Fund on the day following the end of the month in which all Events of Default under Section 601(a) of this Master Indenture have been cured or waived, shall be paid to the Company upon Request for deposit in the Company's deposit account, which may be used for any lawful purpose.

(e) Pending disbursements of the amounts on deposit in the Revenue Fund, the Master Trustee shall promptly invest and reinvest such amounts in the Defeasance Obligations specified in any Order. All such investments shall have a maturity not greater than 91 days from date of purchase.

4.7 **Insurance and Condemnation Proceeds Fund.**

(a) There is hereby created by the Company and established with the Master Trustee the special fund of the Company designated the "KIPP Education Insurance and Condemnation Proceeds Fund" (herein referred to as the "Insurance and Condemnation Fund"). The Master Trustee is hereby authorized to create any accounts within such Insurance and Condemnation Fund as the Master Trustee finds necessary or desirable, provided, the Master Trustee shall have no duty to establish the Insurance and Condemnation Fund prior to the first occurring receipt of proceeds under an insurance policy held pursuant to Section 213 hereof or a condemnation of all or a portion of any Related Project. The money deposited to the Insurance and Condemnation Fund, together with all investments thereof and investment income therefrom, shall be held in trust and applied solely as provided in this Section.

- (b) Immediately upon receipt of any payments to the Master Trustee for deposit into the Insurance and Condemnation Fund, the Master Trustee shall transfer such amounts to the Related Bond Trustee in accordance with the Related Indenture to which such insurance or condemnation proceeds relate for use pursuant to such Related Indenture and the Related Loan Documents for such Related Project.
- 4.8 **Title Insurance.** The Company shall obtain and deliver to the Master Trustee on or prior to the closing date of any Debt a standard ALTA owner's policy of title insurance and a standard ALTA mortgage loan policy of title insurance issued by a title insurance company acceptable to the Master Trustee, showing the Master Trustee and any Bond Insurer as insured parties, as their interests may appear, with respect to the Mortgaged Property, together with such endorsements as may be required by the Master Trustee and any Bond Insurer, in an aggregate amount not less than the principal amount of the Debt outstanding (including the Debt to be issued) secured by the Mortgaged Property (as defined in the Deed of Trust). The policies shall insure that the Company has fee title in the Mortgaged Property and the Master Trustee has a valid first lien on the Company's interest in the Mortgaged Property described in the Deed of Trust; subject to Permitted Encumbrances and subject to the Master Trustee's protection in Section 703(n) hereof. There shall be deleted in such policies to the satisfaction of any Bond Insurer the standard exceptions for discrepancies, encroachments, overlaps, conflicts in boundary lines, servitudes or such other matters that would be disclosed by an accurate survey and inspection of the Mortgaged Property, for mechanics' and materialmen's liens, or for rights or claims of parties in possession and easements and claims of easements not shown on the public records.
- 4.9 **Waiver of Certain Covenants.** The Company may omit in any particular instance to comply with any covenant or condition set forth in Sections 402 through 407 hereof if before or after the time for such compliance the Holders of the same percentage in principal amount of all Notes then Outstanding the consent of which would be required to amend the provisions hereof to permit such noncompliance shall either waive such compliance in such instance or generally waive compliance with such covenant or condition, but no such waiver shall extend to or affect such covenant or condition except to the extent so expressly waived and, until such waiver shall become effective, the obligations of the Company and the duties of the Master Trustee in respect of any such covenant or condition shall remain in full force and effect.

SCHEDULE V

CONSOLIDATION, MERGER, CONVEYANCE AND TRANSFER

- 5.1 **Consolidation, Merger, Conveyance, or Transfer Only on Certain Terms.** In addition to any other requirements set forth in the Related Bond Documents, the Company covenants and agrees that it will not consolidate with or merge into any corporation or convey or transfer its properties substantially as an entirety to any Person, unless:
- (a) all of the following conditions exist:

- 1.1.1.32 the Person formed by such consolidation or into which the Company merges or the Person which acquires substantially all of the properties of the Company as an entirety shall be a Person organized and existing under the laws of the United States of America or any state or the District of Columbia and shall expressly assume by instrument supplemental hereto executed and delivered to the Master Trustee, in form satisfactory to the Master Trustee, the due and punctual payment of the principal (and premium, if any) and interest on the Notes and any other amounts due thereunder or in accordance with this Master Indenture and the performance and observance of every covenant and condition hereof on the part of the Company to be performed or observed;
- 1.1.1.33 an Officer's Certificate shall be delivered to the Master Trustee to the effect that such consolidation, merger or transfer shall not, immediately after giving effect to such transaction, cause a default hereunder to occur and be continuing; and
- 1.1.1.34 the Company shall have delivered to the Master Trustee and Related Bond Trustee an Officer's Certificate and Opinion of Counsel, each stating that such consolidation, merger, conveyance, or transfer and such supplemental instrument comply with this Article and that all conditions precedent relating to such transaction provided for herein have been complied with, and a Favorable Opinion of Bond Counsel.
- 5.2 **Successor Corporation Substituted.** Upon any consolidation or merger, or any conveyance or transfer of the properties and assets of the Company substantially as an entirety in accordance with Section 501, the successor Person formed by such consolidation or into which the Company is merged or to which such conveyance or transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company hereunder with the same effect as if such successor Person had been named as the Company herein.

SCHEDULE VI

REMEDIES OF THE MASTER TRUSTEE AND HOLDERS OF NOTES IN EVENT OF DEFAULT

- 6.1 **Events of Default.** "Event of Default," whenever used herein means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):
- (a) default in the payment of the principal of (premium, if any) or interest or any other amount due on any Note when due (giving effect to any applicable period of grace, if any); or
 - (b) default in the performance, or breach, of any covenant or agreement on the part of the Company contained in this Master Indenture (other than a covenant or agreement the default in the performance or observance of which is elsewhere in this Section specifically addressed) and continuance of such default or breach for a period of 30 days after a written notice specifying such default or breach and

requiring it to be remedied and stating that such notice is a “Notice of Default” hereunder has been given by registered or certified mail by (i) the Holders of at least 25% in principal amount of Notes then Outstanding or (ii) the Master Trustee to the Company (with a copy to the Master Trustee in the case of notice by the Holders); provided that if such default under this Section 601(b) can be cured by the Company but cannot be cured within the 30-day curative period described above, it shall not constitute an Event of Default if corrective action is instituted by the Company within such 30-day period and diligently pursued until the default is corrected; or

- (c) a decree or order by a court having jurisdiction in the premises shall have been entered adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization or arrangement of the Company under the federal Bankruptcy Code of 1978, as amended (the “Bankruptcy Code”), or any other similar applicable federal or state law, and such decree or order shall have continued undischarged and unstayed for a period of 90 days; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of the Company or the Company’s property, or for the winding up or liquidation of the Company or the Company’s affairs, shall have been entered, and such decree or order shall have remained in force undischarged and unstayed for a period of 90 days; or
- (d) the Company shall institute proceedings to be adjudicated a voluntary bankruptcy, or shall consent to the institution of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization or arrangement under the Bankruptcy Code or any other similar applicable federal or state law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of it or of its property, or shall make assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or corporate action shall be taken by the Company in furtherance of any of the aforesaid purposes;
- (e) an event of default, as therein defined, under any instrument or agreement under which any Note may be incurred or secured, or under any Related Bond Documents occurs and is continuing beyond any applicable period of grace, if any;
- (f) a Qualified Provider under a Financial Products Agreement which is secured by a Note notifies the Master Trustee that an event of default under the Swap Agreement, as therein defined, has occurred and is continuing beyond the applicable grace period, if any.

6.2 Acceleration of Maturity In Certain Cases; Rescission and Annulment.

- (a) If an Event of Default occurs and is continuing, then and in every such case the Master Trustee may, and upon the request of the Holders of not less than 25% in principal amount of the Notes Outstanding (or, in the case of any Event of

Default described in clause (e) above resulting in the loss of any exclusion from gross income of interest on, or the invalidity of, any Debt secured by a pledge of Notes, the Holders of not less than 25% in principal amount of the Notes Outstanding of the affected series) shall, by a notice in writing to the Company, accelerate the Maturity of the Notes, and upon any such declaration such principal (premium, if any) and interest and any other amount due on any Note shall become immediately due and payable.

- (b) At any time after such a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Master Trustee as hereinafter in this Article provided, the Holders of a majority in principal amount of the Notes Outstanding, by written notice to the Company and the Master Trustee, may rescind and annul such declaration and its consequences if:

1.1.1.35 the Company has caused to be paid or deposited with the Master Trustee a sum sufficient to pay:

1.1.1.35.1.1 all overdue installments of interest on all Notes;

1.1.1.35.1.2 the principal of (and premium, if any, on) any Notes which have become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the Notes as well as any other amounts due and owing as provided in such Notes; and

1.1.1.35.1.3 all sums paid or advanced by the Master Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Master Trustee, its agents and counsel; and

1.1.1.36 all Events of Default, other than the non-payment of the principal of Notes which have become due solely by such acceleration, have been cured or waived as provided in Section 613.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

- (c) Acceleration of Notes pursuant to this Section 602 may be declared separately and independently with or without an acceleration of the Related Bonds.

6.3 **Collection of Indebtedness and Suits for Enforcement by Master Trustee.**

- (a) The Company covenants that if:

1.1.1.37 default is made in the payment of any installment of interest on any Note when such interest becomes due and payable;

1.1.1.38 default is made in the payment of the principal of (or premium, if any, on) any Note when such principal (or premium, if any) becomes due and payable; or

1.1.1.39 default is made in the payment of any other amount when such amount is due and payable;

the Company will, subject to Section 401 hereof, upon demand of the Master Trustee, pay to it, for the benefit of the Holders of such Notes, the whole amount then due and payable on such Notes for principal (and premium, if any) and interest, with interest upon the overdue principal (and premium, if any) and any other amount due; and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Master Trustee, its agents and counsel.

- (b) If the Company fails to pay any of the foregoing amounts forthwith upon demand, the Master Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding, including to foreclose on any property subject to the Deed of Trust, for the collection of the sums so due and unpaid, and may prosecute such proceeding to judgment or final decree, and may enforce the same, against the Company and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the Property of the Company.
- (c) If an Event of Default occurs and is continuing, the Master Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Notes by such appropriate judicial proceedings as the Master Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Master Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy, including without limitation proceeding under the UCC as to all or any part of the Trust Estate, and the Company hereby covenants and agrees with the Master Trustee that the Master Trustee shall have and may exercise with respect to the Trust Estate all the rights, remedies and powers of a secured party under the UCC as in effect in the State of Texas.
- (d) If an Event of Default occurs and is continuing, the Master Trustee shall, at the direction of each Bond Insurer, provide a Notice of Exclusive Control to the Company's Depository Bank.

6.4 **Master Trustee May File Proofs of Claim.**

- (a) In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or Property of the Company or of such other obligor or their creditors, the Master Trustee (irrespective of whether the principal of the Notes shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Master Trustee shall have made any demand on the Company for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise:

1.1.1.40 to file and prove a claim for the whole amount of principal (and premium, if any) and interest and any other amounts owing and unpaid in respect of the Notes and to file such other papers or documents as may be necessary or advisable in order to have the claims of

the Master Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Master Trustee, its agents and counsel) and of the Holders of Notes allowed in such judicial proceeding; and

- 1.1.1.41 to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any receiver, assignee, trustee, liquidator, sequestrator (or other similar official) in any such judicial proceeding is hereby authorized by each Holder of Notes to make such payments to the Master Trustee, and in the event that the Master Trustee shall consent to the making of such payments directly to the Holders of Notes, to pay to the Master Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Master Trustee, its agents and counsel, and any other amounts due the Master Trustee under this Master Indenture.

- (b) Nothing herein contained shall be deemed to authorize the Master Trustee to authorize or consent to or accept or adopt on behalf of any Holder of Notes any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Holder thereof, or to authorize the Master Trustee to vote in respect of the claim of any Holder of Notes in any such proceeding.

- 6.5 **Master Trustee May Enforce Claims Without Possession of Notes.** All rights of action and claims under this Master Indenture or the Notes may be prosecuted and enforced by the Master Trustee without the possession of any of the Notes or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Master Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Master Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Notes in respect of which such judgment has been recovered.
- 6.6 **Application of Money Collected.** Any money collected by the Master Trustee pursuant to this Article and any proceeds of any sale (after deducting the costs and expenses of such sale, including a reasonable compensation to the Master Trustee, its agents and counsel, and any taxes, assessments, or liens prior to the lien of this Indenture, except any thereof subject to which such sale shall have been made), whether made under any power of sale herein granted or pursuant to judicial proceedings, together with, in the case of an entry or sale as otherwise provided herein, any other sums then held by the Master Trustee as part of the Trust Estate, shall be deposited in the Revenue Fund created by this Master Indenture, shall be applied in the order specified in Section 406, at the date or dates fixed by the Master Trustee and, in case of the distribution of such money on account of principal (or premium, if any), upon presentation of the Notes and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid.
- 6.7 **Limitation on Suits.** No Holder of any Note shall have any right to institute any proceeding, judicial or otherwise, with respect to this Master Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

- 1.1.1.42 such Holder has previously given written notice to the Master Trustee of a continuing Event of Default;
- 1.1.1.43 the Holders of not less than 25% in principal amount of the Outstanding Notes shall have made written request to the Master Trustee to institute proceedings in respect of such Event of Default in its own name as Master Trustee hereunder;
- 1.1.1.44 such Holder or Holders have provided to the Master Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request;
- 1.1.1.45 the Master Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and
- 1.1.1.46 no direction inconsistent with such written request has been given to the Master Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Notes;

it being understood and intended that no one or more Holders of Notes shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Master Indenture to affect, disturb or prejudice the rights of any other Holders of Notes, or to obtain or to seek to obtain priority or preference over any other Holders, or to enforce any right under this Master Indenture, except in the manner herein provided and for the equal and ratable benefit of all the Holders of Notes.

- 6.8 **Unconditional Right of Holders of Notes to Receive Principal, Premium and Interest.** Notwithstanding any other provision in this Master Indenture, the Holder of any Note shall have the right which is absolute and unconditional to receive payment of the principal of (and premium, if any) and interest on such Note, but (without waiving or impairing any rights such Holder may have under any other instrument or agreement) solely from the sources provided in this Master Indenture, on the respective Stated Maturities expressed in such Note (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.
- 6.9 **Restoration of Rights and Remedies.** If the Master Trustee or any Holder of Notes has instituted any proceeding to enforce any right or remedy under this Master Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Master Trustee or to such Holder of Notes, then and in every such case the Company, the Master Trustee and the Holders of Notes shall, subject to any determination in such proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and remedies of the Master Trustee and the Holders of Notes shall continue as though no such proceeding had been instituted.
- 6.10 **Rights and Remedies Cumulative.** No right or remedy herein conferred upon or reserved to the Master Trustee or to the Holders of Notes is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment

of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

6.11 **Delay or Omission Not Waiver.** No delay or omission of the Master Trustee or of any Holder of any Note to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Master Trustee or to the Holders of Notes may be exercised from time to time, and as often as may be deemed expedient, by the Master Trustee or by the Holders of Notes, as the case may be.

6.12 **Control by Holders of Notes.** The Holders of a majority in principal amount of the Outstanding Notes shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Master Trustee or exercising any trust or power conferred on the Master Trustee, provided that such direction shall not be in conflict with any rule of law or with this Master Indenture, and provided further that the Master Trustee shall have the right to decline to comply with any such request in accordance with Section 703(e) hereof or if the Master Trustee shall be advised by counsel (who may be its own counsel) that the action so directed may not lawfully be taken or the Master Trustee in good faith shall determine that such action would be unjustly prejudicial to the Holders of the Notes not parties to such direction. The Master Trustee may take any other action deemed proper by the Master Trustee which is not inconsistent with such direction.

6.13 **Waiver of Past Defaults.**

(a) The Holders of not less than a majority in principal amount of the Outstanding Notes may on behalf of the Holders of all the Notes waive any past default hereunder and its consequences, except:

1.1.1.47 a default in the payment of the principal of (or premium, if any) or interest or any other amount on any Note; or

1.1.1.48 a default in respect of a covenant or provision hereof which under Article VIII cannot be modified or amended without the consent of the Holder of each Outstanding Note affected.

(b) Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Master Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

6.14 **Undertaking for Costs.** All parties to this Master Indenture agree, and each Holder of any Note by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Master Indenture, or in any suit against the Master Trustee for any action taken or omitted by it as Master Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess

reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Master Trustee, to any suit instituted by any Holder of Notes, or group of Holders of Notes, holding in the aggregate more than 10% in principal amount of the Outstanding Notes, or to any suit instituted by any Holder of Notes for the enforcement of the payment of the principal of (or premium, if any) or interest on any Note on or after the respective Stated Maturities expressed in such Note (or, in the case of redemption, on or after the redemption date).

- 6.15 **Waiver of Stay or Extension Laws.** The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Master Indenture; and the Company (to the extent that it may lawfully do so), hereby expressly waives all benefit or advantage of any such law, and covenants (to the extent that it may lawfully do so) that it will not hinder, delay or impede the execution of any power herein granted to the Master Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.
- 6.16 **No Recourse Against Others.** No recourse under or upon any obligation, covenant or agreement contained in this Master Indenture or any indenture supplemental hereto, or in any Note, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, or against any past, present or future director, officer or employee, as such, of the Master Trustee or the Company or of any successor corporation, either directly or through the Company, whether by virtue of any constitution or statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that this Master Indenture and the Notes are solely corporate obligations, and that no such personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, directors, officers or employees, as such, of the Master Trustee or the Company or any successor corporation, or any of them, because of the creation of indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Master Indenture or in any of the Notes or implied therefrom; and that any and all such personal liability, either at common law or in equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, director, officer or employee, as such, are hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Master Indenture and the issue of such Notes.

SCHEDULE VII

CONCERNING THE MASTER TRUSTEE

- 7.1 **Duties and Liabilities of Master Trustee.**
- (a) The Master Trustee accepts and agrees to execute the trusts imposed upon it by this Master Indenture, but only upon the terms and conditions set forth herein,

and no implied covenants or obligations shall be read into this Master Indenture against the Master Trustee.

(b) In case any Event of Default has occurred and is continuing (of which a Responsible Officer of the Master Trustee has actual knowledge or is deemed to have actual knowledge under Section 703(h) hereof), the Master Trustee shall exercise such of the rights and powers vested in it by this Master Indenture, and use the same degree of care and skill in their exercise, as a reasonably prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(c) No provision of this Master Indenture shall be construed to relieve the Master Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except, that:

1.1.1.49 this Subsection shall not be construed to limit the effect of Subsection (a) of this Section or Section 703 hereof;

1.1.1.50 the Master Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Master Trustee was negligent in ascertaining the pertinent facts;

1.1.1.51 the Master Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with Section 602(a) hereof or otherwise with the direction of the Holders of not less than a majority in aggregate principal amount of the Notes then Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Master Trustee, or exercising any trust or power conferred upon the Master Trustee, under this Master Indenture; and

1.1.1.52 no provision of this Master Indenture shall require the Master Trustee to expend or risk its funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that the repayment of such funds or adequate indemnity against such risk or liability or the payment of its fees and expenses is not reasonably assured to it.

(d) Whether or not therein expressly so provided, every provision of this Master Indenture relating to the conduct or affecting the liability of or affording protection to the Master Trustee shall be subject to the provisions of this Section and Section 703.

7.2 **Notice of Defaults.** Within 60 days after the occurrence of any default of which the Master Trustee is deemed to have knowledge hereunder, the Master Trustee shall transmit by mail to all Holders of Notes notice of such default, unless such default shall have been cured or waived or unless corrective action to cure such default has been instituted and is being pursued such that such default does not constitute an Event of Default; provided, however, that except in the case of a default in the payment of the principal of (or premium, if any) or interest on any Notes or in the payment of any sinking or purchase fund installment, the Master Trustee shall be protected in

withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors and/or Responsible Officers of the Master Trustee in good faith determine that the withholding of such notice is in the interest of the Holders of Notes; and provided, further, that in the case of any default of the character specified in Section 601(b), no such notice to Holders of Notes shall be given until at least 30 days after the notice described in Section 601(b) is given and a cure is not forthcoming. For the purpose of this Section, the term “default” means any event which is, or after notice or lapse of time or both would become, an Event of Default.

7.3 **Certain Rights of Master Trustee.**

- (a) The Master Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties and shall not be required to verify the accuracy of any information or calculations required to be included therein or attached thereto.
- (b) Any request or direction of the Company shall be sufficiently evidenced by a Request; and any resolution of the Governing Body may be evidenced to the Master Trustee by a Board Resolution.
- (c) Whenever in the administration of this Master Indenture the Master Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Master Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officer’s Certificate.
- (d) The Master Trustee may consult with counsel 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.
- (e) The Master Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Master Indenture at the request or direction of any of the Holders of the Notes pursuant to the provisions of this Master Indenture, unless such Holders shall have offered to the Master Trustee reasonable security or indemnity satisfactory to it against the costs, expenses and liabilities which might be incurred by it in connection with such request or direction and for the payment of the Master Trustee’s fees in connection therewith.
- (f) The Master Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document, but the Master Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Master Trustee shall determine to make such further inquiry or

investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney and to take such memoranda from and in regard thereto as may be reasonably desired. The Master Trustee shall have no obligation to perform any of the duties of the Company under this Master Indenture.

- (g) The Master Trustee may execute any of the trusts or powers hereunder either directly or by or through agents or attorneys or may act or refrain from acting in reliance upon the opinion or advice of such agents or attorney, but the Master Trustee shall not be held liable for any negligence or misconduct of any such agent or attorney appointed by it with due care. The Master Trustee may act upon the opinion or advice of attorney or agent selected by it in the exercise of reasonable care or, if selected or retained by the Company, approved by the Master Trustee in the exercise of such care. The Master Trustee shall not be responsible for any loss or damage resulting from any action or nonaction based on its good faith reliance upon such opinion or advice. The Master Trustee may in all cases pay reasonable compensation to any attorney or agent retained or employed by it in connection herewith.
- (h) The Master Trustee shall not be required to take notice or be deemed to have notice of any Event of Default hereunder unless the Master Trustee shall be specifically notified of such Event of Default in writing by the Company or by the Holder of an Outstanding Note, and in the absence of such notice the Master Trustee may conclusively assume that no Event of Default exists; provided, however, that the Master Trustee shall be required to take and be deemed to have notice of its failure to receive the moneys necessary to make payments when due of principal, premium, if any, or interest on any Note.
- (i) The Master Trustee shall not be liable for any error of judgment made in good faith by its officers, unless it shall be proved that the Master Trustee was negligent in ascertaining the pertinent facts.
- (j) The Master Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with any direction of the Holders of the Outstanding Notes permitted to be given by them under this Master Indenture.
- (k) No provision of this Master Indenture shall require the Master Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.
- (l) The permissive right of the Master Trustee to do things enumerated in this Master Indenture shall not be construed as a duty and the Master Trustee shall not be answerable for other than its negligence or willful misconduct in accordance with the terms of this Master Indenture.

- (m) The Master Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.
- (n) The Master Trustee shall not be responsible for monitoring the existence of or determining whether any lien or encumbrance or other charge including without limitation any Permitted Encumbrance (as defined in the Deed of Trust) exists against the Project or the Trust Estate.

7.4 **Not Responsible For Recitals or Issuance of Notes.** The recitals contained herein and in the Notes (other than the certificate of authentication on such Notes) shall be taken as the statements of the Company and the Master Trustee assumes no responsibility for their correctness. The Master Trustee makes no representations as to the validity or sufficiency of this Master Indenture or of the Notes. The Master Trustee shall not be accountable for the use or application by the Company of any of the Notes or of the proceeds of such Notes, for the use or application of any money paid over by the Master Trustee in accordance with the provisions of this Master Indenture or for the use and application of money received by any Paying Agent.

7.5 **Master Trustee May Own Notes.** The Master Trustee or other agent of the Company, in its individual or any other capacity, may become the owner or pledgee of Notes and may otherwise deal with the Company with the same rights it would have if it were not Master Trustee or such other agent.

7.6 **Moneys to Be Held in Trust.** All moneys received by the Master Trustee shall, until used or applied as herein provided (including payment of moneys to the Company under the next to last paragraph of Section 403), be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law. The Master Trustee shall be under no liability for interest on any moneys received by it hereunder other than such interest as it expressly agrees to pay.

7.7 **Compensation and Expenses of Master Trustee.**

(a) The Company hereby agrees:

1.1.1.53 to pay to the Master Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any law limiting the compensation of the trustee of an express trust), whether as Master Trustee or as Paying Agent;

1.1.1.54 except as otherwise expressly provided in this Section 707(a), to reimburse the Master Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Master Trustee in accordance with any provision of this Master Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel); and

1.1.1.55 to indemnify the Master Trustee, its directors, employees, agents and affiliates (including without limitation, the Master Trustee as Paying Agent hereunder) (collectively,

the “Indemnitees”) for, and to defend and hold them harmless against, loss, liability, claims, proceedings, suits, demands, penalties, costs and expenses, including without limitation, the costs and expenses of outside and in house counsel and experts and their staffs and all expenses of document location, duplication and shipment and of preparation to defend and defending any of the foregoing (“Losses”), that may be imposed on, incurred by or asserted against any Indemnitee in respect of (i) any loss, or damage to any property, or injury to or death of any person, asserted by or on behalf of any Person arising out of, resulting from, or in any way connected with the Project, or the conditions, occupancy, use, possession, conduct or management of, or any work done in or about the Project or from the planning, design, acquisition or construction of any Project facilities or any part thereof, (ii) the issuance of any Notes or Related Bonds, or the Company’s or the Issuer’s, as the case may be, authority therefore; (iii) this Master Indenture and any instrument related thereto, (iv) the Master Trustee’s execution, delivery and performance of the Master Indenture, except in respect of any Indemnitee to the extent such Indemnitee’s negligence or bad faith caused such the Loss, and (v) compliance with or attempted compliance with or reliance on any instruction or other direction upon which the Master Trustee may rely under the Master Indenture or any instrument related thereto. The Company further agrees to indemnify the Indemnitees against any Losses as a result of (1) any untrue statement or alleged untrue statement of any material fact or the omission or alleged omission to state a materially fact necessary to make the statements made not misleading in any statement, information or material furnished by the Company to the Master Trustee or the Holder of any Note, including, but not limited to, any disclosure document utilized in connection with the sale of any Related Bonds; or (2) the inaccuracy of the statement contained in any section of any Related Bond Indenture relating to environmental representations and warranties. The foregoing indemnification shall include, without limitation, indemnification for any statement or information concerning the Company or its officer and members or its Property contained in any official statement or other offering document furnished to the Master Trustee or the purchaser of any Notes or Related Bonds that is untrue or incorrect in any material respect, and any omission from such official statement or other offering document of any statement or information which should be contained therein for the purpose for which the same is to be used or which is necessary to make the statements therein concerning the Company, its officers and members and its Property not misleading in any material respect. The foregoing is in addition to any other rights, including rights to indemnification, to which the Master Trustee may otherwise be entitled, including without limitation, pursuant to the Deed of Trust.

- (b) As such security for the performance of the obligations of the Company under this Section the Master Trustee shall have a lien prior to the Notes upon all property and funds held or collected by the Master Trustee as such. The payment obligations set forth above shall include all such fees and expenses of the Master Trustee and its agents under any Supplemental Master Indenture.

7.8 **Corporate Master Trustee Required; Eligibility.** There shall at all times be a Master Trustee hereunder which shall be a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$50,000,000, subject to supervision or examination by Federal or state authority. If such

corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Master Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

7.9 **Resignation and Removal; Appointment of Successor.**

- (a) No resignation or removal of the Master Trustee and no appointment of a successor Master Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Master Trustee under Section 710.
- (b) The Master Trustee may resign at any time by giving written notice thereof to the Company. If an instrument of acceptance by a successor Master Trustee shall not have been delivered to the Master Trustee within 30 days after the giving of such notice of resignation, the resigning Master Trustee may petition any court of competent jurisdiction for the appointment of a successor Master Trustee.
- (c) The Master Trustee may be removed at any time by act of the Holders of a majority in principal amount of the Outstanding Notes, delivered to the Master Trustee and the Company.
- (d) If at any time:

1.1.1.56 the Master Trustee shall cease to be eligible under Section 708 and shall fail to resign after written request therefor by the Company or by any Holder of Notes; or

1.1.1.57 the Master Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or conservator or a receiver of the Master Trustee or of its property shall be appointed or any public officer shall take charge or control of the Master Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation;

then, in any such case, (i) the Company by a Request may remove the Master Trustee, or (ii) subject to Section 614, any Holder of Notes who has been a bona fide Holder of a Note for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Master Trustee and the appointment of a successor Master Trustee.

- (e) If the Master Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Master Trustee for any cause, the Company shall promptly appoint a successor Master Trustee. If, within six months after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Master Trustee shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Notes delivered to the Company and the retiring Master Trustee, the successor Master Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Master Trustee and supersede the successor Master Trustee appointed by the Company. If no successor Master Trustee shall have been so appointed by

the Company or the Holders of Notes and accepted appointment in the manner hereinafter provided, the Master Trustee or any Holder of Notes who has been a bona fide Holder of a Note for at least 6 months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Master Trustee.

- (f) The Company shall give notice of each resignation and each removal of the Master Trustee and each appointment of a successor Master Trustee by mailing written notice of such event by first-class mail, postage prepaid, to the Holders of Notes at their addresses as shown in the Note Register. Each notice shall include the name and address of the designated corporate trust office of the successor Master Trustee.

7.10 **Acceptance of Appointment by Successor.**

- (a) Every successor Master Trustee appointed hereunder shall execute, acknowledge and deliver to the Company and to the retiring Master Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Master Trustee shall become effective and such successor Master Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Master Trustee; but, on Request of the Company or the successor Master Trustee, such retiring Master Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Master Trustee all the rights, powers and trusts of the retiring Master Trustee, and shall duly assign, transfer and deliver to the successor Master Trustee all property and money held by such retiring Master Trustee hereunder. Upon request of any such successor Master Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Master Trustee all such rights, powers and trusts.
- (b) No successor Master Trustee shall accept its appointment unless at the time of such acceptance such successor Master Trustee shall be qualified and eligible under this Article.

- 7.11 **Merger or Consolidation.** Any corporation into which the Master Trustee may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Master Trustee shall be a party, or any corporation acquiring and succeeding to all or substantially all of the municipal corporate trust business of the Master Trustee, shall be the successor Master Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, to the extent operative, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Notes shall have been authenticated, but not delivered, by the Master Trustee then in office, any successor by merger or consolidation to such authenticating Master Trustee may adopt such authentication and deliver the Notes so authenticated with the same effect as if such successor Master Trustee had itself authenticated such Notes.

- 7.12 **Release of Property.** At the request of a majority of the Holders of the Notes and the consent of each Bond Insurer, if any, the Master Trustee shall execute and deliver in recordable form any releases of Property encumbered hereby or by the Deed of Trust.
- 7.13 **Partial Release of Real Property Included in Deed of Trust.** (a) The Master Trustee shall consent to the release of portions of the real property included in the Deed of Trust upon receipt of a written Request for such release and a Certificate of an Authorized Representative providing that:
- 1.1.1.58 the requested release is for a facility funded solely with restricted donations (the “Endowed Facility”);
- 1.1.1.59 the Endowed Facility is solely owned by the Company;
- 1.1.1.60 the Company has no outstanding Debt incurred in connection with the construction of the Endowed Facility;
- 1.1.1.61 the real property requested for release is limited to the immediate area occupied by the Endowed Facility and, upon release thereof, does not materially impair the value of the aggregate real property then-securing all outstanding Debt; and
- 1.1.1.62 the Endowed Facility is complete.

The Master Trustee shall take the necessary steps to release such portions of the real property subject to the Deed of Trust at the expense of the Company.

(b) Notwithstanding the provisions of Section 713(a) above, the Master Trustee shall consent to the release of portions of the real property included in the Deed of Trust upon receipt of:

- (1) a written request for such release;
- (2) a Certificate of an Authorized Representative requesting the release;
- (3) the identification of the facility and land requested for release (the “Released Facility”);
- (4) an appraisal of the Released Facility;
- (5) evidence that cash, letter of credit or securities have been deposited with the Master Trustee equal to the amount of ___% of the appraised value of the Released Facility; and
- (6) a Supplemental Master Indenture, pursuant to Section 801(n) permitting the addition of properties or collateral to the Trust Estate.

SCHEDULE VIII

SUPPLEMENTS

- 8.1 **Supplemental Master Indentures Without Consent of Holders of Notes.** Without the consent of the Holders of any Notes, the Company, when authorized by a Board Resolution, and the Master Trustee at any time may enter into or consent to one or more indentures supplemental hereto, subject to Section 803 hereof, for any of the following purposes:
- (a) to cure any ambiguity or to correct or supplement any provision herein or therein which may be inconsistent with any other provision herein or therein, or to make any other provisions with respect to matters or questions arising under this Master Indenture which shall not be inconsistent with this Master Indenture, provided such action shall not adversely affect the interests of the Holder of any Notes;
 - (b) to grant to or confer upon the Master Trustee for the benefit of the Holders of the Notes any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Holders of the Notes and the Master Trustee, or either of them, to add to the covenants of the Company for the benefit of the Holders of the Notes or to surrender any right or power conferred hereunder upon the Company;
 - (c) to assign and pledge under this Master Indenture additional revenues, properties or collateral;
 - (d) to evidence the succession of another corporation to the agreements of the Master Trustee, or a successor thereof hereunder;
 - (e) to evidence the succession of another Person to the Company, or successive successions, and the assumption by the successor Person of the covenants, agreements and obligations of the Company as permitted by this Master Indenture;
 - (f) to modify or supplement this Master Indenture in such manner as may be necessary or appropriate to qualify this Master Indenture under the Trust Indenture Act of 1939 as then amended, or under any similar federal or state statute or regulation, including provisions whereby the Master Trustee accepts such powers, duties, conditions and restrictions hereunder and the Company undertakes such covenants, conditions or restrictions additional to those contained in this Master Indenture as would be necessary or appropriate so to qualify this Master Indenture; provided, however, that nothing herein contained shall be deemed to authorize inclusion in this Master Indenture or in any indenture supplemental hereto, provisions referred to in Section 316(a)(2) of the said Trust Indenture Act or any corresponding provision provided for in any similar statute hereafter in effect;

- (g) to provide for the refunding or advance refunding of any Note, in whole or in part as permitted hereunder;
- (h) to provide for the issuance of the Notes or any additional series of Notes as permitted hereunder;
- (i) to permit a Note to be secured by new security which may or may not be extended to all Note Holders or to establish special funds or accounts under this Master Indenture;
- (j) to allow for the issuance of any series of Notes in uncertificated form;
- (k) to make any other change which does not materially adversely affect the Holders of any of the Notes and, in the opinion of each Related Bond Trustee, does not materially adversely affect the owners of the Related Bonds with respect to which it acts as trustee, including without limitation any modification, amendment or supplement to this Master Indenture or any indenture supplemental hereto or any amendment thereto in such a manner as to establish or maintain exemption of interest on any Related Bonds under a Related Bond Indenture from federal income taxation under applicable provisions of the Code;
- (l) so long as no Event of Default has occurred and is continuing under this Master Indenture and so long as no event which with notice or the passage of time or both would become an Event of Default under this Master Indenture has occurred and is continuing, to make any other change herein or therein which, in the judgment of an Independent Management Consultant approved by each Bond Insurer, if any, a copy of whose report shall be filed with the Master Trustee:

1.1.1.63 is in the best interest of the Company;

1.1.1.64 does not materially adversely affect the Holder of any Note;

1.1.1.65 provided that, with respect to each applicable series of Related Bonds, an Opinion of Counsel acceptable to the Master Trustee, and on which the Master Trustee may conclusively rely, to the effect that the amendment proposed to be adopted by such Supplemental Master Indenture will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on such Related Bonds otherwise entitled to such exclusion; and

1.1.1.66 provided that, no such amendment, directly or indirectly, shall (A) change the provisions of this clause (l), (B) make any modification of the type prohibited Section 802 hereof, or (C) make a modification intended to subordinate the right to payment of a Holder of any Note to the right of payment of any Holder of any other Note or any other Debt;

- (m) to make any amendment to any provision of this Master Indenture or to any supplemental indenture which is only applicable to Notes issued thereafter or which will not apply so long as any Notes then Outstanding remains Outstanding;

- (n) to release the Deed of Trust or, pursuant to Section 703(b) herein, portions of property contained therein from the Master Trust Estate upon receipt and deposit with the Master Trustee sufficient assets, cash, letters of credit or other guarantee and written confirmation from each Rating Service that such change will not result in a withdrawal or reduction in its credit rating assigned to any series of Notes or Related Bonds; and
- (o) to modify, eliminate or add to the provisions of this Master Indenture if the Master Trustee shall have received (1) written confirmation from each Rating Service that such change will not result in a withdrawal or reduction of its credit rating assigned to any series of Notes or Related Bonds, as the case may be, and (2) a Board Resolution to the effect that, in the judgment of the Company, such change is necessary to permit the Company to affiliate or merge with one or more other charter school on acceptable terms and such change and affirmation are in the best interests of the Holders of the Outstanding Notes.

8.2 **Supplemental Indentures With Consent of Holders of Notes.**

- (a) With the consent of the Holders of not less than a majority in principal amount of the Outstanding Notes, by Act of said Holders delivered to the Company and the Master Trustee, the Company, when authorized by a Board Resolution, and the Master Trustee may enter into or consent to an indenture or indentures supplemental hereto (subject to Section 803 hereof) for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Master Indenture or of modifying in any manner the rights of the Holders of the Notes under this Master Indenture; provided, however, that no such Supplemental Master Indenture shall, without the consent of the Holder of each Outstanding Note affected thereby:

1.1.1.67 change the Stated Maturity of the principal of, or any installment of interest on, any Notes or any date for mandatory redemption thereof, or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, or change the coin or currency in which, any Notes or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the redemption date); or

1.1.1.68 reduce the percentage in principal amount of the Outstanding Notes, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of this Master Indenture or certain defaults hereunder and their consequences) provided for in this Master Indenture; or

1.1.1.69 modify any of the provisions of this Section or Section 613, except to increase any such percentage or to provide that certain other provisions of this Master Indenture cannot be modified or waived without the consent of the Holder of each Note affected thereby.

- (b) It shall not be necessary for any Act of Holders of Notes under this Section to approve the particular form of any proposed Supplemental Master Indenture, but it shall be sufficient if such Act of Holders of Notes shall approve the substance thereof, as presented in written form to the Holders of the Notes by the Company.
- 8.3 **Execution of Supplemental Indentures.** In executing, or accepting the additional trusts created by, any Supplemental Master Indenture permitted by this Article or the modifications thereby of the trusts created by this Master Indenture, the Master Trustee shall be entitled to receive, and (subject to Section 701) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such Supplemental Master Indenture or consent is authorized or permitted by this Master Indenture. The Master Trustee may, but shall not (except to the extent required in the case of a Supplemental Master Indenture entered into under Section 801(d)) be obligated to, enter into any such Supplemental Master Indenture or consent which affects the Master Trustee's own rights, duties or immunities under this Master Indenture or otherwise.
- 8.4 **Effect of Supplemental Master Indentures.** Upon the execution of any Supplemental Master Indenture under this Article, this Master Indenture shall, with respect to each series of Notes to which such Supplemental Master Indenture applies, be modified in accordance therewith, and such Supplemental Master Indenture shall form a part of this Master Indenture for all purposes, and every Holder of Notes thereafter or theretofore authenticated and delivered hereunder shall be bound thereby.
- 8.5 **Notes May Bear Notation of Changes.** Notes authenticated and delivered after the execution of any Supplemental Master Indenture pursuant to this Article may bear a notation in form approved by the Master Trustee as to any matter provided for in such Supplemental Master Indenture. If the Company or the Master Trustee shall so determine, new Notes so modified as to conform, in the opinion of the Master Trustee and the Company, to any such Supplemental Master Indenture may be prepared and executed by the Company and authenticated and delivered by the Master Trustee in exchange for Notes then Outstanding.

SCHEDULE IX

SATISFACTION AND DISCHARGE OF MASTER INDENTURE

- 9.1 **Satisfaction and Discharge of Master Indenture.**
- (a) If at any time the Company shall have paid or caused to be paid the principal of (and premium, if any) and interest and all other amounts due and owing on all the Notes Outstanding hereunder, as and when the same shall have become due and payable, and if the Company shall also pay or provide for the payment of all other sums payable hereunder by the Company and shall have paid all of the Master Trustee's fees and expenses pursuant to Section 707 hereof, then this Master Indenture shall cease to be of further effect (except as to (i) rights of registration of transfer and exchange, (ii) substitution of mutilated, defaced, or

apparently destroyed, lost or stolen Notes, (iii) rights of Holders to receive payments of principal thereof (and premium, if any) and interest thereon and remaining obligations of the Company to make mandatory sinking fund payments, (iv) the rights, remaining obligations, if any, and immunities of the Master Trustee hereunder and (v) the rights of the Holders as beneficiaries hereof with respect to the property so deposited with the Master Trustee payable to all or any of them) and the Master Trustee, on the Request accompanied by an Officer's Certificate and an Opinion of Counsel to the effect that the conditions precedent to the satisfaction and discharge of this Master Indenture have been fulfilled and at the cost and expense of the Company, shall execute proper instruments acknowledging satisfaction of and discharging this Master Indenture.

- (b) Notwithstanding the satisfaction and discharge of this Master Indenture, the obligations of the Company to the Master Trustee under Section 707 and, if funds shall have been deposited with the Master Trustee pursuant to Section 902, the obligations of the Master Trustee under Section 903 and Section 403(f) shall survive.

9.2 **Notes Deemed Paid.** Unless otherwise provided in the supplemental indenture establishing any such series of Notes, Notes of any series shall be deemed to have been paid if:

- (a) in case said Notes are to be redeemed on any date prior to their Stated Maturity, the Company by Request shall have given to the Master Trustee in form satisfactory to it irrevocable instructions to give notice of redemption of such Notes on said redemption date;
- (b) there shall have been deposited with the Master Trustee either money sufficient, or Defeasance Obligations the principal of and the interest on which will provide money sufficient without reinvestment (as established by an Officer's Certificate delivered to the Master Trustee accompanied by a report of an Independent Accountant setting forth the calculations upon which such Officer's Certificate is based), to pay when due the principal of (and premium, if any) and interest due and to become due on said Notes on and prior to the Maturity thereof;
- (c) in the event said Notes are not by their terms subject to redemption within the next 45 days, the Company by Request shall have given the Master Trustee in form satisfactory to it irrevocable instructions to give a notice to the Holders of such Notes that the deposit required by clause (b) of this Section 902 above has been made with the Master Trustee and that said Notes are deemed to have been paid in accordance with this Section and stating such Maturity date upon which moneys are to be available for the payment of the principal of (and premium, if any) and interest on said Notes.

9.3 **Application of Trust Money.** The Defeasance Obligations and money deposited with the Master Trustee pursuant to Section 902 and principal or interest payments on any such Defeasance Obligations shall be held in trust, shall not be sold or reinvested, and shall be applied by it, in accordance with the provisions of the Notes and this Master Indenture,

to the payment, either directly or through any Paying Agent as the Master Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money or Defeasance Obligations were deposited; provided that, upon delivery to the Master Trustee of an Officer's Certificate (accompanied by the report of an Independent Accountant setting forth the calculations upon which such Officer's Certificate is based) establishing that the money and Defeasance Obligations on deposit following the taking of the proposed action will be sufficient for the purposes described in subsection (b) of Section 902, any money received from principal or interest payments on Defeasance Obligations deposited with the Master Trustee or the proceeds of any sale of such Defeasance Obligations, if not then needed for such purpose, shall, upon Request be reinvested in other Defeasance Obligations or disposed of as requested by the Company. For purposes of any calculation required by this Article, any Defeasance Obligation which is subject to redemption at the option of its issuer, the redemption date for which has not been irrevocably established as of the date of such calculation, shall be assumed to cease to bear interest at the earliest date on which such obligation may be redeemed at the option of the issuer thereof and the principal of such obligation shall be assumed to be received at its Stated Maturity.

This Master Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument

IN WITNESS WHEREOF, the Company and the Master Trustee have caused this Master Indenture to be signed on their behalf by their duly authorized representatives as of the date first written above.

KIPP, INC.

By: _____
Shawn Hurwitz, Board Chairman

**ZIONS FIRST NATIONAL BANK,
NATIONAL ASSOCIATION,**
as Master Trustee

By: _____
Name: _____
Title: _____

SUPPLEMENTAL MASTER TRUST INDENTURE NO. 1

Dated as of September 1, 2006

Between

KIPP, INC.

and

ZIONS FIRST NATIONAL BANK,
as Master Trustee

Supplemental to:

Master Trust Indenture
Dated as of September 1, 2006

In connection with the issuance of
Series 2006 Notes

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SUPPLEMENTAL MASTER TRUST INDENTURE NO. 1

THIS SUPPLEMENTAL MASTER TRUST INDENTURE NO. 1, dated as of September 1, 2006 (this “Supplemental Master Indenture”), is between **ZIONS FIRST NATIONAL BANK**, a national banking association, having a corporate trust office in Houston, Texas, as master trustee (the “Master Trustee”), and **KIPP, INC.**, a non-profit corporation organized and existing under the laws of the State of Texas (the “Company”), amending and supplementing the hereinafter referenced Original Master Indenture.

