

OFFICIAL STATEMENT DATED OCTOBER 6, 2010

NEW ISSUE – BOOK-ENTRY ONLY

STANDARD AND POOR'S RATED "BBB"

*The delivery of the Series 2010A Bonds (as defined below) is subject to the opinion of Bond Counsel to the effect that (i) interest on the Series 2010A Bonds is excludable from gross income for federal income tax purposes under existing law and the Series 2010A Bonds are "qualified 501(c)(3) bonds" the interest on which is not a specific preference item or included in a corporation's adjusted current earnings for purposes of the alternative minimum tax. Interest on the Series 2010B Bonds (as defined below) is not exempt from federal income tax. See "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel.*



**TEXAS PUBLIC FINANCE AUTHORITY CHARTER SCHOOL FINANCE CORPORATION**  
**\$3,185,000 EDUCATION REVENUE BONDS (NEW FRONTIERS CHARTER SCHOOL) SERIES 2010A**  
**\$435,000 TAXABLE EDUCATION REVENUE BONDS (NEW FRONTIERS CHARTER SCHOOL) SERIES 2010B**

(The Series 2010A Bonds have been designated as "Qualified Tax-Exempt Obligations" for financial institutions.)

**Dated: Date of Delivery**

**Due: as shown on inside cover**

The Texas Public Finance Authority Charter School Finance Corporation (the "Issuer"), a non-stock, non-profit corporation organized under Chapter 53 of the Texas Education Code, as amended from time to time, including particularly Sections 53.351 of such Chapter (the "Act"), is issuing its \$3,185,000 Education Revenue Bonds (New Frontiers Charter School) Series 2010A (the "Series 2010A Bonds") and its \$435,000 Taxable Education Revenue Bonds (New Frontiers Charter School) Series 2010B (the "Series 2010B Bonds") (collectively, the "Series 2010AB Bonds"). The Series 2010AB Bonds will be dated their date of delivery, will be in authorized denominations of \$5,000 and integral multiples thereof, and will mature on August 15 of the years as shown on the front inside cover hereof. The Series 2010AB Bonds will accrue interest payable semi-annually on February 15 and August 15 of each year, commencing February 15, 2011, until maturity or earlier redemption.

The Series 2010AB Bonds are being issued pursuant to a Trust Indenture and Security Agreement, dated as of October 1, 2010 (the "Bond Indenture"), between the Issuer and Wells Fargo Bank, National Association, as trustee (the "Bond Trustee"). The proceeds of the sale of the Series 2010AB Bonds will be loaned to New Frontiers Charter School, Inc. (the "Borrower"), a Texas non-profit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), pursuant to the terms of a Loan Agreement, dated as of October 1, 2010 (the "Loan Agreement"). The Borrower's obligations under the Loan Agreement will be evidenced and secured by a tax-exempt and a taxable promissory note (the "Series 2010AB Master Notes") issued by the Borrower in amounts equal to the aggregate principal amount of the Series 2010A Bonds and the Series 2010B Bonds, respectively. The Series 2010AB Master Notes are issued under and are entitled to the security provided in a Master Trust Indenture and Security Agreement, dated as of October 1, 2010 (the "Master Indenture"), between the Borrower and Wells Fargo Bank, National Association (the "Master Trustee"). The Series 2010AB Master Notes are being issued on a parity with a promissory note (the "Series 2010Q Master Note" and, together with the Series 2010AB Master Notes, the "Master Notes") to be issued by the Borrower under the Master Indenture simultaneously with the issuance of the Series 2010AB Master Notes to evidence the Borrower's obligations with respect to the Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (New Frontiers Charter School) Series 2010Q (Qualified School Construction Bonds – Direct Pay) (the "Series 2010Q Bonds" and, together with the Series 2010AB Bonds, the "Series 2010 Bonds").

The Series 2010A Bonds are subject to optional redemption prior to maturity, and all of the Series 2010AB Bonds are subject to mandatory sinking fund redemption and extraordinary redemption prior to maturity. See "THE SERIES 2010AB BONDS – Prior Redemption."

The Borrower will use the proceeds of the Series 2010AB Bonds for the following purposes: (i) to pay a portion of the cost of acquiring an approximately 2.54-acre tract of land and an approximately 49,005-square foot educational building located at 4018 South Presa Street in San Antonio, Texas (the "Facilities") and to pay a portion of the costs of certain renovations and improvements to such Facilities; (ii) to fund a debt service reserve fund for the Series 2010AB Bonds; and (iii) to pay costs of issuance for the Series 2010AB Bonds (collectively, the "Project"). See "PLAN OF FINANCE." The Borrower currently operates a charter school in San Antonio, Texas pursuant to an open-enrollment charter contract with the Texas State Board of Education (the "State Board of Education"). See "APPENDIX B – THE BORROWER." The Borrower may not charge tuition and has no taxing authority.

The Series 2010AB Bonds are special, limited obligations of the Issuer payable solely from revenues to be derived by the Issuer under the Loan Agreement; the related Series 2010AB Master Note, including all money and investments held for the credit of the funds and accounts established by or under the Bond Indenture (except the Rebate Fund); and in certain events out of amounts secured through the exercise of the remedies provided in the Bond Indenture, the Loan Agreement, and the Deed of Trust and Security Agreement issued by the Borrower in the name of the Master Trustee, dated as of October 1, 2010 (the "Deed of Trust"). See "SECURITY FOR THE SERIES 2010AB BONDS." The Series 2010AB Bonds shall never be payable out of any funds of the Issuer except with such revenues and in such amounts.

**THE SERIES 2010AB BONDS ARE NOT OBLIGATIONS OF THE STATE OF TEXAS (THE "STATE") OR ANY ENTITY OTHER THAN THE ISSUER. NEITHER THE STATE NOR ANY OTHER POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE SHALL BE OBLIGATED TO PAY THE SERIES 2010AB 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 OR INTEREST ON THE SERIES 2010AB BONDS. THE ISSUER HAS NO TAXING POWER.**

The Series 2010AB Bonds will be issued as registered bonds in book-entry only form in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2010AB Bonds. Purchases of beneficial interests in the Series 2010AB Bonds will be made in book-entry only form and purchasers will not receive physical certificates representing the ownership interest in the Series 2010AB Bonds purchased by them. See "BOOK-ENTRY-ONLY SYSTEM."

**This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read this entire Official Statement to obtain information essential to the making of an informed investment decision, and should give particular attention to the material under the caption "RISK FACTORS."**

The Series 2010AB Bonds are offered when, as and if issued by the Issuer and received and accepted by the Underwriter and subject to the approval of legality by Vinson & Elkins L.L.P., Houston, Texas, Bond Counsel. Certain legal matters will be passed upon by the Law Offices of Jeffrey L. Sprink, San Antonio, Texas, as counsel to the Borrower; and by Quarles & Brady LLP, Milwaukee, Wisconsin, as counsel to the Underwriter. In connection with the issuance of the Series 2010AB Bonds, First Southwest Company, Houston, Texas is serving as financial advisor to the Borrower. It is expected that the Series 2010AB Bonds will be available for delivery through the facilities of DTC on or about October 20, 2010.

**BAIRD**

**MATURITY SCHEDULE**

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

**\$3,185,000  
EDUCATION REVENUE BONDS  
(NEW FRONTIERS CHARTER SCHOOL) SERIES 2010A**

\$3,185,000 Term Bond due August 15, 2040; Rate 5.80%; Yield 5.80%; CUSIP: 88276PCZ7\*

**\$435,000  
TAXABLE EDUCATION REVENUE BONDS  
(NEW FRONTIERS CHARTER SCHOOL) SERIES 2010B**

\$435,000 Term Bond due August 15, 2013; Rate 7.00%; Yield 7.00%; CUSIP: 88276PDA1\*

\* The above-referenced CUSIP numbers have been assigned by an independent company not affiliated with the Issuer, the Borrower, the Bond Trustee, the Master Trustee or the Underwriter and are included solely for the convenience of the holders of the Series 2010AB Bonds. None of the Issuer, the Borrower, the Bond Trustee, the Master Trustee or the Underwriter is responsible for the selection or uses of such CUSIP numbers, and no representation is made as to their correctness on the Series 2010AB Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2010AB Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities.

## NOTICE TO INVESTORS OF THE SERIES 2010AB BONDS

Purchasers of the Series 2010AB Bonds or any interest therein, are hereby given notice as follows:

- (a) The Series 2010AB Bonds are special, limited obligations of the Issuer payable solely from revenues to be derived by the Issuer under the Loan Agreement; the related Series 2010AB Master Note, including all money and investments held for the credit of the funds and accounts established by or under the Bond Indenture (except the Rebate Fund); and in certain events out of amounts secured through the exercise of the remedies provided in the Bond Indenture, the Loan Agreement, and the Deed of Trust. See "SECURITY FOR THE SERIES 2010AB BONDS." The Series 2010AB Bonds shall never be payable out of any funds of the Issuer except with such revenues and in such amounts. The Series 2010AB Bonds are not obligations of the State or any entity other than the Issuer. Neither the State nor any other political corporation, subdivision, or agency of the State shall be obligated to pay the Series 2010AB 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 or interest on the Series 2010AB Bonds. The Issuer has no taxing power.
- (b) Neither the Issuer nor any director, officer or employee thereof takes any responsibility for, and the purchaser must not rely upon any of such parties, with respect to information appearing anywhere in this Official Statement, other than the information under the captions "THE ISSUER," and "LEGAL MATTERS – Pending and Threatened Litigation – No Proceedings Against the Issuer" (the "Issuer's Portion" of the Official Statement). None of such parties have participated in the preparation of this Official Statement except with respect to the Issuer's Portion of the Official Statement.
- (c) Each purchaser must review this entire Official Statement and the Appendices hereto, including the information relating to the sources of repayment of the Series 2010AB Bonds, the Project and the Borrower (including financial and operating data). The Official Statement is not guaranteed as to its accuracy or completeness.
- (d) Each purchaser must be able to bear the economic risk associated with a purchase of securities such as the Series 2010AB Bonds and must have the knowledge and experience in business and financial matters, including the analysis of a participation in the purchase of similar investments, necessary so as to be capable of evaluating the merits and risks of an investment in the Series 2010AB Bonds on the basis of the information and review described herein.

No dealer, salesman, or other person has been authorized to give any information or to make any representation, other than the information contained in this Official Statement, in connection with the offering of the Series 2010AB Bonds, and, if given or made, such information or representation must not be relied upon as having been authorized by the Issuer, the Borrower, the Bond Trustee, the Master Trustee or the Underwriter. The information in this Official Statement is subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, the Borrower, the Bond Trustee, the Master Trustee or the Underwriter since the date hereof. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which any 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.

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## REGARDING USE OF THIS OFFICIAL STATEMENT

This Official Statement is being provided in connection with the sale of the Series 2010AB Bonds as referred to herein and may not be reproduced for use, in whole or in part, for any other purpose. The information set forth herein under the captions "THE ISSUER," and "LEGAL MATTERS – Pending and Threatened Litigation – No Proceedings Against the Issuer" has been obtained from the Issuer. All other information set forth herein has been obtained from the Borrower and other noted sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness.

No dealer, salesman, or other person has been authorized to give any information or to make any representation, other than the information contained in this Official Statement, in connection with the offering of the Series 2010AB Bonds, and, if given or made, such information or representation must not be relied upon as having been authorized by the Issuer, the Borrower, or the Underwriter. The information in this Official Statement is subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, the Borrower or the Underwriter since the date hereof. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which any 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.

The Series 2010AB Bonds are not being registered with the Securities and Exchange Commission in reliance upon an exemption from the Securities Act of 1933, as amended, nor has the Master Indenture or Bond Indenture been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The registration or qualification of the Series 2010AB Bonds in accordance with applicable provisions of securities laws of the states in which the Series 2010AB Bonds have been registered or qualified, if any, and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither these states nor any of their agencies have passed upon the merits of the Series 2010AB Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE BORROWER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY BODY, AND NO SUCH AUTHORITIES HAVE CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2010AB BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

THE TRUSTEE ASSUMES NO RESPONSIBILITY FOR THIS OFFICIAL STATEMENT AND HAS NOT REVIEWED OR UNDERTAKEN TO VERIFY ANY INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT.

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

**\$3,185,000**

**EDUCATION REVENUE BONDS  
(NEW FRONTIERS CHARTER SCHOOL) SERIES 2010A**

**\$435,000**

**TAXABLE EDUCATION REVENUE BONDS  
(NEW FRONTIERS CHARTER SCHOOL) SERIES 2010B**

**INTRODUCTION**

**General**

The purpose of this Official Statement is to provide certain information concerning the issuance and sale by the Texas Public Finance Authority Charter School Finance Corporation (the "Issuer") of its \$3,185,000 aggregate principal amount of Education Revenue Bonds (New Frontiers Charter School) Series 2010A (the "Series 2010A Bonds") and its \$435,000 aggregate principal amount of Taxable Education Revenue Bonds (New Frontiers Charter School) Series 2010B (the "Series 2010B Bonds" and collectively with the Series 2010A Bonds, the "Series 2010AB Bonds").

The Series 2010AB Bonds are being issued pursuant to a Trust Indenture and Security Agreement, dated as of October 1, 2010 (the "Bond Indenture"), between the Issuer and Wells Fargo Bank, National Association, as trustee (the "Bond Trustee"). The proceeds of the sale of the Series 2010AB Bonds will be loaned to New Frontiers Charter School, Inc. (the "Borrower"), a Texas non-profit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), pursuant to the terms of a Loan Agreement, dated as of October 1, 2010 (the "Loan Agreement"). The Borrower's obligations under the Loan Agreement will be evidenced and secured by a tax-exempt and a taxable promissory note (collectively, the "Series 2010AB Master Notes") in amounts equal to the principal amount of the Series 2010A Bonds and Series 2010B Bonds, respectively. The Series 2010AB Master Notes are issued under and are entitled to the security provided in a Master Trust Indenture and Security Agreement, dated as of October 1, 2010, as supplemented by a Supplemental Master Trust Indenture No. 1, dated as of October 1, 2010, relating to the Series 2010AB Bonds (the "First Supplemental Bond Indenture") and as further supplemented by a Supplemental Master Trust Indenture No. 2, dated as of October 1, 2010, relating to the Series 2010Q Bonds (defined below) (the "Second Supplemental Master Indenture") (as amended, the "Master Indenture"), all between the Borrower and Wells Fargo Bank, National Association (the "Master Trustee").

The Series 2010AB Master Notes are issued on a parity with a promissory note (the "Series 2010Q Master Note" and, collectively with the Series 2010AB Master Notes, the "Master Notes") to be issued by the Borrower under the Master Indenture simultaneously with the issuance of the Series 2010AB Master Notes, to evidence the Borrower's obligations with respect to the Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (New Frontiers Charter School) Series 2010Q (Qualified School Construction Bonds – Direct Pay) (the "Series 2010Q Bonds" and, together with the Series 2010AB Bonds, the "Series 2010 Bonds.")

The offering of the Series 2010AB Bonds is made only by way of this Official Statement, which supersedes any other information or materials used in connection with the offer or sale of the Series 2010AB Bonds. This Official Statement speaks only as of its date, and the information contained herein is subject to change. Capitalized terms used but not defined in this Official Statement have the meanings provided in the Bond Indenture, the Master Indenture and the Loan Agreement. Substantially final copies of those documents are attached hereto as appendices.

## Forward-Looking Statements

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

## THE ISSUER

The Texas Public Finance Authority Charter School Finance Corporation is a public non-profit corporation created by the Texas Public Finance Authority (the "Authority") and existing as an instrumentality of the Authority pursuant to Section 53.351 of the Texas Education Code, as amended (the "Act"). Pursuant to the Act, the Issuer is authorized to issue revenue bonds and to lend the proceeds thereof to 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 five members, all of whom were appointed by the Board of Directors of the Authority. Board members serve two-year staggered 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 for the entire Board, while vacancies may be filled by a vote of a majority of the Board of Authority. 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. The staff of the Authority provides administrative and legal support to the Issuer pursuant to a contract. THE ISSUER HAS NO TAXING POWER.**

The Issuer is receiving a fee in connection with the issuance of the Series 2010AB 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 Series 2010AB Bonds and the Series 2010Q Bonds, the Issuer is not in any manner related to or affiliated with the Borrower. The Issuer has issued such bonds and loaned the proceeds to the Borrower solely to carry out the Issuer's statutory purposes as a higher education facility 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 Loan Agreement. The Borrower has agreed to indemnify the Issuer for certain matters under the Loan Agreement.

## THE BORROWER

New Frontiers Charter School, Inc. (the "Borrower") is a Texas nonprofit corporation which was incorporated on January 8, 1998, pursuant to the Texas Non-Profit Corporation Act, Title 32 Chapter 9 of the Texas Revised Civil Statutes. The Borrower is a charter school that teaches students in grades K through 8 and operates pursuant to an open enrollment charter agreement with the Texas State Board of Education (the "State Board of Education"), pursuant to Chapter 12 of the Texas Education Code, Section 12.001 *et seq.* (the "Charter Schools Act"). The Borrower is an organization described under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). The Borrower teaches students residing primarily in San Antonio, Texas, within the boundaries of the San Antonio Independent School District (the "District"). For more information regarding the Borrower, see "APPENDIX B – THE BORROWER."



## PLAN OF FINANCE

The Borrower will use the proceeds of the Series 2010AB Bonds for the following purposes: (i) to pay a portion of the cost of acquiring an approximately 2.54-acre tract of land and an approximately 49,005-square foot educational building located at 4018 South Presa Street in San Antonio, Texas (the "Facilities") and to pay a portion of the costs of certain renovations and improvements to such Facilities; (ii) to fund a debt service reserve fund for the Series 2010AB Bonds; and (iii) to pay costs of issuance for the Series 2010AB Bonds (collectively, the "Project"). For more information regarding the Facilities and the renovation portion of the Project, see "APPENDIX B – THE BORROWER – Facilities and the Project."

### SOURCES AND USES OF FUNDS

The following table sets forth anticipated sources and uses of funds in connection with the plan of finance for the Series 2010AB Bonds and the Series 2010Q Bonds being issued simultaneously with the Series 2010AB Bonds:

	Sources		
	Series 2010A Bonds	Series 2010B Bonds	Series 2010Q Bonds
Par Amount of Series 2010A Bonds	\$3,185,000.00		
Par Amount of Series 2010B Bonds		\$435,000.00	
Par Amount of Series 2010Q Bonds*			\$3,960,000.00
TCEP Debt Service Reserve Fund Grant**	229,220.42	31,306.40	284,996.18
	\$3,414,220.42	\$466,306.40	\$4,244,996.18
	<b>Uses</b>		
Project Fund Deposit	\$3,121,300.00		\$3,880,800.00
Debt Service Reserve Fund***	229,220.42	\$ 31,306.40	284,996.18
Cost of Issuance, Including Underwriter's Discount	63,700.00	435,000.00	79,200.00
	\$3,414,220.42	\$466,306.40	\$4,244,996.18

\* To be issued simultaneously with the Series 2010AB Bonds.

\*\* The Borrower will fund all of the Debt Service Reserve Fund with a \$545,523 Texas Credit Enhancement Program (TCEP) Grant for charter schools. See "SECURITY FOR THE SERIES 2010AB BONDS – The Bond Indenture – Debt Service Reserve Fund"

\*\*\* The Debt Service Reserve Fund for the Series 2010AB Bonds secures the Series 2010AB Bonds and the Series 2010Q Bonds and the Debt Service Reserve Fund for the Series 2010Q Bonds secures the Series 2010Q Bonds and the Series 2010AB Bonds.

### RISK FACTORS

This Official Statement contains summaries of pertinent portions of the Series 2010AB Bonds, the Bond Indenture, the Master Indenture, the Loan Agreement, the Deed of Trust, the Continuing Disclosure Agreement and other relevant documents. Such summaries and references are qualified in their entirety by reference to the full text of such documents. The following discussion of some of the risk factors associated with the Series 2010AB Bonds is not, and is not intended to be, exhaustive, and such risks are not necessarily presented in the order of their magnitude.

#### Sufficiency of Revenues

The Series 2010AB Bonds are payable solely from certain payments, revenues and other amounts derived by the Issuer pursuant to the Loan Agreement, and are secured only by such revenues and a pledge of certain funds and accounts created under the Bond Indenture and an assignment of the Deed of Trust. Based on present circumstances, and based on its projections regarding enrollment, the Borrower believes it will generate sufficient revenues for payment of debt service on the Series 2010 Bonds. However, the Borrower's charter contract may be revoked, or the bases of the assumptions used by the Borrower to formulate its beliefs may otherwise change. No representation or assurance can be made that the Borrower will continue to generate sufficient revenues to make loan payments representing debt service on the Series 2010 Bonds.

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

Texas charter schools such as the Borrower may not charge tuition and have no taxing authority. Payments from the State to the Borrower that the Borrower receives for educating students comprise the primary source of revenue generated by Borrower. The amount of such State payments the Borrower receives is based on a variety of factors, including its enrollment. The overall amount of education aid provided by the State in any year is also subject to appropriation by the Texas Legislature. The Legislature may base its decisions about appropriations on many factors, including the State's economic performance. Further, because some public officials, their constituents, commentators and others have viewed charter schools as controversial, political factors may also come to bear on charter school funding, and such factors are subject to change. As a result, the Legislature may not appropriate funds, or may not appropriate funds in a sufficient amount, for the Borrower to generate sufficient revenue to meet its operating expenses and to make loan payments representing debt service on the Series 2010 Bonds. No liability would accrue to the State in such event, and the State would not be obligated or liable for any future payments or any damages. If the State were to withhold such State payments for any reason, even for a reason that is ultimately determined to be invalid or unlawful, the Borrower could be forced to cease operations.

## **Operating History; Reliance on Projections**

The Borrower's ability to make loan payments representing debt service payments on the Series 2010 Bonds depends on its receipt of payments from the State. The Borrower has conducted operations only since the 1998-99 school year. The projections of revenues and expenses contained in "APPENDIX B – THE BORROWER" herein were prepared by the Borrower with assistance from its financial advisor and have not been independently verified by any party other than the Borrower. No feasibility studies have been conducted with respect to operations of the Borrower pertinent to the Series 2010 Bonds. The projections prepared by the Borrower are "forward-looking statements" and are subject to the general qualifications and limitations described under "INTRODUCTION – Forward-Looking Statements" with respect to such statements. The Underwriter has not independently verified such projections, and makes no representation nor gives any assurances that such projections or the assumptions underlying them, are complete or correct. Further, the projections relate only to a limited number of fiscal years and consequently do not cover the entire period that the Series 2010 Bonds will be outstanding.

The projections are derived from the actual operations of the Borrower and from assumptions made by the Borrower about its future student enrollment and expenses. There can be no assurance that the actual enrollment, revenues and expenses for the Borrower will be consistent with the assumptions underlying the projections contained herein. Moreover, no guarantee can be made that the projections of revenues and expenses contained herein will correspond with the results actually achieved in the future because there is no assurance that actual events will correspond with the assumptions made by the Borrower. Actual operating results may be affected by many factors, including, but not limited to, increased costs, lower than anticipated revenues (as a result of insufficient enrollment, reduced payments from the State, or otherwise), employee relations, changes in taxes, changes in applicable government regulation, changes in demographic trends, factors associated with education, competition for students, and changes in local or general economic conditions. Refer to "APPENDIX B – THE BORROWER" to review certain of the projections and to consider the various factors that could cause actual results to differ significantly from projected results. Refer to "INTRODUCTION – Forward-Looking Statements," above, for qualifications and limitations applicable to forward-looking statements.

NO GUARANTEE CAN BE MADE THAT THE PROJECTED INFORMATION CONTAINED HEREIN WILL CORRESPOND WITH THE RESULTS ACTUALLY ACHIEVED IN THE FUTURE BECAUSE THERE CAN BE NO ASSURANCE THAT ACTUAL EVENTS WILL CORRESPOND WITH THE ASSUMPTIONS MADE BY THE BORROWER. ACTUAL OPERATING RESULTS MAY BE AFFECTED BY MANY FACTORS, INCLUDING, BUT NOT LIMITED TO, INCREASED COSTS, LOWER THAN ANTICIPATED REVENUES (AS A RESULT OF INSUFFICIENT ENROLLMENT, REDUCED PAYMENTS FROM THE STATE, OR OTHERWISE), EMPLOYEE RELATIONS, CHANGES IN TAXES, CHANGES IN APPLICABLE GOVERNMENT REGULATION, CHANGES IN DEMOGRAPHIC TRENDS, FACTORS ASSOCIATED WITH EDUCATION, COMPETITION FOR STUDENTS, AND CHANGES IN LOCAL OR GENERAL ECONOMIC CONDITIONS.

## **Competition for Students**

The Borrower's facilities are located in the City of San Antonio. Students comprising approximately 97.2% of the Borrower's current student body reside in the City of San Antonio, and students comprising approximately 81.9% of the Borrower's current student body reside within the San Antonio Independent School District (the "District") within the City of San Antonio. The Borrower believes that it competes for students with public schools and private schools within the City of San Antonio and the District. For the 2009-10 school year, there were approximately 89 public schools serving an estimated 47,500 students in the District. For that same period, there were approximately 36 charter schools with 63 individual campus locations in the District. For more information regarding the Borrower's service area, see "APPENDIX B – THE BORROWER – Service Area and Competing Schools." Potential purchasers should be aware that the Borrower faces constant competition for students and there can be no assurance that the Borrower will continue to attract and retain the number of students that are needed to generate revenues sufficient to make loan payments representing debt service on the Series 2010 Bonds.

## **Nonrenewal or Revocation of Charter**

The Borrower's charter contract was initially executed on September 22, 1998, for an initial term of five years effective August 1, 1998 to July 31, 2003 (the "Original Charter Contract"). Near the end of the initial term the Borrower applied for a renewal of the charter. During an audit conducted by the Texas Education Agency with respect to the charter renewal application, the Borrower was not able to locate some accounting records requested by the Texas Education Agency. No action with respect to the charter renewal application was taken by the Texas Education Agency at the time, and the Borrower continued to operate pursuant to the Original Charter Contract. In 2007, the Borrower applied for a renewal of the charter. The charter contract was (i) renewed in 2007 on a conditional basis for a one-year term through July 31, 2008, and (ii) renewed again for a 10-year period through July 31, 2018. The conditional renewal was the result of certain negative findings made by the Texas Education Agency which are described in "APPENDIX B – THE BORROWER – Charter Contract."

Under Texas law, the Commissioner of Education (the "Commissioner") may modify, place on probation, revoke, or deny renewal of an open-enrollment charter contract if the Commissioner determines that the charter recipient has: (i) committed a material violation of the charter, including failure to satisfy accountability provisions prescribed by the charter; (ii) failed to satisfy generally accepted accounting standards of fiscal management; (iii) failed to protect the health, safety, or welfare of the students enrolled at the school; or (iv) failed to comply with any applicable law or rule. In that event, 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.

Related procedures provide an opportunity for a hearing for the charter holder and parents, which must be held at the charter school's facility. See "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW – GENERAL – CHARTER REVOCATION AND NON-RENEWAL;" see also "APPENDIX B – THE BORROWER – Charter Contract – Revocation and Nonrenewal." If the Borrower's charter contract were revoked or if the charter contract is not renewed in the future, the Borrower could be forced to cease operations.

## **Project Approvals and Construction Process**

The Borrower will use a portion of the proceeds of the Series 2010AB Bonds to finance a portion of the cost of constructing certain improvements to the Facilities. For more information, see "APPENDIX B – THE BORROWER – The Project." The Borrower represents that it will obtain all necessary approvals, consents, certificates and permits as needed in order to facilitate such construction. Any failure by the Borrower to obtain such approvals, consents, certificates and permits could result in delay with respect to completion of construction, and any such delay could adversely affect the Borrower's operations and its ability to generate revenues sufficient to pay debt service with respect to the Series 2010AB Bonds.

## **Construction Costs and Completion of Construction**

The Borrower has engaged Eaton Commercial, LLP ("Eaton") to assist it with management of the construction process regarding the new construction portion of the Project and to serve as the contractor for the new construction portion of the Project. The construction contract with Eaton provides for a guaranteed maximum price (meant to represent, in the aggregate, the maximum cost to the Borrower for completion of the construction portion of the Project, consistent with the amount of Series 2010 Bond proceeds available for construction.

Despite these measures, there can be no guaranty that actual construction costs will not exceed the amount of Series 2010 Bond proceeds available for construction, due to unforeseen factors such as an overrun of allowance items, unexpected site problems, or delays due to the fault of the Borrower or its contractors. Hence no assurance can be given that the construction portion of the Project will be completed on time or for the amount of Series 2010 Bond proceeds allocated for such purpose. Any failure to complete the Project as planned could adversely affect the Borrower's operations and its ability to generate revenues sufficient to make loan payments representing debt service with respect to the Series 2010 Bonds.

## **Factors Associated with Education**

There are a number of factors affecting schools in general, including the Borrower, that could have an adverse effect on the Borrower's financial position and the ability of the Borrower to generate sufficient revenues to make loan payments representing debt service on the Series 2010 Bonds. These factors include, but are not limited to, the Borrower's ability to attract and retain a sufficient number of students; increasing costs of compliance with federal or State regulatory laws or regulations, including, without limitation, laws or regulations concerning environmental quality, work safety and accommodating persons with disabilities; increasing operating costs of the Borrower; changes in existing statutes pertaining to the powers of the Borrower and legislation or regulations which may affect funding. The Borrower cannot assess or predict the ultimate effect of these factors on its operations or financial results of operations.

## **Failure to Provide Ongoing Disclosure**

The Borrower will enter into a Continuing Disclosure Agreement pursuant to Securities and Exchange Commission Rule 15c2-12 (17 CFR Part 240, § 240.15c2-12) (the "Rule") in connection with the issuance of the Series 2010AB Bonds. Failure to comply with the Continuing Disclosure Agreement, any similar prior undertakings or the Rule in the future may adversely affect the liquidity of the Series 2010AB Bonds and their market price in the secondary market. See "CONTINUING DISCLOSURE AGREEMENT" and "APPENDIX E – FORM OF CONTINUING DISCLOSURE AGREEMENT."

## **State Financial Difficulties**

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

A recent monthly publication entitled *Fiscal Notes, April/May 2010* (the "Review"), prepared by the Office of the Texas Comptroller of Public Accounts (the "Comptroller"), provides a review of the State's economy and indicates that the State's total tax collections have decreased 12.5% from September 2009 through March 2010 ("Fiscal Year to Date") as compared to September 2008 through March 2009 ("Prior Fiscal Year to Date"), while the State's total net revenues have increased 6.0% during the same period. All percentages hereinafter appearing in this paragraph compare Fiscal Year to Date to the Prior Fiscal Year to Date unless otherwise noted. Within the State's total tax collections category, the Review indicates that natural gas production tax collections have decreased 73.4%, utility tax collections have decreased 14.2% and cigarette and tobacco tax collections have decreased 13.9%. Of the total net revenues, the Review shows that the State's interest and investment income has

decreased 23.5%, and the State's land income has decreased 32.7%. According to the Review, total net expenditures of the State have increased 5.4%. The Review reports that the health and human services State governmental function has seen the greatest percentage increase in expenditures, with an increase of 22.6%. In the Comptroller's *Biennial Revenue Estimate for 2010-2011*, which was released on January 12, 2009, the Comptroller estimated that the State will have \$77.1 billion available for general purpose spending in the 2010-11 biennium, which is a 10.5% decrease from the corresponding amount of funds available for 2008-09. On May 28, 2010, the Comptroller released an *Economic Outlook*, which states that Texas felt the effects of the worldwide recession in 2009.

Continued decreases or any future decreases in State revenues may adversely affect education appropriations made by the Legislature. The adverse affect may be exacerbated in the future to the extent that the State relies in part on federal stimulus funding in the near term. Neither the Borrower nor any other party to the Series 2010AB Bond transaction can predict how State revenues or State education funding will vary over the entire term of the Series 2010AB Bonds.

No parties to the Series 2010AB Bond transaction take any responsibility for informing owners of the Series 2010AB Bonds about any such changes. Information about the financial condition of the State, as well as its budget and spending for education, is available and regularly updated on various State-maintained websites. Such information is prepared by the respective State entity maintaining each such website and not by any of the parties to this transaction. The parties to this transaction take no responsibility for the accuracy, completeness or timeliness of such information, and no such information is incorporated herein by these references.

#### **Future Changes to Charter School Laws**

The law applicable to charter schools in Texas has regularly changed over time. For example, there were changes to the school funding system that affected open-enrollment charter schools (such as the Borrower) in both 2006 and 2009. See "STATE OPEN-ENROLLMENT CHARTER SCHOOL FUNDING," below. The law affecting charter schools is subject to future changes at any time. Future changes to applicable law by the Texas Legislature could be adverse to the financial interests of the Borrower and could adversely affect the security for the Series 2010 Bonds. There can be no assurance that the Legislature will not in the future change such laws in a manner which is adverse to the interests of the registered owners of the Series 2010 Bonds. Adverse State budget considerations could increase the likelihood that the State Legislature would change the laws governing charter schools, and in particular charter school funding provisions. Further, State budget considerations may adversely affect appropriations for charter school funding.

#### **Value of Facilities May Fluctuate; Foreclosure Deficiencies and Delay**

The value of the Borrower's educational facilities at any given time will be directly affected by market and financial conditions which are not in the control of the parties involved in this transaction. At any time there may be a difference between the actual market value of the Facilities subject to the Deed of Trust and the amount of outstanding Series 2010 Bonds, and that difference may be material and adverse to Bondholders. In particular, it cannot be determined with certainty what the value of the property subject to the Deed of Trust would be in the event of foreclosure under the Deed of Trust. Real property values can fluctuate substantially depending on a variety of factors. There is nothing associated with the Facilities to suggest that their values would remain stable or would increase if the general values of property in the community were to decline. In addition, the time necessary to institute and complete foreclosure proceedings would likely substantially delay receipt of funds from a foreclosure.

#### **Key Personnel**

The Borrower's creation, curriculum, educational philosophy and operations have depended on the vision and commitment of a few key personnel who comprise the senior leadership of the Borrower. See "APPENDIX B – THE BORROWER – Senior Leadership." Loss of any such key personnel could adversely affect the Borrower's growth plans, operations, ability to attract and retain students and ultimately its financial results. For more information regarding the Borrower's key personnel, see "APPENDIX B – THE BORROWER – Senior Leadership."

### **Special, Limited Obligations**

The Series 2010AB Bonds are special, limited obligations of the Issuer payable solely from revenues to be derived by the Issuer under the Loan Agreement; the related Series 2010AB Master Note, including all money and investments held for the credit of the funds and accounts established by or under the Bond Indentures (except the Rebate Fund); and in certain events out of amounts secured through the exercise of the remedies provided in the Bond Indenture, the Loan Agreement, and the Deed of Trust. See "SECURITY FOR THE SERIES 2010 BONDS."

The Series 2010AB Bonds shall never be payable out of any funds of the Issuer except with such revenues and in such amounts. The Series 2010AB Bonds are not obligations of the State or any entity other than the Issuer. Neither the State nor any other political corporation, subdivision, or agency of the State shall be obligated to pay the Series 2010AB 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 or interest on the Series 2010AB Bonds. The Issuer has no taxing power.

### **Damage or Destruction of the Facilities**

The Loan Agreement requires that the Facilities be insured against certain risks. See "APPENDIX H – SUBSTANTIALLY FINAL FORM OF THE LOAN AGREEMENT." There can be no assurance that the amount of such insurance required to be obtained or actually obtained will be adequate, or that the cause of any damage or destruction to the Facilities will be as a result of a risk which is insured. Further, there can be no assurance with respect to the ongoing creditworthiness of the insurance companies from which the Borrower obtains insurance policies.

### **Compliance with the No Child Left Behind Act of 2001**

Title I of the Elementary and Secondary Education Act, as reauthorized by the No Child Left Behind Act ("NCLB") of 2001, requires each state, as a condition of receiving funds under the Title I program, to implement a single, statewide accountability system applicable to all its public schools, including charter schools. The NCLB uses Adequate Yearly Progress ("AYP") to measure and hold schools and districts responsible for student achievement. In Texas, charter schools are required to meet AYP criteria on three measures: reading/language arts, mathematics, and either graduation rate (for high schools and districts) or attendance rate (for elementary and middle/junior high schools). See "APPENDIX B – THE BORROWER – AYP Status."

Materials published by the Texas Education Agency's Office of Assessment, Accountability and Data Quality, *Final AYP Results by District Name*, indicate each of the Borrower's campuses (Early Childhood Academy (2009), Elementary School (2005-2009), and Middle School (2007-2009)) have met AYP each year in which they were subject to evaluation since 2005. Charter schools are also evaluated on a "district" basis. The districts must count subgroups within the district which have 50 or more students for purposes of AYP. For the Borrower, the special education subgroup has 50 or more students and must be counted in determining its district AYP. As a result, the Borrower as a district did not meet AYP in 2007-2010. There can be no assurance that the Borrower will make AYP in the future. Any failure in that regard may have a material adverse effect on the Borrower and its ability to generate Revenues sufficient to make loan payments representing debt service on the Series 2010 Bonds.

### **Environmental Regulation**

The Borrower's educational facilities are and will be subject to various federal, State and local laws and regulations governing health and the environment. In general, these laws and regulations could result in liability for remediating adverse environmental conditions on or relating to such facilities, whether arising from pre-existing conditions or conditions arising as a result of activities conducted in connection with the ownership of and operations at the facilities. Costs incurred with respect to environmental remediation or liability could adversely affect the Borrower's financial condition and its ability to generate Revenues sufficient to make loan payments representing debt service on the Series 2010 Bonds. Excessive costs in connection with any such environmental remediation or any such liability to third parties could also make it difficult to successfully re-let such facilities.

The Borrower has previously engaged STC Environmental Services, Inc., San Antonio, Texas ("STC Environmental Services") to perform a Phase I Environmental Site Assessment of the site of the Borrower's Facilities. The Borrower subsequently engaged STC Environmental Services to perform an update of such assessment. See "APPENDIX B – THE BORROWER – Environmental Assessment." The report and update prepared by STC Environmental Services in that connection speak only as of their respective dates, and no additional assessments have been requested or performed. Potential purchasers should refer to complete copies of such report and such update for additional information. Copies are available as described under "MISCELLANEOUS – Additional Information" below.

### **Potential Effects of Bankruptcy**

If the Borrower were to file a petition for relief under the United States Bankruptcy Code, 11 U.S.C. §§ 101 et seq., as amended, or other state insolvency, liquidation or receivership laws, the filing could operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Borrower, or the property of the Borrower. If the bankruptcy court or other state or federal court so ordered, the property and revenues of the Borrower could be used for the benefit of the Borrower despite the claims of its creditors (including the owners of the Series 2010 Bonds).

In a bankruptcy proceeding under Chapter 11 of the Bankruptcy Code, the Borrower could file a plan of reorganization which would modify the rights of creditors generally or the rights of any class of creditors, secured or unsecured (including the owners of the Series 2010 Bonds). The plan, when approved ("confirmed") by the bankruptcy court, binds all creditors who had notice or knowledge of the plan and discharges all claims against the Borrower except as otherwise provided for in the plan. No plan may be confirmed by a bankruptcy court unless, among other conditions, the plan is in the best interest of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

### **Additional Bonds**

The Master Indenture permits the issuance of additional Debt on a parity with the Master Notes evidencing the Borrower's obligations with respect to the Series 2010 Bonds if certain conditions are met. See "SECURITY FOR THE SERIES 2010 BONDS – Master Notes and the Master Indenture – Additional Debt;" "APPENDIX F – SUBSTANTIALLY FINAL FORM OF THE MASTER INDENTURE AND SUBSTANTIALLY FINAL FORM OF SUPPLEMENTAL MASTER TRUST INDENTURE NO. 1." The issuance of any such additional Debt may adversely affect the investment security of the Series 2010 Bonds.

### **Enforcement of Remedies**

The remedies available to registered owners upon an Event of Default depend in many respects upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies provided in the Master Indenture, the Bond Indenture and the Loan Agreement may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 2010AB Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by the valid exercise of the sovereign powers of the State and the constitutional powers of the United States of America, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

## **Tax-Exempt Status of the Series 2010A Bonds**

The Code imposes a number of requirements that must be satisfied in order for interest on state and local obligations, such as the Series 2010A Bonds, to be excludable from gross income for federal income tax purposes. These requirements include a requirements 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 the Series 2010A Bonds, 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 (the "IRS"). The Issuer and the Borrower have covenanted in the Bond Indenture and Loan Agreement that they will comply with all such requirements. Failure to comply with the requirements stated in the Code and related regulations, rulings, and policies may result in the interest on the Series 2010A Bonds becoming includible in gross income for federal income tax purposes. Such adverse treatment may be retroactive to the date of issuance. See "TAX MATTERS."

If a Determination of Taxability (as defined in the Series 2010A Bond Indenture) were to occur, the Series 2010A Bonds would be subject to mandatory redemption, in whole on any date specified by the Borrower in a notice to the Bond Trustee given at least sixty (60) days prior to such redemption date, at their principal amount, plus accrued interest to the date of redemption, subject to certain conditions and notice requirements. See "THE SERIES 2010AB BONDS – Prior Redemption – Mandatory Redemption Upon Determination of Taxability."