RECITALS:

WHEREAS, the Company entered into a Master Trust Indenture, dated as of September 1, 2006 (being referred to herein as the “Original Master Indenture”), with the Master Trustee, for the purpose of providing for the issuance of Notes thereunder to secure Debt of the Company (as such terms are defined in the Original Master Indenture); and

WHEREAS, the Company and the Master Trustee are authorized under Sections 201 and 801(h) of the Original Master Indenture, to amend or supplement the Original Master Indenture, subject to the terms and provisions contained therein, to provide for the issuance of a series of Notes; and

WHEREAS, the Company desires to enter into this Supplemental Master Indenture in order to provide for the issuance of certain Notes, as hereinafter described, to be secured under the Original Master Indenture as amended and supplemented hereby (as so amended and supplemented, the “Master Indenture”); and

WHEREAS, the Company deems it desirable to issue (i) a Tax-Exempt Master Indenture Note (KIPP, Inc.) Series 2006A (the “Tax-Exempt Master Note”) entitled to the security of the Master Indenture in the original principal amount of \$34,890,000, and (ii) a Taxable Master Indenture Note (KIPP, Inc.) Series 2006B (the “Taxable Master Note,” together with the Tax-Exempt Master Note, the “Series 2006 Notes”) entitled to the security of the Master Indenture in the original principal amount of \$525,000 and to deliver such Series 2006 Notes to the Texas Public Finance Authority Charter School Finance Corporation (the “Issuer”) in order to evidence and secure the obligations of the Company under the Loan Agreement (the “Related Loan Agreement”) between the Company and the Issuer, dated as of September 1, 2006, relating to the Issuer’s Education Revenue Bonds (KIPP, Inc.) Series 2006A and the Issuer’s Taxable Education Revenue Bonds (KIPP, Inc.) Series 2006B (together, the “Series 2006 Bonds”) issued pursuant to a Trust Indenture and Security Agreement (the “Related Bond Indenture”), dated as of September 1, 2006, between the Issuer and Zions First National Bank, as trustee (in such capacity, the “Bond Trustee”); and

WHEREAS, all acts and things necessary to make the Series 2006 Notes authorized by this Supplemental Master Indenture, when executed by the Company and authenticated and delivered by the Master Trustee as provided in the Original Master Indenture and this Supplemental Master Indenture, the valid, binding and legal obligations of the Company and to constitute these presents, together with the Original Master Indenture, a valid indenture and agreement according to its terms, have been done and performed, and the execution of this

Supplemental Master Indenture and the issuance of the Series 2006 Notes authorized by this Supplemental Master Indenture have in all respects been duly authorized;

NOW, THEREFORE, in order to declare the terms and conditions upon which the Series 2006 Notes authorized hereby are authenticated, issued and delivered, and in consideration of the premises and the acquisition and acceptance of the Series 2006 Notes by the Holders thereof, and in consideration of the mutual covenants, conditions and agreements which follow, the Company covenants and agrees with the Master Trustee as follows:

ARTICLE I

DEFINITIONS

- 9.4 Definitions of Words and Terms. Words and terms used in this Supplemental Master Indenture and not otherwise defined herein shall, except as otherwise stated, have the meanings assigned to them in the Original Master Indenture.

ARTICLE II

THE SERIES 2006 NOTES

- 9.5 Authorization of Series 2006 Notes.
- (a) There is hereby created and authorized to be issued hereunder a Note, described as follows: “Tax-Exempt Master Indenture Note (KIPP, Inc.) Series 2006A” in the aggregate original principal amount of \$34,890,000, dated September 1, 2006, issued on behalf of the Company and for the primary benefit of the Issuer. The Tax-Exempt Master Note shall initially be issued and registered in the name of the Issuer, and then endorsed by the Issuer to the order of and registered in the name of the Bond Trustee, or its successors or assigns, and shall be executed, authenticated and delivered in accordance with Article II of the Original Master Indenture.
 - (b) There is hereby created and authorized to be issued hereunder a Note, described as follows: “Taxable Master Indenture Note (KIPP, Inc.) Series 2006B,” in an aggregate amount equal to \$525,000, dated September 1, 2006, issued on behalf of the Company and for the primary benefit of the Issuer. The Taxable Master Note shall initially be issued and registered in the name of the Issuer and then endorsed by the Issuer to the order of and registered in the name of the Bond Trustee, and shall be executed, authenticated and delivered in accordance with Article II of the Original Master Indenture.
- 9.6 Form of Series 2006 Notes. The Tax-Exempt Master Note and the Taxable Master Note each shall be issued as single, fully-registered

promissory notes without coupons, in substantially the form set forth in, respectively, Exhibit “A” and Exhibit “B” hereto.

9.7 Payments on Series 2006 Notes. The principal of the Series 2006 Notes shall be payable in the amounts and on the dates, and each of the unpaid installments of principal shall bear interest from the date of such Notes at the respective rates, and such notes shall have such other terms and provisions, as are set forth in or incorporated by reference into the Related Loan Agreement.

9.8 Credits on Series 2006 Notes.

(a) The Company shall receive a credit against amounts due on the Tax-Exempt Master Note on any payment date equal to the amounts paid as principal of (and premium, if any) or interest on, respectively, the Series 2006A Bonds on such payment date, including credit against any mandatory sinking fund redemption payments.

(b) The Company shall receive a credit against amounts due on the Taxable Master Note on any payment date equal to the amounts paid as principal of (and premium, if any) or interest on, respectively, the Series 2006B Bonds on such payment date, including credit against any mandatory sinking fund redemption payments.

(c) Notwithstanding the provisions of subsection (a) or (b) above or any other provision herein or in the Original Master Indenture, in the event that any payment on or with respect to the Series 2006 Bonds shall have been made by or on behalf of the Company and, by reason of bankruptcy or other act of insolvency, such payment shall be deemed to be a preferential payment, and the Bond Trustee shall be required by a court of competent jurisdiction to surrender such payment, any credit on, respectively, the Tax-Exempt Master Note or the Taxable Master Note which may have been given as a result of such payment shall be rescinded, and the amount owing on, respectively, the Tax-Exempt Master Note or the Taxable Master Note shall be calculated as if such payment shall not have been made.

9.9 Interest on Overdue Installments. The Tax-Exempt Master Note and the Taxable Master Note shall bear interest on overdue installments of principal (premium, if any), and interest, to the extent permitted by law, at a rate equal to the applicable interest rate or rates borne by, respectively, the Series 2006A Bonds and the Series 2006B Bonds, respectively.

- 9.10 Registration, Transfer and Exchange. The Series 2006 Notes shall be transferred or exchanged pursuant to Section 205 of the Original Master Indenture.

ARTICLE III

REDEMPTION OR REDUCTION OF SERIES 2006 NOTES; SATISFACTION AND RELEASE

- 9.11 Redemption. The Tax-Exempt Master Note and the Taxable Master Note shall be subject to redemption prior to Stated Maturity to the extent and with respect to the corresponding redemption of the Series 2006A Bonds and Series 2006B Bonds, respectively, in accordance with the terms of the Related Bond Indenture. Notice of redemption of the Series 2006 Bonds shall, without further notice or action by the Master Trustee or the Company, constitute notice of redemption of the corresponding amounts of principal due on the Tax-Exempt Master Note and the Taxable Master Note, as applicable, and the same shall, thereby, become due and payable on the redemption date of the Series 2006 Bonds or at such earlier time as payment is required with respect thereto pursuant to the terms of the Related Bond Indenture.
- 9.12 Partial Redemption or Reduction. In the event of a partial redemption of the Tax-Exempt Master Note or the Taxable Master Note pursuant to Section 301 hereof, the amount of the principal and interest on such Tax-Exempt Master Note or Taxable Master Note becoming due after such redemption shall, to the extent appropriate and with the approval of the Master Trustee, be adjusted so that the installments of principal and interest thereafter due on the Tax-Exempt Master Note or the Taxable Master Note correspond to the payments of the principal of and interest on the Outstanding Series 2006A Bonds and Series 2006B Bonds, respectively.
- 9.13 Effect of Call for Prepayment or Redemption. On the date designated for prepayment or redemption by notice as herein provided, the Tax-Exempt Master Note or the Taxable Master Note or the portion thereof so called for prepayment or redemption shall become and be due and payable at the prepayment or redemption price provided for prepayments or redemption of such Tax-Exempt Master Note or Taxable Master Note or portion thereof on such date. If on the date fixed for prepayment or redemption, moneys for payment of the prepayment or redemption price and accrued interest on the Tax-Exempt Master Note or the Taxable Master Note are held by the Master Trustee or the Related Bond Trustee, (i) interest on such Tax-Exempt Master Note or the Taxable Master Note or portion thereof so called for prepayment or redemption shall cease to accrue, (ii) such Tax-Exempt Master Note or the Taxable Master Note or portion thereof shall cease to be entitled to any benefit or security hereunder

except the right to receive payment from the moneys held by the Master Trustee or the Related Bond Trustee and (iii) the amount of such Tax-Exempt Master Note or the Taxable Master Note or portion thereof so called for prepayment or redemption shall be deemed paid and no longer outstanding.

- 9.14 Satisfaction and Release. The Company's obligations with respect to the Tax-Exempt Master Note and the Taxable Master Note shall be considered satisfied and the Master Trustee shall release this Supplemental Master Indenture with respect thereto when all amounts due and owing on the Series 2006A Bonds and Series 2006B Bonds, respectively, have been paid or deemed paid under the Related Bond Indenture.

ARTICLE IV

REPRESENTATIONS, WARRANTIES AND COVENANTS

- 9.15 Representations and Warranties. The Company represents and warrants that (a) it is duly authorized under the laws of the State of Texas and all other applicable provisions of law to execute this Supplemental Master Indenture and to issue the Series 2006 Notes, (b) all corporate action on the part of the Company required by its organizational documents and the Original Master Indenture to establish this Supplemental Master Indenture as the binding obligation of the Company has been duly and effectively taken, and (c) all such action so required for the authorization and issuance of the Series 2006 Notes has been duly and effectively taken.
- 9.16 Covenants under the Original Master Indenture and Related Bond Documents. The Company covenants and agrees that so long as any of the Series 2006 Notes remain outstanding, it will deliver to the Related Bond Trustee all reports, opinions and other documents required by the Original Master Indenture to be submitted to the Master Trustee at the time said reports, opinions or other documents are required to be submitted to the Master Trustee, and that it will faithfully perform or cause to be performed at all times any and all covenants, agreements and undertakings required on the part of the Company contained in the Master Indenture and the Series 2006 Notes, and the Company hereby confirms its covenants and agrees with its undertakings in the Master Indenture.

ARTICLE V

MISCELLANEOUS PROVISIONS

- 9.17 Notices. Except as otherwise provided in the Original Master Indenture, it shall be sufficient service of any notice, request, complaint, demand or other paper required by the Original Master Indenture to be given to or filed with the parties if the same shall be delivered in person or duly

mailed by certified, registered or first class mail addressed to the addresses provided in the Original Master Indenture. The Master Trustee will be deemed to have received notice upon receipt of such notice by the Responsible Officer of the Master Trustee.

- 9.18 Ratification of Original Master Indenture. The Original Master Indenture, as supplemented by this Supplemental Master Indenture, is in all respects ratified and confirmed and the Original Master Indenture as so supplemented shall be read, taken and construed as one and the same instrument. Except as herein otherwise expressly provided, all the provisions, definitions, terms and conditions of the Original Master Indenture, as supplemented by this Supplemental Master Indenture, shall be deemed to be incorporated in, and made a part of, this Supplemental Master Indenture.
- 9.19 Limitation of Rights. Nothing in this Supplemental Master Indenture or in the Series 2006 Notes, express or implied, shall give or be construed to give any Person other than the Company, the Master Trustee and the respective registered Holders of the Series 2006 Notes or their assigns, any legal or equitable right, remedy or claim under or in respect of this Supplemental Master Indenture, or under any covenant, condition and provision herein contained, all its covenants, conditions and provisions being for the sole benefit of the Company, the Master Trustee and of the respective Holders of the Series 2006 Notes.
- 9.20 Provisions of the Original Master Indenture to Control. The provisions of Section 701 through 713 of the Original Master Indenture shall control the terms under which the Master Trustee shall serve under this Supplemental Master Indenture.
- 9.21 Binding Effect. All the covenants, stipulations, promises and agreements in this Supplemental Master Indenture by or on behalf of the Company or the Master Trustee shall inure to the benefit of and shall bind their respective successors and assigns, whether so expressed or not.
- 9.22 Severability Clause. If any provision of this Supplemental Master Indenture shall be held or deemed to be, or shall in fact be, inoperative or unenforceable as applied to any particular case in any jurisdiction or jurisdictions, or in all jurisdictions or in all cases because of the conflicting of any provision with any constitution or statute or rule of public policy or for any other reasons, such circumstance shall not have the effect of rendering the provision or provisions in question inoperative or unenforceable in any other jurisdiction or in any other case or circumstance or of rendering any other provision or provisions herein contained invalid, inoperative or unenforceable to the extent that such other provisions are not themselves actually in conflict with such constitution, statute or rule of public policy.

- 9.23 Execution in Counterparts. This Supplemental Master Indenture may be executed in any number of counterparts, each of which shall be an original; and all of which shall together constitute but one and the same instrument.
- 9.24 Governing Law. This Supplemental Master Indenture shall be governed, in all respects including validity, interpretation and effect by, and shall be enforceable in accordance with, the law of the State of Texas.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Master Indenture to be duly executed by the persons thereunto duly authorized, as of the date and year first above written.

KIPP, INC.

By: _____
Shawn Hurwitz, Board Chairman

ZIONS FIRST NATIONAL BANK,
as Master Trustee

By: _____
Name: _____
Title: _____

EXHIBIT A

FORM OF TAX-EXEMPT MASTER INDENTURE NOTE

TAX-EXEMPT MASTER INDENTURE NOTE
(KIPP, Inc.)
Series 2006A

THIS NOTE HAS NOT BEEN REGISTERED UNDER
THE SECURITIES ACT OF 1933, AS AMENDED

Registered
No. MRA-1

UNITED STATES OF AMERICA
STATE OF TEXAS

Registered
\$34,890,000

Interest Rate: AS SET FORTH HEREIN

Maturity Date: _____

Issue Date: _____, 2006

Registered Holder: TEXAS PUBLIC FINANCE AUTHORITY CHARTER SCHOOL
FINANCE CORPORATION

Principal Amount: THIRTY-FOUR MILLION EIGHT HUNDRED NINETY DOLLARS

KIPP, Inc., a Texas non-profit corporation (the "Company"), for value received, hereby promises to pay to the Holder named above, or registered assigns, the Principal Amount set forth above. The Company also promises to pay interest hereon from the Issue Date set forth above, or from the Interest Payment Date (as defined in the Indenture) to which interest has been paid or duly provided for, and on such other dates as may be required by the Loan Agreement referenced below until the principal hereof is paid or made available for payment. Principal of (and premium, if any) and interest on this Note are payable at the times and in the amounts described in Article IV of the Loan Agreement referred to below.

1. Authorization of Note. This Note represents the duly authorized Note of the Company, in the principal amount stated above, designated as "Tax-Exempt Master Indenture Note (KIPP, Inc.) Series 2006A" (this Note, together with all other Notes issued and secured under the Master Indenture, referred to collectively as the "Notes") issued under and pursuant to the Master Trust Indenture dated as of September 1, 2006, between the Company, acting in its own behalf, and Zions First National Bank, as trustee (the "Master Trustee"), as supplemented by the Supplemental Master Trust Indenture No. 1, dated as of September 1, 2006, between the Company, acting on its own behalf and the Master Trustee (collectively, being herein called the "Master Indenture"). This Note is issued for the purpose of securing the obligations of the Company under a Loan Agreement dated as of September 1, 2006 (the "Loan Agreement"), entered into between the Company and the Texas Public Finance Authority Charter School Finance Corporation (the "Issuer") in connection with the issuance and sale of revenue bonds of the Issuer in the principal amount of \$34,890,000, designated KIPP, Inc. Education Revenue Bonds (Issued by Texas Public Finance Authority Charter School Finance Corporation) Series 2006A (the "Bonds"), issued under and pursuant to the Constitution and laws of the State of Texas, and a Trust Indenture and Security Agreement, dated as of September 1, 2006 (the "Indenture"), between the Issuer and Zions First National Bank, as trustee (the "Bond Trustee").

It is provided in the Master Indenture that the Company has and may hereafter issue additional Notes from time to time, and if issued, such additional Notes will rank pari passu with this Note and all other Notes heretofore or hereafter issued under the Master Indenture, except as otherwise provided in the Supplemental Master Indenture authorizing such Note and Master Indenture.

Copies of the Master Indenture, the Indenture and the Loan Agreement are on file at the Corporate Trust Office of the Master Trustee and reference is hereby made to the Master Indenture, the Indenture and the Loan Agreement for the provisions, among others, with respect to the nature and extent of the security for and the rights of the registered holders of this Note, the terms and conditions on which, and purposes for which, this Note is issued and the rights, duties and obligations of the Company and the Master Trustee under the Master Indenture, to all of which the Holder hereof, by acceptance of this Note assents. The Master Indenture may be modified, amended or supplemented only to the extent and under the circumstances permitted by, and subject to the terms and conditions of, the Master Indenture.

2. Payment. Interest on this Note which is payable, and is punctually paid or duly provided for, on any Interest Payment Date, will, as provided in the Master Indenture, be paid to the Person in whose name this Note is registered at the close of business on the regular Record Date for such interest, which shall be the Interest Payment Date. Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the Holder on such regular Record Date, and shall be paid to the Person in whose name this Note is registered at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Master Trustee, notice whereof shall be given to Note Holders not less than 10 days prior to such special record date.

Interest on this Note shall be paid to the Holder of this Note at its address as it appears on the registration books of the Master Trustee by wire transfer of immediately available funds or in such other manner as may be mutually acceptable to the Bond Trustee and the Registered Holder of this Note.

Principal and the redemption price of this Note shall be payable to the Holder of this Note at the designated payment office of the Master Trustee located in _____, Texas (the "Place of Payment") upon the surrender for cancellation of this Note.

If the specified date for any such payment shall be a Saturday, a Sunday or a legal holiday or the equivalent for banking institutions generally (other than legal moratorium) at the place where payment thereof is to be made, then such payment may be made on the next succeeding day which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment. All such payments shall be made in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

3. Redemption. This Note is subject to redemption only in connection with the redemption of a related amount of Series 2006A Bonds as described in the Indenture referenced above.

4. Defeasance of Note. This Note is subject to defeasance as provided in the Master Indenture.

5. Limitations of Rights. The Holder of this Note shall have no right to enforce the provisions of the Master Indenture or to institute action to enforce the covenants therein, or to take any action with respect to any event of default under the Master Indenture, or to institute, appear in or defend any suit or other proceedings with respect thereto, except as provided in the Master Indenture.

6. Transfer of Note. This Note is transferable by the registered Holder hereof in person or by duly authorized attorney at the principal payment office of the Master Trustee, but only to a successor Bond Trustee for the Holders of the Bonds in the manner, subject to the limitations and upon payment of the charges provided in the Master Indenture, and upon surrender and cancellation of this Note. Upon such transfer a new registered Note or Notes without coupons of the same series and maturity and of authorized denomination or denominations for the same aggregate principal amount will be issued to the transferee in exchange therefor. The Master Trustee may deem and treat the registered Holder hereof as the absolute Holder hereof for the purpose of receiving payment of or on account of principal hereof and premium, if any, hereon and interest due hereon and for all other purposes and the Master Trustee shall not be affected by any notice to the contrary.

7. Certain Rights of Holders. If an Event of Default, as defined in the Master Indenture, shall occur, the principal of this Note and any additional notes may be declared due and payable in the manner and with the effect provided in the Master Indenture. To the extent permitted by law, the indebtedness of the Company under the Loan Agreement and this Note may be separately and independently accelerated with or without an acceleration of the Series 2006A Bonds.

The Master Indenture permits, with certain exceptions as therein provided, the amendment of the Master Indenture and the modification of the rights and obligations of the Company and the rights of the Holders of the Notes under the Master Indenture at any time with the consent of the Holders of not less than a majority in principal amount of the Notes at the time Outstanding, as defined in the Master Indenture. The Master Indenture also contains provisions permitting the Holders of specified percentages in aggregate principal amount of the Notes at the time Outstanding, as defined in the Master Indenture, on behalf of the Holders of all the Notes, to waive compliance by the Company or its affiliates with certain provisions of the Master Indenture and certain past defaults under the Master Indenture and their consequences. Any such consent or waiver by the Holder of this Note shall be conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon the transfer hereof or in exchange therefor or in lieu hereof whether or not notation of such consent or waiver is made upon this Note.

No reference herein to the Master Indenture and no provision of this Note or of the Master Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of this Note at the times, place, and rate, and in the coin or currency, herein prescribed from the sources herein described.

8. Usury. In no event shall the amount of interest (as defined and calculated in accordance with applicable law) contracted for, charged, reserved, received or taken in connection with the loan exceed the amount of interest which could have been contracted for, charged, reserved, received or taken at the Highest Lawful Rate as defined in the Loan Agreement. If the applicable law is ever judicially interpreted so as to render usurious any amount contracted for, charged, reserved, received or taken in connection with the loan, or if the exercise of the option contained in the Master Indenture or otherwise to accelerate the maturity of the loan or if any prepayment of the loan by the Company results in there having been paid or received any interest in excess of that permitted by applicable law, then notwithstanding anything to the contrary contained in the Master Indenture, the Master Indenture provides that all excess amounts theretofore paid or received shall be credited on the principal balance of the loan (or, if the loan has been or would thereby be paid in full, refunded), and the provisions of the Master Indenture shall immediately be deemed reformed and the amounts thereafter collectible thereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for thereunder.

9. No Recourse. No recourse shall be had for the payment of the principal of or premium or interest on this Note or for any claim based thereon or upon any obligation, covenant or agreement in the Master Indenture contained, against any past, present or future officer, trustee, director, member, employee or agent of the Company, or any incorporator, officer, director, member, employee or agent of any successor corporation, as such, either directly or through any successor corporation, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise and all such liability of any such incorporators, officers, directors, members, employees or agents, as such, is hereby expressly waived and released as a condition of and consideration for the execution of the Master Indenture and the issuance of this Note.

10. Authentication of Note. This Note shall not be entitled to any benefit under the Master Indenture, or be valid or become obligatory for any purpose, until this Note shall have been authenticated by execution by the Master Trustee of the Certificate of Authentication inscribed hereon.

11. Waiver of Presentment or Notice. The Company hereby waives presentment for payment, demand, protest, notice of protest, notice of dishonor and all defenses on the grounds of extension of time of payment for the payment hereof which may be given (other than in writing) by the Master Trustee to the Company.

IT IS CERTIFIED that all conditions, acts and things required to exist, happen and be performed under the Master Indenture precedent to and in the issuance of this Note, exist, have happened and have been performed, and that the issuance, authentication and delivery of this Note have been duly authorized by resolutions of the Company.

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed.

KIPP, INC.

By: _____
Name: _____
Title: _____

ASSIGNMENT

For value received, the undersigned hereby assigns to Zions First National Bank, as Bond Trustee (the "Bond Trustee") under a Trust Indenture and Security Agreement, dated as of September 1, 2006, between the Bond Trustee and the undersigned, the within Note and all its rights thereunder without recourse or warranty, except warranty of good title and warranty that the Issuer has not assigned this Note to a person other than the Bond Trustee and that the principal amount remains unpaid under this Note.

TEXAS PUBLIC FINANCE AUTHORITY
CHARTER SCHOOL FINANCE CORPORATION

By: _____
President

(Form of Certificate of Authentication to
appear on each Note)

CERTIFICATE OF AUTHENTICATION

This is one of the Notes referred to in the Master Indenture.

Date of Authentication:

ZIONS FIRST NATIONAL BANK,
as Master Trustee

By: _____
Authorized Signature

EXHIBIT B

FORM OF TAXABLE MASTER INDENTURE NOTE

TAXABLE MASTER INDENTURE NOTE
(KIPP, Inc.)
Series 2006B

THIS NOTE HAS NOT BEEN REGISTERED UNDER
THE SECURITIES ACT OF 1933, AS AMENDED

Registered
No. MRB-1

UNITED STATES OF AMERICA
STATE OF TEXAS

Registered
\$525,000

Interest Rate: AS SET FORTH HEREIN

Maturity Date: _____

Issue Date: _____, 2006

Registered Holder: TEXAS PUBLIC FINANCE AUTHORITY CHARTER FINANCE CORPORATION

Principal Amount: FIVE HUNDRED TWENTY-FIVE THOUSAND DOLLARS

KIPP, Inc., a Texas non-profit corporation (the "Company"), for value received, hereby promises to pay to the Holder named above, or registered assigns, the Principal Amount set forth above. The Company also promises to pay interest hereon from the Issue Date set forth above, or from the Interest Payment Date (as defined in the Indenture) to which interest has been paid or duly provided for, and on such other dates as may be required by the Loan Agreement referenced below until the principal hereof is paid or made available for payment. Principal of (and premium, if any) and interest on this Note are payable at the times and in the amounts described in Article IV of the Loan Agreement referred to below.

1. Authorization of Note. This Note represents the duly authorized Note of the Company, in the principal amount stated above, designated as "Taxable Master Indenture Note (KIPP, Inc.) Series 2006B" (this Note, together with all other Notes issued and secured under the Master Indenture, referred to collectively as the "Notes") issued under and pursuant to the Master Trust Indenture dated as of September 1, 2006, between the Company, acting in its own behalf, and Zions First National Bank, as trustee (the "Master Trustee"), as supplemented by the Supplemental Master Trust Indenture No. 1, dated as of September 1, 2006, between the Company, acting on its own behalf and the Master Trustee (collectively, being herein called the "Master Indenture"). This Note is issued for the purpose of securing the obligations of the Company under a Loan Agreement dated as of September 1, 2006 (the "Loan Agreement"), entered into between the Company and the Texas Public Finance Authority Charter School Finance Corporation (the "Issuer") in connection with the issuance and sale of revenue bonds of the Issuer in the principal amount of \$525,000, designated KIPP, Inc. Taxable Education Revenue Bonds (Issued by Texas Public Finance Authority Charter School Finance Corporation) Series 2006B (the "Bonds"), issued under and pursuant to the Constitution and laws of the State of Texas, and a Trust Indenture and Security Agreement, dated as of September 1, 2006 (the "Indenture"), between the Issuer and Zions First National Bank, as trustee (the "Bond Trustee").

It is provided in the Master Indenture that the Company has and may hereafter issue additional Notes from time to time, and if issued, such additional Notes will rank pari passu with this Note and all other Notes heretofore or hereafter issued under the Master Indenture, except as otherwise provided in the Supplemental Master Indenture authorizing such Note and Master Indenture.

Copies of the Master Indenture, the Indenture and the Loan Agreement are on file at the principal corporate trust office of the Master Trustee and reference is hereby made to the Master Indenture, the Indenture and the Loan Agreement for the provisions, among others, with respect to the nature and extent of the security for and the rights of the registered holders of this Note, the terms and conditions on which, and purposes for which, this Note is issued and the rights, duties and obligations of the Company and the Master Trustee under the Master Indenture, to all of which the Holder hereof, by acceptance of this Note assents. The Master Indenture may be modified, amended or supplemented only to the extent and under the circumstances permitted by, and subject to the terms and conditions of, the Master Indenture.

2. Payment. Interest on this Note which is payable, and is punctually paid or duly provided for, on any Interest Payment Date, will, as provided in the Master Indenture, be paid to the Person in whose name this Note is registered at the close of business on the regular Record Date for such interest, which shall be the Interest Payment Date. Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the Holder on such regular Record Date, and shall be paid to the Person in whose name this Note is registered at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Master Trustee, notice whereof shall be given to Note Holders not less than 10 days prior to such special record date.

Interest on this Note shall be paid to the Holder of this Note at its address as it appears on the registration books of the Master Trustee by wire transfer of immediately available funds or in such other manner as may be mutually acceptable to the Bond Trustee and the Registered Holder of this Note.

Principal and the redemption price of this Note shall be payable to the Holder of this Note at the designated payment office of the Master Trustee located in _____ (the "Place of Payment") upon the surrender for cancellation of this Note.

If the specified date for any such payment shall be a Saturday, a Sunday or a legal holiday or the equivalent for banking institutions generally (other than legal moratorium) at the place where payment thereof is to be made, then such payment may be made on the next succeeding day which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment. All such payments shall be made in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

3. Redemption. This Note is subject to redemption only in connection with the redemption of a related amount of Series 2006B Bonds as described in the Indenture referenced above.

4. Defeasance of Note. This Note is subject to defeasance as provided in the Master Indenture.

5. Limitations of Rights. The Holder of this Note shall have no right to enforce the provisions of the Master Indenture or to institute action to enforce the covenants therein, or to take any action with respect to any event of default under the Master Indenture, or to institute, appear in or defend any suit or other proceedings with respect thereto, except as provided in the Master Indenture.

6. Transfer of Note. This Note is transferable by the registered Holder hereof in person or by duly authorized attorney at the principal payment office of the Master Trustee, but only to a successor Bond Trustee for the Holders of the Bonds in the manner, subject to the limitations and upon payment of the charges provided in the Master Indenture, and upon surrender and cancellation of this Note. Upon such transfer a new

registered Note or Notes without coupons of the same series and maturity and of authorized denomination or denominations for the same aggregate principal amount will be issued to the transferee in exchange therefor. The Master Trustee may deem and treat the registered Holder hereof as the absolute Holder hereof for the purpose of receiving payment of or on account of principal hereof and premium, if any, hereon and interest due hereon and for all other purposes and the Master Trustee shall not be affected by any notice to the contrary.

7. Certain Rights of Holders. If an Event of Default, as defined in the Master Indenture, shall occur, the principal of this Note and any additional notes may be declared due and payable in the manner and with the effect provided in the Master Indenture. To the extent permitted by law, the indebtedness of the Company under the Loan Agreement and this Note may be separately and independently accelerated with or without an acceleration of the Series 2006B Bonds.

The Master Indenture permits, with certain exceptions as therein provided, the amendment of the Master Indenture and the modification of the rights and obligations of the Company and the rights of the Holders of the Notes under the Master Indenture at any time with the consent of the Holders of not less than a majority in principal amount of the Notes at the time Outstanding, as defined in the Master Indenture. The Master Indenture also contains provisions permitting the Holders of specified percentages in aggregate principal amount of the Notes at the time Outstanding, as defined in the Master Indenture, on behalf of the Holders of all the Notes, to waive compliance by the Company or its affiliates with certain provisions of the Master Indenture and certain past defaults under the Master Indenture and their consequences. Any such consent or waiver by the Holder of this Note shall be conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon the transfer hereof or in exchange therefor or in lieu hereof whether or not notation of such consent or waiver is made upon this Note.

No reference herein to the Master Indenture and no provision of this Note or of the Master Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of this Note at the times, place, and rate, and in the coin or currency, herein prescribed from the sources herein described.

8. Usury. In no event shall the amount of interest (as defined and calculated in accordance with applicable law) contracted for, charged, reserved, received or taken in connection with the loan exceed the amount of interest which could have been contracted for, charged, reserved, received or taken at the Highest Lawful Rate as defined in the Loan Agreement. If the applicable law is ever judicially interpreted so as to render usurious any amount contracted for, charged, reserved, received or taken in connection with the loan, or if the exercise of the option contained in the Master Indenture or otherwise to accelerate the maturity of the loan or if any prepayment of the loan by the Company results in there having been paid or received any interest in excess of that permitted by applicable law, then notwithstanding anything to the contrary contained in the Master Indenture, the Master Indenture provides that all excess amounts theretofore paid or received shall be credited on the principal balance of the loan (or, if the loan has been or would thereby be paid in full, refunded), and the provisions of the Master Indenture shall immediately be deemed reformed and the amounts thereafter collectible thereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for thereunder.

9. No Recourse. No recourse shall be had for the payment of the principal of or premium or interest on this Note or for any claim based thereon or upon any obligation, covenant or agreement in the Master Indenture contained, against any past, present or future officer, trustee, director, member, employee or agent of the Company, or any incorporator, officer, director, member, employee or agent of any successor

corporation, as such, either directly or through any successor corporation, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise and all such liability of any such incorporators, officers, directors, members, employees or agents, as such, is hereby expressly waived and released as a condition of and consideration for the execution of the Master Indenture and the issuance of this Note.

10. Authentication of Note. This Note shall not be entitled to any benefit under the Master Indenture, or be valid or become obligatory for any purpose, until this Note shall have been authenticated by execution by the Master Trustee of the Certificate of Authentication inscribed hereon.

11. Waiver of Presentment or Notice. The Company hereby waives presentment for payment, demand, protest, notice of protest, notice of dishonor and all defenses on the grounds of extension of time of payment for the payment hereof which may be given (other than in writing) by the Master Trustee to the Company.

IT IS CERTIFIED that all conditions, acts and things required to exist, happen and be performed under the Master Indenture precedent to and in the issuance of this Note, exist, have happened and have been performed, and that the issuance, authentication and delivery of this Note have been duly authorized by resolutions of the Company.

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed.

KIPP, INC.

By: _____

Name: _____

Title: _____

ASSIGNMENT

For value received, the undersigned hereby assigns to Zions First National Bank, as Trustee (the “Bond Trustee”) under a Trust Indenture and Security Agreement, dated as of September 1, 2006, between the Bond Trustee and the undersigned, the within Note and all its rights thereunder without recourse or warranty, except warranty of good title and warranty that the Issuer has not assigned this Note to a person other than the Bond Trustee and that the principal amount remains unpaid under this Note.

TEXAS PUBLIC FINANCE AUTHORITY CHARTER
SCHOOL FINANCE CORPORATION

By: _____
President

(Form of Certificate of Authentication to
appear on each Note)

CERTIFICATE OF AUTHENTICATION

This is one of the Notes referred to in the Master Indenture.

Date of Authentication:

ZIONS FIRST NATIONAL BANK,
as Master Trustee

By: _____
Authorized Signature

APPENDIX E

TRUST INDENTURE AND SECURITY AGREEMENT

TRUST INDENTURE AND SECURITY AGREEMENT

between

TEXAS PUBLIC FINANCE AUTHORITY
CHARTER SCHOOL FINANCE CORPORATION

and

ZIONS FIRST NATIONAL BANK,
as Trustee

Relating to
\$34,890,000
KIPP, Inc.
Education Revenue Bonds
(Issued by Texas Public Finance Authority Charter School Finance Corporation)
Series 2006A

and

\$525,000
KIPP, Inc.
Taxable Education Revenue Bonds
(Issued by Texas Public Finance Authority Charter School Finance Corporation)
Series 2006B

Dated as of

September 1, 2006

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TRUST INDENTURE AND SECURITY AGREEMENT

THIS TRUST INDENTURE AND SECURITY AGREEMENT (this “Indenture”), dated as of September 1, 2006, is between the **TEXAS PUBLIC FINANCE AUTHORITY CHARTER SCHOOL FINANCE CORPORATION**, a non-profit corporation created and existing under the Act, and **ZIONS FIRST NATIONAL BANK**, a national banking association with a corporate trust office in [Houston, Texas,] not in its individual capacity but solely as Trustee (the “Trustee”).

WITNESSETH:

WHEREAS, the Texas Public Finance Authority (the “Authority”), has, pursuant to Chapter 53 of the Texas Education Code, as amended (the “Act”), and specifically Section 53.351 thereof, approved and provided for the creation of the Issuer as a nonstock, non-profit corporation;

WHEREAS, the Issuer is a constituted authority and instrumentality (within the meaning of those terms in the Regulations of the Department of the Treasury and the rulings of the Internal Revenue Service (the “IRS”) prescribed and promulgated pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”));

WHEREAS, the Issuer, on behalf of the Authority, is empowered to issue its revenue bonds in order to acquire by purchase, purchase contract, or lease, or to construct, enlarge, extend, repair, renovate, or otherwise improve, educational facilities, and to refinance any educational acquired, constructed or improved, and for the purpose of aiding authorized charter schools in providing educational facilities and facilities incidental, subordinate, or related thereto or appropriate in connection therewith;

WHEREAS, KIPP, Inc., a Texas nonprofit corporation (the “Company”) requests the Issuer issue, and the Issuer proposes to issue, bonds pursuant to the Resolution of the Issuer and this Indenture, which will be designated “KIPP, Inc. Education Revenue Bonds (Issued by Texas Public Finance Authority Charter School Finance Corporation) Series 2006A” (the “Series 2006A Bonds”) and “KIPP, Inc. Taxable Education Revenue Bonds (Issued by Texas Public Finance Authority Charter School Finance Corporation) Series 2006B” (the “Series 2006B Bonds”) (collectively, the “Bonds”), the proceeds of which will be loaned to the Company to be used to finance the cost of a project consisting of the acquisition of certain land and the construction and improvements to certain buildings, equipment, facilities and improvements located on three campuses of the Company in the city of Houston, Texas; and to pay certain of the costs of issuing the Bonds;

WHEREAS, the Issuer and the Company have entered into a Loan Agreement, dated as of even date herewith (the “Agreement”), providing for (i) a loan from the Issuer to the Company of the proceeds of the sale of the Bonds, and (ii) the repayment of such loan by the Company;

Error! Unknown document property name.

WHEREAS, contemporaneously with the execution and delivery of this Indenture, the parties to the Bond Documents have executed and delivered the other Bond Documents for the purposes of effecting the issuance of the Bonds, furthering the public purposes of the Act, and securing to the Holders of the Bonds the payment of the Bond Obligations;

WHEREAS, the Issuer has determined, subject to the conditions set forth herein and within the Master Indenture, to provide for the issuance from time to time in the future of certain additional bonds for the purpose of defraying the cost of completing, enlarging, improving, or expanding one or more projects or other eligible properties for the Company or refunding any series of bonds theretofore issued and Outstanding under this Indenture or the Master Indenture;

WHEREAS, simultaneously with the issuance of the Bonds, two bond insurance policies (collectively, the “Bond Insurance Policy”) will be issued by ACA Financial Guaranty Corporation (“ACA”), guaranteeing the payment of principal and interest on the Bonds when due, to the extent the Trustee has not received sufficient funds for such payment;

WHEREAS, all things necessary to make the Bonds, when issued, executed and delivered by the Issuer and authenticated by the Trustee pursuant to this Indenture, the valid, legal and binding limited obligations of the Issuer, and to constitute this Indenture a valid pledge of certain income, revenues and assets derived from the proceeds of the Bonds and from the Agreement for the payment of the Bond Obligations have been performed, and the execution and delivery of this Indenture, and the creation, execution and issuance of the Bonds subject to the terms hereof, have in all respects been duly authorized; and

NOW THEREFORE, in consideration of the premises and other good and valuable consideration and the mutual benefits, covenants and agreements set forth below, the parties agree as follows:

GRANTING CLAUSES

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that to secure the payment of the Bond Obligations and the performance of the covenants herein contained and to declare the terms and conditions on which the Outstanding Bonds are secured, and in consideration of the premises, of the purchase of the Bonds by the Holders thereof, and for other good and valuable consideration, the receipt and sufficiency of all of which are hereby acknowledged, the Issuer by these presents does grant, bargain, sell, alien, remise, release, convey, assign, transfer, mortgage, hypothecate, pledge, set over, and confirm to the Trustee, forever, all and singular the following described properties, and grant a security interest therein for the purposes herein expressed, to-wit:

GRANTING CLAUSE FIRST

All right, title, and interest of the Issuer in and to the Agreement, including all amounts payable thereunder, including but not limited to the Loan Payments, the Note, any and all security heretofore or hereafter granted or held for the payment thereof, and the present and continuing right to bring actions and proceedings

under the Agreement or for the enforcement thereof and to do any and all things which the Issuer is or may become entitled to do thereunder, but excluding the amounts agreed to be paid by the Company pursuant to Sections 4.7 and 5.1 of the Agreement (the “Issuer’s Unassigned Rights”); and

GRANTING CLAUSE SECOND

All right, title, and interest of the Issuer in and to all money and investments held for the credit of the funds and accounts established by or under this Indenture (except the Rebate Fund) as hereinafter described; and

GRANTING CLAUSE THIRD

Any and all property that may, from time to time hereafter, by delivery or by writing of any kind, be subjected to the lien and security interest hereof by the Issuer or by anyone on its behalf (and the Trustee is hereby authorized to receive the same at any time as additional security hereunder), which subjection to the lien and security interest hereof of any such property as additional security may be made subject to any reservations, limitations, or conditions that shall be set forth in a written instrument executed by the Issuer or the Person so acting in its behalf or by the Trustee respecting the use and disposition of such property or the proceeds thereof;

TO HAVE AND TO HOLD all said property, rights, privileges, and franchises of every kind and description, real, personal or mixed, hereby and hereafter (by supplemental instrument or otherwise) granted, bargained, sold, aliened, remised, released, conveyed, assigned, transferred, mortgaged, hypothecated, pledged, set over, or confirmed as aforesaid, or intended, agreed, or covenanted so to be, together with all the appurtenances thereto appertaining (said properties, rights, privileges, and franchises together with any cash and securities hereafter deposited or required to be deposited with the Trustee being herein collectively referred to as the “Trust Estate”) unto the Trustee and its successors and assigns forever;

BUT IN TRUST, NEVERTHELESS, for the equal and proportionate benefit and security of the Holders from time to time of the Outstanding Bonds without any priority of any such Bonds over any other such Bonds except as herein otherwise expressly provided;

UPON CONDITION that, if the Issuer, or its successors or assigns shall well and truly pay, or cause to be paid, the principal of (and premium, if any) and interest on the Bonds according to the true intent and meaning thereof, or there shall be deposited with the Trustee such amounts in such form in order that no Bonds shall remain Outstanding as herein defined and provided, and shall pay or cause to be paid to the Trustee all sums of money due or to become due to it in accordance with the terms and provisions of the Bond Documents, then upon the full and final payment of all such sums and amounts secured hereby or upon such deposit, this Indenture and the rights, titles, liens, security interests, and assignments herein granted shall cease, determine, and be void and this grant shall be released by the Trustee in due form at the expense of the Issuer, except only as herein provided; otherwise this grant to be and shall remain in full force and effect;

AND IT IS HEREBY COVENANTED AND DECLARED that all Bonds are to be authenticated and delivered and the Trust Estate is to be held and applied by the Trustee, subject to the further covenants, conditions, and trusts hereinafter set forth, and the Issuer does hereby covenant and agree to and with the Trustee, for the equal and proportionate benefit of all Holders of the Bonds, except as herein otherwise expressly provided, as follows:

ARTICLE I

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

9.25 Construction of Terms; Definitions.

- (a) For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

1.1.1.70 “Indenture” means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof.

1.1.1.71 All references in this instrument to designated “Articles”, “Sections” and other subdivisions are to the designated Articles, Sections and other subdivisions of this instrument as originally executed. The words “herein”, “hereof” and “hereunder” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

1.1.1.72 The terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular. Terms used herein but defined only in the Agreement have the meanings assigned to them in the Agreement. Reference to any Bond Document means that Bond Document as amended or supplemented from time to time. Reference to any party to a Bond Document means that party and its successors and assigns.

- (b) The following terms have the meanings assigned to them below whenever they are used in this Indenture except to the extent otherwise defined in Exhibits “A,” “B” or “C” hereto :

[“ACA” means ACA Financial Guaranty Corporation, a Maryland stock insurance corporation, its successors and assigns.]

“Act” means Chapter 53 of the Texas Education Code, as amended from time to time, including particularly Sections 53.351 of such Chapter.

“Adjusted Revenues” shall have the meaning given to such term in the Master Indenture.

“Agreement” means the Loan Agreement, dated as of the date of this Indenture, between the Issuer and the Company relating to the loan of the proceeds of the Bonds.

“Authenticating Agent” means the Person designated pursuant to Section 812 hereof to perform the duties of such set forth in this Indenture, initially the Trustee.

“Authorized Denominations” means, with respect to the Bonds, \$5,000 and any integral multiple thereof.

“Authorized Newspaper” means a newspaper of general circulation in the relevant area, printed in the English language and customarily published on each Business Day, whether or not published on Saturdays, Sundays or holidays. Whenever successive weekly publications in an Authorized Newspaper are required hereunder they may be made (unless otherwise expressly provided herein) on the same or different days of the week and in the same or in different Authorized Newspapers.

“Authorized Representative” means the Chairman of the Board of Directors and the Superintendent of the Company, or any other person duly appointed by the Board of Directors of the Company to act on behalf of the Company, each as evidenced by a written certificate furnished to the Trustee and ACA containing the specimen signature of such person or persons and signed on behalf of the Company by an authorized officer of the Company. The Trustee and ACA may rely on such written certificate until it is given written notice to the contrary.

“Available Money” at any time held for the credit of the Debt Service Fund means all such amounts (1) so held separately and segregated from other monies of the Company for the preceding 123 consecutive days, and all income from the investment of such amounts, unless a petition for relief has been filed by or against the Company or the Issuer, as debtor, under the Bankruptcy Code and has not been previously dismissed, in which event “Available Money” shall mean amounts which are authorized by order (which is either unappealable or as to which the period for taking an appeal therefrom has expired without an appeal therefrom having been taken) of the court in which the case commenced by such petition is pending to be applied for the purposes for which such amounts are intended to be used, (2) constituting proceeds of the Bonds deposited on the Closing Date in the Debt Service Fund and the Debt Service Reserve Fund, (3) constituting proceeds of bonds or notes issued to refund the Bonds accompanied by an Opinion of Counsel that such monies would not be subject to a preference in bankruptcy, or (4) amounts as to which the Trustee has received an Opinion of Counsel with expertise in matters dealing with bankruptcy and satisfactory to the Trustee stating that no disbursement thereof pursuant to the Indenture may be recovered under Section 544, 547, or 549 of the Bankruptcy Code or under any similar provision of applicable state law.

“Bankruptcy Code” means Title 11 of the United States Code, as amended from time to time.

“Board Resolution” of any specified Person means a copy of a resolution certified by the Person responsible for maintaining the records of the Governing Body of such Person to have been duly adopted by the Governing Body of such Person and to be in full force and effect on the date of such certification and delivered to the Trustee.