## **Tax-Exempt Status of the Borrower**

The tax-exempt status of the Series 2010A 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 sanctions 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 2010A Bonds and defaults in covenants regarding the Series 2010A 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.

On December 20, 2007, the IRS issued an updated version of Form 990, the return that charities and other tax-exempt organizations are required to file annually, for tax year 2008 (returns filed in 2009). The new Form 990 implements more stringent reporting requirements for tax-exempt organizations than previously in effect. Major revisions were made to the form's summary page, governance section, and various schedules, including those relating to executive compensation, related organizations, and tax-exempt bonds. The IRS also announced a phase in of the new form's schedules for tax-exempt bonds (Schedule K). The additional oversight required to comply with the new Form 990 in the future will almost certainly require an increased investment of time and money on the part of the Borrower and may increase the potential for sanctions and monetary penalties imposed by the IRS.

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



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

The Borrower may be audited by the IRS. Because of the complexity of the tax laws and the presence of issues about which reasonable persons can differ, an IRS audit could result in additional taxes, interest, and penalties. An IRS audit ultimately could affect the tax-exempt status of the Borrower, as well as the exclusion from gross income for federal income tax purposes of the interest on the Series 2010A Bonds and any other tax-exempt debt issued for benefit of the Borrower.

### **State and Local Tax Exemption**

The State has not been as active as the IRS in scrutinizing the tax-exempt status of non-profit organizations. It is possible that legislation may be proposed to strengthen the role of the Attorney General of the State in supervising non-profit 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 non-profit corporations. There can also be no assurance that future change of circumstances or 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.

### **Risk of Failure to Comply with Certain Covenants**

Failure of the Issuer to comply with certain covenants contained in the Bond Indenture or of the Borrower with certain covenants in the Loan Agreement on a continuing basis prior to the maturity of the Series 2010A Bonds could result in interest on the Series 2010A Bonds becoming includible in gross income for federal income tax purposes retroactive to the date of original issuance. See "TAX MATTERS."

### **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 2010A Bonds.

### **Secondary Market**

There is no guarantee that a secondary trading market will develop for the Series 2010AB Bonds. Consequently, prospective bond purchasers should be prepared to hold their Series 2010AB Bonds to maturity or prior redemption. Subject to applicable securities laws and prevailing market conditions, the Underwriter intends but is not obligated to make a market in the Series 2010AB Bonds.

### **Risk of Loss from Nonpresentment upon Redemption**

The rights of the registered owners of the Series 2010AB Bonds to receive interest will terminate on the date, if any, on which the Series 2010AB Bonds are to be redeemed pursuant to a call for redemption, notice of which has been given under the terms of the Bond Indenture.

## THE SERIES 2010AB BONDS

### General

The Series 2010AB Bonds will be dated as of their date of delivery, will be issued in the aggregate principal amounts and will bear interest at the rates and will mature on the dates, subject to redemption as described below, as set forth on the inside front cover page hereof. The Series 2010AB Bonds will be issued as fully registered bonds without coupons in denominations of \$5,000 or any integral multiple thereof. Interest on the Series 2010AB Bonds is payable semiannually on February 15 and August 15 of each year, commencing February 15, 2011 (each an "Interest Payment Date") to the registered owners of the Series 2010AB Bonds. Interest on the Series 2010AB Bonds will be paid on each Interest Payment Date until the principal thereof shall have been paid or provided for. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The principal of, premium, if any, and interest on the Series 2010AB Bonds is payable in lawful money of the United States of America. Amounts due on the Series 2010AB Bonds will be paid by check mailed to the owner thereof at its address as it appears on the Bond Registration Books on the first business day of the month of any Interest Payment Date (the "Record Date"). Upon written request of a registered owner of at least \$1,000,000 in principal amount of Series 2010AB Bonds, all payments of principal of, premium, if any, and interest on the Series 2010AB 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. Payments of the principal of and interest on the Series 2010AB Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM."

### Prior Redemption

#### Optional Redemption

The Series 2010A Bonds are subject to redemption at the option of the Issuer (at the direction of the Borrower) in whole or in part on any Business Day commencing on August 15, 2020 or on any date thereafter at a redemption price of 100% of the principal amount to be redeemed, together with accrued interest to the date fixed for redemption.

The Series 2010B Bonds are not subject to optional redemption prior to maturity.

#### Mandatory Sinking Fund Redemption

The Series 2010A Bonds are subject to mandatory sinking fund redemption prior to maturity in part by lot at a redemption price equal to 100% of the principal amount redeemed plus accrued interest to the redemption date in the years and in the principal amounts specified in the sinking fund redemption schedule set forth below:

Series 2010A Bonds	
Maturing August 15, 2040	
August 15	Principal Amount
2028	\$170,000
2029	180,000
2030	190,000
2031	200,000
2032	215,000
2033	225,000
2034	240,000
2035	255,000
2036	270,000
2037	285,000
2038	300,000
2039	320,000
2040 <sup>†</sup>	335,000

<sup>†</sup> Final Maturity

The Series 2010B Bonds are subject to mandatory sinking fund redemption prior to maturity in part by lot at a redemption price equal to 100% of the principal amount redeemed plus accrued interest to the redemption date in the years and in the principal amounts specified in the sinking fund redemption schedule set forth below:

**Series 2010B Bonds  
Maturing August 15, 2013**

August 15	Principal Amount
2011	\$150,000
2012	190,000
2013 <sup>†</sup>	95,000

† Final Maturity

The principal amount of the Bonds required to be redeemed pursuant to the operation of such mandatory sinking fund redemption shall be reduced by the principal amount of any Bonds of the same series and maturity date which, at least 60 days prior to the mandatory sinking fund redemption date (a) have been purchased and delivered to the Trustee for cancellation, (b) 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) have been redeemed pursuant to the optional redemption provision described below.

**Mandatory Redemption Upon Determination of Taxability**

The Series 2010A Bonds are subject to mandatory redemption in whole prior to maturity on a date selected by the Borrower which is not more than one hundred twenty (120) days following receipt by the Bond Trustee of written notice of the occurrence of a Determination of Taxability at a redemption price equal to 103% of the principal amount thereof plus interest to the redemption date.

**Extraordinary Optional Redemption Upon Damage, Destruction or Condemnation**

The Series 2010AB Bonds are subject to extraordinary redemption, at the option of the Issuer at the request of the Borrower, at a redemption price of par plus interest accrued thereon to the redemption date, without premium, on any date, in the event the Project is damaged, destroyed, or condemned or threatened to be condemned, (i) in whole, if, in accordance with the terms of the Loan Agreement, the Project is not reconstructed, repaired, or replaced 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 Loan Agreement, will be sufficient to pay the Series 2010AB Bonds in full, or (ii) in part, after reconstruction, repair, or replacement of the Project in accordance with the terms of the Loan 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 Series 2010AB Bonds are called for redemption, the particular Series 2010AB Bonds or portions thereof to be redeemed will be selected by the Bond Trustee in accordance with the written direction of the Borrower; provided, however, that portions of the Series 2010AB Bonds will be redeemed in Authorized Denominations and that no redemption will result in an outstanding Series 2010 Bond being less than an Authorized Denomination. In case part, but not all, of a Series 2010AB Bond is selected for redemption, the owner thereof or his attorney or legal representative must present and surrender the Series 2010AB Bond to the Bond 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 Series 2010AB Bond so surrendered, a Series 2010AB Bond of the same maturity and bearing interest at the same rate.

## **Notice of Redemption**

At least 30 days prior to the date fixed for any redemption of the Series 2010AB Bonds, but not more than 60 days prior to any redemption date, the Bond Trustee will cause a written notice of such redemption to be mailed by first-class mail, postage prepaid, to each Holder of the Series 2010AB Bonds to be redeemed, at the address appearing on the Bond Registration Books on the date such notice is mailed by the Bond Trustee. Any notice mailed as described 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 Bond Trustee and the Paying Agent for the payment of the appropriate redemption price, premium, if any, and interest accrued thereon. 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 in the Series 2010AB Bonds and in the Bond Indenture, the Series 2010AB 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 Series 2010AB Bond is not paid upon the surrender thereof for redemption, such Series 2010AB Bond will, until paid, bear interest at the interest rate applicable to such Series 2010AB Bond.

## **SECURITY FOR THE SERIES 2010AB BONDS**

### **General**

The Series 2010AB Bonds are special, limited obligations of the Issuer payable solely from revenues to be derived by the Issuer under the Loan Agreement; the related Series 2010AB Master Note, including all money and investments held for the credit of the funds and accounts established by or under the Bond Indenture (except the Rebate Fund); and in certain events out of amounts secured through the exercise of the remedies provided in the Bond Indenture, the Loan Agreement, and the Deed of Trust (defined below).

THE SERIES 2010AB BONDS SHALL NEVER BE PAYABLE OUT OF ANY FUNDS OF THE ISSUER EXCEPT WITH SUCH REVENUES AND IN SUCH AMOUNTS. THE SERIES 2010AB BONDS ARE NOT OBLIGATIONS OF THE STATE OR ANY ENTITY OTHER THAN THE ISSUER. NEITHER THE STATE NOR ANY OTHER POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE SHALL BE OBLIGATED TO PAY THE SERIES 2010AB 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 OR INTEREST ON THE SERIES 2010AB BONDS. THE ISSUER HAS NO TAXING POWER.

### **Master Notes and the Master Indenture**

To evidence its obligations under the Loan Agreement, the Borrower will execute and deliver to the Bond Trustee, as the designee of the Issuer, the Series 2010AB Master Notes in principal amounts equal to the respective aggregate principal amounts of the Series 2010AB Bonds. Payments under the Series 2010AB Master Notes are scheduled to be made at the times and in the amounts required to pay debt service on the Series 2010AB Bonds and will be credited against the Loan Payments required to be made by the Borrower under the Loan Agreement. The Series 2010AB Master Notes are duly authorized promissory notes of the Borrower issued pursuant to and secured by the Master Indenture. The Series 2010AB Master Notes are issued on a parity with the Series 2010Q Master Note to be issued by the Borrower simultaneously with the Series 2010AB Master Notes to evidence the Borrower's obligations with respect to the Series 2010Q Bonds.

All notes issued under the Master Indenture ("Notes") are secured by the pledge and assignment of a security interest in the Trust Estate pursuant to the Granting Clauses of the Master Indenture. Under the Master Indenture, the Trust Estate consists of:

- (i) all Adjusted Revenues of the Borrower except and excluding all such items, whether now owned or hereafter acquired by the Borrower, which by their terms or by reason of applicable law would become void or voidable if granted, assigned, or pledged under the Master Indenture by the Borrower, or which cannot be granted, pledged, or assigned under the Master Indenture 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 of the Master Indenture, or which otherwise may not be, or are not, by the Master Indenture lawfully and effectively granted, pledged, and assigned by the Borrower, provided that the Borrower may subject to the lien of the Master Indenture any such excepted property, whereupon the same shall cease to be excepted property;
- (ii) all money 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 the Master Indenture, or held by other banks or fiduciary institutions which are collaterally assigned to the Master Trustee as security for the Notes including depository accounts and all securities, financial assets and securities entitlements (within the meaning of Section 8-102(a)(9) 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;
- (iii) all accounts, bank accounts, general intangibles, Contract Rights, and related rights of the Borrower (each as defined in the UCC), whether now owned or hereafter acquired or arising and wherever located;
- (iv) 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 under the Master Indenture by the Borrower or by anyone on its behalf to the Master Trustee, subject to the terms thereof, including, without limitation, funds of the Borrower held by the Master Trustee as security for the Notes;
- (v) the lien of the Deed of Trust; and
- (vi) proceeds of the foregoing, including cash proceeds and cash equivalents, products, accessions and replacements.

In addition, the Trust Estate under the Master Indenture 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 paragraphs above.

#### **Revenue Fund**

The Master Indenture provides for the creation of a Revenue Fund, which contains a principal account and an interest account and such other accounts as the Master Trustee finds necessary or desirable.

The Master Indenture provides that, if and only if an Event of Default under the Master Indenture shall occur, then the Borrower is required to deposit, within five business days from the date of receipt, with the Master Trustee, for credit to the Revenue Fund all of its Adjusted Revenues, (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 beginning on the first day thereof and on each day thereafter, until no such default exists. See "APPENDIX F – SUBSTANTIALLY FINAL FORM OF THE MASTER INDENTURE AND SUPPLEMENTAL MASTER TRUST INDENTURE NO. 1" for additional information relating to the Revenue Fund, including the disposition of money held in the Revenue Fund.

## **Additional Debt**

Under the Master Indenture, one or more series of parity Debt payable from the Adjusted Revenues of the Borrower may be delivered pursuant to the Master Indenture for purposes provided in the Act, to pay the costs associated with such additional Debt and/or for the purpose of refunding any Outstanding Debt if the conditions under the Master Indenture have been met, including the following:

- (i) An Officer's Certificate is delivered stating that the Master Indenture is in effect and no Event of Default exists under the Master Indenture or any Debt Outstanding or any agreement entered into in conjunction with such Debt;
- (ii) The additional Debt is secured on a parity with respect to the Trust Estate and is 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);
- (iii) For purposes of showing sufficient coverage to incur additional Debt as discussed below, all calculations of Available Revenues shall take into account Asset Valuation. Sufficient funds must be evidenced as follows: the Borrower's Net Income Available for Debt Service for the most recent school year for which a budget has been adopted by Borrower and submitted to the State must be sufficient to pay an amount representing not less than 120% of the Maximum Annual Debt Service for currently outstanding Long-Term Debt related to the Participating Campuses and the Long-Term Debt related to Participating Campuses proposed to be incurred. For purposes of calculating Net Income Available for Debt Service under this item (iii), the Borrower may include revenues derived by lease or sublease of the Participating Campuses to be received as evidenced by signed lease or sublease documents customary in commercial real estate transactions;
- (iv) In lieu of the requirements described in (iii) above, the Borrower may deliver an Officer's Certificate stating that, based on the audited results of the operations for the most recently completed Fiscal Year, the Available Revenues equal at least 1.10x the Maximum Annual Debt Service on all Debt then Outstanding as well as the additional Debt;
- (v) For the purpose of calculating Maximum Annual Debt Service in items (iii) and (iv), the principal and interest payable upon final maturity for any outstanding Debt for which a reserve fund has been established shall be reduced by the amounts held in such reserve fund(s); and
- (vi) So long as the Trust Estate contains the lien of the Deed of Trust upon any real property of the Borrower, the Borrower 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 Master Indenture provides that the additional debt requirements do not apply to the Series 2010AB Bonds or the Series 2010Q Bonds.

In the event additional Debt is being issued or incurred for the purpose of completing any Project (as that term is defined 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 (as defined in the Master Indenture).

Under the Master Indenture, the Borrower reserves the right to issue and incur Short-Term Debt and Subordinate Debt.

## **Repair and Replacement Fund**

The Master Indenture establishes a Repair and Replacement Fund for the Borrower. The Master Indenture provides that there will be deposited into the Repair and Replacement Fund as and when received all payments into the Repair and Replacement Fund made pursuant to the Master Indenture. There shall also be retained in the Repair and Replacement Fund, interest and other income received on investment of moneys in the Repair and Replacement Fund. The Master Indenture provides that any amounts on deposit in the Repair and Replacement Fund in excess of the Repair and Replacement Fund Requirement will be transferred by the Master Trustee to the Borrower; provided, however, that the amount remaining in the Repair and Replacement Fund immediately after such transfer will not be less than the Repair and Replacement Fund Requirement. Bondholders will have no rights in or claims to money held in the Repair and Replacement Fund.

The Master Indenture provides that the Repair and Replacement Fund shall be in the custody of the Master Trustee, but in the name of the Borrower. Absent an Event of Default under the Master Indenture, the Borrower will authorize and direct the Master Trustee to make each disbursement authorized or required by the Master Indenture and to issue its checks therefore. The Master Indenture requires the Master Trustee to keep and maintain adequate records pertaining to the Repair and Replacement Fund and all disbursements there from and annually file an accounting thereof with the Borrower.

The Master Indenture provides that payments are to be made from the Repair and Replacement Fund upon receipt by the Master Trustee of a written requisition from an authorized representative of the Borrower setting forth the amount and the payee for the purpose of paying the cost of extraordinary maintenance and replacements which may be required to keep the Project in sound condition, including but not limited to replacement of equipment, replacement of any roof or other structural component, exterior painting and the replacement of heating, air conditioning, plumbing and electrical equipment, architectural, engineering, legal and other professional services and other costs reasonably necessary and incidental thereto.

## **The Bond Indenture**

### **General**

Under the Bond Indenture, the Issuer will grant to the Bond Trustee for the equal and ratable benefit of the holders of the Series 2010AB 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 Series 2010AB Master Notes, any and all security granted or held for the payment thereof, and the present and continuing right to bring actions and proceedings under the Loan 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 certain amounts agreed to be paid by the Borrower noted in such Loan Agreement (the "Issuer's Unassigned Rights"), (ii) all money and investments held for the credit of the funds and accounts established by or under the Bond Indenture (except the Rebate Fund) as described in the Bond Indenture, and (iii) any and all property that may by delivery or by writing of any kind, be subjected to the lien and security interest of the Bond Indenture by the Issuer or by anyone on its behalf, subject to the limitations provided in the Bond Indenture. See "APPENDIX G – SUBSTANTIALLY FINAL FORM OF THE BOND INDENTURE – Granting Clauses."

### **Debt Service Fund**

The Bond Indenture establishes a Debt Service Fund, and within the Debt Service Fund a "Tax-Exempt Bonds Account" and a "Taxable Bonds Account." The Bond Indenture provides that 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 Bond Indenture. Under the Bond Indenture, the Trustee is required to 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 Series 2010AB Bonds, the Trustee is required to deposit into each Capitalized Interest Subaccount any capitalized interest, accrued interest and additional proceeds on the Series 2010AB Bonds as set forth in an Issuer Order, for the purpose of paying a portion of the interest coming due on the Series 2010AB Bonds on the applicable Interest Payment Date. Further, under the Bond Indenture, the Bond Trustee is required to deposit to the credit of the corresponding account of the Debt Service Fund immediately upon receipt: (i) amounts due and payable by the Borrower pursuant to the terms of the Loan Agreement and the Master Notes, (ii) any other amounts required by the Bond Indenture, and (iii) any other amounts delivered to the Bond Trustee for deposit thereto.

On each Interest Payment Date, the Trustee will 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 the related series of the Series 2010AB Bonds

#### **Debt Service Reserve Fund**

The Bond Indenture establishes a Debt Service Reserve Fund, and within such Debt Service Reserve Fund, a "Tax-Exempt Bonds Account" and a "Taxable Bonds Account" for the benefit of the Series 2010AB Bonds and the Series 2010Q Bonds. The Bond Indenture provides that there will initially be deposited in the Debt Service Reserve Fund from the proceeds of the Series 2010AB Bonds the amount required to make the amount on deposit in the Debt Service Reserve Fund equal to the Reserve Fund Requirement. The Bond Indenture requires that, except as otherwise provided therein, the Debt Service Reserve Fund shall at all times be maintained at an amount equal to the Reserve Fund Requirement.

The Bond Indenture provides that the Borrower 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. The Bond Indenture provides that in the event the Borrower 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 Series 2010AB Bond proceeds thereby released, including investment earnings on Series 2010AB Bond proceeds, to any purposes for which the Series 2010AB Bonds were issued and any other funds thereby released to any purposes for which such funds may lawfully be used. Under the Bond Indenture, a Reserve Fund Surety Policy is (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 at the time of the issuance of the Reserve Fund Surety Policy for its long-term unsecured debt or claims paying ability in the highest letter category by two Rating Agencies, or (ii) a Guaranty Agreement issued by the Texas Public Finance Authority Charter School 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 Series 2010AB Bond proceeds or other funds of the Issuer or the Company lawfully available for such purpose. The Bond Indenture requires that any Reserve Fund Surety Policy must be authorized by resolution of the Borrower's Board of Directors and, if required by the laws of the State, submitted to the Attorney General for examination and approval. See "APPENDIX G – SUBSTANTIALLY FINAL FORM OF THE BOND INDENTURE – Reserve Fund Surety Policy."

The Bond Indenture provides that, if there are insufficient funds in the Debt Service Fund to pay the Debt Service on the Series 2010AB Bonds by 12:00 noon (Central Time) four Business Days prior to the day on which payment of the Debt Service on the Series 2010AB Bonds is due, the Bond Trustee will transfer from the appropriate account of the Debt Service Reserve Fund to the appropriate account of the Debt Service Fund amounts necessary to make such payments from the appropriate account of the Debt Service Fund on the day on which payment of the Debt Service on the Series 2010AB Bonds is due.

The Bond Indenture provides that, if the amount in the Debt Service Reserve Fund is less than the Reserve Fund Requirement because the Bond Trustee has applied funds in the Debt Service Reserve Fund to pay Debt Service on the Series 2010AB 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 (i) within 30 days of receipt of such notice, pay to the Bond Trustee the full amount needed to restore the Debt Service Fund to the Reserve Fund Requirement or (ii) in 12 consecutive equal monthly installments, the first of which shall be made within 30 days from the date of receipt of the withdrawal, 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 Reserve Fund Requirement; provided that if any additional decline occurs prior to the restoration of any deficiency, such additional decline shall be restored in equal monthly installments over the remainder of the restoration period for the initial deficiency. Notwithstanding the foregoing, moneys in the Debt Service Reserve Fund may be applied to pay the final Debt Service payment at the final maturity of the Series 2010AB Bonds without violating the foregoing requirement to maintain the Debt Service Reserve Fund in an amount equal to the Reserve Fund Requirement. For more information, see "APPENDIX G – SUBSTANTIALLY FINAL FORM OF THE BOND INDENTURE – Debt Service Reserve Fund."



## **The Loan Agreement**

### **General**

The Series 2010AB Bonds are payable from and secured in part by a pledge and assignment to the Bond Trustee of the Issuer's rights under the Loan Agreement and the rights of the Issuer to receive loan payments thereunder (excluding certain fees and expenses and certain indemnity payments payable to the Issuer). Pursuant to the Loan Agreement, the Borrower agrees to make Loan Payments sufficient to provide funds to make required payments of principal, premium, if any, and interest on the Series 2010AB Bonds in full. See "APPENDIX H – SUBSTANTIALLY FINAL FORM OF LOAN AGREEMENT."

### **Debt Service Coverage Ratio Covenant**

Under the Loan Agreement, the Borrower will covenant that Available Revenues for each Fiscal Year (without excluding any Discretionary Expenses actually incurred in such Fiscal Year) must be equal to at least 1.10x the Annual Debt Service Requirements of the Borrower as of the end of the first Fiscal Year after the date of issuance of the Series 2010AB Bonds and thereafter until the Series 2010AB Bonds have been paid in full. Under the Loan Agreement, a failure by the Borrower to achieve the required debt service coverage ratio does not constitute an Event of Default if the Borrower timely engages (within 30 days of submittal of the certificate describing such circumstance or, if such certificate is not timely submitted, within 30 days of the date such certificate was required to be submitted) an Independent Management Consultant, such consultant timely prepares (within 45 days of engagement) a report (to be delivered to the Borrower and the Trustee) with recommendations for meeting the required debt service coverage ratio and the Borrower, to the extent legally permissible, implements, within 30 days of receipt of such recommendation, the consultant's recommendations. However, if the debt service coverage ratio falls below 1.0x of the Annual Debt Service Requirements of the Borrower, it will constitute a default under the Loan Agreement.

### **Minimum Net Assets**

Under the Loan Agreement, the Borrower covenants that, so long as any Series 2010AB Bonds remain Outstanding, it will maintain an unrestricted net asset balance which equals not less than an amount calculated as a percentage of Operating Expenses for the prior Fiscal Year as follows: (i) 5.0% for any Fiscal Year if, in the Fiscal Year immediately preceding such Fiscal Year, the total of the Maximum Annual Debt Service plus any Capital Leases or any similar lease-purchase or loan payment obligations of the Borrower, excluding Short-Term Indebtedness, were equal to or less than 10% of Adjusted Revenues; (ii) 7.5% for any Fiscal Year if, in the Fiscal Year immediately preceding such Fiscal Year, the total of the Maximum Annual Debt Service plus any Capital Leases or any similar lease-purchase or loan payment obligations of the Borrower, excluding Short-Term Indebtedness, were greater than 10% but less than 15% of Adjusted Revenues; and (iii) 10.0% for any Fiscal Year if, in the Fiscal Year immediately preceding such Fiscal Year, the total of the Maximum Annual Debt Service plus any Capital Leases or any similar lease-purchase or loan payment obligations of the Borrower, excluding Short-Term Indebtedness, were greater than 15% of Revenues. The minimum net assets covenant of the Borrower will be tested as of August 31 of each Fiscal Year based on the results of the annual audit of the Borrower. If on any such testing date the Borrower's unrestricted net assets are below the required amount, the Borrower will retain on an annual basis a minimum of 50% of the Excess Net Revenues until such time as the Borrower is in compliance with the required minimum unrestricted net assets.

If the Borrower is unable to comply with the minimum net assets requirements within twenty-four (24) months of the Borrower's initial non-compliance, the Beneficial Owners of two thirds (2/3) of the Outstanding Bonds will have the right to direct the Trustee to require the Borrower to engage, at the Borrower's expense, a Management Consultant acceptable to the Trustee, which shall deliver a written report within sixty (60) days of such engagement to the Trustee and the governing board of the Borrower containing recommendations concerning the Borrower's: (i) operations; (ii) financing practices and activities, including Short-Term Indebtedness, lease financing, and investment activities; (iii) management practices, including the use of consultants, budgeting practices, and ongoing financial systems and monitoring of the Borrower's financial condition; (iv) governance and administration practices; and (v) other factors relevant to maintaining compliance with the minimum net assets requirements.

### **Minimum Cash on Hand**

The Borrower will covenant that, so long as any Series 2010AB Bonds remain Outstanding, it will maintain cumulative unrestricted cash reserves (including payments due from the State) to meet 30 days of Operating Expenses. The minimum cash on hand covenant will be tested as of August 31 of each Fiscal Year based on the results of the annual audit of the Borrower. If on any such testing date the Borrower's unrestricted cash reserves are below the required amount, the Borrower will retain on an annual basis 50% of the Excess Net Revenues until such time as the Borrower is in compliance. In the event that the Borrower is unable to comply with the requirements of the above covenant within 12 months on the initial non-compliance, then the Beneficial Owners of two-thirds (2/3rds) of the Outstanding Bonds have the right to direct the Trustee to require the Borrower to engage, at the Borrower's expenses, an Independent Management Consultant acceptable to the Trustee, which shall deliver a written report within sixty (60) days of such engagement to the Trustee and the governing board of the Borrower containing recommendations concerning the Borrower's: (i) operations; (ii) financing practices and activities, including Short-Term Indebtedness, lease financing, and investment activities; (iii) management practices, including the use of consultants, budgeting practices, and ongoing financial systems and monitoring of the Borrower's financial condition; (iv) governance and administration practices; and (v) other factors relevant to maintaining compliance with minimum cash on hand requirements.

Upon submission of the Management Consultant's report pursuant to either the minimum net assets or minimum cash on hand requirements, the Borrower's governing board shall arrange for payment of the amount owed to the Independent Management Consultant and issue a written certificate to the Trustee indicating its acceptance or rejection of all or any material portion of the recommendations of the Independent Management Consultant within 30 days of receiving the report of the Independent Management Consultant. The Beneficial Owners of two thirds (2/3) of the Outstanding Bonds shall have the right to require the governing board of the Borrower to comply with any reasonable recommendation of the Independent Management Consultant with respect to items (i) through (v) above.

### **Deed of Trust**

In connection with the issuance of the Series 2010AB Bonds, the Borrower will issue a Deed of Trust and Security Agreement, dated October 1, 2010 (the "Deed of Trust"). The Deed of Trust assigns certain Collateral (as defined in the Deed of Trust) in favor of the Master Trustee for the benefit of the Holders of the Master Notes. Such Collateral includes certain of the Borrower's real estate and premises as described in the Deed of Trust, as well as existing or future buildings and improvements on such Real Property, related fixtures and equipment, and other Collateral defined in the Deed of Trust.

### **STATE OPEN-ENROLLMENT CHARTER SCHOOL FUNDING**

This section provides a brief overview of the current system for funding open-enrollment charter schools in Texas. Prospective purchasers of the Series 2010AB Bonds should note that the overview contained below and the summary of relevant Texas Education Code provisions noted by cross-reference are provided for the convenience of prospective purchasers but are not and do not purport to be comprehensive. Additional information regarding various aspects of open-enrollment charter school funding in Texas is available on various State-maintained websites through other publicly available sources. Potential purchasers should note that the law applicable to open-enrollment charter schools in Texas has changed regularly over time and is subject to further change in the future. See "RISK FACTORS – Future Changes to Charter School Laws."

The Sections that follow provide:

- (1) a summary of recent legislative changes,
- (2) a brief overview of State funding, including a brief discussion of funding under the "Foundation School Program," and
- (3) a summary of distribution, adjustment and recovery of funds.

The sections below reflect the law as amended by HB 3646, which became effective September 1, 2009 (the "Current Law"). Certain aspects of prior law, as provided under HB 1, which became effective beginning with the 2006-07 school year (the "Prior Law"), are still pertinent – because the Current Law provides for a minimum funding floor defined as the greater of the amount determined under the Current Law (plus a certain amount) or the Prior Law. See "Overview of State Funding – General." The sections following the summary of recent legislative changes focus only on the Current Law.

## **Summary of Certain Recent Legislative Changes**

### **2006 Legislation (the "Prior Law")**

In 2006, during the 79th Legislature, the Prior Law was enacted as a response to a Texas Supreme Court case holding that school districts lacked "meaningful discretion" in setting local school property tax rates, which effectively resulted in an unconstitutional state property tax. When the Prior Law was passed, most local governments were taxing at or near the \$1.50 state property tax rate cap. As a result of the Prior Law, local property tax rates were compressed by two-thirds, resulting in a \$1.00 rate for most local property tax rates. The Prior Law allowed school districts to raise additional revenue through enrichment taxes by providing that up to six cents above a school district's compressed property tax rate is not subject to recapture and is equalized with state aid to guarantee that each school district at the same tax effort can raise the same amount as the Austin Independent School District. Any "enrichment pennies" above six cents were subject to recapture and the same level of equalization as other maintenance and operation revenue. The Prior Law contained certain target revenue provisions, which guaranteed that school districts would receive their 2005-06 funding (at a minimum). If the funding formula calculation was less than the target revenue amount, the State provided the district with additional funding to meet the target revenue amount, and if the funding formula calculation was greater than the target revenue amount, the district only received the target revenue amount. See House Research Organization Bill Analysis, HB 3646 (May 11, 2009) ("House Bill Analysis").

The reduction of the local share of revenues pursuant to the Prior Law resulted in the need for more State funding for school districts. This additional need was made up from other revenue sources, such as modified State franchise, motor vehicle and tobacco taxes, as provided in the Prior Law. Under the Prior Law, funds were distributed to school districts in a way that required school districts to compress their tax rates to receive increased State funding at a level to equalize local tax wealth at the state compression percentage. For the 2008-09 fiscal year and thereafter, the state compression percentage was based on the percentage by which a district was able to reduce its maintenance and operations tax rate for that year, as compared to the district's maintenance and operations tax rate for the 2005-06 fiscal year, as a result of State funds appropriated for distribution for the current fiscal year from the property tax relief fund, or from any other funding source made available for school district property tax relief. Accordingly, under the Prior Law, most school districts received state funding which was frozen at their 2005-06 levels. See House Bill Analysis.

### **2009 Legislation (the "Current Law")**

In 2009, during the 81st Legislature, the Current Law was enacted, which resulted in a number of changes to Texas school funding, including amending the basic allotment calculation, the guaranteed yield allotment and the equalized wealth level. Most provisions of the Current Law went into effect on September 1, 2009. As a result of the Current Law, the basic allotment calculation, the guaranteed yield allotment and equalized wealth level are all tied to the Statewide average property value. See House Bill Analysis. In a memorandum dated September 16, 2009 (the "Memorandum"), to the Charter School Administrator, the Texas Education Agency addressed changes resulting from the Current Law as follows:

This bill authorized a number of significant changes to the formulas used to deliver Foundation School Program (FSP) funding to charter schools. In addition to transitioning all charter schools to the State average formula, the bill made changes to the basic allotment, guaranteed yield and equalized wealth levels. Most hold harmless provisions were repealed, and the calculation of additional State Aid for Tax Reduction (ASATR) was modified.

Some of the significant changes resulting from the Current Law are addressed in more detail in the sections that follow.

## Overview of State Funding

### General

In general, open-enrollment charter schools are eligible to receive funds from State, local, federal and private sources, though the majority of open-enrollment charter school funding comes from the State. Open-enrollment charter schools primarily receive State funding under the "Foundation School Program," which is described in the next section, below. This section provides an overview of the general State funding framework for open-enrollment charter schools.

The Current Law changed the open-enrollment charter school State funding provisions by setting a minimum funding floor for open-enrollment charter schools. This minimum floor is defined as the greater of:

- (i) the funding per student in weighted average daily attendance that the school would have received during the 2009-10 school year under the school finance formulas of the Foundation School Program in existence on January 1, 2009 (i.e., under the Prior Law), plus an additional \$120 per weighted average daily attendance, or
- (ii) the Statewide average funding per weighted average daily attendance (as determined under Current Law).

See Enrolled Bill Summary, HB 3646; see also, generally, "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW – STATE FUNDING." According to the Texas Charter Schools Association, the minimum funding floor reduces the susceptibility of charter schools to fluctuations in local school district tax revenues, which was the case under prior law. See Texas Charter Schools Association, *Friday Facts*, Volume 01, Number 08 (June 5, 2009).

In addition to the funding summarized above, the open-enrollment charter schools are entitled to receive school enrichment funding (i.e. "Tier Two" funding, as defined herein) based on the State "average tax effort." Open-enrollment charter schools are also entitled to funds that are available to school districts from the Texas Education Agency or the Commissioner of Education in the form of grants or other discretionary funding unless the authorizing statute specifically provides that open-enrollment charter schools are not entitled to such funding.

### Funding under the Foundation School Program

Texas school districts, including charter schools in most cases, are entitled to a number of sources of State aid under the Foundation School Program, including basic entitlement and special allotments (referred to as "Tier One" allotments), guaranteed yield (referred to as "Tier Two" allotments) and financial assistance to districts for debt associated with school facilities (referred to as "Tier Three" allotments). According to the *Financing Public Education in Texas Kindergarten through Grade 12 Legislative Primer*, prepared by the Legislative Budget Board (October 2001), Tier One was intended to provide a basic "foundation" level of funding and represents the bulk of the funds distributed through the Foundation School Program, while "Tier Two" is a "guaranteed yield" program through the Foundation School Program. An open-enrollment charter school, such as the Borrower, is not entitled to a Tier Three Instructional Facilities Allotment or a Tier Three Existing Debt Allotment. See §§ 46.012 & 46.036, Texas Education Code.

Below is a summary of the provisions of the Texas Education Code related to Tier One and Tier Two allotments and the distribution, adjustment and recovery of district funds. Because open-enrollment charter schools are not eligible for Tier Three allotments, Tier Three allotments are not discussed.

#### Tier One Allotments

Tier One allotments consist of a basic entitlement and special allotments.

### ***Basic Entitlement***

The Current Law sets a minimum basic allotment floor under the Foundation School Program. For the 2009-10 through 2012-13 school years, this formula provides that the basic allotment is based on a school district's compressed tax rate (i.e. the product of the State's compression percentage, multiplied by the maintenance and operations tax rate adopted by the district for the 2005 tax year) where the school district receives an allotment equal to the greater of: \$4,765, or the amount produced by multiplying the average statewide property wealth per weighted student by a factor of 0.0165 for school years 2009-10 through 2012-13. Beginning with the 2013-14 school year, the allotment will be equal to the lesser of \$4,765 or the amount that results from multiplying \$4,765 by the quotient of the district's compressed tax rate divided by the State maximum compressed tax rate (i.e., the product of the State compression percentage multiplied by \$1.50). See "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW – STATE FUNDING – FOUNDATION SCHOOL PROGRAM – Basic Entitlement;" see also, Enrolled Bill Summary, House Bill 3646.

The basic allotment is described as follows in a summary of certain of the Current Law changes provided in the Memorandum:

The basic allotment is set at \$4,765 for 2009-10. The local fund assignment (LFA) is now calculated with a school district's compressed tax rate (2005 adopted maintenance and operations (M&O) rate multiplied by 0.6667) rather than \$0.86. The basic allotment is prorated for districts with an LFA below \$1,000. As a result of the varying basic allotments for school districts, the state average basic allotment for charter schools is currently \$4,625.

The basic allotment provided to school districts is subject to adjustments for (i) the cost of education, which accounts for variations beyond a district's control; (ii) small and mid-sized districts, which helps smaller districts compensate for lack of economies of scale; (iii) sparsity, which helps districts with low enrollment or in a small geographic area; and (iv) an adjusted property value for districts not offering all grade levels. All of the adjustments are based on the average adjustment for the State. See House Bill Analysis.

### ***Special Allotments***

Open-enrollment charter schools are entitled to various special allotments. Three new special allotments, the State Virtual School Network Allotments, the High School Allotment and the Indirect Cost Allotment, were included in the Foundation School Program under the Current Law. The special allotments that are available to school districts, including open-enrollment charter schools such as the Borrower, include the following:

- Special Education
- Compensatory Education Allotment
- Bilingual Education Allotment
- Career and Technology Allotment
- Indirect Cost Allotment
- Transportation Allotment
- Gifted and Talented Student Allotment
- Public Education Grant Allotment
- New Instructional Facility Allotment
- State Virtual School Network Allotments
- High School Allotment

For a more detailed description of the above list of special allotments, see "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW – STATE FUNDING – FOUNDATION SCHOOL PROGRAM – Special Allotments."

## **Tier Two Allotments**

The purpose of the Tier Two or "guaranteed yield" component of the Foundation School Program is to provide each school district with the opportunity to provide the basic program and to supplement that program at a level of its own choice. The guaranteed yield allotment may be used for any legal purpose other than capital outlay or debt service. See "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW – STATE FUNDING – FOUNDATION SCHOOL PROGRAM – Guaranteed Yield Program."

Each school district is guaranteed a specified amount per weighted student in state and local funds for each cent of tax effort over that required for the district's local fund assignment up to the maximum level specified, as discussed in this paragraph. The guaranteed yield for enrichment is paid based on the tax effort that exceeds the compressed tax rate. The guaranteed yield for the first six pennies of tax effort is equalized to the yield of the Austin Independent School District. The pennies which exceed the compressed tax rate plus six pennies generate a yield of \$31.95 per student in weighted average daily attendance. For additional information, see Texas Education Agency Memorandum to the Charter School Administrator (September 16, 2009).

## **Summary of Distribution, Adjustment and Recovery of Funds**

The Foundation School Program provides for the timing and distribution of foundation school funds to school districts and also allows for adjustment and recovery of such funds to ensure school districts receive the proper amount of funding pursuant to the Foundation School Program. A summary of the distribution, adjustment and recovery of funds follows.

### **Distribution of Foundation School Fund and Adjustment by Commissioner of Education**

Each school year the Commissioner of Education determines the amount of money that a school district is entitled to for the school district's Tier One (Basic Entitlement and Special Allotments) and Tier Two (Guaranteed Yield) allotments, the amount of money allocated to a school district from the available school fund, the amount of each school district's Tier One local share and the amount of each district's Tier Two local share. Each school district is entitled to the difference between the sum of the district's Tier One and Tier Two allotments and the sum of the district's allocation from the available school fund, Tier One local share and Tier Two local share. The Commissioner of Education also has the ability to make adjustments to amounts due to a school district.

### **Recovery of Overallocated Funds**

If a school district receives an over-allocation of state funds, the Texas Education Agency will recover the over-allocation from the district by withholding from later state fund allocations or by requesting and obtaining a refund. If a district does not comply with a request for a refund, the Texas Education Agency has the ability to certify that the amount is a debt.

### **Foundation School Fund Transfers**

The timing of payments from the foundation school fund to school districts depends on the "category" of a particular school district. Under Texas law, there are three categories of school districts for purposes of foundation school fund transfers. A "category 1" school district has a wealth per student of less than one-half of the Statewide average wealth per student. A "category 2" school district has a wealth per student of at least one-half of the statewide average wealth per student but not more than the statewide average wealth per student. A "category 3" school district has a wealth per student of more than the statewide average wealth per student. Wealth per student is determined by taking the taxable property values divided by the number of students in average daily attendance.

The amount of any installment can be modified to provide a school district with the proper amount to which the district may be entitled and to correct errors in the allocation or distribution of funds. See "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW – STATE FUNDING – FOUNDATION SCHOOL PROGRAM – Financing the Program – *Foundation School Fund Transfers.*"

## BOOK-ENTRY ONLY SYSTEM

*The information in this section concerning The Depository Trust Company ("DTC") and DTC's book-entry-only system has been obtained from DTC. The Issuer, Borrower, the Bond Trustee, the Master Trustee, and Underwriter take no responsibility for the accuracy thereof.*

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2010AB Bonds. The Series 2010AB Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Series 2010AB Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has 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](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Series 2010AB Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2010AB Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2010A Bond or Series 2010B Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2010AB Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2010AB Bonds, except in the event that use of the book-entry system for the Series 2010AB Bonds is discontinued.