“Bond Documents” means this Indenture, the Agreement, the Tax-Exempt Master Note, the Taxable Master Note, the Bonds, the Master Indenture, the Deed of Trust, the Deposit Account Control Agreement (as defined in the Master Indenture) and all other agreements, documents and instruments ever delivered pursuant to any of the foregoing and any and all future renewals and extensions or restatements of any of the foregoing.

“Bond Insurance Policy” means the bond insurance policies issued by ACA insuring the payment of the principal of and interest on the Bonds as provided therein.

“Bond Obligations” means all principal (and premium, if any) and interest on the Bonds and any other amounts which may be owed by the Company to, or on behalf of, the Issuer or the Trustee under the Bond Documents.

“Bond Register” and “Bond Registrar” have the respective meanings specified in Section 204.

“Bonds” means the Series 2006A Bonds and the Series 2006B Bonds and any Bonds issued upon transfer thereof or in exchange therefor or in lieu thereof.

“Book-Entry Form” or “Book-Entry System” means, with respect to the Bonds, a form or system, as applicable, under which (a) the ownership of beneficial interests in the Bonds may be transferred only through a book-entry, and (b) physical bond certificates in fully registered form are registered only in the name of a Depository or its nominee as Holder, with the physical bond certificates held in the custody of the Depository.

“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 cities where the Corporate Trust Office of the Trustee or its payment office are located or are authorized by law or executive order to close.

“Closing Date” means the date on which the Bonds are first authenticated and delivered to the initial purchasers thereof against payment therefor.

“Collateral” shall have the meaning assigned to such term in the Deed of Trust.

“Company” means KIPP, Inc., a Texas non-profit corporation, its permitted successors and assigns, and any resulting, surviving or transferee Person permitted hereunder.

“Consent,” “Order,” and “Request” of any specified Person mean, respectively, a written consent, order, or request signed in the name of such Person and delivered to the Trustee by the chairman of the Governing Body, president, an executive or senior vice president, chief financial officer or any other Person designated by any of such Persons to execute any such instrument as evidenced by an Officer’s Certificate delivered to the Trustee.

“Construction Fund” means the special trust fund created in Section 406 of this Indenture.

“Corporate Trust Office” means the address or addresses of the Trustee designated from time to time in Section 105.

“Costs of Issuance” means the cost of financing, legal, printing and other costs attributable to the issuance of the Bonds as defined in the Code.

“DTC” means The Depository Trust Company, New York, New York, the initial securities depository of the Book Entry System described in Section 211 hereof. DTC is a limited purpose trust company organized under the laws of the State of New York, 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, as amended.

“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 trust fund created in Section 403 of this Indenture.

“Debt Service Reserve Fund” means the special trust fund created in Section 404 of this Indenture.

“Deed of Trust” means that certain Deed of Trust and Security Agreement (with Assignment of Rents and Leases), dated as of even date herewith from the Company to the Master Trustee, as such Deed of Trust may be amended, supplemented or restated, and/or any security instrument executed in substitution

therefore or in addition thereto, as such substitute or additional security instrument may be amended, supplemented or restated from time to time.

“Defeasance Obligations” means, to the extent permitted by law (as determined by the Company), Items (1), (2) and (3) in the definition of Eligible Securities.

“Depository” means any securities depository that is 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, as amended, operating and maintaining, with its participants or otherwise, a Book-Entry System to record ownership of beneficial interests in the Bonds, and to effect transfers of the Bonds, in Book-Entry Form. The initial Depository for the Bonds shall be DTC.

“Eligible Securities” means, to the extent permitted by law (as determined by the Company but not the Trustee), the following obligations or securities, maturing or redeemable at the option of the Trustee, or marketable, prior to the maturities thereof, at such time or times as to enable disbursements to be made from the Debt Service Fund, the Debt Service Reserve Fund, the Construction Fund and the Rebate Fund in accordance with the terms hereof:

1.1.1.72.1 Cash deposits (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in the next paragraph).

1.1.1.72.2 Direct obligations of (including obligations issued or held in book entry form on the books of the Department of Treasury) the United States of America.

1.1.1.72.3 Obligations of the following federal agencies so long as such obligations are backed by the full faith and credit of the United States of America:

U.S. Export-Import Bank (Eximbank)

Rural Economic Community Development Administration

Federal Financing Bank

U.S. Maritime Administration

U.S. Department of Housing and Urban Development (PHAs)

General Services Administration

Small Business Administration

Government National Mortgage Association (GNMA)

Federal Housing Administration

Farm Credit System Financial Assistance Corporation

1.1.1.72.4 Direct obligations of any of the following federal agencies, which obligations are not fully guaranteed by the full faith and credit of the United States of America:

Senior debt obligations rated in the highest long-term rating category by at least two nationally recognized rating agencies issued by Fannie Mae (FNMA) or Freddie Mac (FHLMC).

Senior debt obligations of the Federal Home Loan Bank System.

Senior debt obligations of other Government Sponsored Agencies approved by ACA.

1.1.1.72.5 U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks (including the Trustee or its affiliates) which either (a) have a rating on their short-term certificates of deposit on the date of purchase in the highest short-term rating category of at least two nationally recognized rating agencies, (b) are insured at all times by the Federal Deposit Insurance Corporation, or (c) are collateralized with direct obligations of the United States of America at one hundred two percent (102%) valued daily. All such certificates must mature no more than three hundred sixty (360) days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank.)

1.1.1.72.6 Commercial paper which is rated at the time of purchase in the highest short-term rating category of at least two (2) nationally recognized rating agencies and which matures not more than two hundred seventy (270) days after the date of purchase.

1.1.1.72.7 Investments in (a) money market funds subject to SEC Rule 2a-7 and rated in the highest short-term rating category of at least two nationally recognized rating agencies and (b) public sector investment pools operated pursuant to SEC Rule 2a-7 in which the Issuer's deposit shall not exceed 5% of the aggregate pool balance at any time and such pool is rated in one of the two highest short-term rating categories of at least two nationally recognized rating agencies; including, without limitation, any other mutual fund for which the Trustee or any affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an

affiliate of the Trustee receives fees from such funds for services rendered, (ii) the Trustee charges and collects fees for services rendered pursuant to this Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to this Indenture may at times duplicate those provided to such funds by the Trustee or the affiliate.

1.1.1.72.8 Pre-refunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instruction have been given by the obligor to call on the date specified in the notice; and

which are rated, based on an irrevocable escrow account or fund (the escrow”), in the highest long-term rating category of at least (2) nationally recognized rating agencies; or

(i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or direct obligations of the United States of America, which escrow may be applied only to the payment of such principal and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

1.1.1.72.9 General obligations of states with a short-term rating at the time of purchase in one (1) of the two (2) highest rating categories and a long-term rating in one (1) of the two (2) highest rating categories of at least two (2) nationally recognized rating agencies. In the event such obligations are variable rate obligations, the interest rate on such obligations must be reset not less frequently than annually.

1.1.1.72.10 Investment agreements approved in writing by ACA (and supported by appropriate opinions of counsel).

1.1.1.72.11 Other forms of investments (including repurchase agreements) approved in writing by ACA (and supported by appropriate opinions of counsel);

provided, that, only those investments described in Items 1, 2, and 3 above may be used as defeasance investments in refunding escrow accounts; and provided further that, in the event those

investments described in Items 2 and 3 above are used for defeasance, they shall be non-callable and non-prepayable.

“Event of Default” is defined in Article VII of this Indenture.

“Exempt Person” means a state or local governmental unit or an organization exempt from federal income taxation under Section 501(a) of the Code by reason of being described in Section 501(c)(3) of the Code.

“Favorable Opinion of Bond Counsel” means, with respect to any action the taking of which requires such an opinion, an unqualified opinion of counsel, which shall be from Bond Counsel, delivered to and in form and substance satisfactory to the Issuer to the effect that such action is permitted under the laws of the State (including the Act), the Code and the Indenture and will not adversely affect the exclusion of interest on the Series 2006A Bonds from gross income for purposes of federal income taxation.

“Governing Body” of any specified Person means the board of directors or board of trustees of such Person or any duly authorized committee of that board, or if there be no board of trustees or board of directors, then the person or body which pursuant to law or the organizational documents of such Person is vested with powers similar to those vested in a board of trustees or a board of directors.

“Holder” or “Bondholder” or “Registered Holder” means a Person in whose name a Bond is registered in the Bond Register.

“Independent” when used with respect to any specified Person means such a Person who (i) is in fact independent, (ii) does not have any direct financial interest or any material indirect financial interest in the Company, and (iii) is not connected with the Company as an officer, employee, promoter, trustee, partner, director or person performing similar functions. Whenever it is herein provided that any Independent Person’s opinion or certificate shall be furnished to the Trustee, such Person shall be appointed by Order and such opinion or certificate shall state that the signer has read this definition and that the signer is Independent within the meaning hereof.

“Interest Payment Date” means each August 15 and February 15, commencing February 15, 2007.

“Issuer” means Texas Public Finance Authority Charter School Finance Corporation, a non-stock, non-profit corporation organized under the Act.

“Loan” means the loan made by the Issuer to the Company pursuant to the Agreement.

“Management Consultant” means a firm of Independent professional management consultants, or an independent school management organization, knowledgeable in the operation of public or private schools and having a favorable reputation for skill and experience in the field of public or private school management

consultation; provided that ACA shall preapprove in writing such management consultant.

“Master Indenture” means that certain Master Trust Indenture and Security Agreement, dated as of September 1, 2006, between the Company and the Master Trustee, as amended by the Supplemental Master Trust Indenture, and as further amended or supplemented from time to time in accordance with its terms.

“Master Trustee” means Zions First National Bank, a national banking association, with a corporate trust office in [Houston, Texas,] serving as master trustee pursuant to the Master Indenture or any successor thereto pursuant to the provisions of the Master Indenture.

“Maturity” when used with respect to any Bond means the date on which the principal of such Bond becomes due and payable as therein or herein provided, whether at the Stated Maturity thereof or by declaration of acceleration, call for redemption 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.

“Note” or “Notes” means the Tax-Exempt Master Note and the Taxable Master Note.

“Officer’s Certificate” of any specified Person means a certificate signed by the chairman of the Governing Body, president, an executive or senior vice president, chief financial officer or any other Person designated by any of such Persons to execute an Officer’s Certificate as evidenced by a certificate of any of such Persons delivered to the Trustee.

“Outstanding” when used with respect to any Bonds means, as of the date of determination, all Bonds theretofore authenticated and delivered under this Indenture, except:

(i) Bonds theretofore canceled by the Trustee or delivered to the Trustee for cancellation;

(ii) Bonds for whose payment or redemption money (or Defeasance Obligations to the extent permitted by Section 1002 of this Indenture) in the necessary amount has been theretofore deposited with the Trustee or any paying agent for such Bonds in trust for the Holders of such Bonds pursuant to this Indenture; provided, that, if such Bonds are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or irrevocable provision therefor satisfactory to the Trustee has been made;

(iii) Bonds upon transfer of or in exchange for or in lieu of which other Bonds have been authenticated and delivered pursuant to this Indenture; and

(iv) Bonds alleged to have been destroyed, lost, or stolen which have been paid as provided in Section 206.

provided, however, that in determining whether the Holders of the requisite principal amount of Outstanding Bonds have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Bonds owned of record or beneficially by the Company or any other obligor upon the Bonds or the Note or such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds that the Trustee knows to be so owned shall be so disregarded. Bonds so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Bonds and that the pledgee is not the Company or any other obligor upon the Bonds or the Note or such other obligor.

"Paying Agent" means initially the Trustee, and any other Person authorized by the Issuer to pay the principal of (and premium, if any) or interest on any Bonds on behalf of the Issuer.

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

"Place of Payment" for the Bonds means a city or any political subdivision thereof designated as such in the Bonds.

"Proceeds Fund" means the special fund created pursuant to Section 402 of this Indenture.

"Project" means the Project described in Exhibit "A" to the Loan Agreement.

"Rating Service" means each nationally recognized securities rating service which at the time has a credit rating assigned to the Bonds.

"Rebate Fund" means the special trust fund created in Section 405 of this Indenture.

"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.

"Regular Record Date" means the close of business for the Trustee on the fifteenth day of the calendar month preceding any Interest Payment Date regardless of whether such day is a Business Day.

“Reserve Fund Requirement” means an amount equal to the lesser of Maximum Annual Debt Service on the Bonds, one hundred twenty-five percent (125%) of the average annual Debt Service on the Bonds or ten percent (10%) of the initial principal amount of the Bonds.

“Reserve Fund Surety Policy” means an insurance policy, surety policy or other credit agreement as provided in Section 404A of this Indenture.

“Responsible Officer” when used with respect to the Trustee means the officer in the Corporate Trust Office of the Trustee having direct responsibility for administration of this Indenture.

“Series 2006A Bonds” means the KIPP, Inc. Education Revenue Bonds (issued by the Issuer) Series 2006A, authorized to be issued pursuant to Section 201 of this Indenture.

“Series 2006B Bonds” means the KIPP, Inc. Taxable Education Revenue Bonds (issued by the Issuer) Series 2006B, authorized to be issued pursuant to Section 201 of this Indenture.

“Sponsoring Entity” means the Texas Public Finance Authority.

“State” means the State of Texas.

“Stated Maturity” when used with respect to any Bond or any installment of interest thereon means 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.

“Supplemental Master Trust Indenture” shall mean the Supplemental Master Trust Indenture No. 1, dated as of September 1, 2006, between the Company and the Master Trustee.

“Tax-Exempt Interest Rates” shall mean interest rates as set forth in Section 202(a) of this Indenture.

“Tax-Exempt Master Note” means the promissory note in the form attached to the Supplemental Master Trust Indenture as Exhibit “A,” which is secured by the Master Indenture, executed by the Company and dated the Closing Date in the principal amount of the Series 2006A Bonds.

“Taxable Interest Rates” shall mean interest rates as set forth in Section 202(b) of this Indenture.

“Taxable Master Note” means the promissory note in the form attached to the Supplemental Master Trust Indenture as Exhibit “B,” which is secured by the Master Indenture, executed by the Company and dated the Closing Date in the principal amount of the Series 2006B Bonds.

“Trust Estate” is defined in the Granting Clauses of this Indenture.

“Trustee” means Zions First National Bank, a national banking association, with a corporate trust office in [Houston, Texas,] serving as Trustee pursuant to this Indenture or any successor thereto pursuant to the provisions of this Indenture.

“Value” means the value of any investments, determined at the end of each month, which shall be calculated as follows:

1. As to Eligible Securities (other than as provided in (2) and (3) below), the market value thereof determined by the Trustee at the end of each month using and relying conclusively and without liability upon any generally accepted industry standards and from a generally accepted pricing information service available to it;
2. As to certificates of deposit and bankers acceptances, the face amount thereof, plus accrued interest; and
3. As to any investment not specified above, the value thereof established by prior agreement among the Company, the Trustee and ACA.

9.26 Effect of Headings and Table of Contents. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

9.27 Form of Documents Delivered to Trustee. Every certificate and every Opinion of Counsel with respect to compliance with a condition or covenant provided for in this Indenture shall include a statement that the person making such certification or opinion has read such covenant or condition and the definitions relating thereto, has made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether such covenant or condition has been complied with, and a statement whether such condition or covenant has been complied with. In any case where several matters are required to be certified by or covered by an opinion of any specified Person, it is not necessary that all such matters be certified by or covered by the opinion of only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of any officer of a Person may be based, insofar as it relates to legal matters, upon a certificate or opinion of or representations by counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, in so far as it relates to

factual matters, upon a certificate or opinion of, or representations by, an officer or officers of a specified Person stating that the information with respect to such factual matters is in the possession of such Person, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

9.28 Acts of Bondholders.

- (a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Bondholders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Bondholders in person or by its agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee, and, where it is hereby expressly required, to the Issuer. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the “Act” of the Bondholders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent, shall be sufficient for any purpose of this Indenture and (subject to Section 801) conclusive in favor of the Trustee and the Issuer, if made in the manner provided in this Section.
- (b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by the certificate of any notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by an officer of a corporation or a member of a partnership on behalf of such corporation or partnership, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the person executing the same, may also be proved in any other manner which the Trustee deems sufficient.
- (c) The ownership of Bonds shall be proved by the Bond Register.
- (d) Any request, demand, authorization, direction, notice, consent, waiver or other action by any Bondholder shall bind every holder of any Bond issued upon the transfer thereof or in exchange

therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Issuer in reliance thereon, whether or not notation of such action is made upon such Bond.

9.29 Notice Addresses. Any request, demand, authorization, direction, notice, consent, waiver or act of Bondholders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

1.1.1.73 the Trustee by any Bondholder or by any specified Person shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with and actually received by a Responsible Officer of the Trustee at its Corporate Trust Office located at [One South Main St., 12th Floor, Salt Lake City, Utah 84111], or at any other address subsequently furnished in writing to the Bondholders and the other parties to the Bond Documents by the Trustee;

1.1.1.74 the Issuer by any Bondholder or by any specified Person shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid, to the Issuer addressed to it at 300 W. 15th Street, Suite 411, Austin, Texas 78701, Attention: General Counsel, or at any other address subsequently furnished in writing to the Trustee and the Company by the Issuer;

1.1.1.75 the Company by any Bondholder or by any specified Person shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid, to the Company addressed to it at KIPP, Inc., 10711 Kipp Way, Houston, Texas 77099, Attention: Superintendent, or at any other address subsequently furnished in writing to the Trustee and the Issuer by the Company;

1.1.1.76 ACA shall be sufficient for every purpose hereunder if in writing and mailed, registered or certified postage prepaid, to it addressed to it at ACA Financial Guaranty Corporation, 140 Broadway, 47th Floor, New York, New York, 10005, Telephone: (212) 375-2000, Telecopy: (212) 375-2100, Attention: Surveillance Manager, or at such other address subsequently furnished in writing to the Trustee by ACA; provided that, in the event of a notice regarding an Event of Default, such notice shall also be sent to the attention of the General Counsel of ACA at the same address; or

1.1.1.77 the Rating Service shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid, to Standard and Poor's Ratings Group, 500 N. Akard Street, Lincoln Plaza, Suite 3200, Dallas, Texas 75201, or at such other address subsequently furnished in writing to the Trustee by such Rating Service.

- 9.30 Notices to Bondholders; Waiver. Where this Indenture provides for notice to Bondholders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Bondholder affected by such event, at his address as it appears on the Bond Register, not later than the latest date, and not earlier than the earliest date, prescribed for the first giving of such notice. In any case where notice to Bondholders is given by mail, neither the failure to mail such notice, nor any default in any notice so mailed to any particular Bondholder shall affect the sufficiency of such notice with respect to other Bondholders. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders of Bonds shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.
- 9.31 Successors and Assigns. All covenants and agreements in this Indenture by the Issuer and the Trustee shall bind their respective successors and assigns, whether so expressed or not.
- 9.32 Severability Clause. In case any provision in this Indenture or in the Bonds or any application thereof shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions and applications shall not in any way be affected or impaired thereby.
- 9.33 Benefits of Indenture. Nothing in this Indenture or in the Bonds, express or implied, shall give to any Person, other than the parties hereto, their successors hereunder, any separate trustee or co-trustee appointed hereunder, the Company, ACA, and the Holders of Bonds, any benefit or any legal or equitable right, remedy or claim under this Indenture.
- 9.34 Governing Law. This Indenture shall be governed, in all respects including validity, interpretation and effect by, and shall be enforceable in accordance with, the laws of the State.
- 9.35 Directors, Officers, Employees, and Agents Exempt from Personal Liability. No recourse under or upon any obligation, covenant, or agreement contained in this Indenture, or in any Bond, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, or against any past, present, or future director, officer, or employee, as such, of the Issuer or the Trustee, or of any successor corporation, either directly or through the Issuer or the Trustee, whether by virtue of any constitution or statute or rule of law, or by the enforcement of any assessment, judgment, or penalty, or otherwise; it being expressly understood that this Indenture and the Bonds are solely corporate obligations, and that no such personal liability whatever shall

attach to, or is or shall be incurred by, the incorporators, directors, officers, or employees, as such, of the Issuer, the Trustee, or any other successor corporation, or any of them, because of the creation of indebtedness hereby authorized, or under or by reason of the obligations, covenants, or agreements contained in this Indenture or the Bonds or implied therefrom, and that any and all such personal liability either at common law or equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, director, officer, or employee, as such, are hereby expressly waived and released as a condition of, and in consideration for, the execution of this Indenture and the issuance of the Bonds.

ARTICLE II

AUTHORIZATION AND TERMS OF BONDS; ISSUANCE AND FORM OF BONDS

- 9.36 Authorization and Form of Bonds. (a) The Series 2006A Bonds shall be designated “KIPP, Inc. Education Revenue Bonds (Issued by Texas Public Finance Authority Charter School Finance Corporation) Series 2006A.” The aggregate principal amount of Series 2006A Bonds that may be issued under this Indenture is limited to \$34,890,000. Each of the Series 2006A Bonds shall be numbered separately from RA-1 upwards. The Bonds shall be issued only in fully registered form in Authorized Denominations. The Series 2006A Bonds shall be issued for the purpose of providing funds to be loaned by the Issuer to the Company for the construction and acquisition of the Project; and to pay a portion of the costs of issuance of the Bonds.
- (b) The Series 2006B Bonds shall be designated “KIPP, Inc. Taxable Education Revenue Bonds (Issued by Texas Public Finance Authority Charter School Finance Corporation) Series 2006.” The aggregate principal amount of the Series 2006B Bonds that may be issued under this Indenture is limited to \$525,000. Each of the Series 2006B Bonds shall be numbered separately from RB-1 upwards. The Bonds shall be issued only in fully registered form in Authorized Denominations. The Series 2006B Bonds shall be issued for the purpose of providing funds to be loaned by the Issuer to the Company to pay a portion of the costs of issuance of the Bonds.
- (c) The Bonds shall be substantially in the forms set forth in Exhibit A-1 and Exhibit A-2 attached hereto, with such appropriate variations, omissions, and insertions as are permitted or required by this Indenture and may have endorsed thereon such legends or text as may be necessary or appropriate to conform to any applicable rules and regulations of any governmental authority or

any usage or requirement of law with respect thereto. The Bonds may be typewritten, printed, lithographed, engraved or produced in similar manner. If any Bond is printed, any portion of the text of the Bond may be printed on the back of the Bond with an appropriate reference placed on the front of the Bond.

9.37 Terms of Bonds. (a) The Series 2006A Bonds shall be dated as of September 1, 2006, shall mature on February 15 in the years and in the amounts set forth below, and shall bear interest at the following rates (the “Tax-Exempt Interest Rates”) from the later of (i) September 1, 2006 or (ii) the most recent Interest Payment Date to which interest has been paid or provided for:

<u>Year of Maturity</u>	<u>Amount</u>	<u>Rate</u>
2010	\$ 645,000	4.000%
2011	675,000	4.100
****	****	****
2014	2,225,000	5.250
2015	825,000	4.400
2016	855,000	4.500
2017	900,000	4.550
2018	940,000	4.600
2019	985,000	4.650
2020	1,030,000	4.700
2021	1,080,000	4.750
****	****	****
2028	9,280,000	5.000
****	****	****
2036	15,425,000	5.000

(b) The Series 2006B Bonds shall be dated as of September 1, 2006, shall mature on February 15, 2006 of the years and in the amounts set forth below, and shall bear interest at the Taxable Interest Rate from the later of (i) September 1, 2006 or (ii) the most recent Interest Payment Date to which interest has been paid or provided for:

<u>Year of Maturity</u>	<u>Amount</u>	<u>Rate</u>
2009	\$525,000	5.940%

- (c) The Bonds shall be subject to optional and mandatory redemption prior to maturity in the manner provided in the forms of Bonds set forth in Exhibit A-1 and Exhibit A-2, attached hereto.
- (d) Interest on the Bonds shall be paid on each Interest Payment Date until the principal thereof shall have been paid or provided for. Interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.
- (e) Amounts due with respect to the Bonds shall be payable in lawful money of the United States. Payment of principal, premium, if any, and interest on the Bonds shall be paid by check mailed to the registered Owner thereof at his or her address as it appears on the Bond Registration Books on the Record Date. Upon written request of a registered Owner of at least \$1,000,000 in principal amount of Bonds or all of any series of the Bonds, all payments of principal, premium, if any, and interest on the Bonds shall be paid by wire transfer (at the risk and expense of such registered Owner) in immediately available funds to an account designated by such registered Owner upon written notice before a Regular Record Date to the Trustee. CUSIP number identification with appropriate dollar amounts for each CUSIP number must accompany all payments of principal, premium, if any, and interest, whether by check or by wire transfer.

9.38 Execution, Authentication and Delivery. The Bonds shall be executed on behalf of the Issuer by its President or one of its Vice Presidents under its corporate seal impressed or reproduced thereon and attested to by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Bonds may be manual or facsimile.

Bonds bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Issuer shall bind the Issuer, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Bonds or did not hold such offices at the date of such Bonds.

The initial Bonds issued hereunder shall be registered by the Comptroller of Public Accounts of the State of Texas or by one of the Comptroller's deputies.

At any time and from time to time after the execution and delivery of this Indenture, the Issuer may deliver Bonds executed by the Issuer to the Authenticating Agent; the Authenticating Agent shall authenticate such Bonds; and the Bond Registrar shall register and deliver such Bonds as in this Indenture provided and not otherwise.

Prior to the initial delivery by the Trustee (in its capacity as Bond Registrar) of the Bonds, there shall be delivered to the Trustee:

- (a) a Board Resolution of the Issuer authorizing the issuance, execution and delivery of the Bonds;
- (b) an Issuer Order (i) to register the Bonds with the Stated Maturity, principal amount and other terms provided in the Order, and (ii) to authenticate and deliver the Bonds to the original purchasers upon payment to the Trustee for deposit or payment in accordance with the provisions of this Indenture of the sum specified in such Order;
- (c) the Tax-Exempt Master Note and the Taxable Master Note of the Company, each duly executed by the Company on behalf of itself and duly authenticated by the Master Trustee, payable to the Trustee or properly endorsed or assigned to the Trustee;
- (d) executed counterparts of each of the Bond Documents;
- (e) the original, executed Bond Insurance Policy;
- (f) an Opinion of Counsel to each party to a Bond Document to the effect that each such Bond Document has been duly authorized, executed and delivered by that party and that the Bond Document as amended or supplemented constitutes a legal, valid, binding and enforceable obligation of that party subject to customary exceptions;
- (g) the Opinion of Counsel specified in Sections 202(c) of the Master Indenture;
- (h) an Officer's Certificate of the Company (i) approving the issuance and delivery of the Bonds, and (ii) certifying that there then exists no event of default under the Bond Documents or any outstanding documents by which the Company is bound;
- (i) an opinion of Bond Counsel to the effect that (i) this Indenture has been duly authorized, executed and delivered by the Issuer and constitutes a valid and binding obligation of the Issuer enforceable in accordance with its terms, and that all conditions precedent provided in this Indenture relating to the authentication and delivery of the Bonds have occurred, (ii) the Bonds have been duly authorized, executed, issued and delivered by the Issuer, are the legal and valid limited obligations of the Issuer, and are entitled to the benefits and security of this Indenture, (iii) the Bonds and the offering or sale of the Bonds are not required to be registered under the Securities Act of 1933, as amended, and the Indenture is exempt from qualification as an indenture pursuant to the Trust Indenture Act of 1939, (iv) interest on the Series 2006A Bonds is excludable from gross income of the holders of the Series 2006A Bonds for federal income tax

purposes, and (v) the Series 2006A Bonds are “qualified 501(c)(3) bonds” within the meaning of Section 145 of the Code; and

(j) the initial Bonds, together with the approval of the Bonds by the Attorney General of Texas as evidenced by his approving opinion thereon and initial registration of the Bonds by the Comptroller of Public Accounts of the State of Texas.

9.39 Registration, Transfer and Exchange. The Issuer shall cause to be kept at a corporate trust office or the principal payment office of the Bond Registrar or Bond Registrars for the Bonds, a register or registers (sometimes herein referred to as the “Bond Register”) in which, subject to such reasonable regulations as it may prescribe, the Issuer shall provide for the registration of Bonds and of transfers of Bonds. The Trustee is hereby appointed as Bond Registrar for the purpose of registering Bonds and transfers of Bonds as herein provided, and it shall keep the Bond Register with respect to the Bonds, at its principal payment office in _____.

Upon surrender for transfer of any Bond at the office or agency of the Trustee in a Place of Payment, the Issuer shall execute, the Authenticating Agent shall authenticate, and the Bond Registrar shall register and deliver, in the name of the designated transferee, one or more new Bonds of any Authorized Denomination, of a like aggregate principal amount, maturity and interest rate.

At the option of the Holder, Bonds may be exchanged for Bonds of any Authorized Denomination, of a like aggregate principal amount, series, Stated Maturity and interest rate, upon the surrender of the Bonds to be exchanged at such office or agency. Whenever any Bonds are so surrendered for exchange, the Issuer shall execute, and the Bond Registrar shall authenticate and deliver, the Bonds that the Bondholder making the exchange is entitled to receive.

All Bonds issued upon any transfer or exchange of Bonds shall be the valid obligations of the Issuer, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Bonds surrendered upon such transfer or exchange.

Every Bond presented or surrendered for transfer or exchange shall (if so required by the Issuer or the Bond Registrar) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Issuer and the Bond Registrar duly executed by the Holder thereof or his attorney duly authorized in writing.

No service charge shall be made for any transfer or exchange of Bonds, but the Issuer and the Bond Registrar may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Bonds, other than exchanges expressly provided in this Indenture to be made without expense or without charge to Holders.

The Issuer and the Bond Registrar shall not be required (1) to issue, transfer or exchange any Bonds during a period beginning at the opening of business 15 days before the day of mailing of a notice of redemption of Bonds selected for redemption under Section 303 and ending at the close of business on the day of such mailing or (2) to transfer or exchange any Bond selected for redemption in whole or in part.

9.40 Mutilated, Destroyed, Lost and Stolen Bonds. If (a) any mutilated Bond is surrendered to the Bond Registrar, or the Bond Registrar receives evidence to its satisfaction of the destruction, loss or theft of any Bond, and (b) there is delivered to the Bond Registrar such security or indemnity as may be required by it to save each of the Issuer and the Bond Registrar harmless, then, in the absence of notice to the Issuer or the Bond Registrar that such Bond has been acquired by a bona fide purchaser, the Issuer shall execute and upon its request the Bond Registrar shall authenticate and deliver in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Bond, a new Bond of like tenor, series, interest rate and principal amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Bond has become or is about to become due and payable, the Issuer in its discretion may (and upon Company Order shall), instead of issuing a new Bond, pay such Bond.

Upon the issuance of any new Bond under this Section, the Issuer and the Bond Registrar may require the payment by the Holder of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Bond Registrar) connected therewith.

Every new Bond issued pursuant to this Section in lieu of any destroyed, lost or stolen Bond shall constitute an original additional contractual obligation of the Issuer, whether or not the destroyed, lost or stolen Bond shall be at any time enforceable by anyone, and shall be entitled to all the benefits and security of this Indenture equally and proportionately with any and all other Bonds duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Bonds.

9.41 Payment of Interest on Bonds; Interest Rights Preserved. Interest on any Bond that is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Bond is registered at the close of business on the Regular Record Date for such interest.

Any interest on any Bond that is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the Holder thereof on the relevant Regular Record Date by virtue of having been such Holder; and such Defaulted Interest shall be paid by the Issuer (but only from

the sources provided herein), to the Persons in whose names the Bonds are registered at the close of business on a special record date (“Special Record Date”) for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Trustee, as agent of the Issuer, shall determine the amount of Defaulted Interest proposed to be paid on each Bond and the date of the proposed payment, and at the same time the Issuer shall deposit (but only from the sources provided herein) with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of Persons entitled to such Defaulted Interest. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 nor less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Issuer and the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the date and amount of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first class postage prepaid, to each Bondholder at his address as it appears in the Bond Register, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the Persons in whose names the Bonds are registered on such Special Record Date.

Subject to the foregoing provisions of this Section, each Bond delivered under this Indenture upon transfer of or in exchange for or in lieu of any other Bond shall carry the rights to interest accrued and unpaid, and to accrue, that were carried by such other Bonds.

9.42 Persons Deemed Owners. The Issuer, the Trustee, the Authenticating Agent, the Bond Registrar, ACA, and any of their respective agents may treat the Person in whose name any Bond is registered as the owner of such Bond for the purpose of receiving payment of principal of (and premium, if any), and (subject to Section 206) interest on, such Bond and for all other purposes whatsoever whether or not such Bond be overdue, and except as otherwise provided in this Indenture, neither the Issuer, the Trustee, nor any agent of the Issuer or the Trustee shall be affected by notice to the contrary.

9.43 Cancellation. All Bonds surrendered for payment, redemption, transfer or exchange shall, if delivered to any Person other than the Bond Registrar be delivered to the Bond Registrar and, if not already canceled, shall be promptly canceled by it. The Issuer or the Company may at any time deliver to the Bond Registrar for cancellation any Bonds previously authenticated and delivered hereunder that the Issuer or the Company may have acquired in any lawful manner whatsoever, and all Bonds so delivered shall be promptly canceled by the Bond Registrar. No Bonds shall be authenticated in lieu of or in exchange for any Bonds canceled as provided in this Section, except as expressly permitted by this Indenture. All canceled Bonds held by the Bond Registrar shall be maintained or

disposed of according to the retention policies of the Bond Registrar in effect from time to time.

- 9.44 Limited Liability of Issuer. NEITHER THE STATE NOR A STATE AGENCY, ANY POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE SHALL BE OBLIGATED TO PAY THE BONDS OR THE INTEREST THEREON AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, OR ANY STATE AGENCY, POLITICAL CORPORATION OR POLITICAL SUBDIVISION OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.
- 9.45 Temporary Initial Bonds. Pending the preparation of definitive Bonds, the Issuer may execute, and upon Issuer Order the Bond Registrar shall deliver, temporary Bonds that are printed, lithographed, typewritten, mimeographed or otherwise produced, in any denomination, substantially of the tenor of the definitive Bonds in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Bonds may determine, as evidenced by their execution of such Bonds.

If temporary Bonds are issued, the Issuer will cause definitive Bonds to be prepared without unreasonable delay. After the preparation of definitive Bonds, the temporary Bonds shall be exchangeable for definitive Bonds upon surrender of the temporary Bonds at the office of the Trustee in a Place of Payment, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Bonds the Issuer shall execute and the Bond Registrar shall authenticate and deliver in exchange therefor a like principal amount of definitive Bonds of Authorized Denominations. Until so exchanged, temporary Bonds that have attached to them an executed registration certificate of the Comptroller of Public Accounts of the State of Texas in the form set forth in Exhibits A-1 and A-2 shall in all respects be entitled to the same benefits under this Indenture as definitive Bonds.

9.46 Book-Entry System.

- (a) The Bonds may and initially shall be registered under a Book-Entry System maintained by a Depository. Notwithstanding any inconsistent provisions in this Indenture to the contrary, the provisions of this Section 211 shall govern at any time the Bonds are issued and Outstanding in Book-Entry Form.
- (b) Under the Book-Entry System, the Bonds shall be issued in the form of a separate, single, fully registered and immobilized bond certificate representing the aggregate principal amount of the Bonds or shall be issued in several certificates, each not exceeding \$100,000,000 denominations if required by the Depository. Except as provided herein, the ownership of such Bonds shall be

registered in the Bond Register in the name of Cede & Co., as nominee of The Depository Trust Company, which will serve as initial Depository for the Bonds. Ownership of beneficial interests in the Bonds shall be shown by book-entry on the system maintained and operated by the Depository and its participants and indirect participants (such participants and indirect participants being collectively referred to as the “Participants”), and transfers of ownership of beneficial interests shall be made only by the Depository and its Participants by book-entry, and the Issuer, the Company and the Trustee shall have no responsibility therefor. The Depository will be required to maintain records of the positions of Participants in the Bonds, and the Participants and persons acting through Participants will be required to maintain records of the purchasers of beneficial interests in the Bonds (the “Beneficial Owners”). Except as provided in subsections (i) of this Section 211, the Bonds shall not be transferable or exchangeable, except for transfer to another Depository or to another nominee of a Depository.

- (c) With respect to Bonds registered in the Bond Register in the name of the Depository or its nominee, the Issuer, the Company and the Trustee shall have no responsibility or obligation to any Participant or to any Beneficial Owner for whom a Participant acquires an interest in the Bonds. NEITHER THE ISSUER, THE COMPANY, NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE PARTICIPANTS OR THE BENEFICIAL OWNERS OF THE BONDS WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY THE DEPOSITORY OR ANY PARTICIPANT; (ii) THE PAYMENT BY THE DEPOSITORY OR ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF, OR INTEREST, AND PREMIUM, IF ANY, ON OR REDEMPTION PRICE OF THE BONDS; (iii) THE DELIVERY BY THE DEPOSITORY OR ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO HOLDERS UNDER THE TERMS OF THIS INDENTURE; (iv) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (v) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY THE DEPOSITORY AS OWNER OF THE BONDS. NEITHER THE ISSUER, THE COMPANY NOR THE TRUSTEE HAS ANY DIRECT OBLIGATION OR RESPONSIBILITY TO PARTICIPANTS OR BENEFICIAL OWNERS.

- (d) So long as the Bonds or any portions thereof are registered in the name of a Depository or any nominee thereof, all payments of principal of (premium, if any) or interest on the Bonds or redemption price of such Bonds shall be made only to or upon the order of such Depository on the dates and at the times provided for such payment under this Indenture and at the address indicated for such Depository in the Bond Register kept by the Bond Registrar by transfer of immediately available funds; provided that the Trustee has received sufficient funds from the sources described in the Indenture and the Agreement to make such payment. Each such payment to the Depository or its nominee shall be valid and effective to fully satisfy and discharge all liability of the Issuer or the Trustee with respect to the principal of (premium, if any) or interest on the Bonds and redemption price with respect to the Bonds so registered to the extent of the sum or sums so paid. In the event of the redemption of less than all of the Bonds Outstanding of any Stated Maturity, the Trustee shall not require surrender by the Depository or its nominee of the Bonds so purchased or redeemed, and the Depository may retain such Bonds. In the event of partial redemption of the Bonds, the Depository shall make an appropriate notation on the Bonds as to the amount of such partial redemption; provided that the Depository shall deliver to the Trustee, upon request, a written confirmation of such partial redemption and thereafter the records maintained by the Trustee shall be conclusive as to the amount of the Bonds of such Stated Maturity which have been redeemed. The Issuer, the Company and the Trustee shall not be liable for the failure of the Depository to properly indicate on the Bonds the payment of such principal or redemption price.
- (e) All transfers of beneficial ownership interests in the Bonds when issued in Book-Entry Form shall be effected by procedures promulgated by the Depository with its Participants for recording and transferring the ownership of beneficial interest in each of such Bonds.
- (f) The Issuer, the Company, the Bond Registrar, and the Trustee and any of their respective agents may treat the Depository (or its nominee) as the sole and exclusive Bondholder of the Bonds registered in its name for the purposes of payment of the principal of (premium, if any) or interest on the Bonds or redemption price with respect to the Bonds, selecting the Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Bondholders under this Indenture, registering the transfer of Bonds, obtaining any consent or other action to be taken by Bondholders and for all other purposes whatsoever; and the Issuer,

the Company and the Trustee shall not be affected by any notice to the contrary.

- (g) So long as the Bonds are registered in the name of the Depository or any nominee thereof, all notices required or permitted to be given to the Holders of such Bonds under this Indenture shall be given to the Depository. In connection with any notice or other communication to be provided to Holders pursuant to this Indenture by the Issuer, the Company or the Trustee with respect to any consent or other action to be taken by Holders, the Depository shall consider the date of receipt of notice requesting such consent or other action as the record date for such consent or other action, provided that the Issuer or the Trustee may establish a special record date for such consent or other action. The Issuer or the Trustee shall give the Depository notice of such special record date not less than 15 calendar days in advance of such special record date to the extent possible.
- (h) Any successor Trustee, in its written acceptance of its duties under this Indenture, shall agree to take any actions necessary from time to time to comply with the requirements of such Depository.
- (i) The Depository may determine to discontinue providing its services with respect to the Bonds at any time by giving reasonable written notice to the Trustee and the Issuer and discharging its responsibilities with respect thereto under applicable law. Under such circumstance (if there is not a successor Depository), Bond certificates will be delivered as described elsewhere in Article II of this Indenture. Upon receipt of such notice from the Depository, the Trustee shall provide a copy of the notice to the Company. The Company, in its sole discretion, and without the consent of any other Person, may terminate the services of the Depository with respect to the Bonds if the Company determines that: (i) the Depository is unable to discharge its responsibilities with respect to the Bonds; or (ii) a continuation of the requirement that all of the Bonds be registered in the Bond Register in the name of the nominee of the Depository is not in the best interest of the Beneficial Owners. In the event that no substitute Depository is found by the Company or restricted registration is no longer in effect, Bond certificates will be delivered as described in Article II of this Indenture. Upon the termination of the services of the Depository with respect to the Bonds pursuant to this Section 211(i), after which no successor Depository willing to undertake the functions of the Depository hereunder can be found that, in the opinion of the Company, is willing and able to undertake such functions upon reasonable and customary terms, the Bonds shall no longer be restricted to being registered in the Bond Register in the

name of the nominee of the Depository, but may be registered in the name or names and in such maturities and principal amounts as the Depository shall designate in writing to the Bond Registrar in accordance with the provisions elsewhere in Article II of this Indenture, but without any liability on the part of the Issuer or the Bond Registrar for the accuracy of such designation. Upon the termination of the services of the Depository with respect to the Bonds for any reason and the appointment of a successor Depository, all references in this Indenture to the Depository shall refer to such successor Depository. Whenever the Depository requests the Issuer, the Company and the Trustee to do so, the Issuer, the Company and the Trustee shall cooperate with the Depository in taking appropriate action after reasonable notice to arrange for another Depository to maintain custody of certificates evidencing the Bonds.

- (j) So long as any Bonds are registered in the name of the nominee of the Depository, a legend prescribed by the Depository to that effect may be printed on such Bond certificate.

ARTICLE III

REDEMPTION OF BONDS

- 9.47 Redemption. The Bonds shall be subject to redemption as set forth in the Forms of Bonds in Exhibits A-1 and A-2 hereto.
- 9.48 Election to Redeem; Notice to Trustee. The election of the Company to redeem any Bonds shall be evidenced by a Board Resolution delivered to the Issuer. In case of any redemption at the election of the Company, the Company shall, at least 45 days prior to the redemption date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee in writing of such redemption date and of the principal amount of Bonds of each Stated Maturity to be redeemed.
- 9.49 Selection by Trustee of Bonds to be Redeemed. If less than all of the Bonds of a particular Stated Maturity are called for redemption, the particular Bonds or portions thereof to be redeemed shall be redeemed by the Trustee in accordance with the written direction of the Company; provided, however, that portions of Bonds shall be redeemed in Authorized Denominations and that no redemption shall result in a Bond being held in less than an Authorized Denomination.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Bonds shall relate, in the case of any Bond redeemed or to be redeemed only in part, to the portion of the principal of such Bond that has been or is to be redeemed.

- 9.50 Notice of Redemption. (a) Not less than 30 days prior to any redemption date, but not more than 60 days prior to any redemption date, the Trustee shall cause notice of the call for any redemption identifying the Bonds or portions thereof to be redeemed to be given in the name of the Issuer by first class mail, postage prepaid, to the Holders of each Bond to be redeemed at the address shown on the Bond Register on the date such notices are mailed. Any notice mailed as provided in this Section shall be conclusively presumed to have been duly given, irrespective of whether received.

Each notice of redemption shall state at a minimum, the complete official name of the issue, including series designation, CUSIP number, amounts called of each Stated Maturity (for partial calls), date of the notice, the date of issue, interest rate, maturity date of the Bonds called for redemption, the redemption date, the redemption price, the place or places of redemption, and appropriate address or addresses with name of contact person and telephone number. Unless moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Trustee prior to the giving of such notice of redemption, such notice shall state that said redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for such redemption. If sufficient moneys are not received, such notice shall be of no force and effect, the Issuer shall not redeem such Bonds and the Trustee shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

- (b) If any of the Bonds are redeemed pursuant to an advance refunding, notice of such advance refunding and redemption shall be given in the same manner as above provided, and within the same time period with respect to the actual redemption date.

- 9.51 Deposit of Redemption Price. Subject to any condition to such redemption, on or prior to any redemption date, the Company shall deposit with the Trustee or with a Paying Agent an amount of money sufficient to pay the redemption price, premium, if any, and interest accrued thereon to the date fixed for redemption of all the Bonds which are to be redeemed on such date.

- 9.52 Bonds Payable on Redemption Date. Notice of redemption having been given as aforesaid, and the deposit described in Section 305 having been made, and all conditions to such redemption having been fulfilled, the Bonds so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified and from and after such date such Bonds shall cease to bear interest. If, however, funds available to pay the redemption price have not been so deposited on the redemption date, the redemption will be cancelled. Upon surrender of any such Bond for redemption in accordance with said notice, such Bond shall be paid by the Issuer at the redemption price. Installments of interest whose Stated Maturity is on or prior to the redemption date shall be payable to the

Holders of such Bonds registered as such on the relevant Record Dates according to their terms.

If any Bond called for redemption shall not be so paid upon surrender thereof for redemption, the principal shall, until paid, bear interest from the redemption date at the rate borne by the Bond.