To facilitate subsequent transfers, all Series 2010AB Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2010AB Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2010AB Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2010AB Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2010AB Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2010AB Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2010AB Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2010AB Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Issuer or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2010AB Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2010AB Bond certificates are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2010AB Bond certificates will be printed and delivered.

THE INFORMATION IN THIS SECTION CONCERNING DTC AND THE DTC BOOK-ENTRY SYSTEM HAS BEEN PROVIDED BY DTC. THE ISSUER, THE BORROWER, THE BOND TRUSTEE, THE MASTER TRUSTEE AND THE UNDERWRITER BELIEVE SUCH INFORMATION TO BE RELIABLE, BUT TAKE NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NO REPRESENTATION IS MADE BY ANY SUCH PARTY AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.



## DEBT SERVICE REQUIREMENTS

Set forth in the following table are the aggregate debt service requirements for the Series 2010 Bonds.

Period Ending	Series 2010A and 2010B			Series 2010Q				Aggregate Annual Net Debt Service
	Principal	Interest	Debt Service	Principal	Interest	QSCB Subsidy	Net Debt Service	
8/15/2011	\$150,000.00	\$176,328.05	\$326,328.05	-	\$283,937.50	\$(162,574.50)	\$121,363.00	\$447,691.05
8/15/2012	190,000.00	204,680.00	394,680.00	-	346,500.00	(198,396.00)	148,104.00	542,784.00
8/15/2013	95,000.00	191,380.00	286,380.00	\$110,000.00	346,500.00	(198,396.00)	258,104.00	544,484.00
8/15/2014	-	184,730.00	184,730.00	215,000.00	336,875.00	(192,885.00)	358,990.00	543,720.00
8/15/2015	-	184,730.00	184,730.00	220,000.00	318,062.50	(182,113.50)	355,949.00	540,679.00
8/15/2016	-	184,730.00	184,730.00	230,000.00	298,812.50	(171,091.50)	357,721.00	542,451.00
8/15/2017	-	184,730.00	184,730.00	240,000.00	278,687.50	(159,568.50)	359,119.00	543,849.00
8/15/2018	-	184,730.00	184,730.00	250,000.00	257,687.50	(147,544.50)	360,143.00	544,873.00
8/15/2019	-	184,730.00	184,730.00	260,000.00	235,812.50	(135,019.50)	360,793.00	545,523.00
8/15/2020	-	184,730.00	184,730.00	265,000.00	213,062.50	(121,993.50)	356,069.00	540,799.00
8/15/2021	-	184,730.00	184,730.00	275,000.00	189,875.00	(108,717.00)	356,158.00	540,888.00
8/15/2022	-	184,730.00	184,730.00	285,000.00	165,812.50	(94,939.50)	355,873.00	540,603.00
8/15/2023	-	184,730.00	184,730.00	300,000.00	140,875.00	(80,661.00)	360,214.00	544,944.00
8/15/2024	-	184,730.00	184,730.00	310,000.00	114,625.00	(65,631.00)	358,994.00	543,724.00
8/15/2025	-	184,730.00	184,730.00	320,000.00	87,500.00	(50,100.00)	357,400.00	542,130.00
8/15/2026	-	184,730.00	184,730.00	335,000.00	59,500.00	(34,068.00)	360,432.00	545,162.00
8/15/2027	-	184,730.00	184,730.00	345,000.00	30,187.50	(17,284.50)	357,903.00	542,633.00
8/15/2028	170,000.00	184,730.00	354,730.00					354,730.00
8/15/2029	180,000.00	174,870.00	354,870.00					354,870.00
8/15/2030	190,000.00	164,430.00	354,430.00					354,430.00
8/15/2031	200,000.00	153,410.00	353,410.00					353,410.00
8/15/2032	215,000.00	141,810.00	356,810.00					356,810.00
8/15/2033	225,000.00	129,340.00	354,340.00					354,340.00
8/15/2034	240,000.00	116,290.00	356,290.00					356,290.00
8/15/2035	255,000.00	102,370.00	357,370.00					357,370.00
8/15/2036	270,000.00	87,580.00	357,580.00					357,580.00
8/15/2037	285,000.00	71,920.00	356,920.00					356,920.00
8/15/2038	300,000.00	55,390.00	355,390.00					355,390.00
8/15/2039	320,000.00	37,990.00	357,990.00					357,990.00
8/15/2040	335,000.00	19,430.00	354,430.00					354,430.00
	\$ 3,620,000.00	\$ 4,598,168.05	\$ 8,218,168.05	\$ 3,960,000.00	\$ 3,704,312.50	\$ (2,120,983.50)	\$ 5,543,329.00	\$ 13,761,497.05

## LEGAL MATTERS

### General

All legal matters incident to the authorization, issuance, sale and delivery of the Series 2010AB Bonds by the Issuer are subject to the approving opinion of Vinson & Elkins L.L.P., Houston, Texas, Bond Counsel, whose approving opinion will be delivered with the Series 2010AB Bonds, and the proposed form of which is set forth in "APPENDIX D – FORM OF BOND COUNSEL OPINION." The legal opinion delivered may vary from that form if necessary to reflect facts and law on the date of delivery. Certain legal matters will be passed upon by the Law Offices of Jeffrey L. Sprink, San Antonio, Texas, counsel to the Borrower; and by Quarles & Brady LLP, Milwaukee, Wisconsin, as counsel to the Underwriter.

The various legal opinions to be delivered concurrently with the delivery of the Series 2010AB Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment of the transaction opined upon or of the future performance of parties to such transaction. Further, the various legal opinions to be delivered concurrently with the delivery of the Series 2010AB Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by the valid exercise of the constitutional powers of the State and the United States of America and bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally, and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

### Pending and Threatened Litigation

#### No Proceedings Against the Borrower

In connection with the issuance of the Series 2010AB Bonds, the Borrower will deliver a certificate or certificates which will state that, as of the date of issuance of the Series 2010AB Bonds, there is no action, suit, proceeding, inquiry or investigation at law or in equity before or by any court, public board or body pending or, to the best of its knowledge, threatened against or affecting the Borrower, wherein an unfavorable decision, ruling or finding would adversely affect the transactions contemplated by the Bond Indenture, the Master Indenture, the Loan Agreement, and the bond purchase agreement (referred to in "MISCELLANEOUS – Underwriting"), or this Official Statement, the validity and enforceability of the Bond Indenture, the Master Indenture, the Loan Agreement, the bond purchase agreement or the Series 2010AB Bonds or the operations (financial or otherwise) of the Borrower.

#### No Proceedings Against the Issuer

In connection with the issuance of the Series 2010AB Bonds, the Issuer will deliver a certificate or certificates which will state that, as of the date of issuance of the Series 2010AB Bonds, there is no known pending or threatened litigation seeking to restrain or enjoin the issuance, sale, execution or delivery of the Series 2010AB Bonds, questioning or affecting the validity of the Series 2010AB Bonds or any proceedings of the Issuer taken with respect to the issuance or sale thereof, questioning or affecting the validity of the pledge or application of any moneys, revenues or security provided for the payment of the Series 2010AB Bonds or questioning or affecting the existence or powers of the Issuer.

## TAX MATTERS

### Series 2010A Bonds

#### Tax Exemption

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 2010A Bonds is excludable from gross income for federal income tax purposes under existing law and (ii) the Series 2010A Bonds are "qualified 501(c)(3) bonds" under the Code, the interest on which is not (A) a specific preference item subject to the alternative minimum tax on individuals and corporations, or (B) included in a corporation's adjusted current earnings for purposes of the alternative minimum tax.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Series 2010A 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 Bond Indenture and the Loan Agreement that they will comply with these requirements.

For purposes of its opinion that the Series 2010A Bonds are "qualified 501(c)(3) bonds," Bond Counsel will rely upon representations of the Issuer and the Borrower in the Bond Indenture and the Loan Agreement and will assume continuing compliance with the covenants of the Bond Indenture and the Loan Agreement pertaining to those sections of the Code that affect the status of the Borrower as an organization described in section 501(c)(3) of the Code and the exclusion from gross income of interest on the Series 2010A Bonds for federal income tax purposes. In addition, Bond Counsel will rely on representations by the Issuer, the Borrower, the Underwriter and First Southwest Company (the "Financial Consultant") with respect to matters solely within the knowledge of the Issuer, the Borrower, the Underwriter and the Financial Consultant, respectively, which Bond Counsel has not independently verified. If the Borrower or the Issuer should fail to comply with the covenants in the Bond Indenture and/or the Loan Agreement or the foregoing representations should be determined to be incorrect, inaccurate, or incomplete, interest on the Series 2010A Bonds could become includable in gross income for federal income tax purposes from the date of delivery of the Series 2010A Bonds, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Series 2010A 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 law and in reliance upon the representations and covenants of the Issuer and the Borrower that it deems relevant to such opinions. Bond Counsel observes that the Borrower has covenanted in the Loan Agreement not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in treatment of interest on the Series 2010A Bonds as includable in gross income for federal income tax purposes. 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 regarding as to whether or not the IRS will commence an audit of the Series 2010A 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 Series 2010A Bonds may not have a right to participate in such audit. Public awareness of any future audit of the Series 2010A Bonds could adversely affect the value and liquidity of the Series 2010A Bonds regardless of the ultimate outcome of the audit.

#### **Additional Collateral Federal Income Tax Consequences**

**Collateral Tax Consequences.** Prospective purchasers of the Series 2010A 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, 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 2010A Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Series 2010A Bonds should be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Series 2010A Bonds, received or accrued during the year.

## Qualified Tax-Exempt Obligations

Section 265(a) of the Code provides, in general, that a deduction for interest on indebtedness incurred to acquire or carry tax-exempt obligations is disallowed. Section 265(b) of the Code provides a specific complete disallowance of any deduction by a financial institution of its pro rata interest expense to reflect such financial institution's investment in tax-exempt obligations acquired after August 7, 1986. Section 265(b) of the Code provides a limited exception for a limited amount of new money tax-exempt obligation holding if such obligations are issued in 2009 and 2010. In addition, Section 265(b) also provides an exception for tax-exempt obligations that are properly designated by an issuer as "qualified tax-exempt obligations." During 2009 and 2010, in the case of qualified 501(c)(3) bonds, the exception is applied by treating the 501(c)(3) organization for whose benefit such bonds are being issued as the issuer.

The Series 2010A Bonds have been designated as "qualified tax-exempt obligations" based, in part, on the Borrower's representation that the amount of the Series 2010A Bonds, when added to the amount of all other tax-exempt obligations (not including private activity bonds other than qualified 501(c)(3) bonds) issued or reasonably anticipated to be issued by or on behalf of the Borrower during 2010, will not exceed \$30,000,000. Further, the Borrower has not designated more than \$30,000,000 in "qualified tax-exempt obligations" (including the Series 2010A Bonds) during 2010.

Notwithstanding the designation of the Series 2010A Bonds as "qualified tax-exempt obligations" under this exception, financial institutions acquiring the Series 2010A Bonds will be subject to a 20% disallowance of allocable interest expense.

## Series 2010B Bonds

The following discussion describes certain U.S. federal income tax considerations of United States persons that are beneficial owners ("Owners") of the Series 2010B Bonds. This discussion is based upon the provisions of the Code, applicable Treasury Regulations promulgated and proposed thereunder, judicial authority, and administrative interpretations, as of the date hereof, all of which are subject to change, possibly with retroactive effect, or are subject to different interpretations. Owners cannot be assured that the IRS will not challenge one or more of the tax consequences described herein, and neither the Borrower nor Bond Counsel has obtained, nor does the Borrower or Bond Counsel intend to obtain, a ruling from the IRS with respect to the U.S. federal tax consequences of acquiring, holding, or disposing of the Series 2010B Bonds. This summary is limited to initial holders who purchase the Series 2010B Bonds for cash at their "issue price" (which will equal the first price at which a substantial portion of the Series 2010B Bonds is sold for cash to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers) and who hold the Series 2010B Bonds as capital assets (generally property held for investment).

This summary does not discuss all of the tax consequences that may be relevant to Owners in light of their particular circumstances or to Owners subject to special rules, such as certain financial institutions, insurance companies, tax-exempt organizations, foreign taxpayers, taxpayers who may be subject to the alternative minimum tax on personal holding company provisions of the Code, dealers in securities or foreign currencies, or Owners whose functional currency (as defined in Section 985 of the Code) is not the U.S. dollar. Except as stated herein, this summary describes no federal, state, or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Series 2010B Bonds. Owners who are subject to special provisions of the Code should consult their own tax advisors regarding the tax consequences to them of purchasing, holding, owning, and disposing of the Series 2010B Bonds, including the advisability of making any of the elections described below, before determining whether to purchase the Series 2010B Bonds.

The Code generally defines a United States person as (i) an individual who, for U.S. federal income tax purposes, is a citizen or resident of the United States, (ii) a corporation or other entity taxable as a corporation for U.S. federal income tax purposes, that was created or organized in or under the laws of the United States, and any state thereof or the District of Columbia 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.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds Series 2010B Bonds, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Any Owner of a Taxable Bond that is a partner of a partnership that will hold Series 2010B Bonds should consult its tax advisor.

This discussion does not address any tax considerations arising under the laws of any foreign, state, local, or other jurisdiction.

### **In General**

Interest on a Taxable Bond generally will be includible in an Owner's income as ordinary income at the time the interest is received or accrued, in accordance with such Owner's regular method of accounting for U.S. federal income tax purposes.

### **Payments of Interest**

Stated interest paid on each Taxable Bond will generally be taxable in each tax year the Taxable Bond is 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.

### **Accrual Method Election**

Under the 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 generally recognize capital gain or loss. This gain or loss will equal the difference between the Owner's adjusted tax basis in the Taxable Bond and the proceeds the Owner receives, excluding any proceeds attributable to accrued interest, which will be recognized as ordinary interest income to the extent the Owner has not previously included the accrued interest in income. The proceeds an Owner receives will include the amount of any cash and the fair market value of any other property received for the Taxable Bond. An Owner's tax basis in the Taxable Bond will generally equal the amount the Owner paid for the Taxable Bond. The gain or loss will be long-term capital gain or loss if the Owner held the Taxable Bond for more than one year. Long-term capital gains of individuals, estates, and trusts currently are subject to a reduced tax rate. The deductibility of capital losses may be subject to limitation.

### **Information Reporting and Backup Withholding**

Information reporting will apply to payments of interest on, or the proceeds of the sale or other disposition of, Series 2010B Bonds held by an Owner, and backup withholding may apply unless such Owner provides the appropriate intermediary with a taxpayer identification number, certified under penalties of perjury, as well as certain other information or otherwise establishes an exemption from backup withholding. Any amount withheld under the backup withholding rules is allowable as a credit against the Owner's U.S. federal income tax liability, if any, and a refund may be obtained if the amounts withheld exceed the Owner's actual U.S. federal income tax liability and such Owner timely provides the required information or appropriate claim form to the IRS.

### **Treasury Circular 230 Disclosure**

THE TAX DISCUSSION SET FORTH ABOVE WAS WRITTEN TO SUPPORT THE MARKETING OF THE SERIES 2010B BONDS AND IS NOT INTENDED OR WRITTEN BY BOND COUNSEL TO BE USED, AND IT CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON A TAXPAYER BY THE IRS IN RESPECT OF FEDERAL INCOME TAXES. NO LIMITATION HAS BEEN IMPOSED BY BOND COUNSEL ON DISCLOSURE OF THE TAX TREATMENT OR TAX STRUCTURE OF THE SERIES 2010B BONDS. BOND COUNSEL WILL RECEIVE A NON-REFUNDABLE FEE CONTINGENT UPON THE SUCCESSFUL MARKETING OF THE SERIES 2010B BONDS, BUT NOT CONTINGENT ON ANY TAXPAYER'S REALIZATION OF TAX BENEFITS FROM THE SERIES 2010B BONDS. ALL TAXPAYERS SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR. THIS DISCLOSURE IS PROVIDED TO COMPLY WITH TREASURY CIRCULAR 230.

### **CONTINUING DISCLOSURE AGREEMENT**

The Borrower will enter into and deliver a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") with respect to the Series 2010AB Bonds. The Continuing Disclosure Agreement is made for the benefit of the registered and Beneficial Owners of the Series 2010AB Bonds and in order to assist the Underwriter in complying with its obligations pursuant to Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Rule"). See "APPENDIX E – FORM OF CONTINUING DISCLOSURE AGREEMENT." The Borrower has never failed to comply in all material respects with any previous undertakings required by the Rule.

### **FINANCIAL STATEMENTS**

The financial report of the Borrower, as of August 31, 2009 and 2008, included in this Official Statement in "APPENDIX C – FINANCIAL STATEMENTS," has been audited by Padgett Stratemann & Co. LLP, San Antonio, Texas ("Padgett Stratemann & Co."), to the extent and for the periods indicated in their report thereon. Such financial statements have been included in reliance upon the report of Padgett Stratemann & Co. The Borrower is not aware of any facts that would make such financial statements misleading.

### **RATING**

Standard & Poor's Ratings Services, a division of the McGraw Hill Companies, Inc. ("S&P") has assigned the rating of "BBB" to the Series 2010AB Bonds. Such rating reflects only the views of S&P and any desired explanation of the significance of such rating should be obtained from S&P at 55 Water Street, New York, New York 10041. Generally, rating agencies base their ratings on the information and materials furnished to them and on investigations, studies and assumptions of their own. There is no assurance that any such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if, in the judgment of such agency, circumstances so warrant. Any such downward revision or withdrawal may have an adverse effect on the market price of the Series 2010AB Bonds.

## MISCELLANEOUS

### Underwriting

Subject to the terms and conditions of a bond purchase agreement (the "Bond Purchase Agreement") entered into by and among the Issuer, the Borrower and Robert W. Baird & Co. Incorporated (the "Underwriter"), the Series 2010AB Bonds are being sold by the Issuer to the Underwriter at an underwriting discount of \$91,350.00 (\$63,700.00 with respect to the Series 2010A Bonds and \$27,650.00 with respect to the Series 2010B Bonds). Expenses associated with the issuance of the Series 2010AB Bonds are being paid from proceeds of the Series 2010AB Bonds. The right of the Underwriter to receive compensation in connection with the Series 2010AB Bonds is contingent upon the actual sale and delivery of the Series 2010AB Bonds. The Underwriter has initially offered the Series 2010AB Bonds to the public at the prices set forth on the inside front cover page of this Official Statement. Such prices may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with dealers and other investment banking firms in offering the Series 2010AB Bonds to the public.

### Financial Advisor

First Southwest Company ("First Southwest") is serving as financial advisor to the Borrower in connection with the offering of the Series 2010AB Bonds. First Southwest is not obligated and has not undertaken to make an independent verification or assumed any responsibility for the accuracy or completeness of the information contained in this Official Statement. The fees for services rendered by First Southwest are contingent upon the issuance and delivery of the Series 2010AB Bonds.

### Additional Information

The summaries of or references to constitutional provisions, statutes, resolutions, agreements, contracts, financial statements, reports, publications and other documents or compilations of data or information set forth in this Official Statement do not purport to be complete statements of the provisions of the items summarized or referred to and are qualified in their entirety by the actual provisions of such items, copies of which are either publicly available or available upon request and the payment of a reasonable copying, mailing and handling charge from the Underwriter, 210 University Blvd., Suite 900, Denver, Colorado 80206.

### Certification

The preparation of this Official Statement and its distribution have been authorized by the Borrower and the Issuer. This Official Statement is not to be construed as an agreement or contract between the Borrower or the Issuer and any purchaser, owner or holder of any of the Series 2010AB Bonds.

### NEW FRONTIERS CHARTER SCHOOL, INC.

By: /s/ Fernando Cruz  
President

By: /s/ Angela G. Etter  
Secretary

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## APPENDIX A

### SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW

This Appendix summarizes certain provisions of Texas charter school law. This Appendix provides a summary only and is for informational purposes only. Potential investors should refer to and independently evaluate applicable provisions of the charter school law in their entirety, with assistance from counsel as necessary, for a complete understanding of their terms. During the 81st Legislature of the State of Texas, changes to the laws affecting charter schools were made, many of which went into effect on September 1, 2009 pursuant to HB 3646 (the "Current Law"). This Appendix summarizes certain provisions of the resulting changes found in the Current Law. The Current Law provides that, in certain situations, the law as it existed on January 1, 2009 (the "Prior Law") will apply. However, to avoid additional levels of complexity and detail which would be required to summarize both the Prior Law and Current Law adequately, only the Current Law is summarized below. Further, potential investors should note that the provisions summarized below are subject to change, and this summary only pertains to certain aspects of currently existing law. *See, "RISK FACTORS – Changes in Charter School Law."*

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## **GENERAL**

### **BACKGROUND**

#### **Purposes of Chapter (Texas Education Code §§ 12.001, 12.0011)**

In 1995, the Texas legislature adopted Chapter 12 of the Texas Education Code, which provides for the creation and development of public charter schools to be operated within the State of Texas. The stated purposes of authorizing charter schools are to improve student learning, increase the choice of learning opportunities within the public school system, create professional opportunities that will attract new teachers to the public school system, establish a new form of accountability for public schools, and encourage different and innovative learning methods. As an alternative to operating in the manner generally provided in the Texas Education Code, the Texas legislature authorized independent school districts, school campuses, and educational programs to choose to operate under a charter in accordance with Chapter 12 of the Texas Education Code.