- 9.53 Bonds Redeemed in Part. Any Bond which is to be redeemed only in part shall be surrendered at a Place of Payment (with, if the Issuer or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Issuer and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing) and the Issuer shall execute and the Trustee shall authenticate and deliver to the Holder of such Bond without service charge, a new Bond or Bonds of the same interest rate and Stated Maturity and of any Authorized Denomination as requested by such Holder in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Bond so surrendered.

ARTICLE IV

FUNDS AND INVESTMENTS

- 9.54 Establishment of Funds; Source of Payment of the Bonds. (a) The Issuer hereby establishes with the Trustee the Proceeds Fund, the Debt Service Fund, the Debt Service Reserve Fund, the Construction Fund and the Rebate Fund (collectively, the “Funds”). The Issuer reserves the right to establish additional trust funds or accounts from time to time.
- (b) The Bonds and all payments by the Issuer hereunder are not and shall never become general obligations of the Issuer, but are special and limited obligations payable solely from the Loan Payments and other payments made by the Company under the Agreement. Loan Payments made pursuant to the Agreement by the Company are to be made directly to the Trustee for the account of the Issuer and shall be deposited pursuant to the provisions of Section 4.1 of the Agreement. No covenant or agreement contained in the Bonds or in this Indenture shall be deemed to be the covenant or agreement of any officer, director, agent, or employee of the Issuer in his or her individual capacity and neither the members of the Board of Directors of the Issuer nor any official executing or authenticating the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability, by reason of the issuance or authentication thereof.
- 9.55 Proceeds Fund. There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated its “KIPP, Inc.

Education Revenue Bonds Series 2006 Proceeds Fund” (herein referred to as the “Proceeds Fund”) and, within such Proceeds Fund, a Tax-Exempt Bond Proceeds Account and a Taxable Bond Proceeds Account. The proceeds of the sale of the Series 2006A Bonds shall be deposited into the Tax-Exempt Bond Proceeds Account of the Proceeds Fund and immediately transferred by Trustee to the Debt Service Fund, the Debt Service Reserve Fund and the Construction Fund (all established under this Indenture), all as specified in the Issuer Order to authenticate and deliver the Series 2006A Bonds. The proceeds of the sale of the Series 2006B Bonds shall be deposited into the Taxable Bond Proceeds Account of the Proceeds Fund and applied by the Trustee as specified in the Issuer Order to authenticate and deliver the Series 2006B Bonds.

9.56 Debt Service Fund.

- (a) There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated its “KIPP, Inc. Education Revenue Bonds Series 2006 Debt Service Fund” (herein referred to as the “Debt Service Fund”) and, within such Debt Service Fund, a “Tax-Exempt Bonds Account” and a “Taxable Bonds Account.” The money deposited to the Debt Service Fund, together with all investments thereof and investment income therefrom, shall be held in trust and applied solely as provided in this Section and Section 706. The Trustee shall create a Capitalized Interest Subaccount within each of the Tax-Exempt Bonds Account and the Taxable Bonds Account of the Debt Service Fund. On the date of issuance of the Bonds, the Trustee shall deposit into each Capitalized Interest Subaccount the amount set forth on the Issuer Order to authenticate and deliver the Bonds for the purpose of paying a portion of the interest coming due on the Bonds on the first Interest Payment Date.
- (b) The Trustee shall deposit to the credit of the corresponding account of the Debt Service Fund immediately upon receipt (1) amounts due and payable by the Company pursuant to Section 4.1(a) or (b) of the Agreement and the terms of the Tax-Exempt Master Note and the Taxable Master Note; (2) the amounts described in Section 404(b); and (3) any other amounts delivered to the Trustee specifically for deposit thereto.
- (c) On the first Interest Payment Date, the Trustee shall withdraw money first from the Capitalized Interest Subaccount then from the corresponding account of the Debt Service Fund in an amount sufficient to pay the Bondholders principal and interest on each series of the Bonds.

9.57 Debt Service Reserve Fund.

- (a) There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated its “KIPP, Inc. Education Revenue Bonds Series 2006 Debt Service Reserve Fund” and, within such Debt Service Reserve Fund, a Tax-Exempt Bonds Account and a Taxable Bonds Account. There shall initially be deposited in the Accounts of the Debt Service Reserve Fund from the proceeds of the Bonds an amount sufficient to cause the amount on deposit therein to equal the Reserve Fund Requirement, as specified in the Issuer Order to authenticate and deliver the Bonds. To the extent that additional amounts are required to be deposited in the Debt Service Reserve Fund, such moneys shall come from sources other than the proceeds of the Bonds as provided herein and in the Agreement. Except as otherwise provided herein, the Debt Service Reserve Fund at all times shall be maintained at an amount equal to the Reserve Fund Requirement.
- (b) If there are insufficient funds in the Debt Service Fund to pay the Debt Service on the Bonds by 12:00 noon (Central Time) four Business Days prior to any Interest Payment Date, the Trustee shall transfer from the Debt Service Reserve Fund to the Debt Service Fund amounts necessary to make such payments from the Debt Service Fund on any Interest Payment Date.
- (c) If the amount in the Debt Service Reserve Fund is less than the Reserve Fund Requirement because the Trustee has applied funds in the Debt Service Reserve Fund in accordance with (b) above, the Trustee shall promptly notify the Company in writing that a deficiency in the Debt Service Reserve Fund exists, and the Company shall, as provided in Section 4.6 of the Agreement, (1) within 30 days of receipt of such notice pay to the Trustee the full amount needed to restore the amount in the Debt Service Reserve Fund to the Reserve Fund Requirement or (2) in twelve (12) consecutive equal monthly installments, the first of which shall be made within thirty (30) days from the date of receipt of such notice, 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 Reserve Fund Requirement; provided that if any additional decline occurs prior to the restoration of any decline, such additional decline shall be restored in equal monthly installments over the remainder of the restoration period for the initial decline. Notwithstanding the foregoing, moneys in the Debt Service Reserve Fund may be applied to pay Debt Service during

the twelve (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 Reserve Fund Requirement.

- (d) The Trustee shall determine the Value of the Eligible Securities on deposit in the Debt Service Reserve Fund as of each August 14 and February 14 (or the succeeding Business Day if such day is not a Business Day), commencing February 14, 2007; provided that, if there is a deficiency in the Debt Service Reserve Fund, the Trustee shall determine such Value on a monthly basis until such deficiency is cured. The weighted average maturity of the Eligible Securities on deposit in the Debt Service Reserve Fund shall at no time exceed ten (10) years. If the Value of such Eligible Securities plus any moneys in the Debt Service Reserve Fund falls below the Reserve Fund Requirement, the Trustee shall immediately notify the Company, and the Company, as provided in Section 4.6 of the Agreement, shall, in no more than four (4) consecutive equal monthly installments, the first of which shall be made within thirty (30) days from the date of receipt of such notice, pay an amount equal to such deficiency to the Trustee for deposit in the Debt Service Reserve Fund to restore the amount in the Debt Service Reserve Fund to equal the Reserve Fund Requirement; provided, that any amounts being paid to the Trustee pursuant to paragraph (c) hereof shall be paid in accordance with such paragraph; provided further, that if any additional decline occurs prior to the restoration of any decline, such additional decline shall be restored in equal monthly installments over the remainder of the restoration period for the initial decline. To the extent the Value of such Eligible Securities plus any moneys in the Debt Service Reserve Fund exceeds the Reserve Fund Requirement, such excess shall be transferred to the Debt Service Fund and used to pay Debt Service on each Interest Payment Date. To the extent that the Value of the Eligible Securities and any other amount in the Debt Service Reserve Fund exceeds the Reserve Fund Requirement determined in accordance with Section 1.148-2(f)(2)(ii) of the Regulations, such excess shall be invested as directed in writing by the Company at a yield which is not “materially higher” than the Yield on the Bonds, as provided in Section 148(a) of the Code; provided that the Trustee has no responsibility for determining whether such a condition exists.
- (e) Except with respect to a Reserve Fund Surety Policy, upon any redemption or defeasance of the Bonds as a whole, the moneys on deposit in the Debt Service Reserve Fund shall 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 shall transfer the balance on deposit in the Debt Service Reserve Fund to the Debt Service Fund.

- (f) So long as any Bonds are Outstanding, the Company shall have no right, title or interest in or to the funds in the Debt Service Reserve Fund.

Section 404A. Reserve Fund Surety Policy. The Company expressly reserves the right at any time to satisfy all or any part of the Reserve Fund Requirement by obtaining for the benefit of the Debt Service Reserve Fund one or more Reserve Fund Surety Policies, but only with the prior written consent of ACA. In the event the Company elects to substitute at any time a Reserve Fund Surety Policy for any funded amounts in the Debt Service Reserve Fund, it may apply any bond proceeds thereby released, including investment earnings on bond proceeds, to any purposes for which the bonds were issued and any other funds thereby released to any purposes for which such funds may lawfully be used. A Reserve Fund Surety Policy shall be (i) an insurance policy, surety bond or other instrument issued pursuant to a credit agreement (as such term is defined by Section 1371.001, Government Code) in a principal amount equal to the portion of the Reserve Fund Requirement to be satisfied and issued by a financial institution or insurance company with a rating for its long term unsecured debt or claims paying ability in the highest letter category by two Rating Agencies (except as otherwise approved by the Bond Insurer) or (ii) an instrument issued by comptroller in cooperation with the Texas Public Finance Authority Higher Education Finance Corporation pursuant to Section 53.351(e), Texas Education Code in a principal amount equal to the portion of Reserve Fund Requirement to be satisfied. The premium for any such policy shall be paid from Bond proceeds or other funds of the Issuer or the Borrower lawfully available for such purpose. Any Reserve Fund Surety Policy shall be authorized by resolution and, if required by the laws of the State, submitted to the Attorney General for examination and approval.

In the event the Debt Service Reserve Fund contains one or more Reserve Fund Surety Policies, the Trustee shall not draw on a Reserve Fund Surety Policy unless no other cash or investments are otherwise available in the Debt Service Reserve Fund. If more than one Reserve Fund Surety Policy is held in the Debt Service Reserve Fund, the Trustee shall draw on such policies on a proportionate basis. Whenever amounts have been drawn on one or more Reserve Fund Surety Policies, amounts subsequently transferred to the Debt Service Reserve Fund shall be used to reimburse the provider (or if more than one, to the providers on a proportionate basis) of such Reserve Fund Surety Policies in accordance with the terms thereof, for the amounts advanced, interest thereon and any associated fees. The issuer(s) of such Reserve Fund Surety Policy or Policies shall be secured with respect to such reimbursement obligations by a lien on the Adjusted Revenues, subject and subordinate to the lien securing the Notes and the required deposits to the Debt Service Fund, and shall further be secured by a lien on amounts from time to time on deposit in and required to be deposited to the Debt Service Reserve Fund, which lien shall be subject and subordinate to the lien securing the Bonds.

9.58 Rebate Fund.

- (a) There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated as its “KIPP, Inc. Education Revenue Bonds Series 2006 Rebate Fund” (herein referred to as the “Rebate Fund”). The money deposited to the

Rebate Fund, together with all investments thereof and investment income therefrom shall be held in trust and applied solely as provided in this Section.

- (b) The Trustee shall deposit or transfer to the credit of the Rebate Fund each amount delivered to the Trustee by the Company for deposit thereto and each amount directed by the Company to be transferred thereto.
- (c) (i) Within five days after each receipt or transfer of funds to the Rebate Fund in accordance with Section 5.3(g)(i)(B) of the Agreement (and in any event within 60 days after each Computation Date), the Trustee shall withdraw from the Rebate Fund and pay to the United States of America the balance of the Rebate Fund.

(ii) Within five days after receipt from the Company of any amount pursuant to Section 5.3(g)(ii) of the Agreement, the Trustee shall withdraw such amount from the Rebate Fund and pay such amount to the United States of America.

(iii) All payments to the United States of America pursuant to this Section shall be made by the Trustee for the account and in the name of the Issuer and shall be paid by draft posted by registered United States Mail (return receipt requested), addressed to the appropriate IRS address accompanied by the relevant IRS Form 8038-T (or to such other applicable successor information return specified by the IRS) described in Section 5.3(g)(i)(C) or Section 5.3(g)(ii) of the Agreement, as the case may be.

- (d) The Trustee shall preserve copies of all statements and forms received from the Company pursuant to Section 5.3(g) of the Agreement and all records maintained by it of transactions in the Rebate Fund and shall deliver such materials to the Company and, if requested, shall deliver copies thereof to the Issuer within 60 days following the retirement of all of the Bonds.
- (e) The Trustee may conclusively rely on the instructions of the Company with regard to any actions to be taken by it pursuant to this Section and shall have no liability for any consequences of any failure of the Company to supply accurate or sufficient instructions.

If at any time during the term of this Indenture the Issuer, the Trustee, or the Company desires to take any action which would otherwise be prohibited by the terms of this Section, such Person shall be permitted to take such action if it shall first obtain and provide to the other Persons named herein a Favorable Opinion of Bond Counsel.

9.59 Construction Fund.

- (a) There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated its “KIPP, Inc. Education Revenue Bonds Series 2006 Construction Fund” (herein referred to as the “Construction Fund”). The money deposited in

the Construction Fund, including all money therein and all investments thereof, shall be held in trust and applied solely as provided in this Section. The Construction Fund shall contain a Project Account and Costs of Issuance Account and within each of the Project Account and Costs of Issuance Account, the "Tax-Exempt Bonds Subaccount" and the "Taxable Bonds Subaccount." The Trustee shall have the authority to create subaccounts within the Project Account of the Construction Fund as is necessary and convenient for the administration of such Account.

- (b) The Trustee shall deposit to the credit of the Construction Fund or any account or subaccount therein all amounts paid to the Trustee by the Issuer or the Company specifically for deposit to the credit of the Construction Fund and the proceeds of the Bonds to the extent specified by Issuer Order.
- (c) The Trustee shall disburse amounts in the Project Account or the Costs of Issuance Account of the Construction Fund to pay or reimburse the Company for Project Costs or Costs of Issuance, respectively, no later than three Business Days following receipt of and in accordance with a requisition certificate in substantially the form of Exhibit "B" to this Indenture. The Trustee may rely fully on any requisition in substantially the form of Exhibit "B" to this Indenture, and shall not be required to make any investigation in connection therewith.

With respect to disbursements for Project Costs related to the acquisition of portions of the Project after Closing, the following shall be submitted to ACA, whose receipt and acknowledgment shall be provided in writing, and the Trustee prior to making such disbursement:

Supplement to the Deed of Trust reflecting the additional property;

Phase 1 environmental site assessment of the additional property;

Current land survey of the additional property; and

Title Insurance Commitment covering the additional property acceptable to ACA.

Prior to the release by the Trustee of any moneys held under the Construction Fund for any new construction the following shall be submitted to ACA, whose receipt and acknowledgment shall be provided in writing:

Prior to the bidding of Construction Contracts, the Borrower shall deliver, or cause to be delivered, to ACA draft copies of the proposed bid packages, including the instructions for bidders, general conditions, supplemental conditions and any other documents that are part of the respective bid packages (other than the Plans and Specifications for such project) for review and approval. The Construction Contracts shall be in form and substance reasonably satisfactory to

ACA under which the contractors will agree to construct such project for an aggregate lump sum fixed price equal to no more than the net proceeds of the Series 2006 Bonds allocated to such project and any proposed equity contribution by the Borrower then on hand (and estimated earnings thereon to the extent available for construction purposes). ACA shall provide approval hereunder if such documents are consistent with those utilized in construction projects of other Texas public or open-enrollment charter schools. In addition, the Borrower must certify to ACA that encumbered Series 2006 Bond proceeds and any such proposed equity contribution, which the Borrower will provide if the Series 2006 Bond proceeds are inadequate to cover the costs of the Project, are sufficient to meet all liabilities of the Borrower under such Construction Contracts;

Payment and performance bonds in form and substance satisfactory to ACA issued by a responsible company licensed to do business in the State and rated at least "A" by S&P or "Excellent (A or A-)" by A.M. Best Company, Inc. ("Best") or otherwise satisfactory to ACA in an amount not less than the lump sum fixed price under the respective Construction Contracts, or other evidence satisfactory to ACA that the Borrower has adequately protected itself with respect to timely completion of the construction of the Project at the fixed cost referred to above;

ACA shall have the right to approve any change orders to the Construction Contract that increase the costs of the Project over the contingency within the Construction Contract price; and

The Borrower shall furnish the Trustee and ACA with ACORD 28 certificates evidencing the builder's all-risk insurance as specified in Section 213 of the Master Indenture.

- (d) On the earlier of the end of the fifth Bond Year or receipt of the Officer's Certificate required by Section 3.5 of the Agreement, the Trustee shall transfer any amount then on deposit in the Construction Fund to the Debt Service Fund unless the Trustee has received from the Company a requisition certificate for all or any portion of such amounts for payment of incurred but unpaid Project Costs.
- (e) Any moneys remaining in the Costs of Issuance Account ninety (90) days after the Closing Date and not needed to pay unpaid Costs of Issuance shall be deposited in the Construction Fund. Upon final disbursement and/or transfer, the Trustee shall close the Costs of Issuance Account.
- (f) In furtherance and not in limitation of this Section 406 hereof, all payments made from the Project Account or the Costs of Issuance Account pursuant to a written requisition from the Company in the form required hereunder shall be presumed to be made properly and the Trustee shall not be required to see the application of any payments made from the Project Account or the Costs of Issuance Account or to inquire into the purposes for which withdrawals are being made from such Accounts.

9.60 Investment of Bond Proceeds. Pending the disbursement of any amounts deposited from the proceeds of the Series 2006 Bonds to any Fund, such proceeds may only be invested in direct obligations or obligations unconditionally guaranteed by the United States of America as more particularly described in paragraphs 2 and 3 of the definition of “Eligible Securities” herein.

9.61 Investment of Funds.

- (a) Pending disbursement of the amounts on deposit in any Fund, the Trustee shall promptly invest and reinvest such amounts in the particular Eligible Securities specified in any Company Order; provided that, if no such Company Order is delivered to the Trustee, the Trustee shall invest and reinvest such amount in securities meeting the requirement of Item (7) of the definition of Eligible Securities. All such investments shall be credited to the fund, account or subaccount from which the money used to acquire such investments shall have come.
- (b) Except as provided in Section 404(d), all income and profits on investments in the Debt Service Fund, the Debt Service Reserve Fund, the Construction Fund and the Rebate Fund shall be credited to those respective Funds. All losses on investments shall be charged against the fund and account to which such investments are credited. The Trustee may make any investment through its own trust department. As amounts invested are needed for disbursement from any fund or account, the Trustee shall cause a sufficient amount of the investments credited to that fund to be redeemed or sold and converted into cash to the credit of that fund. The Trustee may rely on the written instructions of the Company in investing money in any Fund or account, and shall not be accountable for any depreciation in the value of the investments made in accordance with the provisions of this Article IV or for any losses incurred upon any authorized disposition thereof.
- (c) The Company by its execution of the Agreement covenants to restrict the investment of money in the Funds in such manner and to such extent, if any, as may be necessary so that the Bonds will not constitute arbitrage bonds under Section 148 of the Code and the Regulations.
- (d) The Issuer and the Company (by its execution of the Agreement) acknowledge that to the extent that regulation of the Comptroller of the Currency or other applicable regulatory agency grant the Issuer or the Company the right to receive brokerage confirmation of security transaction as they occur, the Issuer and the Company waive receipt of such confirmations. The Trustee shall furnish to

the Company and ACA a periodic statement, made at least yearly, that include detail of all investment transactions made by the Trustee.

- 9.62 Trustee and Issuer Relieved From Responsibility. The Trustee and the Issuer shall be fully protected in relying upon any Company Order relating to investments and disbursements from any Fund, and shall not be liable for any losses or for interest on the Series 2006A Bonds becoming includable in gross income for federal income tax purposes as a result of complying with any such Company Order, and shall not be required to ascertain any facts with respect to any such Order.
- 9.63 Bond Insurance. The purchase of and payment of the premium for the Bond Insurance Policy, in accordance with the terms of a commitment for such insurance from ACA is hereby authorized. All officials and representatives of the Company are authorized and directed to execute such documents and to do any and all things necessary or desirable to obtain such insurance, and the printing on the Bonds of an appropriate legend regarding such insurance is hereby approved.

ARTICLE V

COVENANTS OF THE ISSUER

- 9.64 Payment of Debt Service; Limited Obligations. The Issuer will duly and punctually pay the principal of (and premium, if any) and interest on the Bonds in accordance with the terms of the Bonds and this Indenture; provided, however, that the Bonds and the other obligations of the Issuer provided for herein shall be limited obligations of the Issuer and shall be payable by the Issuer solely out of the Trust Estate and the revenues derived therefrom or in connection with the Bond Documents. The Bonds and the other expense reimbursement obligations of the Issuer provided for herein shall never be payable out of any other funds of the Issuer except the Trust Estate and such revenues.

If the specified date for any such payment shall be a Saturday, a Sunday or a legal holiday or the equivalent for banking institutions generally (other than a moratorium) at the place where payment thereof is to be made, then such payment may be made on the next succeeding day which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment.

- 9.65 [RESERVED].

- 9.66 Money for Bond Payments to be Held in Trust; Appointment of Paying Agents. The Issuer shall appoint a Paying Agent in each Place of Payment for the Bonds. Each such Paying Agent appointed by the Issuer shall be a corporation organized and doing business under the laws of the United

States of America or of any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$10,000,000 and subject to supervision or examination by federal or state authority. The Issuer will, prior to each due date of the principal of (and premium, if any) or interest on any Bonds, deposit or cause to be deposited (but only from the sources provided herein) with a Paying Agent a sum sufficient to pay the principal (and premium, if any) or interest so becoming due, such sum to be held in trust for the benefit of the Holders of such Bonds. Each Paying Agent for the Bonds shall provide the CUSIP number for the Bond with each payment of interest on and the principal or the redemption price of any Bond, specifying the amount paid in respect of each CUSIP number. The Paying Agents shall make payment of interest or the redemption price of any Bond, upon written request of a registered Owner of at least \$1,000,000 in principal amount of Bonds, by wire transfer (at the risk and expense of such registered Owner) in immediately available funds to an account designated by such registered Owner upon fifteen (15) days prior written notice to the Trustee.

The Issuer hereby appoints the Trustee as the initial Paying Agent for the Bonds. The Trustee shall accept such appointment by executing this Indenture in such capacity on the signature page hereto.

The Issuer will cause each Paying Agent other than the Trustee to execute and deliver to the Trustee and the Company an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will

- 1.1.1.78 hold all sums held by it for the payment of principal of (and premium, if any) or interest on Bonds in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;
- 1.1.1.79 give the Trustee notice of any default by the Issuer (or any other obligor upon the Bonds) in the making of any such payment of principal (and premium, if any) or interest; and
- 1.1.1.80 at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

The Issuer may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, by Issuer Order, direct any Paying Agent to pay to the Trustee all sums held in trust by such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Subject to applicable escheat laws of the State, any money deposited in trust with the Trustee or any Paying Agent in trust for the payment of the principal of (and premium, if any) or interest on any Bond and remaining unclaimed for the later of (i) the first anniversary of the Stated Maturity of the Bond or the installment of interest for the payment of which such money is held or (ii) two years after such principal (and premium, if any) or interest has become due and payable shall be paid to the Company on Company Request (which Request shall include the Company's representation that it is entitled to such funds under applicable escheatment laws and its agreement to comply with such laws) and the Holder of such Bond shall thereafter, to the extent of any legal right or claim, be deemed to be an unsecured general creditor, and shall look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Issuer, shall thereupon cease; provided, however, that the Trustee, the Issuer or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in an Authorized Newspaper, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company; and provided further, notwithstanding the foregoing, the Trustee shall be entitled to deliver any such funds to any escheatment authority in accordance with the Trustee's customary procedures. The Trustee shall hold any such funds in trust uninvested (without liability for interest accrued from the date deposited) for the benefit of Holders entitled thereto.

Any bank or trust company with or into which any Paying Agent may be merged or consolidated, or to which the assets and business of such Paying Agent may be sold, shall be deemed the successor of such Paying Agent for the purposes of this Indenture. ACA shall receive prior written notice of the resignation or removal of the Paying Agent. The Paying Agent may be removed at any time at the request of ACA. If the position of Paying Agent shall become vacant for any reason, the Issuer shall, within 30 days thereafter, appoint such bank or trust company as shall be specified by the Company and acceptable to ACA and the Trustee and located in the same city as such Paying Agent to fill such vacancy; provided, however, that if the Issuer shall fail to appoint a successor Paying Agent within said period, the Trustee shall make such appointment. No removal, resignation or termination of the Paying Agent shall take effect until a successor, acceptable to ACA, shall be appointed. Notice of the designation of a successor Paying Agent shall be sent by the Trustee by first-class mail to ACA and each Holder of the Bonds.

9.67 Instruments of Further Assurance. The Issuer covenants that to the extent of its power to do so, it will do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered, such indentures supplemental hereto and such further acts, instruments and transfers as the Trustee may reasonably require for the better assigning, pledging and confirming unto the Trustee of the Trust Estate assigned and the revenues pledged hereunder all at the expense of the Company.

9.68 Maintenance of Rights. The Issuer will use its best efforts to perform and observe all obligations to be performed by it under the Bond Documents. The Issuer will maintain the validity and effectiveness of the Bond Documents and, except as permitted hereby, take no action, and not

knowingly omit to take any reasonable action, the taking or omission of which might release any party from its liabilities or obligations under the Bond Documents, or result in the surrender, termination, amendment, or modification of, or impair the validity of, any Bond Document. The Issuer agrees that the Trustee, subject to the conditions thereof, may enforce for and on behalf of the Holders all of the covenants and agreements of the parties to the Bond Documents (other than the Trustee) as set forth in the Bond Documents, whether or not the Issuer is in default hereunder.

9.69 Corporate Existence. Subject to Article VI, the Issuer will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and rights (charter and statutory); provided, however, that the Issuer shall not be required to preserve any right if its Governing Body shall determine that the preservation thereof is no longer desirable in the conduct of the affairs of the Issuer and that the loss thereof is not disadvantageous in any material respect to the Bondholders.

9.70 Limitations on Liens, Debt and Disposition of Assets. Except as permitted or contemplated in this Indenture, the Issuer covenants that it will not: (i) create any mortgage, lien, encumbrance, pledge, charge or other exception to title (other than those created by this Indenture) upon or against any of the properties or assets constituting the Trust Estate, or any revenues derived therefrom or any other funds held by the Trustee for the benefit of the Holders superior to or ranking on parity with the lien created by this Indenture; (ii) sell, lease, transfer, convey or otherwise dispose of all or any part of the Trust Estate or its interest therein except subject to the interests of the Trustee created by this Indenture; (iii) create, incur or assume any debt secured by the Trust Estate or the Issuer's interest therein or the revenues pledged herein except in connection with the issuance of additional Bonds or on a basis subordinate to the liens created hereby; or (iv) knowingly take any other action that will impair the lien of this Indenture on the Trust Estate.

9.71 Tax Covenants.

(a) The Issuer agrees that until the final Maturity of the Series 2006A Bonds, it will not knowingly use or direct the use of any money on deposit in any fund or account maintained in connection with the Bonds, whether or not such money was derived from the proceeds of the sale of the Series 2006A Bonds or from any other source, in a manner that would cause the Series 2006A Bonds to be arbitrage bonds, within the meaning of Section 148 of the Code. In the event the Company notifies the Issuer that it is necessary to restrict or limit the yield on the investment of moneys held by the Trustee pursuant to this Indenture, or to use such moneys in any certain manner to avoid the Series 2006A Bonds being considered arbitrage bonds, the Issuer at the direction of the Company shall

instruct the Trustee to take such action as is necessary to restrict or limit the yield on such investment or to use such moneys in accordance with such written direction.

- (b) The Issuer shall not knowingly use or direct the use of any proceeds of the Series 2006A Bonds or any other funds of the Issuer, directly or indirectly, in any manner, and shall not itself take or knowingly permit to be taken any other action or actions, which would result in any of the Series 2006A Bonds being treated other than as an obligation described in Section 103(a) of the Code.
- (c) The Issuer will not knowingly use or direct the use of any portion of the proceeds of the Series 2006A Bonds, including any investment income earned on such proceeds, directly or indirectly, to make or finance loans to Persons who are not Exempt Persons. For purposes of the preceding sentence, a loan to an organization described in Section 501(c)(3) of the Code for use with respect to an unrelated trade or business, determined according to Section 513(a) of the Code, constitutes a loan to a person who is not an Exempt Person.
- (d) The Issuer will not knowingly take any action, or omit to take any action, which action or omission, will adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2006A Bonds, and in the event of such action or omission will promptly, upon receiving knowledge thereof, take all lawful actions, based on advice of counsel and at the expense of the Company, as may rescind or otherwise negate such action or omission.
- (e) The Issuer will not knowingly take any action which would result in all or any portion of the Series 2006A Bonds being treated as “federally guaranteed” within the meaning of Section 149(b)(2) of the Code.
- (f) For purposes of this Section 508, the Issuer’s compliance shall be based solely on acts or omissions by the Issuer and no acts or omissions of, or directed by, the Company, the Trustee or any other Persons shall be attributed to the Issuer.

All officers, employees and agents of the Issuer are authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the Issuer as of the date of delivery of the Series 2006A Bonds. In complying with the foregoing covenants, the Issuer may rely from time to time upon a Favorable Opinion of Bond Counsel.

9.72 Change in Law. To the extent that published rulings of the IRS, or amendments to the Code or the Regulations modify the covenants of the Issuer or the Trustee which are set forth in this Indenture or which are

necessary for interest on any issue of the Series 2006A Bonds to be excludable from gross income for federal income tax purposes, the Trustee and the Issuer will comply with such modifications, as described in an Opinion of Counsel delivered to the Issuer and the Trustee.

ARTICLE VI

CONSOLIDATION, MERGER, CONVEYANCE OR TRANSFER

9.73 Consolidation, Merger, Conveyance, or Transfer Only on Certain Terms.

The Issuer shall not consolidate with or merge into any other corporation or convey or transfer the Trust Estate substantially as an entirety to any Person, unless:

- (a) such consolidation, merger, conveyance, or transfer shall be on such terms as shall fully preserve the lien and security hereof and the rights and powers of the Trustee and the Holders of the Bonds hereunder;
- (b) the corporation formed by such consolidation or into which the Issuer is merged or the Person which acquires by conveyance or transfer the Trust Estate substantially as an entirety shall be organized and existing under the laws of the United States of America or any state or the District of Columbia and shall execute and deliver to the Trustee an indenture supplemental hereto in form satisfactory to the Trustee and ACA, meeting the requirements of Section 602 and containing:

1.1.1.81 an assumption by such surviving or successor corporation or such transferee of the due and punctual payment of the principal of (and premium, if any) and interest on all the Bonds and the performance and observance of every covenant and condition of this Indenture to be performed or observed by the Issuer, subject, however, to the same limitations and conditions as are herein or in the Bonds provided, and

1.1.1.82 a grant, conveyance and transfer complying with Section 602;

- (c) immediately after giving effect to such transaction, no Event of Default hereunder (nor any event which, with the giving of notice or the elapse of time or both, would become an Event of Default as a result of such transaction) shall have occurred and be continuing;
- (d) the Trustee and ACA shall have received a Favorable Opinion of Bond Counsel; and
- (e) the Issuer, at the expense of the Company, shall have delivered to the Trustee and ACA an Officers' Certificate and an Opinion of Counsel, each of which shall state that such consolidation, merger,

conveyance, or transfer and such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

- 9.74 Successor Issuer Substituted. Upon any consolidation or merger or any conveyance or transfer of the Trust Estate substantially as an entirety in accordance with Section 601, the successor corporation formed by such consolidation or into which the Issuer is merged or the Person to which such conveyance or transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under this Indenture with the same effect as if such successor had been named as the Issuer herein, if the supplemental indenture required by Section 601 shall contain a grant, conveyance and transfer, in terms sufficient to include and subject to the lien of this Indenture all and singular the properties described in the granting clauses hereof, whereupon such successor may cause to be executed, in its own name or in the name of the Issuer prior to such succession, and delivered to the Trustee for authentication, any Bonds issuable hereunder; and upon request of such successor, and subject to all the terms of this Indenture, the Trustee shall authenticate and deliver any Bonds which shall have been previously executed and delivered by the Issuer to the Trustee for authentication, and any Bonds which such successor shall thereafter, in accordance with this Indenture, cause to be executed and delivered to the Trustee for such purpose. Such changes in phraseology and form (but not in substance) may be made in such Bonds as may be appropriate in view of such consolidation, merger, conveyance, or transfer.

ARTICLE VII

REMEDIES OF THE TRUSTEE AND HOLDERS OF BONDS IN EVENT OF DEFAULT

- 9.75 Events of Default. “Event of Default,” whenever used herein means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):
- 1.1.1.83 default in the payment of (i) the principal of (and premium, if any) any Bond at its Maturity or (ii) an installment of interest on any Bond at the Stated Maturity for such installment; or
 - 1.1.1.84 default in the performance, or breach, of any covenant or agreement on the part of the Issuer contained in this Indenture (other than a covenant or agreement whose performance or observance is elsewhere in this Section specifically dealt with) and continuance of such default or breach for a

period of 30 days after there has been given, by registered or certified mail, to the Issuer, ACA and the Company by the Trustee, or to the Issuer, ACA, the Company and the Trustee by the Holders of at least 25% in principal amount of Bonds then Outstanding, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a “Notice of Default” hereunder; provided that if such default can be cured by the Issuer but cannot be cured within the 30-day curative period described above, it shall not constitute an Event of Default if corrective action is instituted by the Issuer within such 30-day period and diligently pursued until the default is corrected; or

1.1.1.85 a decree or order by a court having jurisdiction in the premises shall have been entered adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization or arrangement of the Company under the federal Bankruptcy Code or any other similar applicable federal or state law, and such decree or order shall have continued undischarged and unstayed for a period of 90 days; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of the Company or of the Company’s property, or for the winding up or liquidation of the Company’s affairs, shall have been entered, and such decree or order shall have remained in force undischarged and unstayed for a period of 90 days; or

1.1.1.86 the Company shall institute proceedings to be adjudicated a voluntary bankrupt, or shall consent to the institution of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization or arrangement under the federal Bankruptcy Code or any other similar applicable federal or state law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of it or of its property, or shall make assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or corporate action shall be taken by the Company in furtherance of any of the aforesaid purposes; or

1.1.1.87 the maturity of any Note issued under the Master Indenture shall be accelerated unless such acceleration has been rescinded and annulled pursuant to the Master Indenture; or

1.1.1.88 receipt by the Trustee of written notice from the Master Trustee that the Notes have been accelerated under the Master Indenture.

1.1.1.89 an Event of Default has occurred under any of the Bond Documents.

If any portion of a Loan Payment shall not be paid at the time therein specified, the Trustee shall promptly give telephonic or facsimile notice to any Person that may execute an Officer’s Certificate on behalf of the Company of such failure and shall promptly thereafter

confirm such notice by telex, facsimile or letter to the other parties to the Bond Documents and ACA unless such amount is immediately thereafter paid.

9.76 Acceleration of Maturity; Rescission and Annulment.

- (a) If an Event of Default occurs and is continuing, then and in every such case the Trustee shall, (A) at the direction of ACA or (B) at the direction of 25% of the Bondholders with the prior written consent of ACA give written notice to the Issuer, the Company, ACA and the Holders of the Bonds declaring the principal of the Outstanding Bonds to be due and payable immediately. The Trustee having given such notice, the principal of the Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in this Indenture or in the Bonds to the contrary notwithstanding.
- (b) [RESERVED]
- (c) At any time after such a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article provided, the Holders of a majority in principal amount of the Bonds Outstanding, by written notice to the Issuer and the Trustee, in the case of any acceleration of maturity of the Bonds may, with the prior written consent of ACA, direct the Trustee to rescind and annul such declaration and its consequences if:

1.1.1.90 the Issuer has caused to be paid or deposited with the Trustee a sum sufficient to pay

all overdue installments of interest on all Bonds,

the principal of (and premium, if any, on) any Bonds which have become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the Bonds; and

all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel; and

all Events of Default, other than the nonpayment of the principal of Bonds which have become due solely by such acceleration, have been cured or waived as provided in Section 713

No such rescission shall affect any subsequent default or impair any right consequent thereon.

9.77 Collection of Indebtedness and Suits for Enforcement by Trustee. The Issuer covenants that if

1.1.1.91 default is made in the payment of any installment of interest on any Bond when such interest becomes due and payable, or

1.1.1.92 default is made in the payment of the principal of (or premium, if any, on) any Bond when such principal becomes due and payable,

the Issuer will, upon demand of the Trustee, pay (but solely from the Trust Estate and the revenues pledged by this Indenture to such payment) to it, for the benefit of the Holders of such Bonds, the whole amount then due and payable on such Bonds for principal (and premium, if any) and interest, with interest upon the overdue principal (and premium, if any); and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If the Issuer fails to pay any of the foregoing amounts forthwith upon demand, the Trustee, in its own name and as trustee of an express trust, may, with the consent of ACA and shall, upon the direction of ACA, institute a judicial proceeding for the collection of the sums so due and unpaid, and may prosecute such proceeding to judgment or final decree, and may enforce the same against the Issuer or any other obligor upon the Bonds and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property constituting a part of the Trust Estate of the Issuer or any other obligor upon the Bonds, wherever situated.

If an Event of Default occurs and is continuing, the Trustee may, with the consent of ACA and shall, upon the direction of ACA, proceed to protect and enforce its rights and the rights of the Holders of Bonds by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

9.78 Trustee May File Proofs of Claim. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Issuer, the Company or any other obligor upon the Bonds or property of the Issuer, of the Company or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Bonds shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Issuer, the Company or such other Obligor for the payment of overdue principal or interest) shall, with the consent of ACA, be entitled and empowered, by intervention in such proceeding or otherwise,

to file and prove a claim for the whole amount of principal (and premium, if any) and interest owing and unpaid in respect of the Bonds and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Holders of Bonds allowed in such judicial proceeding, and

to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any receiver, assignee, trustee, liquidator, sequestrator (or other similar official) in any such

judicial proceeding is hereby authorized by each Holder of Bonds to make such payments to the Trustee, and in the event that the Trustee shall consent to the making of such payments directly to the Holders of Bonds, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under this Indenture.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder of Bonds any plan of reorganization, arrangement, adjustment or composition affecting the Bonds or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder of Bonds in any such proceeding.

Any reorganization or liquidation plan with respect to the Issuer or the Company must be acceptable to ACA. In the event of any reorganization or liquidation, ACA shall have the right to vote on behalf of all Holders who hold ACA-insured Bonds absent a default by ACA under the Bond Insurance Policy.

9.79 Trustee May Enforce Claims Without Possession of Bonds. All rights of action and claims under this Indenture or the Bonds may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Bonds in respect of which such judgment has been recovered and ACA to the extent of the obligations then owing to such Persons.

9.80 Application of Money Collected. Any money collected by the Trustee pursuant to this Article and any other sums then held by the Trustee as part of the Trust Estate other than from ACA, shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Bonds and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

- (a) First: To the payment of all amounts due the Trustee under this Indenture;
- (b) Second: To the payment of the amounts then due and unpaid upon the Bonds, for interest, in respect of which or for the benefit of which such money has been collected, but only from and to the extent of Available Money; ratably without preference or priority of any kind, according to the amounts due and payable on such Bonds for interest;

- (c) Third: To the payment of the amounts then due and unpaid upon the Bonds, for principal (and premium, if any), in respect of which or for the benefit of which such money has been collected, but only from and to the extent of Available Money; ratably without preference or priority of any kind, according to the amounts due and payable on such Bonds for principal (and premium, if any);
- (d) Fourth: To ACA of any amounts then owing to such Person;
- (e) Fifth: To the Company, any remaining amounts of money so collected.

9.81 Limitation on Suits. Subject to Section 712(a) hereof, the Holder of any Bond shall have no right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

- (a) such Holder has previously given written notice to the Trustee of a continuing Event of Default;
- (b) the Holders of not less than 25% in principal amount of the Outstanding Bonds or ACA shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;
- (c) the Holders have offered to the satisfaction of the Trustee indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;
- (d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and
- (e) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by ACA or by the Holders of a majority in principal amount of the Outstanding Bonds;

it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders of Bonds, or to obtain or to seek to obtain priority or preference over any other Holders, to take any action that would affect the validity of the lien of this Indenture on the Trust Estate, or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all the Holders of Bonds and ACA to the extent of the amounts then owing to such Persons.

9.82 Unconditional Right of Holders of Bonds to Receive Principal, Premium and Interest. Notwithstanding any other provision in this Indenture, the Holder of any Bond shall have the right which is absolute and

unconditional to receive payment of the principal of (and premium, if any) and interest on such Bond, but solely from the sources provided in this Indenture, on the respective Stated Maturities expressed in such Bond (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

- 9.83 Restoration of Rights and Remedies. If the Trustee, ACA, or any Holder of Bonds has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee, ACA, or such Holder of Bonds, then and in every such case the Issuer, the Trustee, ACA, the Company, and the Holders of Bonds shall, subject to any determination in such proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and remedies of the Trustee, ACA, and the Holders of Bonds shall continue as though no such proceeding had been instituted.
- 9.84 Rights and Remedies Cumulative. No right or remedy herein conferred upon or reserved to the Trustee, ACA, or the Holders of Bonds is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.
- 9.85 Delay or Omission Not Waiver. No delay or omission of the Trustee, ACA, or any Holder of any Bond to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee, ACA, or the Holders of Bonds may be exercised from time to time, and as often as may be deemed expedient, by the Trustee, ACA, or the Holders of Bonds, as the case may be.
- 9.86 Control by Holders of Bonds and ACA.
- (a) Anything in this Indenture to the contrary notwithstanding, subject to Section 1101(f) of this Indenture, upon the occurrence and continuance of an Event of Default, ACA shall be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders or the Trustee for the benefit of the Bondholders under this Indenture, including, without limitation: (i) the right to accelerate the principal of the Bonds as described in this Indenture and (ii) the right to annul any declaration of

acceleration, and ACA shall be entitled to approve all waivers of events of default.

- (b) Subject to subsection (a) above, the Holders of a majority in principal amount of the Outstanding Bonds and ACA shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee, provided that:

such direction shall not be in conflict with any rule of law or with this Indenture, and

the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

9.87 Waiver of Past Defaults. The Holders of not less than a majority in principal amount of the Outstanding Bonds may, with the prior written consent of ACA, waive any past default hereunder and its consequences, except:

- (a) a default in the payment of the principal of (or premium, if any) or interest on any Bond, or
- (b) a default in respect of a covenant or provision hereof which under Article IX cannot be modified or amended without the consent of the Holder of each Outstanding Bond affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

9.88 Undertaking for Costs. All parties to this Indenture agree, and each Holder of any Bond by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Trustee, to any suit instituted by any Holder of Bonds, or group of Holders of Bonds, holding in the aggregate more than 10% in principal amount of the Outstanding Bonds, or to any suit instituted by any Holder of Bonds for the enforcement of the payment of the principal of (or premium, if any) or interest on any Bond on or after the respective Stated Maturities expressed in such Bond (or, in the case of redemption, on or after the redemption date).

- 9.89 Waiver of Stay or Extension Laws. The Issuer covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Issuer (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants (to the extent it may lawfully do so) that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.
- 9.90 No Recourse Against Others. No recourse under or upon any obligation, covenant or agreement contained in this Indenture or any indenture supplemental hereto, or in the Agreement, or in any Bond or any Note, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, or against any past, present or future director, officer or employee, as such, of the Issuer, the Company or the Sponsoring Entity or of any successor corporation, either directly or through the Issuer, the Company or the Sponsoring Entity, whether by virtue of any constitution or statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that this Indenture and the Agreement and the Bonds and the Notes are solely corporate obligations, and that no such personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, directors, officers or employees, as such, of the Issuer, the Company or the Sponsoring Entity or any successor corporation, or any of them, because of the creation of indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Indenture or in the Agreement or in any of the Bonds or any of the Notes or implied therefrom; and that any and all such personal liability, either at common law or in equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, director, officer or employee, as such, are hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issue of such Bonds or any of the Notes.
- 9.91 Expenses Payable under Indenture. All expenses incurred in carrying out this Indenture shall be payable solely from funds derived by the Issuer from the Company. Anything in this Indenture to the contrary notwithstanding, the performance by the Issuer of all duties and obligations imposed upon it hereby, the exercise by it of all powers granted to it hereunder, the carrying out of all covenants, agreements and promises made by it hereunder, and liability of the Issuer for all warranties and other covenants herein shall be limited solely to the money and revenues received from the payments by the Company in respect to the Notes and under the Agreement, and from moneys attributable to the

proceeds of Bonds, or the income from the temporary investment thereof, and, to the extent herein or in the Agreement provided, the proceeds of insurance, sale and condemnation awards; and the Issuer shall not be required to effectuate any of its duties, obligations, powers or covenants except from, and to the extent of, such moneys, revenues, proceeds, and payments.

ARTICLE IX
CONCERNING THE TRUSTEE

9.92 Duties and Liabilities of Trustee.

- (a) The Trustee accepts and agrees to execute the specific trusts imposed upon it by this Indenture, but only upon the terms and conditions set forth herein, and no implied covenants or obligations shall be read into this Indenture against the Trustee.
- (b) In case any Event of Default (of which the Trustee has actual knowledge or is deemed to have actual knowledge under Section 803(h) hereof) has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a reasonably prudent man would exercise or use under the circumstances in the conduct of his own affairs.
- (c) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except, that:

1.1.1.93 this subsection shall not be construed to limit the effect of subsection (a) of this Section or Section 803;

1.1.1.94 the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

1.1.1.95 the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with any direction given to the Trustee under Section 702 of this Indenture or at the direction of ACA or the Holders of not less than a majority in aggregate principal amount of Bonds then Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture; and

1.1.1.96 no provision of this Indenture shall require the Trustee to expend or risk its funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if it

shall have reasonable grounds for believing that the repayment of such funds or adequate indemnity against such risk or liability or the payment of its fees and expenses is not reasonably assured to it.

- (d) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section and Sections 803 and 813.
- (e) Notwithstanding any other provision of the financing documents, in determining whether the rights of Bondholders will be adversely affected by any action taken pursuant to the terms and provisions of this Indenture, the Trustee shall consider the effect on the Bondholders as if there were no Bond Insurance Policy.

9.93 Notice of Defaults. Within 10 days after the occurrence of any Event of Default hereunder of which the Trustee is deemed to have knowledge hereunder, the Trustee shall transmit by mail to ACA, and within 60 days after such occurrence, to all Holders of Bonds, notice of such default, unless, with respect to notice to the Holders of the Bonds, such default shall have been cured or waived or unless corrective action to cure such default has been instituted and is being pursued such that such default does not constitute an Event of Default; provided, however, that except in the case of a default in the payment of the principal of (or premium, if any) or interest on any Bonds or in the payment of any sinking or purchase fund installment, the Trustee shall be protected in withholding such notice from the Holders of Bonds if and so long as the board of directors, the executive committee or a trust committee of directors and/or Responsible Officers of the Trustee in good faith determine that the withholding of such notice is in the interest of the Holders of Bonds; provided, further, that in the case of any default of the character specified in Section 701(2) hereof no such notice to Holders of Bonds shall be given until at least 30 days after the occurrence thereof; and provided that in the case of acceleration pursuant to Section 702, the Trustee shall give immediate notice as provided therein. For the purpose of this Section, the term “default” means any event which is, or after notice or lapse of time or both would become, an Event of Default.

The Trustee shall mail, first-class postage prepaid, to each Rating Service then-rating the Bonds notice of any of the following events, whenever:

- (a) the Trustee, pursuant to the Indenture, has resigned or been removed and a successor Trustee has been appointed, such notice to be mailed within ten Business Days after the appointment of such successor Trustee;

- (b) an amendment or supplement to the Bond Documents executed or consented to by the Trustee or of which the Trustee has received written notice is to be entered into, such notice and a copy of such amendment or supplement to such Rating Service to be mailed at least ten Business Days prior to the effective date of such amendment or supplement and within three Business Days after the receipt of such written notice by the Trustee;
- (c) the Trustee either (1) receives a Company Request pursuant to Section 302 which directs the Trustee to redeem all the Outstanding Bonds or (2) declares the principal of all Outstanding Bonds to be immediately due and payable pursuant to Section 702, such notice to be mailed within ten Business Days after the receipt of such Company Request (and to specify the Redemption Date requested thereby) or after such declaration; or
- (d) all Bonds shall be deemed to have been paid or defeased as provided in Article X hereof.

9.94 Certain Rights of Trustee.

- (a) The Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties and shall not be required to verify the accuracy of any information or calculations required to be included therein or attached thereto;
- (b) Any request or direction of any Person mentioned herein shall be sufficiently evidenced by a Request of such Person; and any resolution of the Governing Body of any Person may be evidenced to the Trustee by a Board Resolution of such Person;
- (c) Whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officer's Certificate;
- (d) The Trustee may consult with counsel 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;

- (e) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders of Bonds or ACA pursuant to the provisions of this Indenture, unless such Holders or ACA, as applicable shall have offered to the Trustee reasonable security or indemnity satisfactory to it against the costs, expenses and liabilities which might be incurred by it in connection with such request or direction and for the payment of the Trustee's fees in connection therewith;
- (f) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Issuer, personally or by agent or attorney and to take copies of such memoranda from and in regard thereto as may be reasonably be desired; provided that, the Trustee shall have no obligation to perform any of the duties of the Issuer under this Indenture or of the Company under any of the Bond Documents;
- (g) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys, but the Trustee shall not be held liable for any negligence or misconduct of any such agent or attorney appointed with due care;
- (h) The Trustee shall not be required to take notice or be deemed to have notice of any Event of Default hereunder unless the Trustee shall be specifically notified of such Event of Default in writing by the Issuer, ACA or the Company or by the Holder of an Outstanding Bond, and in the absence of such notice the Trustee may conclusively assume that no Event of Default exists; provided, however, that the Trustee shall be required to take and be deemed to have notice of its failure to receive the moneys necessary to make payments when due of debt service;
- (i) The Trustee shall not be liable for any error of judgment made in good faith by its officers, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;
- (j) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with any direction of the Holders of the applicable percentage of the Holders

of Outstanding Bonds permitted to be given by them under this Indenture;

- (k) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it;
- (l) The Trustee may seek the approval of the Holders of the Bonds or ACA by any means it deems appropriate and not inconsistent with the terms of this Indenture or the Master Indenture in connection with the giving of any consent or taking of any action in its capacity as Holder of any Note;
- (m) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty to take such action;
- (n) The Trustee shall not be required to give any bond or surety in respect of the execution of the trusts and powers established by this Indenture; and
- (o) The Trustee shall not be responsible for monitoring the existence of or determining whether any lien or encumbrance or other charge including without limitation any Permitted Encumbrance (as defined in the Deed of Trust) exists against the Project or the Trust Estate.

Notwithstanding the aforesaid, the Trustee shall be required to pay the Holders of the Bonds at the times required under this Indenture.

9.95 Not Responsible For Recitals or Issuance of Bonds. The recitals contained herein and in the Bonds (other than the certificate of authentication on such Bonds) shall be taken as the statements of the Issuer and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the value or condition of the Trust Estate or any part thereof, or as to the title of the Issuer thereto or as to the adequacy, sufficiency or perfection of the security afforded thereby or hereby; as to the validity or genuineness of any securities at any time pledged and deposited with the Trustee hereunder; as to the validity or sufficiency of this Indenture or of the Bonds; or as to the correctness or sufficiency of any statement made in connection with the offer or sale of the Bonds. The Trustee shall not be accountable for the use or application by the Issuer or the Company of any of the Bonds or of the proceeds of such Bonds.

9.96 Trustee May Own Bonds. The Trustee or any other agent appointed hereunder, in its individual or any other capacity, may become the owner

or pledgee of Bonds and may otherwise deal with the Issuer with the same rights it would have if it were not Trustee or such other agent.

9.97 Moneys to Be Held in Trust. All moneys received by the Trustee shall, until used or applied as herein provided (including payment of moneys to the Company under the last paragraph of Section 503), be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any moneys received by it hereunder other than such interest as it expressly agrees in writing with the Issuer or the Company to pay.

9.98 Compensation and Expenses of Trustee and Paying Agent. The Issuer agrees, but solely from the Trust Estate and the revenues pledged by this Indenture to such payment,

1.1.1.97 to pay to the Trustee, Bond Registrar, Authenticating Agent, and Paying Agent from time to time, when due, reasonable compensation for all services rendered by them hereunder, including extraordinary services during the existence of a default, which shall not be limited by any law limiting the compensation of the trustee of an express trust; and

1.1.1.98 except as otherwise expressly provided herein, to reimburse the Trustee and the Paying Agent upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee or such Paying Agent in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel and securities or transaction charges to the extent not waived by the Trustee as a result of its receipt of compensation with respect to such securities or transactions) except any such expense, disbursement or advance as may be attributable to the negligence or bad faith of such Person.

Nothing in this Section 807 shall affect or otherwise diminish the obligations of the Company to pay compensation and indemnification to the Trustee in accordance with the Agreement as security for the performance of the obligations of the Issuer under this Section and the obligations of the Company under Sections 4.7(b) and 5.1(h) of the Agreement. As such security for the performance of the obligations of the Issuer under this Section the Trustee shall have a lien prior to the Bonds upon all property and funds held or collected by the Trustee as such, excluding money received from ACA.

When the Trustee incurs expenses or renders services in connection with any bankruptcy or insolvency proceeding, such expenses (including the fees and expenses of its counsel) and the compensation for such services are intended to constitute expenses of administration under any bankruptcy law or law relating to creditors' rights generally.

9.99 Corporate Trustee Required; Eligibility. There shall at all times be a Trustee hereunder which shall be a corporation organized and doing

business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$50,000,000, subject to supervision or examination by federal or state authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

9.100 Resignation and Removal; Appointment of Successor.

- (a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee, acceptable to ACA, under Section 810.
- (b) The Trustee may resign at any time by giving written notice thereof to the Issuer and the Company. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.
- (c) The Trustee may be removed at any time by ACA or an act of the Holders of a majority in principal amount of the Outstanding Bonds, delivered to the Trustee and the Issuer. ACA shall receive prior written notice of the resignation or removal of the Trustee.
- (d) If at any time:

1.1.1.99 the Trustee shall cease to be eligible under Section 808 and shall fail to resign after written request therefor by ACA or the Issuer or by any such Holder of Bonds, or

1.1.1.100 the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (i) the Issuer by an Issuer Request may remove the Trustee, (ii) subject to Section 714, any Holder of Bonds who has been a bona fide Holder of a Bond for at least 6 months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee,

and (iii) ACA may remove the Trustee.

- (e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, the Issuer, by an Issuer Request, at the direction of the Company, shall promptly appoint a successor Trustee. If, within 3 months after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Bonds delivered to the Issuer and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the successor Trustee appointed by the Issuer. If no successor Trustee shall have been so appointed by the Issuer or the Holders of Bonds and accepted appointment in the manner hereinafter provided, the Trustee or any Holder of Bonds who has been a bona fide Holder of a Bond for at least 6 months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.
- (f) So long as no default or Event of Default has occurred and is continuing hereunder, the Company at any time may (with the prior written consent of ACA so long as ACA is not in default of its obligations under the Bond Insurance Policy) request that the Issuer remove the Trustee and appoint a substitute Trustee and the Issuer shall promptly comply with such request.
- (g) The Company shall give, or cause to be given, notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee by mailing written notice of such event by first-class mail, postage prepaid, to the Holders of Bonds at their addresses as shown in the Bond Register. Each notice shall include the name and address of the applicable corporate trust office or payment office of the successor Trustee.

9.101 Acceptance of Appointment by Successor. Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Issuer and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on request of the Issuer or the successor Trustee, such retiring Trustee shall execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee, and shall duly assign, transfer and deliver to the successor Trustee, ACA, and all property and money held by such retiring

Trustee hereunder. Upon request of any such successor Trustee, the Issuer shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts.

No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

9.102 Merger or Consolidation. Any corporation into which the Trustee may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all of the municipal corporate trust business of the Trustee, shall be the successor Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, to the extent operative, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Bonds shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger or consolidation to such authenticating Trustee may adopt such authentication and deliver the Bonds so authenticated with the same effect as if such successor Trustee had itself authenticated such Bonds.

9.103 Authenticating Agent. There may (and whenever the Trustee shall not maintain an office or agent in each Place of Payment there shall) be an Authenticating Agent appointed by the Trustee with power to act on its behalf and subject to its direction in the authentication and delivery of the Bonds in connection with delivery of Bonds pursuant to Section 203 and transfers and exchanges under Sections 204, 205 and 307, as fully to all intents and purposes as though the Authenticating Agent had been expressly authorized by those Sections to authenticate and deliver the Bonds. For all purposes of this Indenture, the authentication and delivery of the Bonds by the Authenticating Agent pursuant to this Section shall be deemed to be the authentication and delivery of the Bonds “by the Trustee”.

The Trustee is hereby appointed Authenticating Agent with respect to the Bonds.

Each Authenticating Agent shall at all times be a bank or trust company having an office or agent in a Place of Payment, and shall at all times be a corporation organized and doing business under the laws of the United States or of any state with a combined capital and surplus of at least \$50,000,000 and authorized under such laws to exercise corporate trust powers and subject to supervision or examination by federal or state authority. If such corporation publishes reports of condition at least annually pursuant to law or the requirements of such authority, then for the purposes of this Section the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

Any corporation into which any Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, consolidation, or conversion to which any Authenticating Agent shall be a party, or any corporation succeeding to the corporate trust business of any Authenticating Agent, shall be the successor of the Authenticating Agent hereunder, if such successor corporation is otherwise eligible under this Section, without the execution or filing of any further act on the part of the parties hereto or the Authenticating Agent or such successor corporation.

Any Authenticating Agent may at any time resign by giving written notice of resignation to the Trustee, the Issuer, ACA, and the Company. The Trustee may at any time terminate the agency of any Authenticating Agent by giving written notice of termination to such Authenticating Agent and to the Issuer, ACA, and the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time any Authenticating Agent shall cease to be eligible under this Section, the Trustee with the approval of ACA shall promptly appoint a successor Authenticating Agent and shall give written notice of such appointment to the Issuer and the Company.

The Trustee shall be entitled to be reimbursed for any reasonable compensation paid by the Trustee to the Authenticating Agent for its service subject to Section 803 and 807. The provisions of Sections 207, 803, 804, and 805 of this Indenture shall be applicable to any Authenticating Agent.

- 9.104 Trustee Liability for Agents. Notwithstanding anything contained herein to the contrary, the Trustee shall not be liable for any failure of the Paying Agent or the Authenticating Agent to perform in accordance with the Indenture any duty required or authorized herein to be performed by such Person or for any other acts or omissions of such Person.

ARTICLE X

SUPPLEMENTS AND AMENDMENTS

- 9.105 Supplemental Indentures and Amendatory Agreements Without Consent of Holders of Bonds. Without the consent of the Holders of any Bonds, but with the prior written consent of ACA, the Issuer, when authorized by a Board Resolution, and the Trustee at any time upon receipt of Company Consent and may enter into or consent to one or more indentures supplemental hereto, subject to Section 903 hereof, or amendments to the Agreement or the Supplemental Master Trust Indenture for any of the following purposes:

- 1.1.1.101 to evidence the succession of another Person to the Issuer or the Company, or successive successions, and the assumption by the successor Person of the covenants, agreements and obligations of the Issuer as permitted by this Indenture or the Company as permitted by the Agreement;

- 1.1.1.102 to add to the covenants of the Issuer or the Company for the benefit of the Holders of Bonds, to surrender any right or power herein or therein conferred upon the Issuer or the Company;
- 1.1.1.103 to cure any ambiguity or to correct or supplement any provision herein or therein which may be inconsistent with any other provision herein or therein, or to make any other provisions with respect to matters or questions arising under this Indenture or the Agreement which shall not be inconsistent with this Indenture, provided such action shall not adversely affect the interests of the Holders of Bonds;
- 1.1.1.104 to modify or supplement this Indenture in such manner as may be necessary to qualify this Indenture under the Trust Indenture Act of 1939 as then amended, or under any similar federal or state statute or regulation, including provisions whereby the Trustee accepts such powers, duties, conditions and restrictions hereunder and the Issuer or the Company undertakes such covenants, conditions or restrictions additional to those contained in this Indenture as would be necessary or appropriate so to qualify this Indenture; provided, however, that nothing herein contained shall be deemed to authorize inclusion in this Indenture or in any indenture supplemental hereto, provisions referred to in Section 316(a)(2) of the said Trust Indenture Act or any corresponding provision provided for in any similar statute hereafter in effect;
- 1.1.1.105 in connection with any other change herein or therein which, in the judgment of a Management Consultant, a copy of whose report shall be filed with the Trustee and ACA, (a) is in the best interest of the Company and (b) does not materially adversely affect the Holder of any Bond; provided that no such change shall be made if within 30 days of its receipt of such Management Consultant's report, the Trustee shall have obtained a report from another Management Consultant indicating that in its opinion either clause (a) or clause (b) of this subsection (5) is not satisfied; provided further, that the Trustee shall be under no duty to retain another such Management Consultant; or
- 1.1.1.106 to modify or supplement this Indenture in such manner as may be necessary or appropriate to cause the rating assigned to the Bonds by each Rating Service to be the same as the rating assigned by such Rating Service to maintain an investment grade rating on the Bonds from each Rating Service.
- 9.106 Supplemental Indentures and Amendatory Agreements With Consent of Holders of Bonds. Upon the direction of ACA or with the consent of the Holders of not less than a majority in principal amount of the Outstanding Bonds affected by such supplemental indenture, by Act of such Holders delivered to the Issuer, the Company, the Trustee, ACA and the Rating Service and the prior written consent of ACA, the Issuer, when authorized by a Board Resolution, and the Trustee may, upon receipt of a Company

Consent, enter into or consent to an indenture or indentures supplemental hereto (subject to Section 903 hereof), amendments to the Agreement or the Supplemental Master Trust Indenture for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture, the Agreement and the Supplemental Master Trust Indenture or of modifying in any manner the rights of the Holders of the Bonds under this Indenture, the Agreement, and the Supplemental Master Trust Indenture; provided, however, that no such supplemental indenture or amendment shall, without the consent of the Holder of each Bond affected thereby:

- 1.1.1.107 change the Stated Maturity of the principal of, or any installment of interest on, any Bonds or any date for mandatory redemption thereof, or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, or change the coin or currency in which, any Bonds or the interest thereon is payable, or impair or subordinate the lien of this Indenture on the Trust Estate or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the redemption date), or
- 1.1.1.108 reduce the percentage in principal amount of the Outstanding Bonds, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture, or
- 1.1.1.109 modify any of the provisions of this Section or Section 713, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Bond affected thereby.

It shall not be necessary for any act of Holders of Bonds under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such act of Holders of Bonds shall approve the substance thereof.

Notwithstanding anything to the contrary within this Indenture, ACA, so long as ACA is not in default on its payment obligations under the Bond Insurance Policy, may give all consents and waivers under Indenture, including without limitation, this Section 902 except clauses (1), (2) or (3) for which both ACA and Bondholder consent is required, without the need for the Trustee to give notice to or to receive the consent of any Holder.

- 9.107 Execution of Supplemental Indentures. In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture and in consenting to any amendment to the Agreement or to any indenture supplemental to this Indenture, the Trustee shall be entitled to receive, and (subject to Section 801) shall be fully protected in relying upon, an

Opinion of Counsel stating that the execution of such supplemental indenture or consent is authorized or permitted by this Indenture. The Trustee may, but shall not (except to the extent required in the case of a supplemental indenture entered into under Section 901(4)) be obligated to, enter into any such supplemental indenture or consent which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise. The Trustee shall not execute any supplemental indenture without the consent of the Company.

9.108 Effect of Supplemental Indentures. Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes, and every Holder of Bonds thereafter or theretofore authenticated and delivered hereunder shall be bound thereby.

9.109 Bonds May Bear Notation of Changes. Bonds authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Issuer or the Trustee shall so determine, new Bonds so modified as to conform, in the opinion of the Trustee and the Issuer, to any such supplemental indenture may be prepared and executed by the Issuer and authenticated and delivered by the Trustee in exchange for Bonds then Outstanding.

ARTICLE XI

SATISFACTION AND DISCHARGE OF INDENTURE; UNCLAIMED MONEYS

9.110 Satisfaction and Discharge of Indenture. Whenever the following conditions shall exist, namely:

(a) all Bonds theretofore authenticated and delivered have been cancelled by the Trustee or delivered to the Trustee for cancellation, excluding, however:

1.1.1.110 Bonds alleged to have been destroyed, lost, or stolen which have been replaced or paid as provided in Section 205, except for any such Bond which, prior to the satisfaction and discharge of this Indenture, has been presented to the Trustee with a claim of ownership and enforceability by the Holder thereof and where enforceability has not been determined adversely against such Holder by a court of competent jurisdiction,

1.1.1.111 Bonds, other than those referred to in paragraph (1) above, for the payment or redemption of which the Issuer or the Company has deposited or caused to be deposited with the Trustee at the Maturity thereof in trust for

such purpose funds (which shall be immediately available for payment) in an amount sufficient to pay and discharge the entire indebtedness on such Bonds for principal (and premium, if any) and interest to such Maturity, and

1.1.1.112 Bonds deemed no longer Outstanding as a result of the deposit or escrow of money or Defeasance Obligations or both as described in Section 1002;

- (b) the Issuer or the Company has paid or caused to be paid all other sums payable by the Issuer or the Company hereunder and under the Agreement (except amounts due and payable by the Company pursuant to Section 4.1(a) or (b) of the Agreement and the terms of the Tax-Exempt Master Note and the Taxable Master Note); and
- (c) there has been delivered to the Trustee an Opinion of Counsel stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with;

then, upon Issuer Request (which the Issuer shall make upon Company Order), this Indenture and the lien, rights, and interests created hereby shall cease, determine, and become null and void (except as to any surviving rights of transfer, exchange, or tender of Bonds herein or therein provided for) and the Trustee and each co-trustee and separate trustee, if any, then acting as such hereunder shall, at the expense of the Company, execute and deliver a termination statement and such instruments of satisfaction and discharge as may be necessary (in form and substance satisfactory to Company) and pay, assign, transfer, and deliver to the Company or upon Company Order all cash, securities, and other property then held by it hereunder as a part of the Trust Estate.

In the absence of an Issuer Request as aforesaid, the payment of all Outstanding Bonds shall not render this Indenture inoperative.

Notwithstanding the satisfaction and discharge of this Indenture the obligations of the Issuer and the Company to the Trustee under Section 807 shall survive unless otherwise agreed by the Trustee in writing.

9.111 Payment of Bonds.

- (a) All of the Bonds shall be deemed to have been paid for purposes of this Indenture if (a) there has been deposited with the Trustee in trust in a segregated account either (i) moneys in an amount, or (ii) Defeasance Obligations, the principal of and interest on which will, when due, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, (as established by a report of an independent certified public accountant setting forth the calculations upon which such report is based) provide moneys in an amount, which, together with any moneys deposited with or held by the Trustee at the same time and

available for such purpose pursuant to this Indenture, will be sufficient to pay when due and payable the principal, premium, if any, and interest due and payable and to become due and payable on and prior to the respective redemption dates or Maturity dates on all of the Bonds, or (iii) a combination of (i) and (ii), and (b) in case any of such Bonds are to be redeemed on any date prior to their Stated Maturity, the Company has given to the Trustee irrevocable written instructions instructing the Trustee to effect the redemption of such Bonds on such date and to give notice of such redemption to Holders prior to said date as provided in Exhibits A-1 and A-2 to this Indenture, and (c) in the event such Bonds are not to be redeemed within the 60 days next succeeding the date of such deposit with the Trustee, the Issuer has given irrevocable written instructions to the Trustee to give notice to the Holders of such Bonds advising that the deposit required by clause (a) of this paragraph above has been made with the Trustee and that the Bonds are deemed to have been paid in accordance with this Article and stating such Maturity or redemption date or dates upon which money is to be available for the payment of the principal, premium, if any, and interest on such Bonds. The Trustee shall not be required to accept any deposit of Defeasance Obligations pursuant to clause (ii) or (iii) during the continuance of an Event of Default. For purposes of this Section, Government Obligations issued or held in the name of the Trustee in book-entry form on the books of the Department of Treasury of the United States of America shall be deemed to be deposited with the Trustee.

Any Defeasance Obligations deposited with the Trustee pursuant to this Section shall mature on such dates as shall be required for the aforesaid purpose. Such Defeasance Obligations shall not contain provisions permitting the redemption thereof at the option of the issuer thereof.

- (b) Any release under this Section shall be without prejudice to the right of the Trustee to be paid reasonable compensation for all services rendered by it under this Indenture and all its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees, incurred on and about the administration of trusts created by this Indenture and the performance of its powers and duties under this Indenture.

9.112 Application of Trust Money. The Defeasance Obligations and money deposited with the Trustee pursuant to Section 1002 and principal or interest payments on any such Defeasance Obligations shall be held in trust, shall not be sold or reinvested, and shall be applied by it, in accordance with the provisions of the Bonds and this Indenture, to the payment, either directly or through any Paying Agent as the Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if

any) and interest for whose payment such money or Defeasance Obligations were deposited; provided that, upon delivery to the Trustee of an Officer's Certificate (accompanied by the report of an Independent certified public accountant setting forth the calculations upon which such Officer's Certificate is based) establishing that the money and Defeasance Obligations on deposit following the taking of the proposed action will be sufficient for the purposes described in Section 1002(a), any money received from principal or interest payments on Defeasance Obligations deposited with the Trustee or the proceeds of any sale of such Defeasance Obligations, if not then needed for such purpose, shall, upon Company Request be reinvested in other Defeasance Obligations or disposed of as requested by the Company. For purposes of any calculation required by this Article, any Defeasance Obligation which is subject to redemption at the option of its issuer, the redemption date for which has not been irrevocably established as of the date of such calculation, shall be assumed to cease to bear interest at the earliest date on which such obligation may be redeemed at the option of the issuer thereof and the principal of such obligation shall be assumed to be received at its stated maturity.

- 9.113 ACA Requirements. Notwithstanding the foregoing, no deposit under Section 1001(b) of this Indenture shall be deemed a payment of such Bonds as aforesaid, unless the Trustee and ACA shall have received (1) a Favorable Opinion of Bond Counsel, (2) an Opinion of Counsel to each party to the escrow agreement regarding the validity and enforceability of the escrow agreement, (3) an opinion of a nationally recognized certified public accounting firm acceptable to ACA ("CPA"), that the moneys or Defeasance Obligations deposited with the Trustee are sufficient to make all payments required on such Outstanding Bonds; and (4) an Opinion of Counsel stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

In addition to the other provisions set forth in this Article X, the Issuer shall cause to be delivered:

(1) an Opinion of Counsel in form and substance, and addressed, to the Issuer, the Trustee and ACA that (A) the escrow deposit will not constitute a voidable preference or transfer under the Federal Bankruptcy Code or any other similar state or federal statute in the event the Issuer or the Company becomes a debtor within the meaning of the Federal Bankruptcy Code or comes within the protection of such similar state or federal statute (an "Insolvency Event"), and (B) in such Insolvency Event, the escrow deposit will not be treated as part of the estate of the Issuer or the Company.

(2) an escrow agreement (which shall be acceptable in form and substance to ACA) shall provide that:

(A) any substitution of the escrow securities shall require verification by a CPA and the prior written consent of ACA;

(B) the Issuer and the Company shall not exercise any optional redemption of Bonds secured by the escrow agreement or any other redemption other than mandatory sinking fund redemptions unless (y) the right to make any such redemption has been expressly reserved in the escrow agreement and such reservation has been disclosed in detail in the official statement for the refunding bonds, and (z) as a condition of any such redemption there shall be provided to ACA a CPA verification as to the sufficiency of escrow receipts without reinvestment to meet the escrow requirements remaining following such redemption; and

(C) the Issuer and the Company shall not amend the escrow agreement or enter into a forward purchase agreement or other agreement with respect to rights in the escrow without the prior written consent of ACA.

Each opinion and verification report required under this Article X shall be acceptable in form and substance, and addressed, to the Issuer, the Trustee and ACA.

9.114 Payments Made Under the Bond Insurance Policy. Notwithstanding the foregoing provisions of this Article X, in the event that the principal of and/or interest due on the Bonds shall be paid by ACA pursuant to the Bond Insurance Policy, the Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Issuer, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the Issuer to the registered Owners shall continue to exist and shall run to the benefit of ACA, and ACA shall be subrogated to the rights of such registered Owners including, without limitation, any rights that such Owners may have in respect of securities law violations arising from the offer and sale of the Bonds.

ARTICLE XII

MISCELLANEOUS

9.115 General Provisions Relating to ACA. Notwithstanding any provisions in this Indenture to the contrary, and subject to paragraph (e) below, for so long as the Bond Insurance Policy relating to the Bonds shall be in force and effect, the following provisions shall govern:

- (a) ACA is explicitly recognized as being a third party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder.
- (b) Any provision of this Indenture or any other Bond Document expressly recognizing or granting rights in or to ACA may not be

amended in any manner that affects the rights of ACA hereunder without the prior written consent of ACA.

- (c) Any provision under any Bond Document which requires the consent of Bondholders shall also require ACA's prior written consent and any provision of the Master Indenture that requires the consent of the Trustee as the Holder of the Series 2006 Notes shall also require ACA's consent.
- (d) All references in this Indenture to "ACA" shall be deemed of no force and effect when the Bond Insurance Policy shall no longer be in effect and all amounts owed to ACA shall have been paid in full.
- (e) Any notice, certificate, opinion, report or other document or information that is required to be given to the Bondholders, to the Trustee (including the Paying Agent or the Master Trustee), to the Issuer or to any nationally recognized municipal securities information repository or state information depository (or to any dissemination agent for transmittal thereto) pursuant to the Bond Documents shall also be provided simultaneously to ACA, provided that the Trustee shall not be responsible for the compliance of the Company, Issuer or Master Trustee with any such duty to notify ACA. Without limiting the generality of the foregoing, the Trustee shall give ACA immediate notice of any withdrawal from the Debt Service Reserve Fund, any valuation of the Debt Service Reserve Fund which demonstrates that the Value of the investments in such fund is less than the Reserve Fund Requirement, any failure by the Issuer or the Company to make any payment when due of which a Responsible Officer of the Trustee has actual notice, and any other Event of Default of which a Responsible Officer of the Trustee has actual knowledge or is deemed to have knowledge in accordance with Section 803(h) hereof.
- (f) Any provision hereof requiring any consent, approval or similar action of ACA shall be of no force and effect during any period during which (i) the Bond Insurance Policy with respect to the Bonds is not in effect and (ii) ACA is in default of its obligation to make payments under the Bond Insurance Policy. Upon the termination of the Bond Insurance Policy and the payment of all amounts payable to ACA under the Bond Documents or any reimbursement agreement executed in connection therewith, as evidenced by a certificate from ACA, any references to ACA herein shall be ineffective.

9.116 Payment Procedures Under the Bond Insurance Policy. (a) In the event that on the second (2nd) Business Day prior to the payment date on the

Bonds, the Paying Agent has not received sufficient moneys to pay all principal of and interest on the Bonds due on the second (2nd) following Business Day, the Paying Agent shall immediately notify ACA or its designee on the same Business Day by telephone or electronic mail, confirmed in writing by registered or certified mail, of the amount of the deficiency.

- (b) If the deficiency is made up in whole or in part prior to or on the payment date, the Paying Agent shall so notify ACA or its designee.
- (c) In addition, if the Paying Agent has notice that any Bondholder has been required to disgorge payments of principal or interest on the Bonds pursuant to a final non-appealable order by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Bondholder within the meaning of any applicable bankruptcy laws, then the Paying Agent shall notify ACA or its designee of such fact by telephone or electronic notice, confirmed in writing by registered or certified mail.
- (d) The Paying Agent is hereby irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for holders of the Bonds as follows:

If and to the extent there is a deficiency in amounts required to pay interest on the Bonds, the Paying Agent shall (A) execute and deliver to ACA, in form satisfactory to ACA, an instrument appointing ACA as agent for such holders in any legal proceeding related to the payment of such interest and an assignment to ACA of the claims for interest to which such deficiency relates and which are paid by ACA, (B) receive as designee of the respective holders (and not as Paying Agent) in accordance with the tenor of the Bond Insurance Policy payment from ACA with respect to the claims for interest so assigned, and (C) disburse the same to such respective holders; and

If and to the extent of a deficiency in amounts required to pay principal of the Bonds, the Paying Agent shall (A) execute and deliver to ACA, in form satisfactory to ACA, an instrument appointing ACA as agent for such holder in any legal proceeding related to the payment of such principal and an assignment to ACA of the Bond surrendered to ACA in an amount equal to the principal amount thereof as has not previously been paid or for which moneys are not held by the Paying Agent and available for such payment (but such assignment shall be delivered only if payment from ACA is received), (B) receive as designee of the respective holders (and not as Paying Agent) in accordance with the tenor of the Bond Insurance Policy payment therefor from ACA, and (C) disburse the same to such holders.

- (e) Payments with respect to claims for interest on and principal of Bonds disbursed by the Paying Agent from proceeds of the Bond Insurance Policy shall not be considered to discharge the obligation of the Issuer with respect to such Bonds, and ACA shall

become the owner of such unpaid Bond and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

- (f) Irrespective of whether any such assignment is executed and delivered, the Issuer and the Paying Agent hereby agree for the benefit of ACA that:

They recognize that to the extent ACA makes payments directly or indirectly (as by paying through the Paying Agent), on account of principal of or interest on the Bonds, ACA will be subrogated to the rights of such holders to receive the amount of such principal and interest from the Issuer, with interest thereon as provided and solely from the sources stated in the financing documents and the Bonds; and

They will accordingly pay to ACA the amount of such principal and interest, with interest thereon as provided in the financing documents and the Bonds, but only from the sources and in the manner provided herein for the payment of principal of and interest on the Bonds to holders, and will otherwise treat ACA as the owner of such rights to the amount of such principal and interest.

- (g) ACA shall be entitled to pay principal or interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Bond Insurance Policy) and any amounts due on the Bonds as a result of acceleration of the maturity thereof in accordance with this agreement, whether or not ACA has received a Notice (as defined in the Bond Insurance Policy) of Nonpayment or a claim upon the Bond Insurance Policy.

9.117 Execution in Counterparts. This Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

9.118 Final Agreement. This written Indenture represents the final agreement between the parties and may not be contradicted by evidence of prior, contemporaneous, or subsequent oral agreements of the parties. There are no unwritten oral agreements between the parties.

IN WITNESS WHEREOF, the Issuer and the Trustee have caused this Indenture to be signed on their behalf by their duly authorized representatives as of the date first written above.

TEXAS PUBLIC FINANCE AUTHORITY CHARTER
SCHOOL FINANCE CORPORATION

By: _____
President

ZIONS FIRST NATIONAL BANK,
as Trustee

By: _____
Authorized Signatory

ACCEPTED AND AGREED TO BY:

ZIONS FIRST NATIONAL BANK,
as Paying Agent and Bond Registrar

By: _____
Authorized Signatory

TRUST INDENTURE

Error! Unknown document property name.

EXHIBIT A-1

FORM OF SERIES 2006A BONDS

EXCEPT AS MAY OTHERWISE BE PROVIDED HEREIN, THIS BOND OR ANY PORTION HEREOF MAY BE TRANSFERRED ONLY IN MINIMUM DENOMINATIONS OF \$5,000 OR ANY INTEGRAL MULTIPLE THEREOF (“AUTHORIZED DENOMINATIONS”).

1. Form of Definitive Series 2006A Bonds.

NO. RA-___

REGISTERED
\$ _____

UNITED STATES OF AMERICA
STATE OF TEXAS
KIPP, INC. EDUCATION REVENUE BOND
(Issued by Texas Public Finance Authority Charter School Finance Corporation)
Series 2006A

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Dated Date</u>	<u>CUSIP NO.</u>
%	February 15, ___	September 1, 2006	

Texas Public Finance Authority Charter School Finance Corporation (the “Issuer”), a nonstock, nonprofit higher education facilities corporation organized and existing pursuant to the laws of the State of Texas (the “State”), including Chapter 53 of the Texas Education Code, as amended, and particularly Sections 53.35(b) and 53.48 thereof (the “Act”), hereby promises to pay to the order of _____, or registered assigns, at the principal payment office of Zions First National Bank, in Houston, Texas (the “Place of Payment”), the aggregate principal amount of _____ (\$ _____) on the Maturity Date set forth above (or earlier as hereinafter provided) and to pay interest thereon, calculated on the basis of a 360 day year of twelve 30 day months at the per annum rate set forth above, from September 1, 2006 or the most recent interest payment date to which interest has been paid or provided for; provided that such principal and interest are payable solely from the sources and in the manner hereinafter described, and solely as authorized and provided in the Act.

THE OWNER HEREOF shall never have the right to demand payment of this obligation out of any funds raised or to be raised by taxation or from any source whatsoever except the payments and amounts described in the Indenture, the Note, the Agreement (all as defined herein), and this Bond. The Bonds are special and limited obligations payable solely as provided herein. NEITHER THE STATE NOR A STATE AGENCY, ANY POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE SHALL BE OBLIGATED TO PAY THE BONDS OR THE INTEREST THEREON AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, ANY STATE AGENCY, POLITICAL CORPORATION OR POLITICAL SUBDIVISION OF THE STATE IS

PLEGGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

THE PRINCIPAL of, premium, if any, and interest on this Bond are payable in lawful money of the United States of America. Amounts due on this Bond shall be paid by check drawn upon by Zions First National Bank (the "Trustee," "Paying Agent" and "Bond Registrar" for this series of Bonds) and mailed to the Owner hereof at its address as it appears on the bond registration books of the Issuer, kept by the Bond Registrar (the "Bond Register Books") on the fifteenth day of the month preceding the month in which such payment date occurs (the "Record Date"). Upon written request of a registered owner of at least \$1,000,000 in principal amount of Bonds or all of the Bonds, all payments of principal, premium and interest on the Bonds shall be paid by wire transfer at the risk and expense of such registered owner in immediately available funds to an account designated by such registered owner upon fifteen (15) days prior written notice to the Trustee.

THE INTEREST on this Bond shall be paid on each August 15 and February 15, commencing February 15, 2007, until the principal thereof shall have been paid or provided for.

THIS BOND is one of a series of bonds (the "Bonds") authorized and issued in the aggregate principal amount of \$34,890,000 for the purpose of financing the cost of certain educational facilities (as that term is defined in the Act) for KIPP, Inc. (the "Company") on its campuses located in the City of Houston, Texas, and paying a portion of the costs of issuance of the Bonds, under and pursuant to authority conferred by the Act, a resolution adopted by the Board of Directors of the Issuer, and a Trust Indenture, dated as of September 1, 2006 (the "Indenture"), by and between the Issuer and the Trustee. The proceeds of the sale of the Bonds will be loaned to the Company pursuant to a Loan Agreement, dated as of September 1, 2006 (the "Agreement"), between the Issuer and the Company, and the Company's obligations under the Agreement are further evidenced by the Company's execution and issuance of a promissory note (the "Note"), dated as of the Dated Date set forth above, in an amount equal to the aggregate principal amount of the Bonds. The Note is a "Note" as defined in and is entitled to the security of a Master Trust Indenture and Security Agreement, dated as of September 1, 2006, (the "Master Indenture") as supplemented by Supplemental Master Trust Indenture No. 1, dated as of September 1, 2006 (the "Supplemental Indenture"), between the Company on behalf of itself and Zions First National Bank, Master Trustee.

THE TRANSFER of this Bond may be registered by the owner hereof in person or by his attorney or legal representative at the corporate trust office or principal payment office of the Bond Registrar as set forth in the Indenture, but only in the manner and subject to the limitations and conditions provided in the Indenture and upon surrender and cancellation of this Bond and execution of the Assignment hereon. Upon any such surrender for transfer of the Bond at the office or agency of the Trustee in a Place of Payment, the Issuer shall execute, the Trustee shall authenticate, and the Bond Registrar shall register and deliver, in the name of the designated transferee, one or more new Bonds of any Authorized Denomination, of a like aggregate principal amount, maturity and interest rate. The Issuer and the Bond Register shall not be required (1) to issue, transfer or exchange any Bonds during a period beginning at the opening of business 15 days before the day of mailing a notice of redemption of the Bonds

selected for redemption under the Indenture and ending the close of business on the day of such mailing or (2) to transfer or exchange any Bond selected for redemption in whole or in part.

Subject to the limitations set forth in the Master Indenture, the Company may from time to time issue additional notes authorized by and entitled to the security of the Master Indenture for the purposes set forth in the Master Indenture (“Master Notes”), which shall rank equally and on a parity with the Note and all other Master Notes except as set forth in any supplemental master indenture authorizing issuance of any Master Note.

EXCEPT AS hereinafter set forth, the Bonds are not subject to redemption.

The Bonds are subject to mandatory redemption in part prior to maturity with funds from the Debt Service Fund, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption, without premium, on February 15 in each of the years, and in the principal amounts, respectively, as set forth in the following schedule:

\$2,225,000 Series 2006A Term Bonds Maturing 2014

Mandatory Redemption Date (February 15)	Principal Amount to be Mandatorily Redeemed
2012	\$705,000
2013	740,000
2014*	780,000

* Final Maturity

\$9,280,000 Series 2006A Term Bonds Maturing 2028

Mandatory Redemption Date (February 15)	Principal Amount to be Mandatorily Redeemed
2022	\$1,135,000
2023	1,195,000
2024	1,255,000
2025	1,315,000
2026	1,385,000
2027	1,460,000
2028*	1,535,000

* Final Maturity

\$15,450,000 Series 2006A Term Bonds Maturing

Mandatory Redemption Date (February 15)	Principal Amount to be Mandatorily Redeemed
2029	\$1,610,000
2030	1,695,000
2031	1,780,000
2032	1,870,000
2033	1,965,000
2034	2,070,000
2035	2,175,000
2036*	2,285,000

* Final Maturity

The principal amount of the Bonds required to be redeemed pursuant to the operation of such mandatory 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 Bonds plus accrued interest to the date of purchase thereof or (c) shall have been redeemed pursuant to the optional redemption provision described below.

Optional Redemption. The Bonds are subject to optional redemption, in whole or in part, prior to scheduled maturity on February 15, 2022 or on any date thereafter, at the option of the Company, at a price of par plus interest accrued thereon to the redemption date, upon written notice of the exercise of the option to redeem Bonds delivered to the Trustee by the Company not later than the 45th day prior to the date of redemption.

Mandatory Redemption Upon Determination of Taxability. The Bonds shall be redeemed in whole prior to maturity on a date selected by the Company which is not more than one hundred twenty (120) days following receipt by the Trustee of written notice of 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 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 shall 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 Bonds qualifies as such exempt interest; or (b) the date on which the Trustee is notified by or on behalf of the Issuer that a change in law or regulation has become effective or that the Internal Revenue Service has issued

any public or private ruling, technical advice memorandum or any other written communication or that there has occurred a ruling or decision of a court of competent jurisdiction with or to the effect that the interest income on any of the Bonds does not qualify as such exempt interest; or (c) the date on which the Company shall receive notice from the Trustee in writing that the Trustee has been notified by the Internal Revenue Service, or has been advised by the Issuer, the Company or any owner or former owner of a Bond that the Internal Revenue Service has issued a notice of deficiency or similar notice which asserts that the interest on any of the Bonds does not qualify as such exempt interest.

Mandatory Redemption With Excess Proceeds. The Bonds shall be redeemed in whole or in part prior to maturity as a result of a deposit of amounts transferred from the Construction Fund to the Debt Service Fund (all as defined in the Indenture) as excess proceeds upon completion of the Project. Bonds redeemed as described in this paragraph shall be redeemed within forty-five (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.

Extraordinary Optional Redemption. The Bonds are subject to extraordinary redemption, at the option of the Issuer upon a Company Request, 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 Agreement, the Project is not reconstructed, repaired or replaced upon the change or destruction thereof, from insurance or condemnation proceeds transferred from the Construction Fund to the Debt Service Fund which, together with an amount required to be paid by the Company pursuant to the 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 Agreement, from excess insurance or condemnation proceeds transferred from the Construction Fund to the Debt Service Fund for such purpose.

IF LESS THAN ALL of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed shall be redeemed by the Trustee in accordance with the written direction of the Company; provided, however, that portions of Bonds shall be redeemed in Authorized Denominations and that no redemption shall result in a Bond being held in less than an Authorized Denomination.

IN CASE PART, but not all, of this Bond shall be selected for redemption, the owner hereof or his attorney or legal representative shall present and surrender this Bond to the Trustee for payment of the redemption price, and the Issuer shall 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 this Bond so surrendered, a Bond of the same maturity and bearing interest at the same rate.

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 shall cause a written notice of such redemption to be mailed by first class mail, postage prepaid, to each Holder of the Bonds to be redeemed, at the address appearing on the Bond Register on the date such notice is mailed by

the Trustee. Any notice mailed as provided herein shall be conclusively presumed to have been given, irrespective of whether received. By the date fixed for any such redemption, due provision shall be made with the Trustee and the Paying Agent for the payment of the appropriate redemption price, premium, if any, and interest accrued hereon. If such written notice of redemption is made, due provision for payment of the redemption price is made and all conditions to the redemption have been fulfilled, all as provided above and in the Indenture, the Bonds which are to be redeemed shall become due and payable at the redemption price and from and after such date shall cease to bear interest. If any Bond shall not be paid upon the surrender thereof for redemption, the principal shall, until paid, bear interest at the rate borne by this Bond.

IF THE DATE for any such payment on this Bond shall be a Saturday, a Sunday or a legal holiday or the equivalent for banking institutions generally (other than a moratorium) at the place where payment thereof is to be made, then such payment may be made on the next succeeding day which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment.

IT IS HEREBY CERTIFIED AND COVENANTED that this Bond has been duly and validly authorized, issued, and delivered; that all acts, conditions, and things required or proper to be performed, exist, and be done precedent to or in the authorization, issuance, and delivery of this Bond have been performed, exist, and been done in accordance with law; that this Bond is a special limited revenue obligation of the Issuer, and that the principal of, premium, if any, and interest on this Bond are payable from and secured by a lien on and pledge of the payments designated as Loan Payments (the "Loan Payments") to be paid, or caused to be paid, to the Trustee, pursuant to the Master Indenture, the Supplemental Indenture and the Loan Agreement, dated as of September 1, 2006 (the "Agreement") by and between the Issuer and the Company, as evidenced by a tax-exempt master indenture note (the "Note") issued by the Company to the Issuer pursuant to the Supplemental Indenture, and by an assignment by the Issuer to the Trustee of the Note to evidence the Company's obligations to make Loan Payments under the Master Indenture, the Supplemental Indenture and the Agreement to the Trustee. The Company is unconditionally obligated (subject only to the provisions of the Agreement relating to merger, consolidation, and transfer of assets) to the Issuer and the Trustee to pay, or cause to be paid, without set off, recoupment, or counterclaim, to the Trustee each Loan Payment for deposit into the Debt Service Fund created for the benefit of the owners of the Bonds by the Indenture, in aggregate amounts sufficient to pay and redeem, and provide for the payment and redemption of, the principal of, premium, if any, and interest on the Bonds, when due, and to make certain other deposits as required by the Indenture, subject to and as required by the provisions of the Agreement, the Note, and the Indenture.