#### **Classes of Charter; Authorization (Texas Education Code §§ 12.002, 12.152)**

Three classes of charters are provided for under Chapter 12 of the Texas Education Code: (i) home-rule school district charters, (ii) campus or campus programs charters, and (iii) open-enrollment charters. In addition, the Texas legislature has authorized granting a charter on the application of a public senior college or university or a public junior college for an open-enrollment charter school to operate on the campus of the public senior college or university or public junior college or in the same county in which the campus of the public senior college or university or public junior college is located. Each of these types of charters is governed under a different Subchapter of Chapter 12 of the Texas Education Code.

The remaining sections that follow provide additional information applicable to open-enrollment charter schools, such as the Borrower, and with respect to the Foundation School Program under the Texas Education Code.

#### **Charter Applicants (Texas Education Code § 12.101)**

The State Board of Education may grant a charter for an open-enrollment charter school on the application of: (i) certain institutions of higher education (including private or independent institutions of higher education); (ii) organizations that are tax-exempt under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended; and (iii) governmental entities. Such a charter for an open-enrollment charter school may only be granted by the State Board of Education to an applicant that meets the financial, governing, and operational standards adopted by the Commissioner of Education under the Open-Enrollment Charter School Subchapter of the Texas Education Code. The State Board of Education may not grant a total of more than 215 charters for open-enrollment charter schools.

#### **Authority Under Charter (Texas Education Code § 12.102)**

An open-enrollment charter school: (i) provides instruction to students at one or more elementary or secondary grade levels as provided by the charter; (ii) is governed under the governing structure described by the charter; (iii) retains authority to operate under the charter (contingent on satisfactory student performance as provided by the charter); and (iv) does not have authority to impose taxes.

#### **General Applicability of Laws (Texas Education Code § 12.103)**

An open-enrollment charter school is generally subject to federal and state laws and rules governing public schools and to municipal zoning ordinances governing public schools. However, an open-enrollment charter school is only subject to the Texas Education Code and rules adopted thereunder to the extent specifically provided for in the Texas Education Code or rules adopted thereunder. In addition, a campus of an open-enrollment charter school located in whole or in part in a municipality with a population of 20,000 or less is not subject to municipal zoning ordinances governing public schools.

### **Applicability of Title (Texas Education Code § 12.104)**

An open-enrollment charter school has the powers generally granted to schools under the Public Education Title of the Texas Education Code. An open-enrollment charter school is subject to provisions of the Public Education Title of the Texas Education Code establishing a criminal offense and prohibitions, restrictions, or requirements, as applicable, imposed by the Public Education Title of the Texas Education Code or a rule adopted under the Public Education Title of the Texas Education Code, including those relating to: the Public Education Information Management System ("PEIMS"); criminal history records; reading instruments and accelerated reading instruction programs; accelerated instruction; high school graduation requirements; special education programs; bilingual education; prekindergarten programs; extracurricular activities; discipline management practices or behavior management techniques; health and safety; public school accountability; requirements to report an educator's misconduct; and intensive programs of instruction.

An open-enrollment charter school is entitled to the same level of services provided to school districts by regional education service centers. The Commissioner of Education has adopted rules that provide for the representation of open-enrollment charter schools on the boards of directors of regional education service centers, and may by rule permit an open-enrollment charter school to voluntarily participate in any state program available to school districts, including a purchasing program, if the school complies with all terms of the program.

### **Status (Texas Education Code § 12.105)**

Open-enrollment charter schools are part of the Texas public school system.

### **Open Meetings and Public Information (Texas Education Code § 12.1051)**

The governing body of a charter holder and the governing body of an open-enrollment charter school are considered to be governmental bodies for purposes of the Open Meetings and the Texas Public Information Chapters of the Texas Government Code. In addition, with respect to the Open Meetings and Public Information Chapters of the Texas Government Code, or another law that concerns open meetings or the availability of information, that apply to a school district, the board of trustees of a school district, or public school students also apply to an open-enrollment charter school, the governing body of a charter holder, the governing body of an open-enrollment charter school, or students attending an open-enrollment charter school.

### **Local Government Records (Texas Education Code § 12.1052)**

With respect to operations, an open-enrollment charter school is considered to be a local government for purposes of the Records Provisions Applying to More Than One Type of Local Government provisions of the Texas Local Government Code and the Preservation and Management of Local Government Records provisions of the Texas Government Code. Records of an open-enrollment charter school and records of a charter holder that relate to an open-enrollment charter school are government records for all purposes under Texas State law. Any requirement in either the Records Provisions Applying to More Than One Type of Local Government provisions of the Texas Local Government Code or the Preservation and Management of Local Government Records provisions of the Texas Government Code that applies to a school district, the board of trustees of a school district, or an officer or employee of a school district applies to an open-enrollment charter school, the governing body of a charter holder, the governing body of an open-enrollment charter school, or an officer or employee of an open-enrollment charter school. The records of an open-enrollment charter school that ceases to operate are required to be transferred in the manner specified by the Commissioner of Education to a custodian designated by the Commissioner of Education. The Commissioner of Education may designate any appropriate entity to serve as custodian, including the Texas Education Agency, a regional education service center, or a school district. In designating a custodian, the Commissioner of Education shall ensure that the transferred records, including student and personnel records, are transferred to a custodian capable of maintaining the records, making the records readily accessible to students, parents, former school employees, and other persons entitled to access, and complying with applicable state or federal law restricting access to the records.

### **Public Purchasing and Contracting (Texas Education Code § 12.1053)**

Unless an open-enrollment charter school's charter otherwise describes procedures for purchasing and contracting and those procedures are approved by the State Board of Education, an open-enrollment charter school is treated as a governmental entity for purposes of the Real Property Held in Trust provisions of the Texas Government Code and for purposes of the Competitive Bidding on Certain Public Works Contracts provisions of the Texas Local Government Code, a political subdivision for purposes of the Professional Services provisions of the Texas Government Code, and a local government for purposes of the Authorized Investments provisions of the Texas Government Code. Requirements in a law previously mentioned in this paragraph that apply to a school district or the board of trustees of a school district generally apply to an open-enrollment charter school, the governing body of a charter holder, or the governing body of an open-enrollment charter school.

### **Conflicts of Interest (Texas Education Code § 12.1054)**

An open-enrollment charter school is generally subject to conflict-of-interest laws. A member of the governing body of a charter holder, a member of the governing body of an open-enrollment charter school, or an officer of an open-enrollment charter school is considered to be a local public official for purposes of the Regulation of Conflicts of Interest of Officers of Municipalities, Counties, and Certain Other Local Government provisions of the Texas Local Government Code, and is thereby subject to various restrictions under the Texas Local Government Code.

### **Membership in Teacher Retirement System (Texas Education Code § 12.1057)**

An employee of an open-enrollment charter school operating under a charter granted by the State Board of Education who qualifies for membership in the Teacher Retirement System of Texas is 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.

### **Tuition and Fees Restricted (Texas Education Code § 12.108)**

An open-enrollment charter school may not charge tuition to an eligible student who applies under the admission procedures of Section 12.117 of the Texas Education Code. The governing body of an open-enrollment charter school may require a student to pay certain fees that the board of trustees of a school district may charge, and may not require a student to pay certain fees that the board of trustees of a school district may not charge.

### **Transportation (Texas Education Code § 12.109)**

Open-enrollment charter schools are required to 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.

## **CHARTER APPLICATION, CONTENT AND FORM**

### **Application (Texas Education Code § 12.110)**

The State Board of Education is required under the Texas Education Code to adopt an application form and a procedure that must be used to apply for a charter for an open-enrollment charter school and criteria to use in selecting a program for which to grant a charter. As part of the application procedure, the State Board of Education may require a petition supporting a charter for a school signed by a specified number of parents or guardians of school-age children residing in the area in which a school is proposed or may hold a public hearing to determine parental support for the school. The State Board of Education Board may approve or deny an application based on criteria it adopts. The criteria the State Board of Education adopts must include: (i) criteria relating to improving student performance and encouraging innovative programs; and (ii) a statement from any school district whose enrollment is likely to be affected by the open-enrollment charter school, including information relating to any financial difficulty that a loss in enrollment may have on the district.

### **Charter Content (Texas Education Code § 12.111)**

Each open-enrollment charter must:

- (i) describe the educational program to be offered, which must include the required curriculum;
- (ii) specify the period for which the charter or any charter renewal is valid;
- (iii) 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;
- (iv) establish the level of student performance that is considered acceptable on such assessment instruments;
- (v) specify any basis, in addition to a basis specified in the Open-Enrollment Charter School Subchapter of the Charters Chapter of the Texas Education Code, on which the charter may be placed on probation or revoked or on which renewal of the charter may be denied;
- (vi) prohibit discrimination in admission policy on the basis of sex, national origin, ethnicity, religion, disability, academic, artistic, or athletic ability, or the district the child would otherwise attend in accordance with the Texas Education Code (nevertheless, the charter may provide for: (a) the exclusion of a student who has a documented history of a criminal offense, a juvenile court adjudication, or certain discipline problems, and (b) an admission policy that requires a student to demonstrate artistic ability if the school specializes in performing arts);
- (vii) specify the grade levels to be offered;
- (viii) describe the governing structure of the program (including the officer positions designated, the manner in which officers are selected and removed from office, the manner in which members of the governing body of the school are selected and removed from office, the manner in which vacancies on the governing body are filled, the term for which members of that governing body serve, and whether the terms are to be staggered);
- (ix) specify the powers or duties of the governing body of the school that the governing body may delegate to an officer;
- (x) specify the manner in which the school will distribute to parents information related to the qualifications of each professional employee of the program;
- (xi) describe the process by which the person providing the program will adopt an annual budget;
- (xii) describe the manner in which an annual audit of the financial and programmatic operations of the program is to be conducted;
- (xiii) describe the facilities to be used;
- (xiv) describe the geographical area served by the program; and
- (xv) specify any type of enrollment criteria to be used.

A charter holder of an open-enrollment charter school is required to consider including in the school's charter a requirement that the school develop and administer personal graduation plans.

## **CHARTER REVOCATION AND NON-RENEWAL**

### **General (Texas Education Code §§ 12.114, 12.115)**

The charter of an open-enrollment charter school may be revised only with the approval of the Commissioner of Education, and an open-enrollment charter school may request approval to revise the maximum student enrollment described by the school's charter not more than once each year.

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 of Education determines that the charter holder:

- (i) committed a material violation of the charter, including failure to satisfy accountability provisions prescribed by the charter;
- (ii) failed to satisfy generally accepted accounting standards of fiscal management;
- (iii) failed to protect the health, safety, or welfare of the students enrolled at the school; or
- (iv) failed to comply with any applicable law or rule.

Any action (described above) that the Commissioner of Education takes 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.

### **Related Procedures (Texas Education Code § 12.116)**

The Commissioner of Education has a procedure in place used for modifying, placing on probation, revoking, or denying renewal of the charter of an open-enrollment charter school that provides an opportunity for a hearing to the charter holder and to parents and guardians of students in the school. The hearing must be held at the facility at which the program is operated. The Administrative Procedures Chapter of the Texas Government Code does not apply to a hearing that is related to a modification, placement on probation, revocation, or denial of renewal under the Open-Enrollment Charter School Subchapter of the Charters Chapter of the Texas Education Code.

### **Effect of Revocation, Non-Renewal or Surrender (Texas Education Code § 12.1161)**

If the Commissioner of Education 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 of Education denies renewal of the school's charter before the completion of that school year.

### **Additional Sanctions (Texas Education Code § 12.1162)**

The Commissioner of Education may take a variety of actions 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 any applicable law or rule. The Commissioner of Education may: (i) temporarily withhold funding; (ii) suspend the authority of an open-enrollment charter school to operate; or (iii) take any other reasonable action the Commissioner of Education 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. If the Commissioner of Education takes such action, the open-enrollment charter school may not receive funding and may not resume operating until a determination is made that: (i) 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 (ii) the conditions at the school that presented a danger of material harm to the health, safety, or welfare of students have been corrected.

Not later than the third business day after the date the Commissioner of Education takes action, the Commissioner of Education must provide the charter holder an opportunity for a hearing, after which the Commissioner of Education must take action under Section 12.116 of the Texas Education Code or cease any temporary sanctions.

## **ADMISSION AND EVALUATION**

### **Admission (Texas Education Code § 12.117)**

For admission to an open-enrollment charter school, the governing body of the school shall: (i) require the applicant to complete and submit an application not later than a reasonable deadline the school establishes; and (ii) on receipt of more acceptable applications for admission than available positions in the school: (a) fill the available positions by lottery; or (b) fill the available positions in the order in which applications were received before the application deadline, subject to the school publishing a notice of the opportunity to apply for admission to the school, which states the application deadline and is published in a newspaper of general circulation in the community in which the school is located not later than the seventh day before the application deadline.

### **Evaluation (Texas Education Code § 12.118)**

The Commissioner of Education shall designate an impartial organization with experience in evaluating school choice programs to conduct an annual evaluation of open-enrollment charter schools. An evaluation must include consideration of the following items before implementing the charter and after implementing the charter:

- (i) students' scores on assessment instruments administered;
- (ii) student attendance;
- (iii) students' grades;
- (iv) incidents involving student discipline;
- (v) socioeconomic data on students' families;
- (vi) parents' satisfaction with their children's schools; and
- (vii) students' satisfaction with their schools.

The evaluation of open-enrollment charter schools must also include an evaluation of: the costs of instruction, administration, and transportation incurred by open-enrollment charter schools; the effect of open-enrollment charter schools on school districts and on teachers, students, and parents in those districts; and other issues, as determined by the Commissioner of Education.

## **GOVERNANCE**

### **Bylaws; Annual Report (Texas Education Code § 12.119)**

A charter holder must file a copy of its articles of incorporation and bylaws, or comparable documents if the charter holder does not have articles of incorporation or bylaws, with the State Board of Education within the period and in the manner prescribed by the State Board of Education.

Each year within the period and in a form prescribed by the State Board of Education, each open-enrollment charter school shall file with the State Board of Education the name, address, and telephone number of each officer and member of the governing body of the open-enrollment charter school, and the amount of annual compensation the open-enrollment charter school pays to each officer and member of the governing body.

### **Responsibility for Open-Enrollment Charter School (Texas Education Code § 12.121)**

The governing body of an open-enrollment charter school is responsible for the management, operation, and accountability of the school, regardless of whether the governing body delegates the governing body's powers and duties to another person.



## **TEACHER QUALIFICATIONS**

### **Minimum Teacher Qualifications (Texas Education Code § 12.129)**

A person employed as a teacher by an open-enrollment charter school must hold a high school diploma.

### **Notice of Teacher Qualifications (Texas Education Code § 12.130)**

Each open-enrollment charter school must provide to the parent or guardian of each student enrolled in the school written notice of the qualifications of each teacher employed by the school.

## **STATE FUNDING**

### **GENERAL**

#### **Entitlement (Texas Education Code § 12.106)**

A charter holder is entitled to receive for the open-enrollment charter school funding under the Foundation School Program Chapter of the Texas Education Code (for additional information see the "FOUNDATION SCHOOL PROGRAM" sections below) equal to the greater of:

(i) the amount of funding per student in weighted average daily attendance, excluding enrichment funding under Sections 42.302(a-1)(2) and (3) of the Texas Education Code, as they existed on January 1, 2009, that would have been received for the school during the 2009-10 school year under the Foundation School Program Chapter of the Texas Education Code as it existed on January 1, 2009, and an additional amount of \$120 for each student in weighted average daily attendance; or

(ii) the amount of funding per student in weighted average daily attendance, excluding enrichment funding under Section 42.302(a) of the Texas Education Code, to which the charter holder would be entitled for the school under the Foundation School Program Chapter of the Texas Education Code if the school were a school district without a tier one local share for purposes of Section 42.253 of the Texas Education Code and without any local revenue for purposes of Section 42.2516 of the Texas Education Code.

In determining funding for an open-enrollment charter school in the prior paragraph, adjustments under Sections 42.102, 42.103, 42.104, and 42.105 of the Texas Education Code are based on the average adjustment for the state. In addition to the funding provided above, a charter holder is entitled to receive for the open-enrollment charter school enrichment funding under Section 42.302 of the Texas Education Code based on the state average tax effort. An open-enrollment charter school is entitled to funds that are available to school districts from the Texas Education Agency or the Commissioner of Education 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 of Education may adopt rules to provide and account for state funding of open-enrollment charter schools. A rule adopted may be similar to a provision of the Texas Education Code that is not similar to Section 12.104(b) of the Texas Education Code if the Commissioner of Education determines that the rule is related to financing of open-enrollment charter schools and is necessary or prudent to provide or account for state funds.

#### **Recovery of Certain Funds (Texas Education Code § 12.1061)**

The Commissioner of Education may not garnish or otherwise recover funds paid to an open-enrollment charter school under Section 12.106 of the Texas Education Code if:

- (i) the basis of the garnishment or recovery is that the number of students enrolled in the school during a school year exceeded the student enrollment described by the school's charter during that period, and the school received funding under Section 12.106 of the Texas Education Code based on the school's actual student enrollment;
- (ii) the school submits to the Commissioner of Education a timely request to revise the maximum student enrollment described by the school's charter and the Commissioner of Education does not notify the school in writing of an objection to the proposed revision before the 90th day after the date on which the Commissioner of Education received the request, provided that the number of students enrolled at the school does not exceed the enrollment described by the school's request, or the school exceeds the maximum student enrollment described by the school's charter only because a court mandated that a specific child enroll in that school; and
- (iii) the school used all funds received under Section 12.106 of the Texas Education Code to provide education services to students.

**Status and Use of Funds (Texas Education Code § 12.107)**

Funds received under Section 12.106 of the Texas Education Code after September 1, 2001, by a charter holder:

- (i) are considered to be public funds for all purposes under state law;
- (ii) are held in trust by the charter holder for the benefit of the students of the open-enrollment charter school;
- (iii) may be used only for a purpose for which a school may use local funds under Section 45.105(c) of the Texas Education Code; and
- (iv) pending their use, must be deposited into a bank with which the charter holder has entered into a depository contract.

A charter holder must deliver to the Texas Education Agency a copy of the depository contract between the charter holder and any bank into which state funds are deposited.

**FOUNDATION SCHOOL PROGRAM**

**General**

*Average Daily Attendance (Texas Education Code § 42.005)*

Subject to adjustments as provided in Texas Education Code § 42.005, average daily attendance is:

- (i) the quotient of the sum of attendance for each day of the minimum number of days of instruction as described under Section 25.081(a) of the Texas Education Code divided by the minimum number of days of instruction;
- (ii) for a district that operates under a flexible year program under Section 29.0821 of the Texas Education Code, the quotient of the sum of attendance for each actual day of instruction as permitted by Section 29.0821(b)(1) of the Texas Education Code divided by the number of actual days of instruction as permitted by Section 29.0821(b)(1) of the Texas Education Code; or
- (iii) for a district that operates under a flexible school day program under Section 29.0822 of the Texas Education Code, the average daily attendance as calculated by the Commissioner of Education in accordance with Section 29.0822(d) of the Texas Education Code.

***PEIMS (Texas Education Code § 42.006)***

Each school district must participate in the Public Education Information Management System ("PEIMS") and shall provide through that system information required for the administration of the Foundation School Program Chapter of the Texas Education Code and of other appropriate provisions of the Texas Education Code. Each school district must use a uniform accounting system adopted by the Commissioner of Education for the data required to be reported for the PEIMS.

***Equalized Funding Elements (Texas Education Code § 42.007)***

The Legislative Budget Board is required to adopt rules for the calculation for each year of a biennium of the qualified funding elements (as described below) necessary to achieve the state policy under Section 42.001 of the Texas Education Code.

Before each regular session of the Texas legislature, the Legislative Budget Board shall report the equalized funding elements to the Commissioner of Education and the Texas legislature.