THE BONDS are secured by the Indenture whereunder the Trustee is custodian of the Debt Service Fund and is obligated to enforce the rights of the owners of the Bonds and to perform other duties in the manner and under the conditions stated in the Indenture. In case an "Event of Default," as defined in the Indenture, shall occur, the principal of the Bonds then Outstanding may be declared to be due and payable immediately upon the conditions and in the manner provided in the Indenture. The Trustee shall, upon written request of the owners of at least a majority in principal amount of the Bonds then Outstanding, with the prior written consent of ACA, waive, as permitted by the Indenture, any Event of Default and its

consequences except a default in the payment of the principal of (or premium, if any) or interest on any Bond or a default in respect of a covenant or provision of the Indenture which under the Indenture cannot be modified or amended without the consent of the Holder of each Outstanding Bond affected. The Holder of this Bond shall have no right to institute any action, suit, or proceeding at law or in equity to enforce the Indenture except as provided in the Indenture; provided that nothing in the Indenture shall affect or impair the rights of the owner hereof to enforce the payment of the principal of, premium, if any, and interest on this Bond from the source and in the manner herein expressed. Reference is hereby made to the Indenture for additional provisions with respect to the nature and extent of the security for the Bonds; the rights, duties, and obligations of the Company, the Issuer, the Trustee, and the Holders of the Bonds; the terms upon which the Bonds are issued and secured; and the modification of any of the foregoing.

THE ISSUER has reserved the right to amend the Indenture, as provided therein; and, under some (but not all) circumstances, amendments thereto must be approved by the owners of at least a majority in aggregate principal amount of the Outstanding Bonds and Additional Bonds.

[To appear on Initial Series 2006A Bond only]

This Bond shall not be valid or obligatory for any purpose or be entitled to any benefit under the Indenture until the certificate of registration hereon shall have been manually executed by the Comptroller of Public Accounts of the State of Texas (or his duly authorized deputy), as provided by the Indenture.

[To appear on each exchange or replacement Bond]

This Bond shall not be valid or obligatory for any purpose or be entitled to any benefit under the Indenture until the certificate of authentication hereon shall have been executed by the Trustee.

IN WITNESS WHEREOF, Texas Public Finance Authority Charter School Finance Corporation has caused this Bond to be executed with the manual or facsimile signatures of its duly authorized officers, all as of the date first set forth above.

TEXAS PUBLIC FINANCE AUTHORITY
CHARTER SCHOOL FINANCE CORPORATION

By: _____
President

ATTEST:

By: _____
Secretary

2. Form of Trustee's Certificate of Authentication.

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds issued under the provisions of the within mentioned Indenture which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

ZIONS FIRST NATIONAL BANK,
as Trustee

By: _____
Authorized Signature

Date of authentication:

3. Form of Assignment.

ASSIGNMENT

For value received, the undersigned hereby sells, assigns and transfers unto _____

Please insert Social Security or Taxpayer Identification number of Transferee _____

(Please print or typewrite name and address, including zip code of Transferee)

the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints _____

attorney, to register the transfer of the within Bonds on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed: _____

NOTICE: Signature(s) must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company that is a medallion guarantor. The assignor's signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or any change whatever.

NOTICE: The signature to this assignment must correspond with the name as it appears upon the face of this Bond in every particular, without alteration or enlargement or any change whatsoever.

4. Statement of Insurance.

The following Statement of Insurance shall appear on the last page of each Series 2006A Bond:

Bond Insurance Policy No. _____ (the “Policy”) with respect to payments due for principal of and interest on this bond has been issued by ACA Financial Guaranty Corporation (“ACA”). The Policy has been delivered to and will be held by Zions First National Bank, Houston, Texas. The Policy is on file and available for inspection at the office of the Trustee or paying agent and a copy thereof may be secured from ACA. All payments required to be made under the Policy shall be made in accordance with the provisions thereof. The owner of this bond acknowledges and consents to the subrogation rights of ACA as more fully set forth in the Policy.

5. Initial Series 2006A Bond.

The initial Series 2006A Bond shall be in the form set forth in “Form of Series 2006A Bonds” above except for the following alterations:

(a) The Initial Series 2006A Bond shall be numbered IA-1 and shall be payable to the initial purchaser of the Series 2006A Bonds.

(b) immediately under the name of the Bond, the headings “INTEREST RATE” and “MATURITY DATE” shall both be completed with the words “As Shown Below” and the word “CUSIP” deleted;

(c) in the first paragraph of the Series 2006A Bond, the words “on the Maturity Date set forth above (or earlier as hereinafter provided)” and “at the per annum rate set forth above” shall be deleted and the following shall be inserted at the end of the first sentence “..., with such principal to be paid in installments on February 15 in each of the years and in the principal amounts identified in the following schedule and with such installments bearing interest at the per annum rates set forth in the following schedule:

<u>Maturity</u> (February 15)	<u>Amount</u>	<u>Rate</u>
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6. Form of Comptroller's Registration Certificate to appear on Initial Series 2006A Bond only.

REGISTRATION CERTIFICATE OF
COMPTROLLER OF PUBLIC ACCOUNTS

OFFICE OF COMPTROLLER

§

REGISTER NO. _____

STATE OF TEXAS

§

§

I HEREBY CERTIFY that this Bond has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and that this Bond has been registered by the Comptroller of Public Accounts of the State of Texas.

WITNESS my signature and seal this _____.

Comptroller of Public Accounts
of the State of Texas

(COMPTROLLER'S SEAL)

EXHIBIT A-2

FORM OF SERIES 2006B BONDS

EXCEPT AS MAY OTHERWISE BE PROVIDED HEREIN, THIS BOND OR ANY PORTION HEREOF MAY BE TRANSFERRED ONLY IN MINIMUM DENOMINATIONS OF \$5,000 OR ANY INTEGRAL MULTIPLE THEREOF (“AUTHORIZED DENOMINATIONS”).

1. Form of Definitive Series 2006B Bonds.

NO. RB-___

REGISTERED
\$ _____

UNITED STATES OF AMERICA
STATE OF TEXAS
KIPP, INC. TAXABLE EDUCATION REVENUE BOND
(Issued by Texas Public Finance Authority Charter School Finance Corporation)
SERIES 2006B

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Dated Date</u>	<u>CUSIP NO.</u>
%	February 15, ____	September 1, 2006	

Texas Public Finance Authority Charter School Finance Corporation (the “Issuer”), a nonstock, nonprofit higher education facilities corporation organized and existing pursuant to the laws of the State of Texas (the “State”), including Chapter 53 of the Texas Education Code, as amended, and particularly Section 53.35(b) and 53.48 thereof (the “Act”), hereby promises to pay to the order of _____, or registered assigns, at the principal payment office of Zions First National Bank, in Houston, Texas, (the “Place of Payment”) the aggregate principal amount of _____ (\$_____) on the Maturity Date set forth above (or earlier as hereinafter provided) and to pay interest thereon, calculated on the basis of a 360 day year of twelve 30 day months at the per annum rate set forth above, from August 1, 2006 or the most recent interest payment date to which interest has been paid or provided for; provided that such principal and interest are payable solely from the sources and in the manner hereinafter described, and solely as authorized and provided in the Act.

THE OWNER HEREOF shall never have the right to demand payment of this obligation out of any funds raised or to be raised by taxation or from any source whatsoever except the payments and amounts described in the Indenture, the Note, the Agreement (all as defined herein), and this Bond. The Bonds are special and limited obligations payable solely as provided herein. NEITHER THE STATE NOR A STATE AGENCY, ANY POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE SHALL BE OBLIGATED TO PAY THE BONDS OR THE INTEREST THEREON AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR ANY STATE AGENCY, POLITICAL CORPORATION OR POLITICAL SUBDIVISION OF THE STATE IS

PLEGGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

THE PRINCIPAL of, premium, if any, and interest on this Bond are payable in lawful money of the United States of America. Amounts due on this Bond shall be paid by check drawn upon by Zions First National Bank (the "Trustee," "Paying Agent" and "Bond Registrar" for this series of Bonds) and mailed to the Holder hereof at its address as it appears on the bond registration books of the Issuer, kept by the Bond Registrar (the "Bond Register") on the fifteenth day of the month preceding the month in which such payment date occurs (the "Record Date"). Upon written request of a registered owner of at least \$1,000,000 in principal amount of Bonds or all of the Bonds, all payments of principal, premium and interest on the Bonds shall be paid by wire transfer at the risk and expense of such registered owner in immediately available funds to an account designated by such registered owner upon fifteen (15) days prior written notice to the Trustee.

THE INTEREST on this Bond shall be paid on each August 15 and February 15, commencing February 15, 2007, until the principal thereof shall have been paid or provided for.

THIS BOND is one of a series of bonds (the "Bonds") authorized and issued in the aggregate principal amount of \$525,000 for the purpose of financing certain costs of issuance of the Bonds under and pursuant to authority conferred by the Act, a resolution adopted by the Board of Directors of the Issuer, and a Trust Indenture, dated as of September 1, 2006 (the "Indenture"), by and between the Issuer and the Trustee. The proceeds of the sale of the Bonds will be loaned to the Company pursuant to a Loan Agreement, dated as of September 1, 2006 (the "Agreement"), between the Issuer and the Company, and the Company's obligations under the Agreement are further evidenced by the Company's execution and issuance of a promissory note (the "Note"), dated as of the Dated Date set forth above, in an amount equal to the aggregate principal amount of the Bonds. The Note is a "Note" as defined in and is entitled to the security of a Master Trust Indenture and Security Agreement, dated as of September 1, 2006, as supplemented by Supplemental Master Trust Indenture No. 1, dated as of September 1, 2006 (the "Master Indenture"), between the Company on behalf of itself and Zions First National Bank, as Master Trustee.

Subject to the limitations set forth in the Master Indenture, the Company may from time to time issue additional notes authorized by and entitled to the security of the Master Indenture for the purposes set forth in the Master Indenture ("Master Notes"), which shall rank equally and on a parity with the Note and all other Master Notes except as set forth in any supplemental master indenture authorizing issuance of any Master Note.

THE TRANSFER of this Bond may be registered by the owner hereof in person or by his attorney or legal representative at the corporate trust office or principal payment office of the Bond Registrar as set forth in the Indenture, but only in the manner and subject to the limitations and conditions provided in the Indenture and upon surrender and cancellation of this Bond and execution of the Assignment hereon. Upon any such surrender for transfer of the Bond at the office or agency of the Trustee in a Place of Payment, the Issuer shall execute, the Trustee shall authenticate, and the Bond Registrar shall register and deliver, in the name of the designated transferee, one or more new Bonds of any Authorized Denomination, of a like

aggregate principal amount, maturity and interest rate. The Issuer and the Bond Register shall not be required (1) to issue, transfer or exchange any Bonds during a period beginning at the opening of business 15 days before the day of mailing a notice of redemption of the Bonds selected for redemption under the Indenture and ending the close of business on the day of such mailing or (2) to transfer or exchange any Bond selected for redemption in whole or in part.

EXCEPT AS hereinafter set forth, the Bonds are not subject to redemption.

Optional Redemption. The Bonds are not subject to optional redemption.

Mandatory Redemption With Excess Proceeds. The Bonds shall be redeemed in whole or in part prior to maturity as a result of a deposit of amounts transferred from the Construction Fund to the Debt Service Fund (all as defined in the Indenture) as excess proceeds upon completion of the Project. Bonds redeemed as described in this paragraph shall be redeemed within forty-five (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.

Extraordinary Optional Redemption. The Bonds are subject to extraordinary redemption, at the option of the Issuer upon request of the Company, 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 Agreement, the Project is not reconstructed, repaired or replaced upon the change or destruction thereof, from insurance or condemnation proceeds transferred from the Construction Fund to the Debt Service Fund which, together with an amount required to be paid by the Company pursuant to the 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 Agreement, from excess insurance proceeds transferred from the Construction Fund to the Debt Service Fund for such purpose.

IF LESS THAN ALL of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed shall be redeemed by the Trustee in accordance with the written direction of the Company; provided, however, that portions of Bonds shall be redeemed in Authorized Denominations and provided, that no redemption shall result in a Bond being held in less than an Authorized Denomination.

IN CASE PART, but not all, of this Bond shall be selected for redemption, the owner hereof or his attorney or legal representative shall present and surrender this Bond to the Trustee for payment of the redemption price, and the Issuer shall 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 this Bond so surrendered, a Bond of the same maturity and bearing interest at the same rate.

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 shall cause a written notice of such redemption to be mailed by first class mail, postage prepaid, to each Holder of the Bonds to

be redeemed, at the address appearing on the Bond Register on the date such notice is mailed by the Trustee. Any notice mailed as provided herein shall be conclusively presumed to have been given, irrespective of whether received. By the date fixed for any such redemption, due provision shall be made with the Trustee and the Paying Agent for the payment of the appropriate redemption price, premium, if any, and interest accrued hereon. If such written notice of redemption is made, due provision for payment of the redemption price is made and all conditions to the redemption have been fulfilled, all as provided above and in the Indenture, the Bonds which are to be redeemed shall become due and payable at the redemption price and from and after such date shall cease to bear interest. If any Bond shall not be paid upon the surrender thereof for redemption, the principal shall, until paid, bear interest at the rate borne by this Bond.

IF THE DATE for any such payment on this Bond shall be a Saturday, a Sunday or a legal holiday or the equivalent for banking institutions generally (other than a moratorium) at the place where payment thereof is to be made, then such payment may be made on the next succeeding day which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment

IT IS HEREBY CERTIFIED AND COVENANTED that this Bond has been duly and validly authorized, issued, and delivered; that all acts, conditions, and things required or proper to be performed, exist, and be done precedent to or in the authorization, issuance, and delivery of this Bond have been performed, exist, and been done in accordance with law; that this Bond is a special limited revenue obligation of the Issuer, and that the principal of, premium, if any, and interest on this Bond are payable from and secured by a lien on and pledge of the payments designated as Loan Payments (the "Loan Payments") to be paid, or caused to be paid, to the Trustee, pursuant to the Master Indenture, the Supplemental Indenture and the Loan Agreement, dated as of September 1, 2006 (the "Agreement") by and between the Issuer and the Company, as evidenced by a taxable master indenture note (the "Note") issued by the Company to the Issuer pursuant to the Supplemental Indenture, and by an assignment by the Issuer to the Trustee of the Note to evidence the Company's obligations to make Loan Payments under the Master Indenture, the Supplemental Indenture and the Agreement to the Trustee. The Company is unconditionally obligated (subject only to the provisions of the Agreement relating to merger, consolidation, and transfer of assets) to the Issuer and the Trustee to pay, or cause to be paid, without set off, recoupment, or counterclaim, to the Trustee each Loan Payment for deposit into the Debt Service Fund created for the benefit of the owners of the Bonds by the Indenture, in aggregate amounts sufficient to pay and redeem, and provide for the payment and redemption of, the principal of, premium, if any, and interest on the Bonds, when due, and to make certain other deposits as required by the Indenture, subject to and as required by the provisions of the Agreement, the Note, and the Indenture.

THE BONDS are secured by the Indenture whereunder the Trustee is custodian of the Debt Service Fund and is obligated to enforce the rights of the owners of the Bonds and to perform other duties in the manner and under the conditions stated in the Indenture. In case an "Event of Default," as defined in the Indenture, shall occur, the principal of the Bonds then Outstanding may be declared to be due and payable immediately upon the conditions and in the manner provided in the Indenture. The Trustee shall, upon written request of the owners of at least a majority in principal amount of the Bonds then Outstanding, with the prior written

consent of ACA, waive, as permitted by the Indenture, any Event of Default and its consequences except a default in the payment of the principal of (or premium, if any) or interest on any Bond or a default in respect of a covenant or provision of the Indenture which under the Indenture cannot be modified or amended without the consent of the Holder of each Outstanding Bond affected. The Holder of this Bond shall have no right to institute any action, suit, or proceeding at law or in equity to enforce the Indenture except as provided in the Indenture; provided that nothing in the Indenture shall affect or impair the rights of the owner hereof to enforce the payment of the principal of, premium, if any, and interest on this Bond from the source and in the manner herein expressed. Reference is hereby made to the Indenture for additional provisions with respect to the nature and extent of the security for the Bonds; the rights, duties, and obligations of the Company, the Issuer, the Trustee, and the Holders of the Bonds; the terms upon which the Bonds are issued and secured; and the modification of any of the foregoing.

THE ISSUER has reserved the right to amend the Indenture, as provided therein; and, under some (but not all) circumstances, amendments thereto must be approved by the Holders of at least a majority in aggregate principal amount of the Outstanding Bonds.

[To appear on Initial Series 2006B Bond only]

This Bond shall not be valid or obligatory for any purpose or be entitled to any benefit under the Indenture until the certificate of registration hereon shall have been manually executed by the Comptroller of Public Accounts of the State of Texas (or his duly authorized deputy), as provided by the Indenture.

[To appear on each exchange or replacement Bond]

This Bond shall not be valid or obligatory for any purpose or be entitled to any benefit under the Indenture until the certificate of authentication hereon shall have been executed by the Trustee.

IN WITNESS WHEREOF, Texas Public Finance Authority Charter School Finance Corporation has caused this Bond to be executed with the manual or facsimile signatures of its duly authorized officers, all as of the date first set forth above.

TEXAS PUBLIC FINANCE AUTHORITY
CHARTER SCHOOL FINANCE CORPORATION

By: _____
Title: _____

ATTEST:

By: _____
Title: _____

2. Form of Trustee's Certificate of Authentication.

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds issued under the provisions of the within mentioned Indenture which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

ZIONS FIRST NATIONAL BANK,
as Trustee

By: _____
Authorized Signature

Date of authentication:

3. Form of Assignment.

ASSIGNMENT

For value received, the undersigned hereby sells, assigns and transfers unto _____

Please insert Social Security or Taxpayer Identification number of Transferee _____

(Please print or typewrite name and address, including zip code of Transferee)

the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints _____

attorney, to register the transfer of the within Bonds on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed: _____

NOTICE: Signature(s) must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company that is a medallion guarantor. The assignor's signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or any change whatever.

NOTICE: The signature to this assignment must correspond with the name as it appears upon the face of this Bond in every particular, without alteration or enlargement or any change whatsoever.

4. Statement of Insurance.

The following Statement of Insurance shall appear on the last page of each Series 2006A Bond:

Bond Insurance Policy No. _____ the “Policy”) with respect to payments due for principal of and interest on this bond has been issued by ACA Financial Guaranty Corporation (“ACA”). The Policy has been delivered to and will be held by Zions First National Bank, Houston, Texas. The Policy is on file and available for inspection at the office of the Trustee or paying agent and a copy thereof may be secured from ACA. All payments required to be made under the Policy shall be made in accordance with the provisions thereof. The owner of this bond acknowledges and consents to the subrogation rights of ACA as more fully set forth in the Policy.

5. Initial Series 2006B Bond.

The initial Series 2006B Bond shall be in the form set forth in “Form of Series 2006B Bonds” above except for the following alterations:

(a) the Initial Series 2006B Bond shall be numbered IB 1 and shall be payable to the initial purchaser of the Series 2006B Bonds.

(b) immediately under the name of the Bond, the headings “INTEREST RATE” and “MATURITY DATE” shall both be completed with the words “As Shown Below” and the word “CUSIP” deleted;

(c) in the first paragraph of the Series 2006B Bond, the words “on the Maturity Date set forth above (or earlier as hereinafter provided)” and “at the per annum rate set forth above” shall be deleted and the following shall be inserted at the end of the first sentence “..., with such principal to be paid in installments on February 15 in each of the years and in the principal amounts identified in the following schedule and with such installments bearing interest at the per annum rates set forth in the following schedule:

<u>Year of Maturity</u>	<u>Amount</u>	<u>Rate</u>
2010	\$ 645,000	4.000%
2011	675,000	4.100
****	****	****
2014	2,225,000	5.250
2015	825,000	4.400
2016	855,000	4.500
2017	900,000	4.550
2018	940,000	4.600
2019	985,000	4.650
2020	1,030,000	4.700
2021	1,080,000	4.750
****	****	****
2028	9,280,000	5.000
****	****	****
2036	15,425,000	5.000

6. Form of Comptroller's Registration Certificate to appear on Initial Series 2006B Bond only.

REGISTRATION CERTIFICATE OF
COMPTROLLER OF PUBLIC ACCOUNTS

OFFICE OF COMPTROLLER

§

REGISTER NO. _____

STATE OF TEXAS

§

§

I HEREBY CERTIFY that this Bond has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and that this Bond has been registered by the Comptroller of Public Accounts of the State of Texas.

WITNESS my signature and seal this _____.

Comptroller of Public Accounts
of the State of Texas

(COMPTROLLER'S SEAL)

EXHIBIT B

FORM OF REQUISITION CERTIFICATE

Company Request No.: _____

_____, 20__

Zions First National Bank, as Trustee
1801 Main Street, 8th Floor
Houston, Texas 77002

Attention: Mary Jane Henson

Re: Disbursement from Construction Fund

Ladies and Gentlemen:

This Request is provided to you pursuant to Section 406 of the Trust Indenture and Security Agreement, dated as of September 1, 2006 (the "Indenture"), between the Texas Public Finance Authority Charter School Finance Corporation (the "Issuer") and you, as Trustee. The capitalized terms used in this Request have the same meanings given such terms in the Indenture or the Loan Agreement, dated as of September 1, 2006, between the Issuer and KIPP, Inc. (the "Company").

On behalf of the Company, the undersigned hereby certifies as follows:

(i) There has been expended, or is being expended concurrently with the delivery of this certificate, on account of [Project Costs] [Cost of Issuance] an amount at least equal to the amount requisitioned below for disbursement;

(ii) No Event of Default under the Indenture has occurred and is continuing;

(iii) No other Request in respect of the expenditures set forth in clause (i) above is being or has previously been delivered to the Trustee;

[(iv) The Project has not been modified in such a manner as to require the prior written consent of ACA as contemplated by Section 3.1(b) of the Loan Agreement or otherwise in violation of Section 3.6 of the Loan Agreement.][Attached hereto is [ACA's prior written consent][a Favorable Opinion of Bond Counsel] as to certain modifications of the Project as required by the Loan Agreement.]

[(v) The portion of the amount of the proceeds of the Series 2006A Bonds requested that will be used to pay Costs of Issuance plus all previous amounts requested for Costs of Issuance does not exceed 2% of the proceeds of the Bonds deposited into the Proceeds Fund;]

[(vi) The portion of the amount representing proceeds of the Series 2006A Bonds requested to pay Project Costs which are Qualifying Costs plus all previous amounts requested for Project Costs which are Qualifying Costs is not less than 95 percent of the Net Proceeds of the Bonds deposited into the Construction Fund requested to date; and]

(vii) The portion of the amount requested which will be used to pay Costs of Issuance or will be used in the trade or business of a person other than an Exempt Person plus all previous amounts requested for use to pay Costs of Issuance or for use in the trade or business of a person other than an Exempt Person does not exceed 5 percent of the Net Proceeds of the Bonds deposited into the Construction Fund.

(viii) The requirements of Section 406 of the Indenture have been satisfied prior to any draw for construction costs.

(ix) The requirements of Section 406(c)(i) have been satisfied prior to any draw for the acquisition of land described in Appendix A to the Loan Agreement.

[You are hereby directed to pay the amount of \$_____ from the Tax-Exempt Bonds Subaccount of the Project Account of the Construction Fund in the amounts and to the parties as set forth in the attached schedule.]

[You are hereby directed to pay the amount of \$_____ from the Taxable Bonds Subaccount of the Project Account of the Construction Fund in the amounts and to the parties as set forth in the attached schedule.]

[You are hereby directed to pay the amount of \$_____ from the Tax-Exempt Bonds Subaccount of the Cost of Issuance Account of the Construction Fund in the amounts and to the parties as set forth in the attached schedule. Such amount, in addition to amounts previously paid from the Tax-Exempt Bonds Subaccount of the Cost of Issuance Account of the Construction Fund pursuant to the terms of this Indenture does not exceed \$_____.]

[You are hereby directed to pay the amount of \$_____ from the Taxable Bonds Subaccount of the Cost of Issuance Account of the Construction Fund in the amounts and to the parties as set forth in the attached schedule.]

[You are hereby directed to pay the amount of \$_____ from the Insurance Proceeds Account of the Construction Fund in the amounts and to the parties as set forth in the attached schedule.]

KIPP, INC.

By: _____
Authorized Representative

[Required for Requisitions from the Project Account only:

Approved By:

_____]
as Construction Consultant

By: _____]
Authorized Representative

[Required for first Requisition for construction costs from the Project Account and the first Requisition for land acquisition costs or new construction costs (unless a separate written consent by ACA is on file with the Trustee):

Approved By:

ACA FINANCIAL GUARANTY CORPORATION

By: _____]
Authorized Representative

APPENDIX F

THE LOAN AGREEMENT

LOAN AGREEMENT

between

TEXAS PUBLIC FINANCE AUTHORITY
CHARTER SCHOOL FINANCE CORPORATION

and

KIPP, INC.

Relating to
\$[33,420,000]
KIPP, INC. EDUCATION REVENUE BONDS
(Issued by Texas Public Finance Authority Charter School Finance Corporation)
SERIES 2006A

and

\$[550,000]
KIPP, INC. TAXABLE EDUCATION REVENUE BONDS
(Issued by Texas Public Finance Authority Charter School Finance Corporation)
SERIES 2006B

Dated as of

September 1, 2006

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LOAN AGREEMENT

THIS LOAN AGREEMENT (this "Agreement"), dated as of September, 2006, is between the **TEXAS PUBLIC FINANCE AUTHORITY CHARTER SCHOOL FINANCE CORPORATION**, a non-profit, corporation created and existing under the Act (the "Issuer"), and **KIPP, INC.**, a Texas non-profit corporation (the "Company").

WITNESSETH:

WHEREAS, the Texas Public Finance Authority (the "Authority"), has, pursuant to Chapter 53 of the Texas Education Code, as amended (the "Act"), and specifically Section 53.351 thereof, approved and provided for the creation of the Issuer as a nonstock, non-profit corporation;

WHEREAS, the Issuer is a constituted authority and instrumentality (within the meaning of those terms in the Regulations of the Department of the Treasury and the rulings of the Internal Revenue Service (the "IRS") prescribed and promulgated pursuant to Section 103 of the Internal Revenue Code of 1986, as amended);

WHEREAS, the Issuer, on behalf of the Authority, is empowered to issue its revenue bonds in order to acquire by purchase, purchase contract, or lease, or to construct, enlarge, extend, repair, renovate, or otherwise improve, educational facilities, and to refinance any educational facility acquired, constructed, or improved, and for the purpose of aiding authorized charter schools in providing educational facilities and facilities incidental, subordinate, or related thereto or appropriate in connection therewith;

WHEREAS, in furtherance of the purposes of the Act, the Issuer proposes to issue its revenue bonds in the aggregate principal amount of \$[33,420,000], which will be designated "KIPP, Inc. Education Revenue Bonds (Issued by Texas Public Finance Authority Charter School Finance Corporation) Series 2006A" (the "Series 2006A Bonds"), and "KIPP, Inc. Taxable Education Revenue Bonds (Issued by Texas Public Finance Authority Charter School Finance Corporation) Series 2006B" (the "Series 2006B Bonds") (collectively, the "Bonds"), the proceeds of which will be loaned to the Company pursuant to this Agreement to be used to finance the cost of a project consisting of the acquisition of certain land and the construction of and improvements to certain buildings, equipment, facilities and improvements on two campuses of the Company in Houston, Texas; and to pay certain of the costs of issuing such Bonds;

WHEREAS, contemporaneously with the execution and delivery of this Agreement, the Issuer has entered into the Trust Indenture and Security Agreement (the "Indenture"), dated as of September, 2006, between the Issuer and Zions First National Bank, as trustee (in such capacity, the "Trustee") for the purposes of effecting the issuance of the Bonds, furthering the public purposes of the Act and securing to the Holders of the Bonds the payment of the Bonds;

WHEREAS, the Company is a party to that certain Master Trust Indenture and Security Agreement and Supplemental Master Trust Indenture No. 1, each dated as of September, 2006, between the Company, on behalf of itself, and Zions First National Bank, as

Master Trustee (the “Master Indenture”), which secures payment of certain Debt (as defined in the Master Indenture”) of the Company including the master indenture notes which evidence the Loan made hereby (the “Loan”);

WHEREAS, the Issuer shall issue the Bonds in order to loan the proceeds thereof to the Company and the Company agrees to repay the loan on the terms set forth herein;

WHEREAS, pursuant to the provisions of this Agreement, the Company is executing and delivering to the Issuer master indenture notes to evidence the loan of the proceeds of the Series 2006A Bonds and the Series 2006B Bonds to the Company and the obligation of the Company under this Agreement to repay the same, which notes are “Master Notes” under the Master Indenture;

WHEREAS, pursuant to the provisions of this Agreement, the Issuer is collaterally assigning to the Trustee all of the Issuer’s right, title and interest in the Series 2006 Notes and the Loan Payments (each as hereinafter defined) to be made by the Company pursuant to this Agreement;

WHEREAS, simultaneously with the issuance of the Bonds, [two bond insurance policies] (collectively, the “Bond Insurance Policy”) will be issued by ACA Financial Guaranty Corporation (“ACA”), guaranteeing the payment of principal and interest on the Bonds when due, to the extent the Trustee has not received sufficient funds for such payment; and

NOW THEREFORE, in consideration of the premises and other good and valuable consideration and the mutual benefits, covenants and agreements set forth below, the parties agree as follows:

ARTICLE 1

DEFINITIONS AND INTERPRETATIONS

1.1 Construction of Terms; Definitions.

1.1.1 For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:

1.1.1.113 “Agreement” means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more agreements supplemental hereto entered into pursuant to the applicable provisions hereof.

1.1.1.114 All references in this instrument to designated “Articles”, “Sections” and other subdivisions are to the designated Articles, Sections and other subdivisions of this instrument as originally executed. The words “herein”, “hereof” and “hereunder” and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or other subdivision.

1.1.1.115 The terms defined in this Article have the meanings assigned to them in this Article, and include the plural as well as the singular. The terms used herein but defined in the Indenture and not defined herein have the meanings assigned to them in the Indenture. Reference to any Bond Document means that Bond Document as amended or supplemented from time to time. Reference to any party to a Bond Document means that party and its permitted successors and assigns.

1.1.1.116 All accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles.

1.1.2 The following terms have the meanings assigned to them below whenever they are used in this Agreement:

“ACA” means ACA Financial Guaranty Corporation, a Maryland stock insurance corporation, its successors and assigns.

“Additions” means any and all real or personal property or any interest therein wherever located or used (i) which is desirable in the business of the Company; (ii) the cost of construction, acquisition or development of which is properly chargeable to the property accounts of the Company, in accordance with generally accepted accounting principles; and (iii) which is deemed for federal income tax purposes to be owned by the Company.

“Adjusted Revenues” shall have the meaning given to such term in the Master Indenture.

“Affiliate” of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, “control” when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the power to appoint and remove its directors, the ownership of voting securities, by contract, or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Bond Counsel” means an attorney or firm of attorneys nationally recognized as experienced in the field of bonds of governmental issuers appointed by the Issuer and satisfactory to the Trustee.

“Capital Expenditures” means, as of the date of determination thereof, the aggregate of the costs paid (otherwise than by incurring or acquiring Property subject to purchase money obligations) prior to such date by the Company in connection with the construction, acquisition or development of the Project or Additions, as the case may be, and properly chargeable to the property accounts of the owner thereof in accordance with generally accepted accounting principles and so charged, including, without limitation, payments made for labor, salaries, overhead, materials, interest, taxes, engineering, accounting, legal expenses, superintendence, insurance, casualty liabilities, rentals, start-up expenses, financing charges and expenses and all other items (other than operating or maintenance expenses) in connection with

such construction, acquisition or development and so properly chargeable and, in the case of Capital Expenditures for Additions consisting of an acquired facility, including the cost of any franchises, rights or property, other than Additions, acquired as a part of such going business for which no separate or distinct consideration shall have been paid or apportioned.

“Claims” means all claims, investigations, lawsuits, causes of action and other legal actions and proceedings of whatever nature brought against (whether by way of direct action, counter claim, cross action or impleader) or otherwise involving any Indemnified Party, even if groundless, false, or fraudulent, so long as the claim, lawsuit, cause of action or other legal action or proceeding is alleged or determined, directly or indirectly, to arise out of, to result from, to relate to or to be based upon, in whole or in part: (a) the issuance of the Bonds, (b) the duties, activities, acts or omissions (even if negligent) of any Person in connection with the issuance of the Bonds, the obligations of the various parties arising under the Bond Documents or the administration of any of the Bond Documents, or (c) the duties, activities, acts or omissions (even if negligent) of any Person in connection with the design, construction, installation, operation, use, occupancy, maintenance or ownership of the Project or any part thereof.

“Closing Date” means the date of closing of the issuance of the Bonds.

“Code” means the Internal Revenue Code of 1986, as amended from time to time and the corresponding provisions, if any, of any successor internal revenue laws of the United States.

“Construction Consultant” means a construction consultant acceptable to ACA; initially, the Construction Consultant shall be _____.

“Construction Contract” means a lump sum fixed price construction contract (or any other form fixed price contract) in form and substance satisfactory to ACA and otherwise complying with the requirements in Section 3.3(a) hereof.

“Debt” shall have the meaning assigned to such term in the Master Indenture.

“Favorable Opinion of Bond Counsel” means, with respect to any action the taking of which requires such an opinion, an unqualified opinion of counsel, which shall be from Bond Counsel, delivered to and in form and substance satisfactory to the Issuer to the effect that such action is permitted under the laws of the State (including the Act), the Code and the Indenture and will not adversely affect the exclusion of interest on the Series 2006A Bonds from gross income for purposes of federal income taxation.

“Fiscal Year” means any twelve-month period beginning on September 1 of any calendar year and ending on August 31 of the following year or such other twelve-month period selected by the Company as the fiscal year for the Company; provided that, as long as ACA or any other bond insurer is currently providing bond insurance for the Bonds, such bond insurer shall pre-approve in writing any change to such Fiscal Year, and the Company shall give written notice of any such change to the Issuer and the Trustee.

“Indenture” means the Trust Indenture and Security Agreement, dated as of the date of this Agreement, between the Issuer and Zions First National Bank, as trustee, securing the Bonds.

“Indemnified Party” shall mean one or more of the Issuer, the Governing Body of the Issuer, the Sponsoring Entity, and any of their successors, officers, directors or commissioners.

“Independent” when used with respect to any specified Person means such a Person who (i) is in fact independent, (ii) does not have any direct financial interest or any material indirect financial interest in the Company, and (iii) is not connected with the Company as an officer, employee, promoter, trustee, partner, director or person performing similar functions. Whenever it is herein or in the Indenture provided that any Independent Person’s opinion or certificate shall be furnished to the Trustee, such Person shall be appointed by Order and such opinion or certificate shall state that the signer has read this definition and that the signer is Independent within the meaning hereof.

“Loan Payments” means the amounts described in Sections 4.1(a) and (b) of this Agreement.

“Losses” means losses, costs, damages, expenses, judgments, and liabilities of whatever nature (including, but not limited to, reasonable attorney’s, accountant’s and other professional’s fees, litigation and court costs and expenses, amounts paid in settlement and amounts paid to discharge judgments and amounts payable by an Indemnified Party to any other Person under any arrangement providing for indemnification of that Person) directly or indirectly resulting from arising out of or relating to one or more Claims.

“Opinion of Counsel” means a written opinion of counsel, who may (except as otherwise expressly provided) be counsel to any party to a Bond Document, and shall be satisfactory to the Trustee.

“Organizational Documents” of any corporation means the articles of incorporation, certificate of incorporation, corporate charter or other document pursuant to which such corporation was organized, and its bylaws, each as amended from time to time, and as to any other Person, means the instruments pursuant to which it was created and which govern its powers and the authority of its representatives to act on its behalf.

“Payment and Performance Bonds” means payment and performance bonds required by Section 3.3(a) hereof.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, or government or any agency or political subdivision thereof.

“Plans and Specifications” means the plans and specifications for the Project, as the same may be prepared or amended from time to time as provided in Section 3.1 hereof, on file at the principal business office of the Company and available at all times for inspection by the Issuer and ACA.

“Project” means the Project described in Exhibit “A” hereto.

“Project Costs” means costs permitted to be paid out of proceeds of the Bonds by the Act and by the Code including costs of issuance and other costs related to the Project.

“Regulated Chemical” means any substance, the presence of which requires investigation, permitting, control or remediation under any federal, state or local statute, regulation, ordinance or order, including without limitation:

- a) any substance defined as “hazardous waste” under the Resource Conservation and Recovery Act, as amended (42 U.S.C. §6901 et seq.);
- b) any substance defined as a “hazardous substance” under the Comprehensive Environmental Response, Compensation and Liability Act, as amended (42 U.S.C. §9601 et seq.);
- c) any substance defined as a “hazardous material” under the Hazardous Materials Transportation Act (49 U.S.C. §1800 et seq.);
- d) any substance defined under any Texas statute analogous to (a), (b) or (c), to the extent that said statute defines any term more expansively;
- e) asbestos;
- f) urea formaldehyde;
- g) polychlorinated biphenyls;
- h) petroleum, or any distillate or fraction thereof;
- i) any hazardous or toxic substance designated pursuant to the laws of the State; and
- j) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority.

“Series 2006 Notes” means the Tax-Exempt Note and the Taxable Note.

“Tax-Exempt Note” means the tax-exempt master indenture note in the form attached to the Supplemental Master Trust Indenture as Exhibit “A,” which is secured by the Master Indenture executed by the Company and dated the Closing Date in the principal amount of the Series 2006A Bonds.

“Taxable Note” means the taxable master indenture note in the form attached to the Supplemental Master Indenture as Exhibit “B” which is secured by the Master Indenture executed by the Company and dated the Closing Date in the principal amount of the Series 2006B Bonds.

1.1.3 Certain terms, used primarily in Sections 4.5, 4.7 and 5.3, are defined in those Sections.

1.2 Form of Documents Delivered to Trustee. Every certificate and every Opinion of Counsel with respect to compliance with a condition or covenant provided for in this Agreement shall include a statement that the person making such certification or opinion has read such covenant or condition and the definitions relating thereto, has made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether such covenant or condition has been complied with, and a statement whether such condition or covenant has been complied with. In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, in so far as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, in so far as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such Counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments hereunder, they may, but need not, be consolidated and form one instrument.

1.3 Communications. All notices, demands, certificates, requests, consents, submissions or other communications hereunder shall be given as provided in the Indenture.

1.4 Term of Agreement. This Agreement shall remain in full force and effect from the date of execution and delivery hereof until the Indenture has been discharged in accordance with the provisions thereof; provided, however, that (a) the provisions of this Section and of Sections 5.1, 5.6 and 5.8 of this Agreement shall survive any expiration or termination of this Agreement and (b) in addition, if the Indenture is discharged prior to the final Maturity of the Bonds, the provisions of Sections 3.5, 3.7, 4.1(b), 4.3 and 5.3 of this Agreement shall continue until the final Maturity of the Bonds.

- 1.5 Company's Approval of Bond Documents. The Bond Documents have been submitted to the Company for examination, and the Company acknowledges that, by execution of this Agreement, it has approved the Bond Documents and will perform the obligations imposed upon it under the Bond Documents.
- 1.6 Effect of Headings and Table of Contents. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.
- 1.7 Successors and Assigns. All covenants and agreements in this Agreement by the Issuer and the Company shall bind their respective successors and assigns, whether so expressed or not. No assignment by the Issuer or the Company of this Agreement shall relieve them of their obligations hereunder.
- 1.8 Separability Clause. In case any provision in this Agreement 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.
- 1.9 Benefits of Agreement. Subject to Section 7.9 hereof, nothing in this Agreement or in the Bonds, express or implied, shall give to any Person, other than the parties to the Bond Documents and their successors and assigns hereunder, the Indemnified Parties and the Holders of Bonds, any benefit or any legal or equitable right, remedy or claim under this Agreement.
- 1.10 Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State.
- 1.11 Amendments. This Agreement may be amended only as provided in the Indenture.

ARTICLE II

REPRESENTATIONS, WARRANTIES AND COVENANTS

- 1.2 Representations, Warranties and Covenants of the Issuer. The Issuer represents, warrants and covenants that:
- 1.11.1 Corporate Existence; Good Standing. The Issuer is a non-profit education finance corporation duly incorporated, organized, validly existing and in good standing under the Act and is empowered to act on behalf of the Sponsoring Entity.
- 1.11.2 Power. The Issuer has full corporate power and authority under the Constitution and laws of the State and its Organizational Documents to adopt the resolution authorizing the issuance of the Bonds, to issue the Bonds, to execute and deliver the Bond Documents to be executed

and delivered by it and to perform its obligations under such Bond Documents.

- 1.11.3 Due Authorization. The Issuer has duly adopted the resolution authorizing the issuance of the Bonds and has duly authorized the execution and delivery of the Bond Documents to be executed and delivered by it.
- 1.11.4 Enforceability. The Bond Documents to which the Issuer is a party and the Bonds constitute valid and binding obligations of the Issuer, enforceable against the Issuer in accordance with their terms (except that (i) the enforceability of such Bond Documents may be limited by bankruptcy, reorganization, insolvency, fraudulent transfer, moratorium or other similar laws of general application relating to the enforcement of creditors' rights, (ii) certain equitable remedies, including specific performance, may be unavailable and (iii) the indemnification provisions contained therein may be limited by applicable securities laws and public policy).
- 1.11.5 No Litigation. To the Issuer's knowledge, there is no action, suit, proceeding or investigation at law or in equity before or by any court, either State or federal, or public board or body pending or threatened calling into question the creation or existence of the Issuer, the validity of the Bond Documents to be executed and delivered by it, the authority of the Issuer to execute and deliver the Bond Documents to be executed and delivered by it and to perform its obligations under the Bond Documents or the title of any Person to the office held by that Person with the Issuer.
- 1.11.6 Non Contravention. To the Issuer's knowledge, the execution and delivery by the Issuer of the Bond Documents to be executed and delivered by it, and the performance of its obligations under such Bond Documents, will not violate in any respect any provision of law or regulation, or of any judgment, decree, writ, order or injunction, or of the Organizational Documents of the Issuer, and will not contravene the provisions of, or constitute a default under, or result in the creation of a lien, charge or encumbrance under, any agreement (other than the Indenture) to which the Issuer is a party or by which any of its properties constituting a part of the Trust Estate under the Indenture are bound.

1.11.7 No Default. To the Issuer's knowledge, no event has occurred, and no condition currently exists, which constitutes or may, with the passage of time or the giving of notice, or both, constitute an Event of Default on the part of the Issuer.

1.11.8 Amendments. The Issuer covenants that it will perform each of the covenants set forth in Article V of the Indenture for the benefit of the Company, and unless an Event of Default exists, will not join in any amendment of any Bond Document without the consent of the Company.

Each of the foregoing representations, warranties and covenants shall be deemed to have been made as of the date of this Agreement and again as of the Closing Date.

1.12 Representations and Warranties of the Company. In addition to any other representation and warranty of the Company herein, the Company represents and warrants as follows:

1.12.1 Corporate Existence; Good Standing; Power. The Company is a non-profit corporation duly organized, validly existing and in good standing under the General Corporation Law of the State of Delaware; is duly qualified, authorized and licensed to transact business in each jurisdiction wherein failure to qualify would have a material adverse effect on the conduct of its business or the ownership of its properties; and has full corporate power and authority to own its properties and to conduct its business as now being conducted.

1.12.2 Accuracy of Information; No Misstatements. All of the documents, instruments and written information furnished by or on behalf of the Company to the Issuer or the Trustee in connection with the issuance of the Bonds is true and correct in all material respects and does not omit or fail to state any material facts necessary or required to be stated therein to make the information provided not misleading.

1.12.3 No Defaults; Non Contravention. No event of default or event which, with notice or lapse of time or both, would constitute an event of default or a default under any agreement or instrument to which the Company is a party or by which the Company is or may be bound or to which any of the property or assets of the Company is or may be subject, and which would have a material adverse effect on the Company or which would impair its ability to carry out its obligations under the Bond Documents has occurred and

is continuing; neither the execution nor the delivery by the Company of the Bond Documents to which it is party, nor the consummation of any of the transactions herein and therein contemplated nor the fulfillment of, or compliance with, the terms and provisions hereof or thereof, will contravene the Organizational Documents of the Company or will conflict with, in any way which is material to the Company, or result in a breach of, any of the terms, conditions or provisions of, or constitute a default under, any corporate or limited partnership restriction or any bond, debenture, note, mortgage, indenture, agreement or other instrument to which the Company is a party or by which the Company is or may be bound or to which any of the property or assets of the Company is or may be subject, or any law or any order, rule or regulation (applicable as of the date hereof to the Company) of any court, or regulatory body, administrative agency or other governmental body having jurisdiction over the Company or its properties or operations, or will result in the creation or imposition of a prohibited lien, charge or other security interest or encumbrance of any nature upon any property or asset of the Company under the terms of any such restriction, bond, debenture, note, mortgage, indenture, agreement, instrument, law, order, rule or regulation.

1.12.4 No Litigation. Except as disclosed in writing in connection with the offering of the Bonds, there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened, wherein an adverse decision, ruling or finding (i) would result in any material adverse change in the condition (financial or otherwise), results of operations, business or prospects of the Company or which would materially and adversely affect the properties of the Company, or (ii) would materially and adversely affect the transactions contemplated by, or the validity or enforceability of, the Bond Documents to which it is a party.