The funding elements must include:

- (i) a basic allotment for the purposes of Section 42.101 of the Texas Education Code that, when combined with the guaranteed yield component provided by the Guaranteed Yield Program Subchapter of Chapter 42 of the Texas Education Code, represents the cost per student of a regular education program that meets all mandates of law and regulation;
- (ii) adjustments designed to reflect the variation in known resource costs and costs of education beyond the control of school districts;
- (iii) appropriate program cost differentials and other funding elements for the programs authorized under the Special Allotments Subchapter of Chapter 42 of the Texas Education Code, with the program funding level expressed as dollar amounts and as weights applied to the adjusted basic allotment for the appropriate year;
- (iv) the maximum guaranteed level of qualified state and local funds per student for the purposes of the Guaranteed Yield Program Subchapter of Chapter 42 of the Texas Education Code;
- (v) the enrichment and facilities tax rate under the Guaranteed Yield Program Subchapter of Chapter 42 of the Texas Education Code;
- (vi) the computation of students in weighted average daily attendance under Section 42.302 of the Texas Education Code; and
- (vii) the amount to be appropriated for the school facilities assistance program under the Assistance with Existing Facilities and Payment of Existing Debt Chapter of the Texas Education Code.

***Limitation on Revenue Increases (Texas Education Code § 42.008)***

Beginning with the 2010-2011 school year, a school district is not entitled in any school year to receive an amount of state and local maintenance and operations revenue per student in weighted average daily attendance that exceeds by more than \$350 the amount of state and local maintenance and operations revenue per student in weighted average daily attendance received by the district during the preceding school year.

For the 2009-2010 school year, a school district was not entitled to receive an amount of state and local maintenance and operations revenue per student in weighted average daily attendance that exceeds by more than \$350 the amount of state and local maintenance and operations revenue per student in weighted average daily attendance that the district would have received during that year under the Equalized Wealth Level Chapter of the Texas Education Code and the Foundation School Program Chapter of the Texas Education Code, as those chapters existed on January 1, 2009, at a maintenance and operations tax rate equal to the product of the state compression percentage for that year, as determined under Section 42.2516 of the Texas Education Code, multiplied by the maintenance and operations tax rate adopted by the district for the 2005 tax year.

Enrichment revenue to which a school district is entitled under Section 42.302 of the Texas Education Code is not included for purposes of determining the limitation set forth above.

### **Basic Entitlement**

#### ***General (Texas Education Code § 42.101)***

Beginning with the 2013-14 school year, for each student in average daily attendance, not including the time students spend each day in special education programs in an instructional arrangement other than mainstream or career and technology education programs, for which an additional allotment is made under the Special Allotments Subchapter of the Foundation School Program Chapter of the Texas Education Code, a district is entitled to an allotment equal to the lesser of \$4,765 or the amount that results from the following formula:

$$A = \$4,765 \times (\text{DCR}/\text{MCR})$$

where:

"A" is the allotment to which a district is entitled;

"DCR" is the district's compressed tax rate, which is the product of the state compression percentage, as determined under Section 42.2516 of the Texas Education Code, multiplied by the maintenance and operations tax rate adopted by the district for the 2005 tax year; and

"MCR" is the state maximum compressed tax rate, which is the product of the state compression percentage, as determined under Section 42.2516, multiplied by \$1.50.

For the 2009-2010 through 2012-2013 school years, the above basic allotment provisions apply, except each reference to \$4,765 is replaced with an amount equal to the greater of: (i) \$4,765 or (ii) the amount equal to the product of .0165 and the average statewide property value per weighted student. A greater amount for any school year may be provided by appropriation.

The basic allotment is subject to adjustments including a cost of education adjustment (Texas Education Code § 42.102), a small and mid-sized district adjustment (Texas Education Code § 42.103), and a sparsity adjustment (Texas Education Code § 42.105).

### **Special Allotments**

#### ***Special Education (Texas Education Code § 42.151)***

For each student in average daily attendance in a special education program under the Special Education Program Subchapter of the Educational Programs Chapter of the Texas Education Code, in a mainstream instructional arrangement, a school district is entitled to an annual allotment equal to the adjusted basic allotment multiplied by 1.1. For each full-time equivalent student (defined below) in average daily attendance in a special education program under the Special Education Program Subchapter of the Educational Programs Chapter of the Texas Education Code, in an instructional arrangement other than a mainstream instructional arrangement, a district is entitled to an annual allotment equal to the adjusted basic allotment multiplied by a weight determined according to instructional arrangement as follows:

Homebound .....	5.0
Hospital class .....	3.0
Speech therapy .....	5.0
Resource room .....	3.0
Self-contained, mild and moderate, regular campus .....	3.0
Self-contained, severe, regular campus .....	3.0
Off home campus .....	2.7
Nonpublic day school .....	1.7
Vocational adjustment class .....	2.3

A special instructional arrangement for students with disabilities residing in care and treatment facilities, other than state schools, whose parents or guardians do not reside in the district providing education services shall be established under the rules of the State Board of Education. The funding weight for this arrangement shall be 4.0 for those students who receive their education service on a local school district campus. A special instructional arrangement for students with disabilities residing in state schools shall be established under the rules of the State Board of Education with a funding weight of 2.8.

For funding purposes, the number of contact hours credited per day for each student in the off home campus instructional arrangement may not exceed the contact hours credited per day for the multidistrict class instructional arrangement in the 1992-1993 school year. For funding purposes the contact hours credited per day for each student in the resource room; self-contained, mild and moderate; and self-contained, severe, instructional arrangements may not exceed the average of the statewide total contact hours credited per day for those three instructional arrangements in the 1992-1993 school year.

The State Board of Education by rule shall prescribe the qualifications an instructional arrangement must meet in order to be funded as a particular instructional arrangement.

"Full-time equivalent student" means 30 hours of contact a week between a special education student and special education program personnel.

The State Board of Education shall adopt rules and procedures governing contracts for residential placement of special education students. The Texas legislature shall provide by appropriation for the State's share of the costs of those placements. Funds allocated under Section 42.151 of the Texas Education Code, other than an indirect cost allotment established under State Board of Education rule, must be used in the special education program under the Special Education Program Subchapter of the Educational Programs Chapter of the Texas Education Code.

The Texas Education Agency shall encourage the placement of students in special education programs, including students in residential instructional arrangements, in the least restrictive environment appropriate for their educational needs.

A school district that provides an extended year program required by federal law for special education students who may regress is entitled to receive funds in an amount equal to 75 percent, or a lesser percentage determined by the Commissioner of Education, of the adjusted basic allotment or adjusted allotment, as applicable, for each full-time equivalent student in average daily attendance, multiplied by the amount designated for the student's instructional arrangement, for each day the program is provided divided by the number of days in the minimum school year. The total amount of state funding for extended year services may not exceed \$10 million per year. A school district may use such funds only in providing an extended year program.

From the total amount of funds appropriated for special education under Section 42.151 of the Texas Education Code, the Commissioner of Education shall withhold an amount specified in the General Appropriations Act, and distribute that amount to school districts for programs under Section 29.014 of the Texas Education Code. The program established under that section is required only in school districts in which the program is financed by funds distributed under this paragraph and any other funds available for the program. After deducting the amount

withheld pursuant to this paragraph from the total amount appropriated for special education, the Commissioner of Education shall reduce each district's allotment proportionately and shall allocate funds to each district accordingly.

***Other Special Allotments***

Texas law provides for other special allotments, including a compensatory education allotment (Texas Education Code § 42.152), bilingual education allotments (Texas Education Code § 42.153), career and technology education allotments (Texas Education Code § 42.154), indirect cost allotments (Texas Education Code § 42.1541), transportation allotments (Texas Education Code § 42.155), gifted and talented student allotments (Texas Education Code § 42.156), public education grant allotments (Texas Education Code § 42.157), new instructional facility allotments (Texas Education Code § 42.158), and high school allotments (Texas Education Code § 42.160).

**Financing the Program**

***General (Texas Education Code § 42.251)***

The sum of the basic allotment under the Basic Allotment Subchapter of the Foundation School Program Chapter of the Texas Education Code and the Special Allotments Subchapter of the Foundation School Program Chapter of the Texas Education Code constitute the tier one allotments. The sum of the tier one allotments and the guaranteed yield allotments under the Guaranteed Yield Program Subchapter of the Foundation School Program Chapter of the Texas Education Code constitute the total cost of the Foundation School Program.

The program shall be financed by:

- (i) ad valorem tax revenue generated by an equalized uniform school district effort;
- (ii) ad valorem tax revenue generated by local school district effort in excess of the equalized uniform school district effort;
- (iii) state available school funds distributed in accordance with law; and
- (iii) state funds appropriated for the purposes of public school education and allocated to each district in an amount sufficient to finance the cost of each district's Foundation School Program not covered by other funds specified above.

***Additional State Aid***

Texas law provides for additional State aid in certain circumstances, including additional State aid for staff salary increases (Texas Education Code § 42.2513), additional State aid for ad valorem tax credits under the Texas Economic Development Act (Texas Education Code § 42.2515), additional State aid for tax reduction (Texas Education Code § 42.2516), and excess funds for cost of education adjustment (Texas Education Code § 42.2517).

***Local Share of Program Cost (Tier One) (Texas Education Code § 42.252)***

Subject to various adjustments as provided under Texas law, each school district's share of the Foundation School Program is determined by the following formula:

$$\text{LFA} = \text{TR} \times \text{DPV}$$

where:

"LFA" is the school district's local share;

"TR" is a tax rate which for each hundred dollars of valuation is an effective tax rate of the amount equal to the product of the state compression percentage, as determined under Section 42.2516 of the Texas Education Code, multiplied by the lesser of: (i) \$1.50; or (ii) the maintenance and operations tax rate adopted by the district for the 2005 tax year; and

"DPV" is the taxable value of property in the school district for the preceding tax year determined under Subchapter M, Chapter 403 of the Texas Government Code.

The Commissioner of Education shall adjust the values reported in the official report of the comptroller as required by Section 5.09(a) of the Texas Tax Code, to reflect reductions in taxable value of property resulting from natural or economic disaster after January 1 in the year in which the valuations are determined. The decision of the Commissioner of Education is final. An adjustment does not affect the local fund assignment of any other school district.

Appeals of district values shall be held pursuant to Section 403.303 of the Texas Government Code.

A school district must raise its total local share of the Foundation School Program to be eligible to receive foundation school fund payments.

***Distribution of Foundation School Fund (Texas Education Code § 42.253)***

For each school year the Commissioner of Education shall determine:

- (i) the amount of money to which a school district is entitled under the Basic Entitlement Subchapter and the Special Allotments Subchapter of the Foundation School Program Chapter of the Texas Education Code;
- (ii) the amount of money to which a school district is entitled under Guaranteed Yield Program Subchapter of the Foundation School Program Chapter of the Texas Education Code;
- (iii) the amount of money allocated to the district from the available school fund;
- (iv) the amount of each district's tier one local share under Section 42.252 of the Texas Education Code; and
- (v) the amount of each district's tier two local share under Section 42.302 of the Texas Education Code.

The Commissioner of Education shall base the above determinations on the estimates provided to the Texas legislature under Section 42.254 of the Texas Education Code, or, if the General Appropriations Act provides estimates for that purpose, on the estimates provided under that Act, for each school district for each school year. The Commissioner of Education shall reduce the entitlement of each district that has a final taxable value of property for the second year of a state fiscal biennium that is higher than the estimate under Section 42.254 of the Texas Education Code or the General Appropriations Act, as applicable. A reduction may not reduce the district's entitlement below the amount to which it is entitled at its actual taxable value of property.

Each school district is entitled to an amount equal to the difference for that district between the sum of (i) and (ii) and the sum of Subsections (iii), (iv), and (v) above.

The amounts to be paid under Section 42.2516(b)(3) of the Texas Education Code shall be paid at the same time as other state revenue is paid to the district. Payments shall be based on amounts paid under Section 42.2516(b)(3) of the Texas Education Code for the preceding year. Any deficiency shall be paid to the district at the same time the final amount to be paid to the district is determined, and any overpayment shall be deducted from the payments the district would otherwise receive in the following year. The Commissioner of Education shall approve warrants to each school district equaling the amount of its entitlement except as provided herein. Warrants for all money expended according to the Foundation School Program Chapter of the Texas Education Code shall be approved and transmitted to treasurers or depositories of school districts in the same manner that warrants for state payments are transmitted. The total amount of the warrants issued may not exceed the total amount appropriated for Foundation School Program purposes for that fiscal year.

If a school district demonstrates to the satisfaction of the Commissioner of Education that the estimate of the district's tax rate, student enrollment, or taxable value of property used in determining the amount of state funds to which the district is entitled is so inaccurate as to result in undue financial hardship to the district, the Commissioner of Education may adjust funding to that district in that school year to the extent that funds are available for that year.

If the amount appropriated for the Foundation School Program for the second year of a state fiscal biennium is less than the amount to which school districts are entitled for that year, the Commissioner of Education is required to certify the amount of the difference to the Legislative Budget Board not later than January 1 of the second year of the state fiscal biennium. The Legislative Budget Board shall propose to the Texas legislature that the certified amount be transferred to the foundation school fund from the economic stabilization fund and appropriated for the purpose of increases in allocations. If the legislature fails during the regular session to enact the proposed transfer and appropriation and there are not funds available for the legislature to appropriate from funds that the comptroller, at any time during the fiscal year, finds are available, the Commissioner of Education shall reduce the total amount of state funds allocated to each district by an amount determined by a method under which the application of the same number of cents of increase in tax rate in all districts applied to the taxable value of property of each district, as determined under Subchapter M, Chapter 403 of the Texas Government Code, results in a total levy equal to the total reduction. The following fiscal year, a district's entitlement is increased by an amount equal to the reduction made as set forth in this paragraph.

Not later than March 1 each year, the Commissioner of Education shall determine the actual amount of state funds to which each school district is entitled under the allocation formulas in the Foundation School Program Chapter of the Texas Education Code for the current school year and shall compare that amount with the amount of the warrants issued to each district for that year. If the amount of the warrants differs from the amount to which a district is entitled because of variations in the district's tax rate, student enrollment, or taxable value of property, the Commissioner of Education shall adjust the district's entitlement for the next fiscal year accordingly.

The Commissioner of Education shall compute for each school district the total amount by which the district's allocation of state funds is increased or reduced and shall certify that amount to the district.

***Recovery of Overallocated Funds (Texas Education Code § 42.258)***

- (i) If a school district has received an overallocation of state funds, the Texas Education Agency shall, by withholding from subsequent allocations of state funds or by requesting and obtaining a refund, recover from the district an amount equal to the overallocation.
- (ii) If a district fails to comply with a request for a refund under (i) above, the Texas Education Agency shall certify to the comptroller that the amount constitutes a debt for purposes of Section 403.055 of the Texas Government Code. The Texas Education Agency shall provide to the comptroller the amount of the overallocation and any other information required by the comptroller. The comptroller may certify the amount of the debt to the attorney general for collection.
- (iii) Any amounts recovered shall be deposited in the foundation school fund.

***Foundation School Fund Transfers (Texas Education Code § 42.259)***

As used below:

"Category 1 school district" means a school district having a wealth per student of less than one-half of the statewide average wealth per student.

"Category 2 school district" means a school district having a wealth per student of at least one-half of the statewide average wealth per student but not more than the statewide average wealth per student.



"Category 3 school district" means a school district having a wealth per student of more than the statewide average wealth per student.

"Wealth per student" means the taxable property values reported by the comptroller to the Commissioner of Education under Section 42.252 of the Texas Education Code divided by the number of students in average daily attendance.

Payments from the foundation school fund to each category 1 school district shall be made as follows:

- (i) 15 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of September of a fiscal year;
- (ii) 80 percent of the yearly entitlement of the district shall be paid in eight equal installments to be made on or before the 25th day of October, November, December, January, March, May, June, and July; and
- (iii) five percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of February.

Payments from the foundation school fund to each category 2 school district shall be made as follows:

- (i) 22 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of September of a fiscal year;
- (ii) 18 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of October;
- (iii) 9.5 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of November;
- (iv) 7.5 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of April;
- (v) five percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of May;
- (vi) 10 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of June;
- (vii) 13 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of July; and
- (viii) 15 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of August.

Payments from the foundation school fund to each category 3 school district shall be made as follows:

- (i) 45 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of September of a fiscal year;
- (ii) 35 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of October; and
- (iii) 20 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of August.

The amount of any installment required above may be modified to provide a school district with the proper amount to which the district may be entitled by law and to correct errors in the allocation or distribution of funds. If an installment is required to be equal to other installments, the amount of other installments may be adjusted to provide for that equality. A payment is not invalid because it is not equal to other installments.

Any previously unpaid additional funds from prior years owed to a district shall be paid to the district together with the September payment of the current year entitlement.

*Use of Certain Funds (Texas Education Code § 42.260)*

As used below, "participating charter school" means an open-enrollment charter school that participates in the uniform group coverage program established under Chapter 1579 of the Texas Insurance Code.

For each year, the Commissioner of Education shall certify to each school district or participating charter school the amount of:

- (i) additional funds to which the district or school is entitled due to the increase made by H.B. No. 3343, Acts of the 77th Legislature, Regular Session, 2001, to:
  - (a) the equalized wealth level under Section 41.002 of the Texas Education Code; or
  - (b) the guaranteed level of state and local funds per weighted student per cent of tax effort under Section 42.302 of the Texas Education Code; or
- (ii) additional state aid to which the district or school is entitled under Section 42.2513 of the Texas Education Code.

Notwithstanding any other provision of the Texas Education Code, a school district or participating charter school may use the following amount of funds only to pay contributions under a group health coverage plan for district or school employees:

- (i) an amount equal to 75 percent of the amount certified for the district or school under (i) and (ii) above, or
- (ii) if the following amount is less than the amount specified by (i), the sum of:
  - (a) the amount determined by multiplying the amount of \$900 or the amount specified in the General Appropriations Act for that year for purposes of the state contribution under Section 9, Article 3.50-7 of the Texas Insurance Code, by the number of district or school employees who participate in a group health coverage plan provided by or through the district or school; and
  - (b) the difference between the amount necessary for the district or school to comply with Section 3, Article 3.50-9 of the Texas Insurance Code, for the school year and the amount the district or school is required to use to provide health coverage under Section 2 of that article for that year.

## Guaranteed Yield Program

### *Purpose (Texas Education Code § 42.301)*

The purpose of the guaranteed yield component of the Foundation School Program is to provide each school district with the opportunity to provide the basic program and to supplement that program at a level of its own choice. An allotment under the Guaranteed Yield Program Subchapter of the Foundation School Program Chapter of the Texas Education Code may be used for any legal purpose other than capital outlay or debt service.

### *Allotment (Texas Education Code § 42.302)*

(i) Each school district is guaranteed a specified amount per weighted student in state and local funds for each cent of tax effort over that required for the district's local fund assignment up to the maximum level specified in the Guaranteed Yield Program Subchapter of the Foundation School Program Chapter of the Texas Education Code. The amount of state support, subject only to the maximum amount under Section 42.303 of the Texas Education Code, is determined by the formula:

$$\text{GYA} = (\text{GL} \times \text{WADA} \times \text{DTR} \times 100) - \text{LR}$$

where:

"GYA" is the guaranteed yield amount of state funds to be allocated to the district;

"GL" is the dollar amount guaranteed level of state and local funds per weighted student per cent of tax effort, which is an amount described by Subsection (ii) below or a greater amount for any year provided by appropriation;

"WADA" is the number of students in weighted average daily attendance, which is calculated by dividing the sum of the school district's allotments under the Basic Entitlement and Special Allotments Subchapters of the Foundation School Chapter of the Texas Education Code, less any allotment to the district for transportation, any allotment under Section 42.158, 42.159, or 42.160 of the Texas Education Code, and 50 percent of the adjustment under Section 42.102 of the Texas Education Code, by the basic allotment for the applicable year;

"DTR" is the district enrichment tax rate of the school district, which is determined by subtracting the amounts specified by (iii) below from the total amount of maintenance and operations taxes collected by the school district for the applicable school year and dividing the difference by the quotient of the district's taxable value of property as determined under Subchapter M, Chapter 403 of the Texas Government Code, or, if applicable, under Section 42.2521 of the Texas Education Code, divided by 100; and

"LR" is the local revenue, which is determined by multiplying "DTR" by the quotient of the district's taxable value of property as determined under Subchapter M, Chapter 403 of the Texas Government Code, or, if applicable, under Section 42.2521 of the Texas Education Code, divided by 100.

(ii) As used below, "wealth per student" means the taxable value of property, as determined under Subchapter M, Chapter 403 of the Texas Government Code, divided by the number of students in weighted average daily attendance. For purposes of (i) above, the dollar amount guaranteed level of state and local funds per weighted student per cent of tax effort ("GL") for a school district is:

(a) the greater of the amount of district tax revenue per weighted student per cent of tax effort that would be available to the Austin Independent School District, as determined by the Commissioner of Education in cooperation with the Legislative Budget Board, if the reduction of the limitation on tax increases as provided by Section 11.26(a-1), (a-2), or (a-3) of the Texas Tax Code, did not apply, or the amount of district tax revenue per weighted student per cent of tax effort used for purposes of this paragraph (ii) in the preceding school year, for the first six cents by which the district's maintenance and operations tax rate exceeds the rate equal to the product of the state compression percentage, as determined under Section 42.2516 of the Texas Education Code, multiplied by the maintenance and operations tax rate adopted by the district for the 2005 tax year; and

(b) \$31.95, for the district's maintenance and operations tax effort that exceeds the amount of tax effort described by (a).