1.12.5 Authority for; Authorization and Enforceability of Transaction. The Company has full corporate power and authority to execute and deliver the Bond Documents to be executed by the Company and has full power and authority to perform its obligations hereunder and thereunder and engage in the transactions contemplated by the Bond Documents to be executed by it. The Bond Documents to be executed by the Company have been duly authorized,

executed and delivered by the Company and each constitutes a legal, valid and binding obligation of the Company, enforceable in accordance with its terms (except that (i) the enforceability of such Bond Documents may be limited by bankruptcy, reorganization, insolvency, fraudulent transfer, moratorium or other similar laws of general application relating to the enforcement of creditors' rights, (ii) certain equitable remedies, including specific performance, may be unavailable and (iii) the indemnification provisions contained therein may be limited by applicable securities laws and public policy).

1.12.6 All Approvals. Except as otherwise disclosed in writing in connection with the offering of the Bonds, no consents, approvals, authorizations or any other actions by any governmental or regulatory authority that have not been obtained or taken are or will be required for the issuance and sale of the Bonds, the execution and delivery of the Bond Documents by the Company, the construction, ownership and operation of the Project or the consummation of the other transactions contemplated by the Bond Documents (except for such licenses, certificates, approvals or permits necessary for the construction of the Project for which the Company either has applied or shall apply with due diligence and which the Company expects to receive).

1.12.7 No Conflict of Interest. No elected or appointed public official, employee, agent or representative of the Sponsoring Entity or any of its official boards, commissions or committees or any member of the Governing Body of the Issuer has any direct or indirect interest of any kind, or any right, agreement or arrangement to acquire such an interest in the Project, as owner, contractor, subcontractor, shareholder, general or limited partner, tenant or otherwise that would violate or require disclosure or other action under any law, regulation, charter or ordinance of the State or the Sponsoring Entity.

1.12.8 Representations Regarding the Project. The Company intends to construct and operate the Project during the term of this Agreement and to expend the proceeds of the Bonds in the Construction Fund to pay Project Costs. In addition, the Project will be located in its entirety within the boundaries of the State. The principal of the Bonds is based upon the Company's most reasonable estimate of financing or refinancing the Project Costs as of the date

hereof, which estimates are based upon sound engineering and accounting principles. The ownership of the Project will at all time be under the exclusive control and held for the exclusive benefit of the Company. The Company has obtained or will obtain all licenses and permits necessary with respect to any acquisition, construction, reconstruction, improvement, expansion or operation, as the case may be, of the Project and all necessary approvals from any governmental bodies or agencies having jurisdiction in connection therewith. The Company will obtain and deliver to ACA the Construction Contract.

1.12.9 Certain Federal Tax Matters. The Company makes the following representations:

1.1.1.116.1 The Company is an organization exempt from federal income taxation as provided in Section 501(a) of the Code by virtue of being described in Section 501(c)(3) of the Code;

1.1.1.116.2 The purposes, character, activities and methods of operation of the Company are not materially different from the purposes, character, activities and methods of operation at the time of its determination by the IRS as an organization described in Section 501(c)(3) of the Code (the “Determination”) or otherwise at the time of its organization as an exempt organization within the meaning of Section 501(c)(3) of the Code, or have been disclosed to the IRS and the Company has received confirmation that such activities or methods of operation do not materially adversely affect the status of the Determination;

1.1.1.116.3 The Company has not diverted a substantial part of its corpus or income for a purpose or purposes other than the purpose or purposes (a) for which it is organized or operated or (b) disclosed to the IRS in connection with the Determination;

1.1.1.116.4 The Company has not operated during its five most recent fiscal years or the current fiscal year, as of the date hereof, in a manner that would result in it being classified as an “action” organization within the meaning of Section 1.501(c)(3)-(1)(c)(3) of the Regulations including, but not limited to, promoting or attempting to influence legislation by propaganda or otherwise as a substantial part of its activities;

- 1.1.1.116.5 With the exception of the payment of compensation (and the payment or reimbursement of expenses) which is not excessive and is for personal services which are reasonable and necessary to carrying out the purposes of the Company, no individual who would be a “foundation manager” within the meaning of Section 4946(b) of the Code with respect to the Company, nor any Person controlled by any such individual or individuals or any of their Affiliates, nor any Person having a personal or private interest in the activities of the Company has acquired or received, directly or indirectly, any income or assets, regardless of form, of the Company during the current fiscal year and the five fiscal years preceding the current fiscal year, other than as reported to the IRS by the Company;
- 1.1.1.116.6 The Company is not a “private foundation” within the meaning of Section 509(a) of the Code;
- 1.1.1.116.7 The Company has not received any indication or notice whatsoever to the effect that its exemption under Section 501(c)(3) of the Code has been revoked or modified, or that the IRS is considering revoking or modifying such exemption, and such exemption is still in full force and effect;
- 1.1.1.116.8 The Company has timely filed with the IRS all requests for determination, reports and returns required to be filed by it and such requests for determination, reports and returns have not omitted or misstated any material fact, and the Company has timely notified the IRS of any changes in its organization and operation since the date of the application for the Determination;
- 1.1.1.116.9 The Company has not devoted more than an insubstantial part of its activities in furtherance of a purpose other than an exempt purpose within the meaning of Section 501(c)(3) of the Code;
- 1.1.1.116.10 The Company has not taken any action, nor does it know of any action that any other Person has taken, nor does it know of the existence of any condition which would cause the Company to lose its exemption from taxation under Section 501(a) of the Code or cause interest on the Series 2006A Bonds to be includable in the income of the recipients thereof for federal income tax purposes;

1.1.1.116.11 Taking into account the Issue Price (as defined in Section 5.3(r) of this Agreement) of the Stated Maturity of the Bonds, the average term of the Series 2006A Bonds does not exceed 120 percent of the average reasonably expected economic life of the Project to be financed or refinanced by the Series 2006A Bonds, weighted in proportion to the respective cost of each item comprising the property the cost of which has been or will be financed, directly or indirectly, with the Net Proceeds (as defined in Section 5.3(r) of this Agreement) of the Series 2006A Bonds. For purposes of the preceding sentence, the reasonably expected economic life of property shall be determined as of the later of (A) the Closing Date for the Series 2006A Bonds or (B) the date on which such property is placed in service (or expected to be placed in service). In addition, land shall not be taken into account in determining the reasonably expected economic life of property, except that, in the event 25% or more of the collective Net Proceeds of the Series 2006A Bonds, directly or indirectly, have been expended for land, such land shall be treated as having an economic life of 30 years and shall be taken into account for purposes of determining the reasonably expected economic life of such property;

1.1.1.116.12 All of the documents, instruments and written information supplied by or on behalf of the Company, which have been reasonably relied upon by Bond Counsel in rendering their opinion with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes or Bond Counsel in rendering an opinion with respect to the status of the Company under Section 501(c)(3) of the Code, are true and correct in all material respects, do not contain any untrue statement of a material fact and do not omit to state any material fact necessary to be stated therein to make the information provided therein, in light of the circumstances under which such information was provided, not misleading.

1.12.10Indenture. The Indenture has been submitted to the Company for its examination, and the Company acknowledges, by execution of this Agreement, that it has reviewed the Indenture and that it accepts each of its obligations expressed or implied thereunder.

1.12.11Security Interests. The Company has not heretofore made a pledge of, granted a lien on or security interest in, or made

an assignment or sale of the Bond Documents or the Mortgaged Property that ranks on a parity with or prior to the lien granted under the Bond Documents and will remain outstanding on the Closing Date. The Company has not described the Bond Documents or the Mortgaged Property in a UCC financing statement that will remain effective on the Closing Date. The Company will not hereafter make or suffer to exist any pledge or assignment of, lien on, or security interest in the Bond Documents or the Mortgaged Property that ranks prior to or on a parity with the lien granted under the Bond Documents, or file any financing statement describing any such pledge assignment, lien or security interest, except as expressly permitted by the Bond Documents.

1.12.12 Other Representations and Warranties. Any certificate with respect to factual or financial matters signed by an officer of the Company and delivered to the Issuer shall be deemed a representation and warranty by the Company as to the statements made therein.

Each of the foregoing representations and warranties shall be deemed to have been made as of the date of this Agreement.

ARTICLE III

THE PROJECT

3.1 Acquisition and Construction of the Project.

3.2 The Company agrees to utilize the amounts in the Construction Fund to pay Project Costs and to complete the acquisition, construction, reconstruction, improvement, expansion or operation, as the case may be, of the Project and to place in service and operate the Project as an educational facility as defined in the Act in furtherance of the public purposes of the Act.

3.1.1 The Plans and Specifications for the Project shall be approved prior to the commencement of construction of the Project, by a duly authorized officer of the Company. The Company may make insubstantial changes in, additions to, or deletions from the Plans and Specifications without prior consultation with ACA. The Company may make substantial changes in, additions to, or deletions from the Plans and Specifications only if the Project shall continue to constitute facilities of the type which may be financed by the Issuer under the Act and any required approvals of such

changes, additions, or deletions have been obtained from any governmental bodies or agencies having jurisdiction. Notwithstanding the foregoing, any proposed change in the Plans and Specifications that could result in a material delay in the completion of the Project or would increase the total cost of the Project over the contingency within the lump sum fixed price in the Construction Contract shall require prior written consent of ACA, a copy of which consent shall be delivered to the Trustee by ACA.

3.2 Reserved.

3.3 Disbursements of Bond Proceeds.

3.3.1 Conditions Precedent to Disbursements from the Construction Fund for Construction Costs. As conditions precedent to the release of any moneys held in the Project Account of the Construction Fund for construction costs (the satisfaction of which conditions precedent shall be evidenced to the Trustee by ACA's approval of the first requisition certificate for funds from the Project Account for the payment of construction costs or by separate written consent delivered by ACA to the Trustee), there shall be delivered to ACA the following items:

payment and performance bonds in form and substance satisfactory to ACA issued by a responsible bonding company licensed to do business in the State and rated at least "A" by S&P or "Excellent (A or A-)" by A.M. Best Company, Inc. ("Best") or otherwise satisfactory to ACA in an amount not less than the lump sum fixed price under the respective Construction Contracts, or other evidence satisfactory to ACA that the Company has adequately protected itself with respect to timely completion of the construction of the Project at the fixed cost referred to above; and

the ACORD 28 certificates evidencing the builder's all-risk insurance as specified in Section 213 of the Master Indenture.

(a-1) Conditions Precedent to Disbursements from the Construction Fund for Land Acquisition. As the condition precedent to the release of any moneys held in the Project Account of the Construction Fund for the purchase of the additional property described in Exhibit B attached hereto (the satisfaction of which conditions precedent shall be evidenced to the Trustee by ACA's approval of the first requisition certificate for funds for the purchase of such property from the Project Account or by separate written consent delivered by ACA to the Trustee), there shall be delivered to the Master Trustee and ACA the following item:

- (i) A title insurance policy and deed of trust, substantially similar to the Deed of Trust, securing the Bonds with the additional property described in Exhibit B, attached hereto, both to the satisfaction of ACA

- 3.3.2 Disbursements from Project Account of the Construction Fund. Pursuant to the provisions of the Indenture, there shall be deposited into the Project Fund a portion of the proceeds received from the sale of the Bonds. Subject to Section 406 of the Indenture, the Trustee is authorized and directed to make payments to the Company from the Construction Fund, as requested by the Company and approved in writing by the Construction Consultant, for the Company to pay third parties for amounts due and owing to such third parties with respect to any Project Costs and also to reimburse the Company for any Project Costs paid directly by the Company upon receipt of a requisition certificate substantially in the form attached as Exhibit B to the Indenture (a “Disbursement Request”). The Company shall retain copies of all Disbursement Requests until the date that is six years from the first date on which no Series 2006A Bonds are outstanding.
- 3.3.3 Disbursements from the Costs of Issuance Account of the Construction Fund. Subject to Section 406 of the Indenture, the Trustee is authorized and directed to disburse funds on or after the Closing Date for the Costs of Issuance of the Bonds upon receipt of a requisition certificate substantially in the form attached as Exhibit B to the Indenture. The Company shall retain copies of all Disbursement Requests until the date that is six years from the first date on which no Bonds are Outstanding.
- 3.3.4 The Trustee may rely fully on any Disbursement Request delivered pursuant to this Section 3.3 and shall not be required to make any investigation in connection therewith.
- 3.3.5 ACA shall have the right to approve any change orders to the Construction Contract that increase the costs of the Project over the contingency within the Construction Contract price; provided that, the Trustee may conclusively presume ACA’s approval upon submission of any Disbursement Request signed by ACA or upon receipt by the Trustee of separate written consent delivered by ACA as contemplated by Section 3.2 hereon; and provided further that, in the absence of receipt by the Trustee of either such form of consent by ACA, the Trustee may pay any properly submitted Disbursement Request.

3.4 Completion of Project if Bond Proceeds Insufficient. The Company agrees to pay all Project Costs which are not, or cannot be, paid or reimbursed from the proceeds of the Bonds. The Company agrees that if, after exhaustion of the

moneys in the Construction Fund established pursuant to the Indenture, the Company should pay any portion of the Project Costs, it shall not be entitled to any reimbursement therefor from the Issuer, the Trustee or from any Bondholder, nor shall it be entitled, as a consequence of such unreimbursed payment, to any abatement, postponement or diminution of the amounts payable under this Agreement.

3.5 Completion. Upon completion of the Project, but not later than the end of the fifth Bond Year, the Company shall deliver to the Trustee an Officer's Certificate in the form of Exhibit C hereto.

3.6 Modification of the Project. Subject to Section 3.3(e) hereof, the Project may be altered or added to by the Company; provided, however, that the Company shall make no revision to the Project that results in the Project ceasing to (i) constitute educational facilities, as defined in the Act, or (ii) be substantially similar to the Project as approved by the Issuer; provided, further, that no revision to the Project may be made unless the Company has delivered a Favorable Opinion of Bond Counsel to the Trustee and ACA.

3.7 Casualty and Condemnation. 3.7.1 In the event of any damage, destruction, condemnation or taking under the threat of condemnation with respect to the Project, the Company shall promptly engage the services of the Construction Consultant, which shall make a determination as to the amount of insurance or condemnation proceeds anticipated to result therefrom within fifteen (15) days of the occurrence of such damage, destruction, condemnation or taking.

3.7.2 If the insurance or condemnation proceeds of any damage, destruction, condemnation or taking under the threat of condemnation with respect to the Project as determined by the Construction Consultant pursuant to paragraph (a) above are equal to or less than \$250,000, such proceeds shall be transferred to the Trustee for deposit in a Insurance Proceeds Account of the Construction Fund and shall be applied to repair, restore, modify, improve or replace the Project. The Trustee is hereby directed to make payments from such Insurance Proceeds Account of the Construction Fund for such purposes or to reimburse the Company for costs paid by it in connection therewith upon receipt of a requisition signed by an Authorized Representative of the Company and approved by the Construction Consultant, in the same form as Exhibit B to the Indenture. Any balance of the insurance or condemnation proceeds remaining after the Project has been repaired, restored or replaced to a state substantially like that prior to the event of damage, destruction or taking, as determined by the Construction Consultant, shall, upon delivery to the Trustee of a certificate executed by the Construction Consultant to such

effect, be deposited to the Debt Service Fund and applied to the redemption of the Bonds at the earliest practical date.

3.7.3 If the insurance or condemnation proceeds of any damage, destruction, condemnation or taking under the threat of condemnation with respect to the Project as determined by the Construction Consultant pursuant to paragraph (a) above are greater than \$250,000, such insurance or condemnation proceeds shall be transferred to the Trustee for deposit in the special separate account of the Construction Fund for the Bonds, and:

1.1.1.117 The Company shall immediately request that the Construction Consultant prepare a report to determine (A) if the repair, reconstruction, restoration or replacement of the Project or a portion thereof damaged or taken is economically feasible and will restore the Project to the physical and operating condition as existed before and (B) if the Company will have sufficient funds from the insurance proceeds, business interruption insurance proceeds and other available funds to make the payments required hereunder when due, to pay the cost of repairing, reconstructing, restoring or replacing the portion of the Project affected by such loss, damage or condemnation (including without limitation architects' and attorneys' fees and expenses), to pay Company's operating costs until completion of the repair, construction or replacement of such portion of the Project which report shall be delivered to the Trustee, ACA and any Holder owning at least ten percent (10%) in aggregate principal amount of any series of Outstanding Bonds, within thirty (30) days of the occurrence of such damage, destruction, condemnation or taking. If the report determines the foregoing conditions are satisfied, then within thirty (30) days after delivery thereof, the Company shall deliver to ACA and the Trustee:

1.1.1.117.1 to ACA only, upon its request, the plans and specifications, prepared by an architect, necessary to effect such repair, reconstruction or replacement and an executed construction contract for such work;

1.1.1.117.2 to the Trustee only, cash in an amount equal to the funds, if any, in excess of insurance proceeds and business interruption insurance proceeds required by the report delivered under clause (1) above for deposit in a special separate account of the Construction Fund; and

1.1.1.117.3 such other documents and information as the Holders of the a majority of the Outstanding Bonds and ACA may reasonably require; and

the Company shall promptly proceed to repair, reconstruct and replace the affected portion of the Project, including all fixtures, furniture and equipment and effects, to its original condition to the extent

possible. Each request for payment shall comply with the requirements of the Indenture in Section 406 for payments from the Construction Fund.

1.1.1.118 If the Construction Consultant's report does not determine that the conditions are satisfied or fails to meet the requirements relating to repair or reconstruction or replacement in clause (1) above, the Company shall prepay the Loan and the Bonds shall be redeemed as set forth in paragraph (e) below. Notwithstanding the foregoing, if the insurance proceeds of any damage, destruction, condemnation or taking under the threat of condemnation with respect to the Project as determined by the construction consultant pursuant to paragraph (a) above are greater than \$2,000,000, ACA may elect to require the Company to prepay the Loan, and the Bonds shall be redeemed as set forth in paragraph (e) below.

3.7.4 If the insurance or condemnation proceeds are insufficient to pay in full the cost of any repair, restoration, modification or improvement undertaken pursuant to this Section, the Company will nonetheless complete the work and will pay any cost in excess of the amount of the insurance or condemnation proceeds held by the Trustee. The Company agrees that if by reason of any such insufficiency of the insurance or condemnation proceeds, the Company shall make any payments pursuant to the provisions of this Section, the Company shall not be entitled to any reimbursement therefor from the Trustee or any Holder, nor shall the Company be entitled to any diminution of the amount payable hereunder.

3.7.5 Under the circumstances set forth in subsection (c)(2) hereof, the Loan shall be paid and the Bonds redeemed in full without premium and the insurance proceeds shall be transferred by the Trustee from the applicable account in the Construction Fund to the applicable account in the Debt Service Fund for such purpose. If the insurance proceeds are insufficient to redeem the Bonds in full, the Company shall provide to the Trustee for deposit into the Debt Service Fund moneys which, together with the insurance proceeds, will be sufficient to redeem all of the Bonds pursuant to the Extraordinary Optional Redemption provisions of the Bonds. In the event that the Company has completed any repair, reconstruction or replacement of the Project after the occurrence of any damage, destruction or condemnation and there are excess insurance proceeds, such excess shall be deposited in the Debt Service Fund and applied to the redemption of all or a portion of the Bonds pursuant to the Extraordinary Optional Redemption provision of the Bonds.

- 3.8 Inspection of the Project. The Company agrees that the Issuer and its duly authorized agents, including the Trustee, and ACA may, at reasonable times as determined by the Company, enter upon the Project site and examine and inspect the Project and, upon the occurrence of an Event of Default, the books and records of the Company that relate to the Project.
- 3.9 Maintenance and Operation. The Company undertakes to cause each item of its buildings and other facilities, including the Project, to be maintained and operated so long as the operation of each such item, in the sole judgment of the Company, is economical, lawful, and feasible and in accordance with good operating practice. The Company agrees that during the term of this Agreement it will pay all costs of operating, maintaining, and repairing its buildings and other facilities, including the Project, and that the Issuer shall have no responsibility or liability whatsoever for operating, maintaining, or repairing its buildings and other facilities, including the Project. The Company agrees that it shall not enter into a contract for the management of the Project by a third party service provider without the prior written consent of ACA and unless it receives a Favorable Opinion of Bond Counsel.
- 3.10 No Establishment and No Impairment of Religion. The Company and the Issuer intend that the loan to the Company and all other transactions provided for in this Agreement be made in strict compliance with all applicable laws and constitutional provisions of the United States and the State. Accordingly, the Company agrees that to the full extent required from time to time by applicable laws and constitutional provisions of the United States and the State in order for the loan to the Company and all other transactions provided for in this Agreement to be made and effected in compliance with such laws and constitutional provisions: (a) no part of the Project financed in whole or in part with proceeds of the Bonds shall be used for sectarian instruction or as a place of religious worship; (b) notwithstanding the payment in full of the Loan Payments and the Bonds, and notwithstanding the termination of this Agreement, each such part of the Project will continue to be subject to the restrictions set out in clause (a) of this Section for so long as it is owned by the Company, or any voluntary grantee of the Company, provided, the continuance of such restriction is necessary to preserve the exemption from federal income taxation of interest on the Bonds under the Code. Provided, however, that to any extent that a restriction or agreement set out in this Section shall at any time not be required in order for the loan to the Company and all other transactions provided for in this Agreement to be made and effected in compliance with applicable constitutional provisions of the United States and the State, such restriction or agreement shall, to that extent and without necessary action by any party, be without any force or effect; and provided further, that in no event shall such restriction or agreement set out in this Section be more expansive than required by an applicable constitutional provision.

- 3.11 Issuer Relieved From Responsibility With Respect to Project. The Company and the Issuer hereby expressly acknowledge and agree that the Issuer is under no responsibility to insure, maintain, operate or repair the Project or to pay taxes with respect thereto, and the Company expressly relieves the Issuer from any such responsibility.
- 3.12 Force Majeure. If by reason of Force Majeure the Company shall be rendered unable wholly or in part to carry out its obligations under this Article (other than its obligations to pay money contained in Article IV of this Agreement), and if the Company gives notice and full particulars of such Force Majeure in writing to the Issuer, ACA and to the Trustee within a reasonable time after failure to carry out such obligations, then the obligations of the Company under this Article, so far as they are affected by such Force Majeure, shall be suspended during the continuance of the inability then claimed, including a reasonable time for removal of the effect thereof. The requirement that any Force Majeure shall be reasonably beyond the control of the Company shall be deemed to be fulfilled even though any existing or impending strike, lockout or other industrial disturbance may not be settled but could have been settled by acceding to the demand of the opposing Person. The occurrence of any Force Majeure shall not suspend or otherwise abate, and the Company shall not be relieved from, the obligation to pay the Bond Obligations and to pay any other payments required to be made by it under this Agreement at the times required. For purposes of this Section, "Force Majeure" means acts of God, strikes, lockouts or other industrial disturbances, acts of the public enemy, acts or orders of any kind of the government of the United States of America, or of any state or locality thereof, or any civil or military authority, terrorist acts, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, hurricanes, tornadoes, storms, floods, washouts, droughts, arrests, restraining of government and people, civil disturbances, explosions, nuclear accidents, wars, breakage or accidents to machinery, transmission pipes or canals, partial or entire failure of utilities, shortages of labor, material, supplies or transportation, or any other cause not reasonably within the control of the party claiming such inability.
- 3.13 Insurance. So long as the Bonds remain Outstanding, the Company shall at all times keep and maintain the insurance required by Section 213 of the Master Indenture.
- 3.14 Disposition of Project. Subject to Section 5.13 hereof, the Company covenants that the Project will not be sold or otherwise disposed in a transaction resulting in the receipt by the Company of cash or other compensation, unless the Company delivers a Favorable Opinion of Bond Counsel to the Issuer, the Trustee and ACA and ACA gives prior written consent to such sale or disposition. For purposes of the foregoing, the portion of the Property comprising personal property and disposed in the ordinary

course shall not be treated as a transaction resulting in the receipt of cash or other compensation.

ARTICLE IV

PAYMENTS

4.1 Loan Payments.

- 4.1.1 To repay the Loan of the proceeds of the Bonds evidenced by the Series 2006 Notes, the Company shall, subject to the limitations of Section 4.5 of this Agreement, make or cause to be made Loan Payments in immediately available funds in accordance with the Indenture and this Agreement directly to the Trustee as follows:

on or before the earlier of the fifth (5th) Business Day prior to any Interest Payment Date or the 25th day of each month, 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;

on or before the earlier of the fifth (5th) Business Day prior to any Interest Payment Date or the 25th day of each month, 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

on or before the earlier of the fifth (5th) Business Day prior to any Interest Payment Date or the 25th day of each month, for deposit into the Debt Service Reserve Fund, such amounts as are required by the Section 4.6 of this Agreement to restore the Debt Service Reserve Fund Requirement.

- 4.1.2 If, subsequent to a date on which the Company is not obligated to pay the Loan Payments (as a result of defeasance of the Bonds pursuant to Section 1002 of the Indenture), losses (net of gains) shall be incurred in respect of any investments, or any other event or circumstance has occurred causing the amounts in the Debt Service Fund, together with any other amounts then held by the Trustee and available for the purpose, to be less than the amount sufficient at the time of such occurrence or other event or circumstance to pay, in accordance with the provisions of the Indenture, all principal (premium, if any) and interest on the Bonds due and payable or to become due and payable, the Trustee shall notify the Company of such fact and thereafter the Company, as and when required for purposes of such Debt Service Fund, but subject to the

limitations of Section 4.5 of this Agreement, shall pay to the Trustee for deposit in the Debt Service Fund the amount of any such deficiency below such sufficient amount.

4.2 Prepayment of Loan; Redemption of Bonds. The Company may at any time deliver money or Defeasance Obligations to the Trustee with instructions to the Trustee to hold such money or Defeasance Obligations pursuant to the Indenture in connection with a deemed payment or redemption of Bonds. The Issuer agrees that, at the request at any time of the Company, it will notify the Trustee, exercise its rights and otherwise cooperate with the Company to cause the Bonds or any portion thereof to be redeemed to the extent required or permitted by the Indenture. Except to the extent any such deemed payment or any redemption of the Bonds in whole or in part, neither the Loan made hereunder nor the Series 2006 Notes shall be prepayable. Any excess or unclaimed money held by the Trustee under the Indenture shall be paid by the Trustee to the Company in accordance with Article V or Article X of the Indenture, as applicable.

4.3 Security Interests.

4.3.1 As security for repayment of the Series 2006 Notes and performance of the Company's obligations under this Agreement, the Company hereby pledges, sets over, assigns and grants a security interest to the Issuer in all of the Company's right, title and interest in and to all amounts at any time deposited in the funds established pursuant to the Indenture (except the Rebate Fund), including all investments and reinvestments made with such amounts and the proceeds thereof, and in all of its rights to and interests in such amounts, investments, reinvestments and proceeds. The Company hereby authorizes and directs the Trustee to hold such amounts, investments, reinvestments and proceeds as bailee and custodian for the Issuer in accordance with the provisions of Sections 8.321 and 9.305 of the Texas Business and Commerce Code, as amended, and to invest and disburse such amounts and proceeds in accordance with the Indenture and this Agreement. Under the laws of the State, the lien of the Series 2006 Notes and the Bonds and each pledge, assignment, lien or other security interest made to secure any prior obligations of the Company which, by the terms of the Bond Documents, ranks on a parity with or prior to the lien granted hereby, are and shall be prior to any judicial lien hereafter imposed on such collateral to enforce a judgment against the Company on a simple contract.

4.3.2 The Company will (i) upon the execution and delivery of the Bond Documents and thereafter, from time to time cause any Bond Document and each amendment and supplement thereto (or a memorandum with respect thereto or to such amendment or supplement) to be filed, registered and recorded and to be refiled, reregistered and rerecorded in such manner and in such places as may be required in order to publish notice of and fully to protect the liens, or to perfect or continue the perfection of the security interests, created thereby and (ii) perform or cause to be performed from time to time any other act as required by law, and execute or cause to be executed any and all instruments of further assurance that may be necessary for such publication, perfection, continuation and protection, including without limitation the execution of any deposit account control agreement and the delivery of legal opinions as to the perfection of any such security interests. The Company will not change or relocate its place of business (or its chief executive office if it has more than one place of business) unless it has taken all actions, and made all filings necessary to continue the effectiveness and perfection of all security interests created by the Bond Documents to which it is a party. The Trustee shall not be responsible for the recording of any mortgage, deed of trust, other security or other instruments of further assurance or for filing any financing statements or any continuation statements related thereto.

4.3.3 Under the Indenture, the Issuer is, as security for the Bonds, pledging, assigning, transferring and granting a security interest in certain of its rights, title and interest under this Agreement to the Trustee. The Company agrees that this Agreement, and all of the rights, interests, powers, privileges and benefits accruing to or vested in the Issuer shall be protected and enforced in conformity with the Indenture and (except for the Issuer's Unassigned Rights) are being assigned by the Issuer to the Trustee as security for the Bonds and may be exercised, protected and enforced solely by the Trustee for or on behalf of the Bondholders in conformity with this Agreement and the Indenture. The Trustee is hereby given the exclusive right to enforce, as assignee of the Issuer, the performance of the obligations of the Company, and the Company hereby consents to the same and agrees that the Trustee may enforce such rights as provided in this Agreement and in the Indenture. The Issuer and the Company recognize that the Trustee is a third party creditor-beneficiary of this Agreement. The

Issuer hereby directs the Company to make all payments (other than payments relating to any money or rights not granted to the Trustee as part of the Trust Estate pursuant to the granting clauses in the Indenture) to the Trustee instead of to the Issuer and the Company hereby agrees to do so. All such payments shall be made in lawful money of the United States of America directly to the Trustee, as assigned by the Issuer, at the location specified by the Trustee, and shall be applied as provided in Section 4.1 of this Agreement. The Company and the Issuer further acknowledge that except for the obligation of the Trustee to credit amounts paid or recovered from this Agreement or the collateral therefor to the Issuer's debt evidenced by the Bonds and except for certain rights not granted to the Trustee as part of the Trust Estate, the Issuer has no further interest in this Agreement and the Trustee shall have the exclusive right (subject to the provisions of the Indenture) to grant consents, extensions, forgiveness, and waivers, make amendments, release collateral and otherwise deal with the Company as the sole owner of this Agreement and the Trustee exclusively may start and prosecute suit hereon or otherwise take action to recover amounts owing under this Agreement without first obtaining the consent of the Issuer or without joining the Issuer as a plaintiff.

4.4 Nature of Obligations of the Company. The Company agrees that its obligations to make payments hereunder shall be absolute and unconditional, irrespective of any rights of set-off, diminution, abatement, recoupment or counterclaim the Company might otherwise have against any Person, and except in connection with a discharge of the Indenture, the Company will perform and observe all its payment obligations and covenants, representations and warranties hereunder without suspension and will not terminate the Bond Documents to which it is a party for any cause. The Company covenants not to seek and hereby 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 to which it is a party except through payment or deemed payment of the Bond Obligations as provided in such Bond Documents. The Holders of the Bonds shall be entitled to rely upon the agreements and covenants in this Section regardless of the validity or enforceability of the remainder of this Agreement or any other Bond Document or agreement.

The preceding paragraph shall not be construed to release the Issuer from the performance of any of its agreements contained in this Agreement, or except to the extent provided in this Section and Section 5.1, prevent or restrict the Company from asserting any rights which it may have against the Issuer, the Trustee or any other Person under this

Agreement or any of the other Bond Documents to which it is a party or under any provision of law or prevent or restrict the Company, at its own cost and expense, from prosecuting or defending any action or proceeding against or by third parties or taking any other action to secure or protect its rights in connection with the acquisition, construction, improvement, possession and use of the Project and its rights under such Bond Documents.

4.5 Limitation on Interest. Notwithstanding any provision of the Bond Documents to the contrary, it is hereby agreed that in no event shall the amount of interest (as defined and calculated in accordance with applicable law) contracted for, charged, reserved, received or taken in connection with any loan made hereunder exceed the amount of interest which could have been contracted for, charged, reserved, received or taken at the Highest Lawful Rate. If the applicable law is ever judicially interpreted so as to render usurious any amount called for under the Bond Documents or otherwise contracted for, charged, reserved, received or taken in connection with any loan made hereunder, or if the Trustee's exercise of the right to accelerate the Maturity of any loan made hereunder or if any prepayment of any such loan by the Company results in there having been paid or received any interest in excess of that permitted by applicable law, then notwithstanding anything to the contrary contained in the Bond Documents, all excess amounts theretofore paid or received shall be credited on the principal balance of such loan (or, if such loan has been or would thereby be paid in full, refunded), and the provisions of this Agreement and the related Note shall immediately be deemed reformed and the amounts thereafter collectible thereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for thereunder. All sums paid or agreed to be paid for the use, forbearance or detention of the indebtedness evidenced by any such loan shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of such indebtedness until payment in full so that the rate or amount of interest on account of such indebtedness does not exceed the usury ceiling from time to time in effect and applicable to such indebtedness for so long as such indebtedness is outstanding (it being understood that the foregoing provisions permit the rate of interest on such loan to exceed the Highest Lawful Rate for any day as long as the total amount of interest paid on such loan from the date of initial delivery of the Bonds to the date of calculation does not exceed the amount of interest which would have been paid on such loan to the date of calculation if such loan had borne interest for such period at the Highest Lawful Rate). For purposes of this Section, "Highest Lawful Rate" means the maximum rate of nonusurious interest (determined as provided in this Agreement) applicable to each loan made to the Company under this Agreement allowed from time to time by applicable law as is now in effect or, to the extent allowed by applicable law, such higher rate as may hereafter be in effect.

4.6 Restoration of Debt Service Reserve Fund. In the event of any withdrawal from the Debt Service Reserve Fund pursuant to Section 404 of the Indenture

in order to cure any deficiency in the Debt Service Fund or in the event that the Trustee notifies the Company that the amount on deposit in the Debt Service Reserve Fund is less than the Reserve Fund Requirement because of a decline in the value of the securities in either of such Funds, the Company shall pay, or cause to be paid, to the Trustee, (i) if the amount in the Debt Service Reserve Fund is less than the Reserve Fund Requirement because of any withdrawal from the Debt Service Reserve Fund pursuant to Section 404(b) of the Indenture in order to cure any deficiency in the Debt Service Fund, the amount needed to restore the amount in the Debt Service Reserve Fund to the Reserve Fund Requirement (A) in full within thirty (30) days from the date of receipt of such notice for deposit in the Debt Service Reserve Fund or (B) in no more than twelve (12) equal, consecutive, monthly installments, each payable on the date that a Loan Payment is due, commencing in the month immediately succeeding the month in which the Trustee notifies the Company of the withdrawal or (ii) in the event that the Trustee notifies the Company that the amount on deposit in the Debt Service Reserve Fund is less than the Reserve Fund Requirement because of a decline in the value of the securities, the amount of such decline in value for deposit into the Debt Service Reserve Fund in no more than four (4) consecutive equal monthly installments, each payable on the date that a Loan Payment is due, commencing in the month immediately succeeding the month in which the Trustee notifies the Company of the decline in such value; provided that if an additional decline occurs prior to the restoration of any decline, such additional decline shall be restored in equal monthly installments over the remainder of the restoration period for the initial decline.

4.7 Fees and Expenses.

4.7.1 Issuer. The Company agrees to pay promptly upon demand therefor all fees and costs paid, incurred or charged by the Issuer in connection with the Bonds, including without limitation, (i) all out-of-pocket expenses and costs of issuance (including reasonable fees and expenses of attorneys employed by the Issuer) reasonably incurred by the Issuer in connection with the issuance of the Bonds and the administration of the Bond Documents, (ii) all payments required to be paid by the Issuer with respect to the Bonds, and (iii) out-of-pocket expenses (including reasonable fees and expenses of attorneys employed by the Issuer) reasonably incurred by the Issuer in connection with the enforcement of any of its rights or remedies or the performance of its duties under the Bond Documents to which it is a party.

The Company agrees to pay an amount equal to the “Company’s Portion” of the General Costs (as hereinafter defined) of the Issuer. The “Company’s Portion” shall be that portion of the General Costs obtained by multiplying the total amount of the General Costs by a

fraction, the numerator of which is equal to the aggregate principal amount of Bonds issued by the Issuer on behalf of the Company which are outstanding at the time of determination and the denominator of which is equal to the total aggregate principal amount of bonds issued by the Issuer then outstanding. The annual liability of the Company for the General Costs of the Issuer shall not exceed .05% of the largest aggregate principal amount of Bonds issued on behalf of the Company Outstanding on any date during such year. "General Costs" shall mean the costs and expenses of the Issuer which are not otherwise required to be reimbursed to the Issuer pursuant to the agreement of the Company as provided in the preceding paragraph or pursuant to agreements similar to the preceding paragraph by other Persons on whose behalf bonds are issued by the Issuer.

4.7.2 Trustee and Paying Agent. The Company agrees to pay all costs paid, incurred or charged by the Trustee and the Paying Agent including, without limitation, (i) all fees and out-of-pocket expenses incurred with respect to services rendered under any of the Bond Documents, (ii) all amounts payable to the Trustee and the Paying Agent pursuant to Section 807 of the Indenture, and (iii) all out-of-pocket expenses (including reasonable fees and expenses of attorneys employed by the Paying Agent and the Trustee) incurred in connection with the enforcement of any rights or remedies or the performance of duties under the Bond Documents.

ARTICLE V

COVENANTS OF THE COMPANY

4. Indemnification.

4.7.3 Agreements to Indemnify. The Company agrees that it will at all times indemnify and hold harmless each of the Indemnified Parties against any and all Losses other than Losses resulting from fraud, willful misconduct or theft on the part of the Indemnified Party claiming indemnification. IT IS THE EXPRESS INTENTION AND AGREEMENT OF THE PARTIES THAT THE COMPANY WILL INDEMNIFY THE INDEMNIFIED PARTIES AGAINST LOSSES WHICH ARISE FROM THE NEGLIGENCE OF ANY INDEMNIFIED PARTY.

4.7.4 Release. None of the Indemnified Parties shall be liable to the Company for, and the Company hereby releases each of them from, all liability to the Company for, all injuries, damages or destruction to all or any part of any property owned or claimed by the Company that directly or indirectly result from, arise out of or relate to the design,

construction, operation, use, occupancy, maintenance or ownership of the Project or any part thereof, even if such injuries, damages or destruction directly or indirectly result from, arise out of or relate to, in whole or in part, one or more acts or omissions of the Indemnified Parties (other than fraud, willful misconduct or theft on the part of the Indemnified Party claiming release) in connection with the issuance of the Bonds or in connection with the Project.

- 4.7.5 Subrogation. Each Indemnified Party, as appropriate, shall reimburse the Company for payments made by the Company pursuant to this Section to the extent of any proceeds, net of all expenses of collection, actually received by it from any other source (but not from the proceeds of any claim against any other Indemnified Party) with respect to any Loss to the extent necessary to prevent a multiple recovery by such Indemnified Party with respect to such Loss. At the request and expense of the Company, each Indemnified Party shall claim or prosecute any such rights of recovery from other sources (other than any claim against another Indemnified Party) and such Indemnified Party shall assign its rights to such rights of recovery from other sources (other than any claim against another Indemnified Party), to the extent of such required reimbursement, to the Company.
- 4.7.6 Notice. In case any Claim shall be brought or, to the knowledge of any Indemnified Party, threatened against any Indemnified Party in respect of which indemnity may be sought against the Company, such Indemnified Party promptly shall notify the Company in writing; provided, however, that any failure so to notify shall not relieve the Company of its obligations under this Section.
- 4.7.7 Defense. The Company shall have the right to assume the investigation and defense of all Claims, including the employment of counsel and the payment of all expenses. Each Indemnified Party shall have the right to employ separate counsel in any such action and participate in the investigation and defense thereof, but the fees and expenses of such counsel shall be paid by such Indemnified Party unless (i) the employment of such counsel has been specifically authorized by the Company, in writing, (ii) the Company has failed after receipt of notice of such Claim to assume the defense and to employ counsel, or (iii) the named parties to any such action (including any impleaded parties) include both an Indemnified Party and the

Company, and the Indemnified Party shall have been advised by counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the Company (in which case, if such Indemnified Party notifies the Company in writing that it elects to employ separate counsel at the Company's expense, the Company shall not have the right to assume the defense of the action on behalf of such Indemnified Party; provided, however, that the Company shall not, in connection with any one action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegation or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys for the Indemnified Parties, which firm shall be designated in writing by the Indemnified Parties).

4.7.8 Cooperation; Settlement. Each Indemnified Party shall cooperate with the Company in the defense of any action or Claim. The Company shall not be liable for any settlement of any action or Claim without the Company's consent but, if any such action or Claim is settled with the consent of the Company or there be final judgment for the plaintiff in any such action or with respect to any such Claim, the Company shall indemnify and hold harmless the Indemnified Parties from and against any Loss by reason of such settlement or judgment to the extent provided in Subsection (a).

4.7.9 Survival; Right to Enforce. The provisions of this Section shall survive the termination of this Agreement, and the obligations of the Company hereunder shall apply to Losses or Claims under Subsection (a) whether asserted prior to or after the termination of this Agreement. In the event of failure by the Company to observe the covenants, conditions and agreements contained in this Section, any Indemnified Party may take any action at law or in equity to collect amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Company under this Section. The obligations of the Company under this Section shall not be affected by any assignment or other transfer by the Issuer of its rights, titles or interests under this Agreement to the Trustee pursuant to the Indenture and will continue to inure to the benefit of the Indemnified Parties after any such transfer. The provisions of this Section shall be cumulative with and in addition to any

other agreement by the Company to indemnify any Indemnified Party.

4.7.10 Trustee. The Company also agrees to indemnify the Trustee, and any of their officers, directors, employees, agents, affiliates (including without limitation, the Trustee as Paying Agent under the Indenture) or successors (collectively, the “Indemnitees”), for, and to defend and hold them harmless against, any loss, liability, claims, proceedings, suits, demands, penalties, costs and expenses, including without limitation, the costs and expenses of outside and in house counsel and experts and their staffs and all expenses of document location, duplication and shipment and of preparation to defend and defending any of the foregoing (“Losses”), that may be imposed on, incurred by or asserted against any Indemnitee in respect of (i) any loss, or damage to any property, or injury to or death of any person, asserted by or on behalf of any Person arising out of, resulting from, or in any way connected with the Project, or the conditions, occupancy, use, possession, conduct or management of, or any work done in or about the Project or from the planning, design, acquisition or construction of any Project facilities or any part thereof, (ii) the issuance of the Bonds or the Issuer’s authority therefore; (iii) the Indenture and any instrument related thereto, (iv) the Trustee’s execution, delivery and performance of the Indenture in respect of any Indemnitee except to the extent such Indemnitee’s negligence or bad faith primarily caused the Loss, and (v) compliance with or attempted compliance with or reliance on any instruction or other direction upon which the Trustee may rely under the Indenture or any instrument related thereto. The Company further agrees to indemnify the Indemnitees against any Losses as a result of (1) any untrue statement or alleged untrue statement of any material fact or the omission or alleged omission to state a material fact necessary to make the statements made no misleading in any statement, information or material furnished by the Company to the Issuer, ACA or the Trustee, including, but not limited to any disclosure utilized in connection with the sale of the Bonds or (2) the inaccuracy of the statement contained in any section of any Bond Document relating to environmental representations and warranties. The foregoing indemnification shall include, without limitation, indemnification for any statement or information concerning the Company or its officer and members or its Property contained in any official statement or other

offering document furnished to the Trustee or the purchaser of any Bonds that is untrue or incorrect in any material respect, and any omission from such official statement or other offering document of any statement or information which should be contained therein for the purpose for which the same is to be used or which is necessary to make the statements therein concerning the Company, its officers and members and its Property not misleading in any material respect. The foregoing is in addition to any other rights, including rights to indemnification, to which the Trustee may otherwise be entitled.

4.8 Removal of Liens. If any lien, encumbrance or charge of any kind based on any claim of any kind (including, without limitation, any claim for income, franchise or other taxes, whether federal, state or otherwise) shall be asserted or filed against the Trust Estate, or any Loan Payment paid or payable by the Company under or pursuant to this Agreement, or any order (whether or not valid) of any court shall be entered with respect to the Trust Estate, or any such Loan Payment by virtue of any claim of any kind, in any case so as to:

- 4.8.1 interfere with the due payment of such amount to the Trustee or the due application of such amount by the Trustee or any Paying Agent pursuant to the applicable provisions of the Indenture,
- 4.8.2 subject the Bondholders to any obligation to refund any money applied to payment of principal (premium, if any) and interest on any Bond, or
- 4.8.3 result in the refusal of the Trustee or any Paying Agent to make such due application because of its reasonable determination that liability might be incurred if such due application were to be made,

then the Company will promptly take such action (including, but not limited to, the payment of money) as may be necessary to prevent, or to nullify the cause or result of, such interference, obligation or refusal, as the case may be.

4.9 Tax Covenants. The Company will not, through any act or omission, adversely affect the exclusion from gross income for federal income tax purposes of interest paid or payable on the Series 2006A 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. Certain terms used in this Section are defined in Section 5.3(r). With the intent not to limit the generality of the foregoing, the Company covenants and agrees that prior to the final Maturity of the Series 2006A Bonds, unless it has received and filed with the Issuer and the Trustee a Favorable Opinion of Bond Counsel:

- 4.9.1 Maintenance of Exempt Status. The Company will (i) conduct its operations in a manner that will result in its continued qualification as an organization described in Section 501(c)(3) of the Code as represented in Section 2.2(i)(A) through 2.2(i)(L) of this Agreement, and (ii) timely file or cause to be filed all materials, returns, reports and other documents which are required to be filed with the IRS.
- 4.9.2 Diversion of Funds for Unrelated Purposes. The Company will not divert any substantial part of its corpus or income for a purpose or purposes other than those for which it is organized and operated as represented in Section 2.2(i)(A) through 2.2(i)(J) of this Agreement.
- 4.9.3 Ownership of Project. All of the property financed with the net Proceeds of the Series 2006A Bonds will, at all times prior to final Maturity of the Series 2006A Bonds or prior to the expiration of the useful life of such property, be owned for federal income tax purposes by the Company or by another Exempt Person.
- 4.9.4 Limit on Costs of Issuance. The Sale Proceeds of the Series 2006A Bonds will be expended for the purposes set forth in this Agreement and in the Indenture and no portion thereof in excess of 2 percent of the Sale Proceeds of the Series 2006A Bonds, within the meaning of Section 147(g) of the Code, will be expended to pay Costs of Issuance with respect to the Series 2006A Bonds.
- 4.9.5 Use of Net Proceeds. The Company will not use or permit to be used, directly or indirectly, in any trade or business carried on by any person who is not an Exempt Person, more than the lesser of (i) 5 percent of the Net Proceeds of the Series 2006A Bonds or (ii) \$15,000,000. For purposes of the preceding sentence, (i) use of Net Proceeds by an organization described in Section 501(c)(3) of the Code with respect to an unrelated trade or business, determined according to Section 513(a) of the Code, does not constitute a use by an Exempt Person; (ii) use of any property financed with the Net Proceeds of the Series 2006A Bonds constitutes use of such proceeds to the extent of the cost of such property financed with Net Proceeds; (iii) any use of the Net Proceeds of the Series 2006A in any manner contrary to the guidelines set forth in Revenue Procedure 97-13, 1997-1 C.B. 632 (as modified by Revenue Procedure, 2001-39, 2001-2 C.B. 38), shall constitute the

use of such proceeds in the trade or business of one who is not an Exempt Person; and (iv) any use of the Net Proceeds to pay Costs of Issuance shall constitute the use of such proceeds in the trade or business of one who is not an Exempt Person.

4.9.6 Loans of Proceeds. The Company will not use or permit the use of any portion of the Sale Proceeds of the Series 2006A Bonds, directly or indirectly, to make or finance loans to persons who are not Exempt Persons. For purposes of the preceding sentence, (i) a loan to an organization described in Section 501(c)(3) of the Code for use with respect to an unrelated trade or business, determined according to Section 513(a) of the Code, does not constitute a loan to an Exempt Person and (ii) any transaction which constructively transfers ownership of property financed with Sale Proceeds of the Series 2006A Bonds for federal income tax purposes constitutes a loan of such Proceeds.

4.9.7 Rebate. The Company agrees to take all steps necessary to compute and pay any rebatable arbitrage in accordance with Section 148(f) of the Code, including:

Delivery of Documents and Money on Computation Dates. The Company shall deliver to the Trustee, within 45 days after each Computation Date,

- a. a statement, signed by an officer of the Company, stating the Rebate Amount as of such Computation Date; and
- b. (1) if such Computation Date is an Installment Computation Date, an amount which, together with any amount then held for the credit of the Rebate Fund, is equal to at least 90 percent of the Rebate Amount in respect of such issue of Series 2006A Bonds as of such Installment Computation Date, less any prior payments made to the United States for rebatable arbitrage in respect of the Series 2006A Bonds, (2) if such Computation Date is the Final Computation Date, an amount which, together with any amount then held for the credit of the Rebate Fund in respect of the Series 2006A Bonds, is equal to the Rebate Amount as of such Final Computation Date, less any prior payments made to the United States for rebatable arbitrage in respect of such issue of the Series 2006A Bonds, or (3) if such Computation Date is an Expenditure Date, an amount which, together with any amount then held for the credit of the Rebate Fund in respect of the Series 2006A Bonds, is equal to the Rebate Amount in respect of the Series 2006A Bonds as of such Expenditure Date; and

c. an IRS Form 8038-T completed as of such Computation Date.

Correction of Underpayment. If the Company shall discover or be notified as of any date that any payment paid to the United States Treasury pursuant to the Indenture of an amount described in Section 5.3(g) above shall have failed to satisfy any requirement of Section 1.148-3 of the Regulations (whether or not such failure shall be due to any default by the Company, the Issuer, or the Trustee), the Company shall (1) pay to the Trustee (for deposit to the Rebate Fund) and cause the Trustee to pay to the United States Treasury from the Rebate Fund the Rebate Amount, together with any penalty and/or interest due, as specified in Section 1.148-3(h) of the Regulations, within 175 days after any discovery or notice and (2) deliver to the Trustee an IRS Form 8038-T completed as of such date. If such Rebate Amount, together with any penalty and/or interest due, is not paid to the United States Treasury in the amount and manner and by the time specified in the Regulations the Company shall take such steps as are necessary to prevent the Series 2006A Bonds from becoming arbitrage bonds, within the meaning of Section 148 of the Code. Additionally, the Company agrees that if at any point the Rebate Fund incurs losses from investment, the Company will repay amounts equaling such losses into the Rebate Fund.

Records. The Company shall retain all of its accounting records relating to the Debt Service Fund, the Construction Fund and the Rebate Fund and the investment and expenditure of the Proceeds of the Series 2006A Bonds and all calculations made in preparing the statements described in this Section 5.3(g) for at least six years after the later of the final Maturity of the Series 2006A Bonds or the first date on which no Series 2006A Bonds are Outstanding.

Fees and Expenses. The Company agrees to pay all of the fees and expenses of a nationally-recognized bond counsel, a certified public accountant and any other necessary consultant employed by the Company, the Trustee or the Issuer in connection with computing the Rebate Amount.

No Diversion of Rebatable Arbitrage. The Company will not indirectly pay any amount otherwise payable to the federal government pursuant to the foregoing requirements to any person other than the federal government by entering into any investment arrangement with respect to the Gross Proceeds of the Series 2006A Bonds that is not purchased at fair market value or includes terms that the Company would not have included if the Series 2006A Bonds were not subject to Section 148(f) of the Code.

Modification of Requirements. If at any time during the term of this Agreement the Issuer, the Trustee, or the Company desires to take any action which would otherwise be prohibited by the terms of this Section, such Person shall be permitted to take such action if it shall first obtain and provide to the other Persons named herein a Favorable Opinion of Bond Counsel. The Company will hire a Rebate Analyst to perform the calculations required in this Section 5.3(g); provided, however, this shall not absolve the Company of any of the covenants of this Section 5.3(g).

4.9.8 “Federally Guaranteed” Obligations. The Company will not cause the Series 2006A Bonds to be treated as

“federally guaranteed” obligations for purposes of Section 149(b) of the Code.

- 4.9.9 Prohibited Facilities. None of the Proceeds of the Series 2006A Bonds will be used to provide any airplane, sky-box or other private luxury box, facility primarily used for gambling or store the principal business of which is the sale of alcoholic beverages for consumption off premises.
- 4.9.10 Information Reporting Requirements. The Company will cause the Issuer to comply with the information reporting requirements of Section 149(e)(2) of the Code requiring certain information regarding the Series 2006A Bonds to be filed with the IRS within prescribed time limits.
- 4.9.11 Yield on Investment of Gross Proceeds. The Company will restrict the cumulative, blended Yield on the investment of the Gross Proceeds of the Series 2006A Bonds, to the Yield of such issue, other than amounts (i) not subject to yield restriction due to any applicable temporary period under Section 148(c) of the Code, deposit in a Reasonably Required Reserve or Replacement Fund, the Rebate Fund, a bona fide debt service fund (including the Debt Service Fund), or as a minor portion, or (ii) invested at a restricted yield by virtue of being invested in obligations described in Section 103(a) of the Code that are not “specified private activity bonds” within the meaning of Section 57(a)(5) of the Code to the extent required by the Code or the Regulations.
- 4.9.12 Notification of the Internal Revenue Service. The Company will timely notify the IRS of any changes in its organizational documents or method of operations to the extent that the IRS does not already have knowledge of any such changes.
- 4.9.13 No Arbitrage. The Company will not use or invest the Proceeds of the Series 2006A Bonds such that the Series 2006A Bonds become arbitrage bonds within the meaning of Section 148 of the Code, and as evidence of this intent, a representative of the Company has reviewed the No-Arbitrage Certificate prepared in connection with the Series 2006A Bonds and the Company understands, and will take (or request the Trustee or the Issuer to take), the actions described therein.

- 4.9.14 Bonds are Not Hedge Bonds. The Company covenants and agrees that not more than 50 percent of the Proceeds of the Series 2006A Bonds will be invested in Nonpurpose Investments having a substantially guaranteed Yield for four years or more within the meaning of Section 149(g)(3)(A)(ii) of the Code, and the Company reasonably expects that at least 85 percent of the spendable proceeds of the Series 2006A Bonds will be used to carry out the governmental purposes of the Series 2006A Bonds within the three-year period beginning on the Closing Date.
- 4.9.15 Limit on Nonhospital Bonds. The Company will expend at least 95 percent of the Net Proceeds of the Series 2006A Bonds for Capital Expenditures incurred after August 5, 1997. Accordingly, the Series 2006A Bonds are not subject to the \$150,000,000 limit on nonhospital bonds imposed by section 145(b)(1) of the Code.
- 4.9.16 Public Approval. The Company covenants and agrees that the Proceeds of the Series 2006A Bonds will not be used in a manner that deviates in any substantial degree from the Project described in the written notice of public hearings regarding the Series 2006A Bonds published by the Issuer on _____, 2006 in the *Houston Chronicle*.
- 4.9.17 Definitions. The following terms have the meanings assigned to them below whenever they are used in this Agreement:

“Bond Year” means, with respect to the Series 2006A Bonds, each one-year period (or shorter period from the Closing Date) that ends at the close of business on the day selected by the Company. The first and last Bond Years may be short periods. If no day is selected by the Company before the earlier of the final Maturity of such issue of Bonds or the date that is five years after the Closing Date, Bond Years end on each anniversary of the Closing Date and on the date of final Maturity. Unless notified in writing to the contrary, the Trustee may conclusively presume that Bond Years end on each anniversary of the Closing Date and the date of final maturity.

“Computation Date” means each Installment Computation Date and the Final Computation Date, and, in addition, with respect to the Series 2006A Bonds which is a Construction Bond Issue, and with respect to which the penalty set forth in Section 148(f) of the Code has been elected, each Expenditure Date.

“Construction Bond Issue” means the Series 2006A Bonds, (or any portions thereof elected by the Issuer in accordance with Section 148(f)(4)(C)(v) of the Code) at least 75 percent of the “available construction proceeds, within the meaning of Section 148(f)(4)(C)(iv) of the Code, which are to be used for construction expenditures (including expenditures for

reconstruction and rehabilitation) with respect to property that is or will be owned by an Exempt Person.

“Costs of Issuance” means issuance costs with respect to the Series 2006A Bonds within the meaning of Section 147(g) of the Code.

“Exempt Person” means a state or local governmental unit or an organization exempt from federal income taxation under Section 501(a) of the Code by reason of being described in Section 501(c)(3) of the Code.

“Expenditure Date” means, with respect to any portion of the Series 2006A Bonds that is a Construction Bond Issue, each six-month anniversary of the Closing Date.

“Expenditure Delay Penalty” means, with respect to any portion of the Series 2006A Bonds that is a Construction Bond Issue, an amount equal to the amount calculated under Section 1.148-3 of the Regulations (i.e., the Rebate Amount calculated as if no part of the Series 2006A Bonds is a Construction Bond Issue), or (ii) with respect to a Construction Bond Issue for which an election has been made to pay the penalty in lieu of rebate, one and one half percent of the Unexpended Required Amount on each Expenditure Date, all in accordance with Section 148(f)(4)(C)(vii) of the Code.

“Final Computation Date” means the final Maturity of the Series 2006A Bonds.

“Gross Proceeds” means any Proceeds and Replacement Proceeds of the Series 2006A Bonds.

“Installment Computation Date” means the last day of the fifth and each succeeding fifth Bond Year.

“Investment Proceeds” means any amounts actually or constructively received from investing Proceeds.

“Investment Property” means (i) any security (within the meaning of Section 165(g)(2)(A) or (B) of the Code), (ii) any obligation, (iii) any annuity contract, (iv) any investment-type property, or (v) in the case of a bond other than a private activity bond, any residential rental property for family units which is not located within the jurisdiction of the issuer and which is not acquired to implement a court ordered or approved housing desegregation plan.

“Issue Price” means, with respect to the Series 2006A Bonds, “issue price” as defined in Sections 1273 and 1274 of the Code, unless otherwise provided in Sections 1.148-0 through 1.148-11 of the Regulations and, generally, is the aggregate initial offering price to the public (excluding bond houses, brokers and other intermediaries acting in the capacity of wholesalers or underwriters) at which a substantial number of each Maturity of the Series 2006A Bonds is sold.

“Net Proceeds” means, any Net Sale Proceeds, Investment Proceeds and Transferred Proceeds of the Series 2006A Bonds.

“Net Sale Proceeds” means the Sale Proceeds less any Sale Proceeds deposited into a Reasonably Required Reserve or Replacement Fund.

“Nonpurpose Investments” means Investment Property acquired with the Gross Proceeds of the Series 2006A Bonds.

“Proceeds” means, any Sale Proceeds, Investment Proceeds and Transferred Proceeds of the Series 2006A Bonds.

“Qualifying Costs” means the project costs that will be used, directly or indirectly in any trade or business carried on by any Person who is an Exempt Person. For purposes of the preceding sentence, (i) use by an organization described in Section 501(c)(3) of the Code with respect to an unrelated trade or business, determined according to Section 513(a) of the Code, does not constitute use by an Exempt Person, and (ii) any use in any manner contrary to the guidelines set forth in Revenue Procedures 97-13, 1997-1 C.B. 632 (as modified by Revenue Procedure 2001-39, 2001-2 C.B. 38), or the Regulations promulgated under Section 141 of the Code, shall constitute use by a Person who is not an Exempt Person.

“Reasonably Required Reserve or Replacement Fund” means any fund described in Section 148(d) of the Code provided that the amount thereof allocable to the Series 2006A Bonds invested at a Yield materially higher than the Yield on the Series 2006A Bonds does not exceed the lesser of (i) 10 percent of the proceeds of the Series 2006A Bonds; (ii) the maximum annual debt service on the Series 2006A Bonds; or (iii) 125 percent of the average annual debt service on the Series 2006A Bonds, within the meaning of Section 1.148-2(f)(2)(ii) of the Regulations.

“Rebate Amount” has the meaning ascribed in Section 1.148-3 of the Regulations and generally means the excess as of any date of the future value of all receipts on Nonpurpose Investments over the future value of all payments on Nonpurpose Investments, all as determined in accordance with Section 1.148-3 of the Regulations. In the case of any Temporary Period Issue, the “Rebate Amount” as of any Computation Date shall be limited to the “Rebate Amount” attributable to any Reasonably Required Reserve or Replacement Fund. For any Construction Bond Issue, the “Rebate Amount” as of any Computation Date shall be the Expenditure Delay Penalty plus (in the case of a Computation Date other than an Expenditure Date) the “Rebate Amount” attributable to any Reasonably Required Reserve or Replacement Fund.

“Rebate Analyst” means an independent certified public accountant, financial analyst or bond counsel, or any firm of the foregoing, or financial institution, experienced in making the arbitrage and rebate calculations required pursuant to Section 148(f) of the Code, selected, retained and compensated by the Company pursuant to this Section 5.3(g) to make the computations and give the directions required under Section 405 of the Indenture.

“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.

“Replacement Proceeds” has the meaning set forth in Section 1.148-1(c) of the Regulations.

“Required Amount” means, with respect to the Series 2006A Bonds (or portion thereof) that is a Construction Bond Issue, (i) 10 percent of the “available construction proceeds,” within the meaning of Section 148(f) of the Code, on the Expenditure Date that falls on the six-month anniversary of the Closing Date, (ii) 45 percent of the “available construction proceeds,” within the meaning of Section 148(f) of the Code, on the Expenditure Date that falls on the one-year anniversary of the Closing Date, (iii) 75 percent of the “available construction proceeds,” within the meaning of Section 148(f) of the Code, on the Expenditure Date that falls on the 18-month anniversary of the Closing Date, and (iv) 100 percent of the “available construction proceeds,” within the meaning of Section 148(f) of the Code, on any Expenditure Date that falls on or after the two year anniversary of the Closing Date.

“Sale Proceeds” means, any amounts actually or constructively received from the sale (or other disposition) of any Series 2006A Bond, including amounts used to pay underwriters’ discount or compensation and accrued interest other than pre-issuance accrued interest. Sale Proceeds also include, but are not limited to, certain amounts derived from the sale of a right that is associated with a Series 2006A Bond, as described in Section 1.148-4(b)(4) of the Regulations, and certain amounts received upon termination of certain hedges, as described in Section 1.148-4(h)(5) of the Regulations.

“Temporary Period Issue” means the Series 2006A Bonds that meet either the six month exception or the 18-month exception set forth in Section 1.148-7 of the Regulations.

“Transferred Proceeds” means, with respect to the portion of the Series 2006A Bonds that is a refunding issue, proceeds that have ceased to be proceeds of a refunded issue and are transferred proceeds of the refunding issue by reason of section 1.148-9 of the Regulations.

“Unexpended Required Amount” means, for any Construction Bond Issue, the Required Amount on any Expenditure Date less the percentage of “available construction proceeds,” within the meaning of Section 148(f) of the Code, actually expended on and prior to such Expenditure Date; provided, however, that in the case of any Expenditure Date that falls on or after the two year anniversary of the Closing Date, “available construction proceeds,” within the meaning of Section 148(f) of the Code, actually expended shall include a reasonable retainage (not in excess of five percent of “available construction proceeds,” within the meaning of Section 148(f) of the Code) if such retainage is expended prior to the three year anniversary of the Closing Date.

“Yield” means yield as determined in accordance with Section 148(h) of the Code and the Regulations, and generally, is the yield which when used in computing the present worth of all payments of principal and interest to be paid on an obligation produces an amount equal to the Issue Price of such obligation.

To the extent that published rulings of the IRS, or amendments to the Code or the Regulations modify the covenants of the Company which are set forth in this Section 5.3 or which are necessary to preserve the excludability from gross income of interest on the Series

2006A Bonds for federal income tax purposes, the Company and the Issuer will comply with such modifications.

4.10 Financial Reports; No Default Certificates; Notice of Default.

4.10.1 The Company shall cause an annual audit of its books and accounts to be made by independent certified public accountants within 120 days after the end of each Fiscal Year of the Company. At the same time said audit report is delivered to the Company, the Company shall deliver to the Trustee a copy thereof and a certificate signed by the Executive Director or President of the Board of Directors of the Company stating that such person has reviewed the obligations of the Company under the Series 2006 Notes, the Master Indenture and the Indenture and the performance of the Company hereunder and thereunder, and has consulted with such officers and employees of the Company as he deemed appropriate and necessary for the purpose of delivering this certificate, and based on such review and consultation, no Event of Default and no event which, with the giving of notice or the passage of time or both, would constitute an Event of Default has occurred and is continuing under the aforementioned documents. The Trustee shall have no duty to examine or independently verify any such audit reports or the matters described in any such certificate other than to examine the certificate for compliance with the required statements therein, and shall have no duty to furnish such audits to any third party. The Company shall also, promptly upon receiving notice thereof, notify the Issuer and the Trustee in writing upon the occurrence of an Event of Default or any event which with the giving of notice or the passage of time or both would constitute an Event of Default hereunder or under the Series 2006 Notes, the Master Indenture or the Indenture.

4.10.2 So long as the Bonds are Outstanding, the Company shall furnish to ACA the following information:

- 1.1.1.119 Not later than October 1 in each year, a summary of all enrollment information, prepared by grade, for the then current school year, and, not later than February 1 in each year, an updated summary of all enrollment information for such year;
- 1.1.1.120 Notice of the occurrence of any of the following events, to the extent such event is material to a decision to purchase and sell the Bonds: (A) principal and interest payment delinquencies; (B) nonpayment related

defaults; (C) unscheduled draws on the Debt Service Reserve Fund reflecting financial difficulties; (D) unscheduled draws on credit enhancements reflecting financial difficulties; (E) adverse tax opinions or events affecting the tax exempt status of any Series 2006A Bonds; (F) modifications to rights of holders of the Bonds; (G) bond calls; (H) defeasances; (I) release, substitution, or sale of property securing repayment of the Bonds; and (J) rating changes.

4.11 Further Assurances and Corrective Instruments; Recordation. The Issuer and the Company agree that they will, from time to time, execute, acknowledge, and deliver, or cause to be executed, acknowledged, and delivered, such supplements hereto and such further instruments as may reasonably be required for carrying out the intention or facilitating the performance of this Agreement, the Master Indenture and the Indenture.

The Company covenants that it will act and cooperate so that this Agreement, the Master Indenture, the Indenture, any financing statements, and all supplements thereto, and any other instruments as may be required from time to time to be kept, will be recorded and filed in such manner and in such places as may from time to time be required by law in order fully to preserve and protect the security of the Holders and the rights of the Trustee under the Indenture.

4.12 Environmental Indemnity. The Company hereby agrees to indemnify and hold harmless the Master Trustee, the Trustee, ACA, the Issuer and their successors, assigns, officers, affiliates and employees (collectively referred to in this Section 5.6 as the “Indemnified Parties”) for, from and against any and all loss, costs, damages, exemplary damages, natural resources damages, liens, and expenses (including, but not limited to, attorneys’ fees and any and all other costs incurred in the investigation, defense and settlement of claims) that Indemnified Parties may incur as a result of or in connection with the assertion against Indemnified Parties, of any claim, civil, criminal or administrative, which:

4.12.1 arises out of the actual, alleged or threatened discharge, dispersal, release, storage, treatment, generation, disposal or escape of any Regulated Chemical, including, but not limited to, any solid, liquid, gaseous or thermal irritant or contaminant, including, but not limited to, smoke, vapor, soot, fumes, acids, alkalis, chemicals, medical waste and waste (including materials to be recycled, reconditioned or reclaimed); or

4.12.2 actually or allegedly arises out of the use of any Regulated Chemical, the existence or failure to detect the existence or proportion of any Regulated Chemical in the soil, air, surface water or groundwater, or the performance or failure to perform the abatement or removal of any Regulated

Chemical or of any soil, water, surface water or groundwater containing any Regulated Chemical; or

4.12.3 arises out of the actual or alleged existence of any Regulated Chemical on, in, under, or affecting all or a portion of the Project; or

4.12.4 arises out of any misrepresentations of the Company concerning any matter involving Regulated Chemicals; or

4.12.5 arises out of the Company's failure to provide all information, make all submissions and filings, and take all steps required by appropriate government authority under any applicable environmental law, regulation, statute or program, whether federal, state or local, whether currently existing or hereinafter enacted.

The obligations under this Section 5.6 shall not be affected by any investigation by or on behalf of Indemnified Parties, or by any information which Indemnified Parties may have or obtain with respect thereto.

Notwithstanding anything to the contrary contained in this Section 5.6, no indemnification shall be required for any damages under this Section incurred solely as the result of the gross negligence or willful misconduct of the party seeking indemnification.

4.13 Continuing Disclosure Undertaking.

4.13.1 Annual Reports. The Company shall provide annually to each NRMSIR and the SID, within six months after the end of each Fiscal Year, financial information and operating data with respect to the Company of the general type included in the final Official Statement in Appendix A and under the headings "THE COMPANY" and "FINANCIAL AND OPERATIONS INFORMATION." The information will include the annual financial statements of the Company. The financial statements so to be provided shall be (1) prepared in accordance with the accounting principles prescribed by the Texas State Board of Education or such other accounting principles as the Company may be required to employ from time to time pursuant to State law or regulation and (2) audited, if the Company commissions an audit and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within such period, then the Company shall provide unaudited financial statements within such six month period to each NRMSIR and the SID, and audited financial

statements if and when and if the audit report on such statements becomes available.

If the Company changes its fiscal year, it will notify each NRMSIR and the SID of the change (and of the date of the new fiscal year end) prior to the next date by which the Company otherwise would be required to provide financial information and operating data pursuant to this Section.

The financial information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by reference to other publicly available documents, as permitted by the Rule.

4.13.2 Material Event Notices. The Company shall notify the SID and either each NRMSIR or the MSRB, in a timely manner, of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws:

- A. Principal and interest payment delinquencies;
- B. Non-payment related defaults;
- C. Unscheduled draws on debt service reserves reflecting financial difficulties;
- D. Unscheduled draws on credit enhancements reflecting financial difficulties;
- E. Adverse tax opinions or events affecting the tax-exempt status of the Series 2006A Bonds;
- F. Modifications to rights of holders of the Bonds;
- G. Bond calls;
- H. Defeasances;
- I. Release, substitution, or sale of property securing repayment of the Bonds; and
- J. Rating changes.

The Company shall notify the SID and either each NRMSIR or the Municipal Securities Rulemaking Board (the “MSRB”), in a timely manner, of any failure by the Company to provide financial information or operating data in accordance with Section 5.7(a) of this Agreement by the time required by such Section.

4.13.3 Limitations, Disclaimers, and Amendments. The Company shall be obligated to observe and perform the covenants specified in this Section for so long as, but only for so long as, the Company remains an “obligated person” with respect to the Bonds within the meaning of the Rule, except that the Company in any event will give notice of any deposit made in accordance with Texas law that causes Bonds no longer to be outstanding.

The provisions of this Section are for the sole benefit of the holders and beneficial owners of the Bonds, and nothing in this Section, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The Company

undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Section and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the Company's financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Section or otherwise, except as expressly provided herein. The Company does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE COMPANY BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE COMPANY, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

No default by the Company in observing or performing its obligations under this Section shall comprise a breach of or default under this Agreement for purposes of any other provision of this Agreement.

Nothing in this Section is intended or shall act to disclaim, waive, or otherwise limit the duties of the Company under federal and state securities laws.

The provisions of this Section may be amended by the Company from time to time to adopt to changed circumstances that arise from a change in legal requirements, change in law, or change in the identity, nature, status or type of operations of the Company, but only if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to such amendment, or (b) a person unaffiliated with the Company (such as nationally recognized bond counsel), determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. If any such amendment is made, the Company will include in its next annual update an explanation in narrative form of the reasons for the change and its impact on the type of operating data or financial information being provided.

4.14 Special Reimbursement Obligations of the Company. 4.14.1 The Company hereby agrees to pay or reimburse ACA any and all charges, fees, costs and expenses which ACA may reasonably pay or incur, including, but not limited to, fees and expenses of attorneys, accountants, consultants and auditors and reasonable costs of investigations, in connection with (i) any accounts established to facilitate payments under the Policy, (ii) the administration, enforcement, defense or preservation of any rights in respect of the Indenture or any other financing document including defending,

monitoring or participating in any litigation or proceeding (including any bankruptcy proceeding in respect of the Company or any affiliate thereof) relating to this Agreement or any other financing document, any party to this Agreement or any other financing document or the transaction contemplated by the financing documents (the “Transaction”), (iii) the foreclosure against, sale or other disposition of any collateral securing any obligations under this Agreement or any other financing document, or the pursuit of any remedies under the Indenture or any other financing document, to the extent such costs and expenses are not recovered from such foreclosure, sale or other disposition, or (iv) any amendment, waiver or other action with respect to, or related to, this Agreement or any other financing document whether or not executed or completed; costs and expenses shall include a reasonable allocation of compensation and overhead attributable to time of employees of ACA spent in connection with the actions described in clauses (ii) through (iv) above; and ACA reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of this Agreement or any other financing document.

4.14.2 In addition to any and all rights of reimbursement, subrogation and any other rights pursuant hereto or under law or in equity, the Company agrees to pay or reimburse ACA any and all charges, fees, costs, claims, losses, liabilities (including penalties), judgments, demands, damages, and expenses which ACA or its officers, directors, shareholders, employees, agents and each Person, if any, who controls ACA within the meaning of either Section 15 of the Securities Act of 1933 or Section 20 of the Securities Exchange Act of 1934 may reasonably pay or incur, including, but not limited to, fees and expenses of attorneys, accountants, consultants and auditors and reasonable costs of investigations, of any nature in connection with, in respect of or relating to the transactions contemplated by this Agreement or any other financing document by reason of:

- 1.1.1.121 any omission or action (other than of or by ACA) in connection with the offering, issuance, sale, remarketing or delivery of the Bonds;
- 1.1.1.122 the negligence, bad faith, willful misconduct, misfeasance, malfeasance or theft committed by any director, officer, employee or agent of the Issuer or the Company in connection with any transaction arising from or relating to this Agreement or any other financing document;
- 1.1.1.123 the violation by the Issuer or the Company of any law, rule or regulation, or any judgment, order or decree applicable to it;

- 1.1.1.124 the breach by the Issuer or the Company of any representation, warranty or covenant under this Agreement or any other financing document or the occurrence, in respect of the Issuer or the Company, under this Agreement or any other financing document of any “event of default” or any event which, with the giving of notice or lapse of time or both, would constitute any “event of default”; or
- 1.1.1.125 any untrue statement or alleged untrue statement of a material fact contained in any official statement or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such claims arise out of or are based upon any untrue statement or omission in information included in an official statement and furnished by ACA in writing expressly for use therein.
- 4.15 Existence of the Company. While any of the Bonds remains Outstanding, the Company shall maintain its corporate existence and qualification to do business in the State and shall not merge or consolidate with any other corporation or entity or sell or dispose of all or substantially all of its assets, unless (and subject to the provisions of Sections 3.14 and 5.3) (a) either the Company shall be the surviving corporation in the case of a merger, or the surviving, resulting, or transferee corporation, as the case may be, shall expressly and unconditionally assume, in a written instrument delivered to the Issuer, ACA, and the Trustee, the punctual performance and observance of all of the covenants and conditions of this Agreement to be performed by the Company; (b) the Company or such surviving, resulting, or transferee corporation, as the case may be, shall not, immediately after such merger or consolidation, or sale or disposition, be in default in the performance of any covenant or condition hereunder; (c) the surviving, resulting, or transferee corporation, as the case may be, shall be duly authorized to transact business in the State; (d) the Company or such surviving, resulting, or transferee corporation, as the case may be, shall have a net worth at least equal to the net worth of the Company immediately preceding such merger or consolidation, or sale or disposition, with net worth being determined in accordance with generally accepted accounting principles, (e) ACA consents to the merger, sale, conveyance or transfer; and (f) the Trustee and ACA shall have received, to their reasonable satisfaction, such other information, documents, certificates and opinions as the Trustee and ACA may reasonably require. Prior to the consummation of any such merger, sale, conveyance or transfer, (y) the Company shall deliver to the Issuer, ACA and the Trustee a Favorable Opinion of Bond Counsel and an Opinion of Bond Counsel to the effect that such act does not violate the Act or the Code and (z) the surviving, resulting, or transferee entity’s certification to the Issuer, ACA 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 Company or any surviving, resulting or

transferee corporation shall, at all times during the term of this 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.

4.16 Notice and Other Information to be Given to ACA. 4.16.1 All notices and other information required to be given to ACA shall be in writing and shall be sent by registered or certified mail to the address set forth in section 105 of the Indenture.

4.16.2 Any notice, certificate, opinion, report or other document or information that is required to be given to Bondholders, to the Trustee (or the Paying Agent), to the Issuer, or to any nationally recognized municipal securities information repositories or state information depositories pursuant to Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission pursuant to the financing documents, including without limitation any information in Section 5.4 hereof to the extent not otherwise provided under this Section, shall be provided simultaneously to ACA by the Company.

4.16.3 The Company shall provide, or cause to be provided to ACA, the following:

1.1.1.126 No later than 150 days after the end of each Fiscal Year, each of the following:

- d. A copy of the Company’s audited financial statements (together with a copy of any management letter delivered by the auditors in connection with such financial statements) for such Fiscal Year.
- e. A report (including supporting calculations), together with a certificate signed by an authorized officer of the Company, which confirms compliance with the debt service coverage ratio, any other financial covenants required to be satisfied by the Company for such Fiscal Year period or as of the last day of such Fiscal Year and states whether any Event of Default under the financing documents (or event that, with the giving of notice or passage of time would constitute such an Event of Default) has occurred and is continuing as of the date of such certificate.
- f. A certificate signed by an Authorized Representative, setting forth demand and enrollment statistics for the new academic year, including, without limitation, enrollment, applications, acceptances and matriculations, average standardized examination scores and other relevant data with respect to the Company’s activities for such period.

1.1.1.127 No later than forty-five (45) days after the end of each fiscal quarter, each of the following:

g. A certificate signed by an authorized officer of the Company stating whether any Event of Default under the financing documents (or event that with the giving of notice or passage of time would constitute such an Event of Default) has occurred and is continuing as of the date of such certificate.

h. Quarterly demand and enrollment statistics for such fiscal quarter comparable to the annual statistics referred to above.

1.1.1.128 No later than fifteen (15) days after adoption thereof, a copy of the final annual budget (detailed on at least a monthly basis) for the forthcoming fiscal year.

1.1.1.129 No later than fifteen (15) days after presentation thereof to the board of directors of the Company, a copy of the Company's unaudited monthly financial reports.

4.16.4 The Company shall provide, or cause to be provided to, ACA with notice of any threatened termination of any license, accreditation or other official approval material to the operations of the Company or the commencement of any litigation or other governmental or judicial proceeding in which an outcome adverse to the Company could result in a judgment in excess of available insurance coverage or otherwise have a material adverse effect on the operations or financial condition of the Company, and any other event which reasonably could be expected to have a material adverse effect on the operations or financial condition of the Company, within five (5) business days after the Company has knowledge of such threatened termination, the commencement of such litigation or proceeding or the occurrence of such other event.

4.16.5 ACA shall have the right to receive any additional information as it may reasonably request.

4.16.6 The Company will permit ACA to discuss the affairs, finances and accounts of the Company or any information ACA may reasonably request regarding the security for the Bonds with appropriate officers of the Company, and will grant ACA access to the facilities, books and records of the Company on any business day upon reasonable prior notice.

4.16.7 ACA shall have the right to direct an accounting of all applicable books and records at the Company's expense

and the Company's failure to comply with such direction within thirty (30) days after written notice of the direction from ACA shall be deemed a default hereunder.

4.17 Debt Service Coverage Ratio. Available Revenues for each Fiscal Year must be equal to at least 1.10x Aggregate Annual Debt Service ("AADS") on all long-term debt of the Company as of the end of the first Fiscal Year after the date of issuance of the Bonds and thereafter until the Bonds have been paid in full. The Company's failure to achieve the required debt service coverage ratio does not constitute an Event of Default if the Company timely engages (within thirty (30) days of submittal of the certificate describing such circumstance or, if such certificate is not timely submitted, within thirty (30) days of the date such certificate was required to be submitted) an Independent Management Consultant, such consultant timely prepares (within sixty (60) days of engagement) a report (to be delivered to the Company, the Trustee and ACA) with recommendations for meeting the required coverage ratio and the Company to the extent legally permissible, commences to timely implement the consultant's recommendations. Notwithstanding the preceding sentence, in no event may coverage fall below 1.0x AADS.

4.18 Negative Pledge. The Company shall not create or allow any liens to exist on any of its plant, property or equipment, except as permitted by the Deed of Trust or otherwise approved in writing by ACA, including, without limitation, any mortgage or other lien on the Company's _____ campus property (except in connection with the issuance of additional parity Debt for such campus and provided that any such mortgage or other lien on the _____ campus shall also secure the Bonds in addition to such additional parity Debt).

4.19 Disposition of Assets.

4.19.1 Property Plant and Equipment ("PP&E"). No PP&E may be sold or otherwise disposed of unless (i) the PP&E is obsolete or worn out, or (ii) fair market value is received in return, or (iii) the market value of all PP&E disposed of in any fiscal year does not exceed five percent (5%) of the total market value of all PP&E of the Company, or (iv) approved by ACA.

4.19.2 Cash, Investments and Other Current Assets ("Liquid Assets"). No Liquid Assets may be sold or otherwise disposed of unless (i) fair market value is received in return, or (ii) the total market value of Liquid Assets disposed of in any fiscal year does not exceed one percent (1%) of all Liquid Assets of the Company, or (iii) approved by ACA.

4.19.3 Accounts Receivable. Notwithstanding paragraph (b) above, no accounts receivable may be sold, pledged, factored or otherwise disposed of under any circumstances unless approved by ACA.

ARTICLE VI

EVENTS OF DEFAULT; REMEDIES

4.20 Events of Default Defined. The following shall be “Events of Default” under this Agreement and the term “Events of Default” shall mean, whenever used in this Agreement, any one or more of the following events:

4.20.1 Failure by the Company to pay the Loan Payments when due.

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

4.20.3 The occurrence and continuance of any “Events of Default” specified in the Bond Documents or the Master Indenture that has not been waived.

The foregoing provisions of this Section (except Subsection (a) of this Section) are subject to the following limitations: If by reason of force majeure the Company is unable in whole or in part to carry out its agreements contained herein, other than the obligations on the part of the Company contained in Articles IV and VI hereof, the Company shall not be deemed in default during the continuance of such inability. The Company agrees, however, to remedy with all reasonable dispatch the cause or causes preventing the Company from carrying out its agreements by reason of such force majeure.

4.21 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, with the prior written consent of ACA, and, subject to Article VIII of the Indenture, shall if directed by ACA take any one or more of the following remedial steps:

4.21.1 From time to time, may 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 Company under this Agreement or any other Bond Document.

4.21.2 From time to time take whatever actions at law or in equity as necessary or desirable to enforce the obligations of the Company under Sections 4.7, 5.1 and 6.6 hereof.

4.22 No Remedy to be Exclusive. No remedy herein conferred upon or reserved to the Trustee or the Issuer is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Trustee or the Issuer to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice other than such notice as may be herein expressly required.

4.23 No Additional Waiver Implied by One Waiver. In the event any provision, covenant, or agreement contained in this Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

4.24 Remedial Rights Assigned to the Trustee. Such rights and remedies as are given the Issuer hereunder (except the Issuer's rights under Sections 4.7, 5.1 and 6.6 hereof) shall upon execution and delivery of the Indenture be assigned to the Trustee, and the Trustee shall have the right to exercise such rights and remedies, without the joinder or consent of the Issuer, in the same manner and under the limitations and conditions that the Trustee is entitled to exercise rights and remedies under the Indenture.

4.25 Agreement to Pay Attorney's Fees and Expenses. If the Company should default under any of the provisions of this Agreement and as a consequence the Issuer, ACA and/or the Trustee should employ attorneys or incur other expenses for the collection for amounts payable hereunder or the enforcement of performance or observance of any obligation or agreement on the part of the Company contained in this Agreement, the Company agrees that it will on demand therefor reimburse the Issuer, ACA and/or the Trustee for the reasonable fees of such attorneys and such other reasonable expenses so incurred. When the Trustee or the Issuer incurs expenses, attorneys' fees, or renders services after an Event of Default specified in Section 601(c) or (d) of the Master Indenture occurs that is related to the dissolution or liquidation by the Company or the filing by the Company 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 Company under any applicable bankruptcy, insolvency, or similar law, the expenses, attorneys' fees and compensation for the services are intended to constitute post-petition expenses of administration under any bankruptcy law.

ARTICLE VII

MISCELLANEOUS

- 4.26 Severability of Provisions of this Agreement. In the event any provision of this Agreement shall be held invalid or unenforceable by any court or competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.
- 4.27 Execution of this Agreement in Counterparts. This Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.
- 4.28 Captions and Preambles. The captions or headings in this Agreement are for convenience only and in no way define, limit, or describe the scope or intent of any provisions or sections of this Agreement. The Preambles hereto are hereby incorporated herein and made a part of this Agreement for all purposes.
- 4.29 No Pecuniary Liability of the Issuer. No provision, covenant, or agreement contained in this Agreement or breach thereof shall constitute or give rise to any pecuniary liability on the part of the Issuer or any charge upon its general credit. In making such provisions, covenants, or agreements, the Issuer has not obligated itself, except with respect to the Project and the application of the revenues of this Agreement, as hereinabove provided. It is recognized that the Issuer's only source of funds with which to carry out its commitments under this Agreement will be from the proceeds of the sale of the Bonds and payments to be made by the Company hereunder; and it is expressly agreed that the Issuer shall have no liability, obligation, or responsibility with respect to this Agreement or the Project except to the extent of funds available from such Bond proceeds and payments to be made by the Company hereunder.
- 4.30 Payment to the Issuer. The Company agrees to pay directly to the Issuer all fees required to be paid by the Company under the Issuer's regulations as in effect as of the date hereof, costs of issuance reasonably incurred by the Issuer in connection with the issuance of the Bonds, and other expenses, if any, incurred from time to time by the Issuer in connection with the Project or the Bonds.

- 4.31 Status of the Parties' Relationship. Nothing in this Agreement shall be construed to make either party the partner or joint venturer of or with the other party.
- 4.32 Governing Law. The validity, interpretation, and performance of this Agreement shall be governed by the laws of the State.
- 4.33 Final Agreement. THIS WRITTEN AGREEMENT AND THE OTHER BOND DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.
- 4.34 Third Party Beneficiary. 4.34.1 The parties hereto expressly recognize that ACA, the Master Trustee and the Trustee are third party beneficiaries to this Agreement and may enforce any right, remedy, or claim conferred, given or granted hereunder.
- 4.34.2 Any provision hereof requiring any consent, approval or similar action of ACA shall be of no force and effect during any period during which (i) the Policy with respect to the Bonds is not in effect, (ii) ACA is in default of its obligation to make payments under the Policy. Upon the termination of the Policy and the payment of all amounts payable to ACA under the Bond Documents or any reimbursement agreement executed in connection therewith, as evidenced by a certificate from ACA, any references to ACA herein shall be ineffective.

IN WITNESS WHEREOF, the Issuer and the Company have caused this Agreement to be signed in their behalf by their duly authorized representatives as of the date set forth above.

TEXAS PUBLIC FINANCE AUTHORITY
CHARTER SCHOOL FINANCE CORPORATION

By: _____
President

[Remainder of page intentionally left blank]

KIPP, INC.

By: _____
Shawn Hurwitz, Board Chairman

EXHIBIT A
TO
LOAN AGREEMENT

The Project consists of the following “educational facilities” (as defined in the Higher Education Authority Development Act): (a) refinancing certain costs for the acquisition of land, site improvements, design, construction, renovation, and/or equipment of educational facilities, all located at the KIPP Way School campus of the Company located at 10711 Kipp Way, Houston, Texas 77099, (b) financing and reimbursing certain costs for the construction, renovation and/or equipment of educational facilities, all located at the Shine Academy of the Company located at 10711 Kipp Way, Houston, Texas 77099, (c) refinancing and reimbursing certain costs for the acquisition of land for the Spirit Academy of the Company, (d) financing and reimbursing certain costs for the acquisition of land for KIPP-Liberation of the Company, (e) funding a debt service reserve fund or the purchase of a Reserve Fund Surety Policy and capitalized interest and (f) paying the costs of issuance of the Bonds.

EXHIBIT B

Real Property Description

[INSERT PROPERTY DESCRIPTION(S)]

EXHIBIT C

FORM OF COMPLETION CERTIFICATE

_____, _____
Zions First National Bank
1801 Main Street, 8th Floor
Houston, Texas 77007
Attention: Mary Jane Henson

Re: \$[33,420,000] KIPP, INC. EDUCATION REVENUE BONDS (Issued by Texas Public Finance Authority Charter School Finance Corporation) SERIES 2006A and \$[550,000] KIPP, INC. TAXABLE EDUCATION REVENUE BONDS (Issued by Texas Public Finance Authority Charter School Finance Corporation) SERIES 2006B (the "Bonds")

Ladies and Gentlemen:

The undersigned, being the owner of the Project, as defined in that certain Loan Agreement dated as of September, 2006 (the "Loan Agreement") by and among the undersigned and the Issuer hereby certifies to Zions First National Bank, as trustee (the "Trustee") that "Completion" of the Project has been attained as of the date hereof and all conditions relating thereto as set forth below have been satisfied. Capitalized terms used herein and not defined shall have the meanings ascribed thereto in the Loan Agreement.

The undersigned hereby represents and warrants that:

1. that as of that date all Project Costs payable with respect to the acquisition of the Project have been paid;

2. the amount from the Construction Fund expended for Project Costs relating to the Project totaled \$_____;

3. the amount from the Construction Fund expended for Project Costs which are not Qualifying Costs (as defined in Section 5.3(r) of the Loan Agreement) totaled \$_____. **

4. Not less than 95 percent of the Proceeds of the Series 2006A Bonds were used for a purpose qualified to be financed with "qualified 501(c)(3) bonds", as described in Section 145 of the Internal Revenue Code of 1986, as amended ("Qualified Purposes"). If less than 95 percent of the Proceeds of the Series 2006A Bonds were used for Qualified Purposes, the Company has redeposited amounts into the Construction Fund such that the amount of proceeds disbursed for Qualified Purposes is equal to at least 95 percent of the Proceeds of the Series 2006A Bonds; provided, however, that such redeposit and expenditure did occur not later than 18 months after the later of (i) the date the expenditure to which the redeposited funds are allocated was paid, or (ii) the date the asset to which the redeposited funds are allocated was placed in service, and in no event later than 60 days after the fifth anniversary of the date of issue of the Bonds or the date 60 days after the retirement of the issue, if earlier. Moreover, not more than 2

percent of the Sale Proceeds of the Series 2006A Bonds were used for Costs of Issuance.

KIPP, INC.

By: _____
Authorized Representative

APPROVED BY:

as Construction Consultant

By: _____
Authorized Representative

APPENDIX G

BOND INSURANCE