The limitation on district enrichment tax rate ("DTR") under Section 42.303 of the Texas Education Code does not apply to the district's maintenance and operations tax effort described in (ii)(a) above.

(iii) In computing the district enrichment tax rate of a school district, the total amount of maintenance and operations taxes collected by the school district does not include the amount of:

(a) the district's local fund assignment under Section 42.252; or

(b) taxes paid into a tax increment fund under Chapter 311 of the Texas Tax Code.

For purposes of Section 42.302 of the Texas Education Code, school district taxes for which credit is granted under Section 31.035, 31.036, or 31.037 of the Texas Tax Code, are considered taxes collected by the school district as if the taxes were paid when the credit for the taxes was granted. For purposes of Section 42.302 of the Texas Education Code, the total amount of maintenance and operations taxes collected for an applicable school year by a school district with alternate tax dates, as authorized by Section 26.135 of the Texas Tax Code, is the amount of taxes collected on or after January 1 of the year in which the school year begins and not later than December 31 of the same year.

For purposes of Section 42.302 of the Texas Education Code, school district taxes for which credit is granted under Subchapter D, Chapter 313 of the Texas Tax Code, are considered taxes collected by the school district as if the taxes were paid when the credit for the taxes was granted. If a school district imposes a maintenance and operations tax at a rate greater than the rate equal to the product of the state compression percentage, as determined under Section 42.2516 of the Texas Education Code, multiplied by the maintenance and operations tax rate adopted by the district for the 2005 tax year, the district is entitled to receive an allotment as described above on the basis of that greater tax effort.

***Limitation on Enrichment Tax Rate (Texas Education Code § 42.303)***

The district enrichment tax rate ("DTR") under Section 42.302 of the Texas Education Code may not exceed the amount per \$100 of valuation by which the maximum rate permitted under Section 45.003 of the Texas Education Code exceeds the rate used to determine the district's local share under Section 42.252 of the Texas Education Code, or a greater amount for any year provided by appropriation.

## APPENDIX B

### THE BORROWER

#### General

New Frontiers Charter School, Inc. (the "Charter School," or "Borrower") is a Texas nonprofit corporation which was incorporated on January 8, 1998, pursuant to the Texas Non-Profit Corporation Act, Title 32 Chapter 9 of the Texas Revised Civil Statutes. The Borrower is a charter school that provides educational services to students in grades K through 8 and operates pursuant to a charter agreement with the Texas State Board of Education, pursuant to Chapter 12 of the Texas Education Code, Section 12.001 *et seq.* (the "Charter Schools Act"). The Borrower is an organization described under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code").

The Borrower provides educational services to students residing primarily in San Antonio, Texas, within the boundaries of the San Antonio Independent School District (the "District"). The Borrower can also serve students within boundaries set by the Texas Education Agency which include 30 other independent school districts. The Borrower initially opened in the 1998-99 school year with a founding class of 500 students and began operating in its current location at that time. The Borrower currently operates as a K-8 school and has an enrollment of 600+ students. The Borrower's charter contract limits its enrollment to 1,176. Approximately 94% of the Borrower's current students are Hispanic. Approximately 90% of the Borrower's current students are economically disadvantaged, approximately 10% are limited English proficient (LEP) and approximately 70% are at risk. The Borrower currently has approximately 75 students (approximately 12% of total current student population) who qualify for special education services, and approximately 554 students (approximately 92% of total current student population) who qualify for free or reduced cost lunch. The Borrower is dedicated to attracting a student body that is reflective of the school-aged population of the community it serves.

#### Mission

The Borrower was founded on the conviction that a first-rate education is the birthright of every individual, that all children can learn, and that every child should be challenged to reach his or her full potential.

#### Facilities and the Project

The Borrower will use the proceeds of the Series 2010 Bonds to (i) acquire an approximately 2.54-acre tract of land and an educational building located at 4018 South Presa Street in San Antonio, Texas (the "Facilities") and to pay the cost of renovations and improvements to such Facilities, including the construction of additional parking spaces and a covered outdoor physical education pavilion, and (ii) reimburse the costs of acquiring six portable modular classroom buildings that are currently being leased by the Borrower (collectively, the "Project"). The Facilities consist of an approximately 49,005 square-foot multi-story building which was originally built in 1955. The Borrower currently leases and operates grades K-2 from the first floor of the building, which was renovated in 2001 and currently consists of 9 classrooms for grades K-2 and 4 additional classrooms for various purposes including smaller group intervention sessions. The renovated first floor provides the Borrower with approximately 18,200 square feet of instructional and office space. The Borrower currently operates grades 3-8 from 12 semi-permanent modular buildings on the site surrounding the building, six of which the Borrower has purchased and the remaining six which the Borrower leases. The Borrower will use a portion of the proceeds of the Series 2010 Bonds to acquire the building and renovate the Facilities for use as educational facilities. The renovations will include modernizing and reconfiguring first floor classroom space, and completely renovating the second floor for use as classroom and office space.

The plans and specifications for the Project contemplate that upon completion of the renovation portion of the Project, the Facilities will provide 10 additional education classrooms, a science lab, a computer lab, a library and an outdoor pavilion. The Borrower has purchased 6 of the modular buildings on August 27, 2010 for a total purchase price of approximately \$121,000, which is to be reimbursed out of Series 2010 Bond proceeds and intends to use these 6 modular buildings to continue to provide instructional space for grades 6-8 and to provide services to the Borrower's special education students. The Borrower will continue to use the remaining 6 modular buildings, which it leases, until the completion of the Project, at which time the Borrower will discontinue use of the 6 leased modular buildings and return the modular buildings to GE, the lessor.

The Borrower has occupied the Facilities since the inception of the school in the 1998-99 school year. The Borrower currently leases the first floor of the Facilities from ASI Texas, LLC, a Delaware limited liability company ("ASI Texas"), pursuant to the lease agreement dated August 1, 2000. That lease has a stated term of 15 years, from August 1, 2000 through July 31, 2015. The Borrower has entered into a purchase contract with ASI Texas for the acquisition of the Facilities at a purchase price of \$3,000,000. The Borrower currently leases and will continue to lease its central office space indefinitely.

### **Project Construction**

The Borrower has entered into an agreement for the construction of the Project (the "Construction Contract") based on the American Institute of Architect's *Standard Form of Agreement Between Owner and Construction Manager where the Construction Manager is Also the Constructor* (AIA Document A121CMc-2003 and AGC Document 565) with Eaton Commercial, LLP, San Antonio, Texas (the "Contractor"). SHW Group LLP, Austin, Texas (the "Architect") is the architect with respect to the Project. Under the terms of an agreement entered into between the Borrower and the Architect (the "Architect Contract") based on the American Institute of Architect's *Standard Form of Architect's Services: Design and Construction Contract Administration* (AIA Document B201-2007), the Architect was required to administer the request for proposal process for a construction manager at risk. The terms of the Architect Contract require that the Architect perform certain administrative responsibilities, including visiting the construction site at appropriate intervals to become familiar with the progress and quality of work, reviewing and certifying amounts due to the Contractor and rejecting work that does not conform to related contracts.

The Construction Contract specifies a fixed contract sum of \$6,000 for design and pre-construction work, and \$2,972,493 for construction work relating to the Project. The Construction Contract states that the Contractor's fee as construction manager is 4% of the Cost of Work (as defined in the Construction Contract). The Construction Contract provides that amounts attributable to the General Conditions for the work will be fixed at the time the Borrower approves the Guaranteed Maximum Price (as defined in the Construction Contract), and amounts attributable to the General Conditions will not exceed \$92,424. Although the Construction Contract contains a fixed sum for construction work relating to the Project, there can be no guaranty that actual construction costs will not exceed such amount, and hence exceed the amount available to the Borrower for construction purposes. See "RISK FACTORS – Construction Costs and Completion of Construction." A complete copy of the Construction Contract is available upon request, as provided under "MISCELLANEOUS – Additional Information" above.

### **Appraisals**

Brad Hodges and Associates, San Antonio, Texas ("Hodges and Associates") prepared an Appraisal and Valuation Analysis, as of December 16, 2009 (the "2009 Appraisal") of the building and real estate located at 4018 South Presa Street in San Antonio, Texas. The 2009 Appraisal indicates that its purpose is to estimate the market value of the subject property. The 2009 Appraisal states that the cost and the sales comparison approach to value were used in the estimate of market value for the subject property, giving equal weight to both approaches. The 2009 Appraisal states the opinion of Hodges and Associates that (i) the market value of the subject property in "as-is" condition was \$2,600,000 and (ii) the market value of the subject property in "subject to the completion of the renovations" condition was \$4,400,000, based on a completion date of 14 months from the date of the 2009 Appraisal for the balance of construction. A complete copy of the 2009 Appraisal is available upon request, as described under "MISCELLANEOUS – Additional Information." The estimated value indicated in the 2009 Appraisal represents only the opinion of Hodges and Associates, and only as of the date of the 2009 Appraisal. Hodges and Associates has not been engaged to update or revise the estimates contained in the 2009 Appraisal. See "RISK FACTORS – Value of Property May Fluctuate; Limitations of Appraisals."

The Borrower indicates that the purchase price for the Facilities for an amount which is more than its estimated market value as determined by Hodges and Associates in the 2009 Appraisal is necessary to maintain the Borrower's presence in the community it serves, which the Borrower believes goes to the core of its mission. Before agreeing on the \$3,000,000 purchase price for the Facilities, the Borrower was in negotiations with ASI Texas for approximately two years. The Borrower states that based on the agreed upon purchase price for the Facilities, the lease payments for the Facilities are higher than what the anticipated annual debt service on the Series 2010 Bonds will be, and accordingly, the Borrower expects that purchasing the Facilities will create economic value for the Borrower.

## Environmental Assessment

STC Environmental Services, Inc., San Antonio, Texas ("STC Environmental Services") performed a Phase I Environmental Site Assessment of the property located at 4018 South Presa Street in San Antonio, Texas. Subsequently, STC Environmental Services performed certain environmental investigative activities as part of an update to its initial assessment. In that connection, STC Environmental Services prepared a Phase I Environmental Assessment Report dated October 29, 1999 (the "Report") and an Update to Phase I Environmental Assessment Report, dated June 20, 2003 (the "Update"), respectively.

The Report states that the purpose of the assessment was to gather information and provide an opinion based on the data investigated as to the potential for environmental liabilities that could potentially be associated with the subject property. The Report states that it contains information gathered from a site visit, historical information searches that included a title search, a review of available city directories, a review of available fire insurance maps, a review of area geology and a review of local, state and federal regulatory databases. The Report states that the emphasis of the assessment was to identify the presence, release or threat of release, of any hazardous substances that could potentially affect the subject property as a result of current or past uses of the site. The Report states that STC Environmental Services performed the assessment in accordance with generally accepted practices of the profession undertaken in similar studies at the same time and in the same geographical area and in voluntary general compliance with ASTM Standard for Environmental Site Assessments on Commercial Real Estate, E1527-97. The Update states that the purpose of the Update was to assess the then-current conditions of the subject property to determine if any changes occurred since the original Report was completed that would or could change any of the original conclusions and/or recommendations for the subject property. The Update states that the environmental investigative activities conducted as part of the Update review included a review of the 1998 aerial photograph, a site visit and a new regulatory database search.

The Report states that, based on the results of the Phase I Environmental Site Assessment, a low potential for environmental concern is considered to exist for the subject site. The Report states that the low potential for concern is considered to exist due to the presence of asbestos containing materials and lead based paint, as well as the presence of regulated facilities in the area of the subject site. The Report cautions that it is possible that additional environmental concerns may exist on the property that could not be identified through the scope of the investigation. The Report disclaims that the summarized results are not a guarantee or warranty that no environmental conditions exist or that the property is completely clean or free from all contamination. The Report further cautions that the assessment is not an environmental audit of the facilities operating on the subject site, and states that an environmental audit focuses on the compliance status of operations at an existing facility, rather than the existence of environmental conditions associated with the site. The Update states that, based on the findings of the Update, it is the opinion of STC Environmental Services that no significant changes in environmental conditions have occurred at the site since the time of the Report.

The Report and Update speak only as of their respective dates, and the Borrower has not requested that any additional environmental assessment be made. Further, the Report and the Update are subject to the limitations specified in such Report and Update. More generally, no environmental assessment can completely eliminate uncertainty regarding the potential for recognized environmental conditions in connection with a subject property. Potential investors must refer to the complete Report and the complete Update for a full understanding of such limitations, and for additional information pertinent to the assessment. Copies of the Report and the Update are available as described under "MISCELLANEOUS – Additional Information" above. See also "RISK FACTORS – Environmental Regulation."

## Curriculum and Special Emphases

### General

The Borrower's curriculum has two key components: a traditional academic component that focuses on core academic elements, and an enrichment component that focuses on self development and character development. The academic component focuses on the State mandated core academic elements as well as intervention strategies to provide at risk/struggling students with the remediation they need to be successful. The enrichment component focuses on self development and character development, interweaving a level of depth and complexity into the core curriculum to provide real-world experiences. Key aspects of these components are as follows:

#### The Academic Component

- *Grade Level Specific TEKS/TAKS Requirements* - Students are required to meet the minimum standards as required by the State with the goal of having the students reach a commended level of learning beyond the minimum requirements.
- *Second Language Acquisition* - Sheltered instruction strategies in the general education classroom and in small groups are utilized by the Borrower so that students acquire a pragmatic and academic understanding of the English language.
- *Computer Literacy* - Students have the opportunity to use a computer lab so that students are able to participate in computer based lessons and create multimedia projects. Technology is available in the general education classrooms and is integrated into lessons.
- *Fine Arts Appreciation* - The Borrower offers an art and music program as well as extracurricular activities which provide opportunities to participate in teacher led choir and mariachi programs and the Folklorico dance program.
- *Physical Education* - The physical education program focuses on health education for the entire school community including training staff members and families as well as making exercise fun and incorporating state physical education standards.
- *Intervention and the Response to Intervention Model* - The Borrower utilizes a widely adopted, tiered system to ensure that all students are reaching their potential. Strategies and goals are created and measured to determine the components needed for the student to be successful. Students have the opportunity to participate in small, intimate class settings with a teacher specializing in specific subject areas. Teams of teachers meet with the student and the student's family to make determinations regarding the student's instructional program based on available data.

#### The Enrichment Component

- *Character Education* - Teachers integrate a character virtue into their lesson plans each week. *Wisepquotes* are implemented daily to reinforce character education through short anecdotes communicated in the morning announcements to encourage students to make good choices throughout the day.
- *Self-Development Exploration* - Groups of students participate in the *Esquelitas* program with students from St. Mary's University who mentor the Borrower's female students in the development of their self-confidence and academic abilities. The students participate in city events including marches and parades to realize issues in a larger context.
- *Service Learning Activities* - Student Council and National Junior Honor Society participate in activities to promote and model excellent citizenship. Students are involved in environmental awareness activities, serve the community with beautification projects, and advocate the importance of higher education to their fellow students to create a college-bound culture.



- *Project-Based Learning Activities* - Students actively engage in subject matters by using various tools and resources, including technology. Project-Based Learning is an instructional approach built upon authentic learning activities that engage student interest and motivation and exemplifies learning in depth. The activities are designed to answer a question or solve a problem and reflect the types of learning that can be connected to real world issues. Project-Based Learning teaches communication and presentation skills, organization and time management skills, research and inquiry skills, self-assessment and reflection skills and group participation and leadership skills.
- *Parental Involvement Activities* - Parents are encouraged to participate in the education of their children. The Borrower strives to create a bridge between the Charter School and home by providing a forum for parents to volunteer and have a voice in the Borrower's decisions including serving on various committees.

### **Parental Involvement**

The Borrower encourages parents to play an active role in decision-making, character building, and providing a home environment that encourages academic success. In turn, the Borrower strives to provide a rigorous curriculum, effective and supportive teachers, and state-of-the-art materials and technology. This "Partnership in Success" seeks to ensure development of well-rounded and successful students who are life-long learners and productive citizens. The Borrower invites the parents of its students to be vital partners in their child's education, including through a parent center located in the heart of the Borrower's campus. The parent center allows parents to have their own place to volunteer, hold meetings, and assist students and teachers with various projects such as the student uniform donation center. Parents are also invited to express their views in the form of surveys and committees such as the Site Based Decision Making Committee and the School Health Advisory Committee so that members of the school can respond to the needs of the families. Education courses to improve parenting skills and adult job skills are held throughout the year. Other courses of interest determined through the survey results are provided by community members, parents, students or faculty (such as language instruction, child development classes, and nutrition classes). Adult education classes utilizing the Rosetta Stone software and tutorial for Spanish speaking parents is readily available in the parent center, provided by the Borrower's ESL department. The San Antonio Library and other community agencies such as the South Presa Community Center collaborate to promote literacy development, bridging the gap between home and school. This collaboration includes specific events such as Academic Nights and the "Little Read Wagon" seeks to promote literacy skills for pre-school aged children and up. The scheduling of regular workshops and academic nights are designed to help parents support specific academic goals such as improving reading skills.

### **Healthy Meals Initiative**

The Borrower strives to provide its students with meals that are nutritionally sound and appealing. The Borrower maintains a food service committee, with parent members represented on the committee, to help the Borrower plan quality meals and provide parents with information necessary to encourage their children to make healthy food choices both within and outside of the school environment.

### **Extracurricular Activities**

The Borrower offers various sports and music extracurricular activities, including boy's basketball, girl's basketball, flag football, golf and soccer. Other afterschool activities include mariachi, Folklorico dance, choir and the Cougar Conservation Club to support environmental awareness. *Esquelitas* is available to female students in grades 3 through 8 during the school year. The Borrower partners with Boy Scouts and Girl Scouts of America, hosting after school meetings on the campus. National Junior Honor Society and Student Council are academic extracurricular activities available to students in middle school. Art appreciation, poetry and expressive writing classes are offered to students after school through the ESL department. Summer basketball camp is also provided free of charge for students. The Borrower has partnered with the Texas A&M San Antonio campus to provide summer classes in science to students in grade 6.

## **Charter Contract**

### **General**

The Charter Schools Act provides for the creation of charter schools in order to improve student learning, to increase the choice of learning opportunities within the public school system, to create professional opportunities that will attract new teachers to the public school system, to establish a new form of accountability for public schools and to encourage different and innovative learning methods. Texas law provides for three classes of charters: home-rule school district charters, campus or campus programs charters, and open-enrollment charters. See "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW – GENERAL." The Borrower operates as an open-enrollment charter school. The term for which an open enrollment charter school's charter contract is effective is not specifically set forth in the Texas Education Code. According to the Texas Education Agency, however, the current practice has been to grant open-enrollment charters for a five-year period and then to renew the charters for additional ten-year periods.

### **The Borrower's Charter Renewal History**

The Borrower's charter contract was initially executed on September 22, 1998, for a term of five years effective August 1, 1998 to July 31, 2003 (the "Original Charter Contract"). Near the end of the initial term, the Borrower applied for a renewal of the charter. During an audit conducted by the Texas Education Agency with respect to the charter renewal application, the Borrower was not able to locate some accounting records requested by the Texas Education Agency. No action with respect to the charter renewal application was taken by the Texas Education Agency at the time, and the Borrower continued to operate pursuant to the Original Charter Contract. In 2007, the Borrower applied for a renewal of the charter. In connection with its review of the charter renewal request, the Texas Education Agency made certain findings and granted a conditional renewal for a one-year period through July 31, 2008. In particular, the Texas Education Agency found that the Borrower had entered into a management contract with Advantage, Inc., an educational management organization ("EMO") based in Boston, Massachusetts, and in that connection was found to have impermissibly relinquished control over its business records for the 1998-99 and 1999-2000 school years, which resulted in a failure to maintain complete control of its financial management system, and failed to comply with certain purchasing policies and procedures for the fiscal years ending on August 31, 1999 and 2000 and recordkeeping requirements, all in violation of its charter contract. The Texas Education Agency's conditional renewal was conditioned on the Borrower agreeing to maintain an accurate and complete financial management system, to comply with applicable state and federal financial requirements, and to comply with pertinent recordkeeping requirements, all as required by its charter and applicable law. The Borrower had terminated its relationship with Advantage, Inc. in 2000 and complied with all such requirements during the conditional renewal term. Near the end of the conditional renewal term, the Borrower applied for and the Texas Education Agency approved a subsequent renewal of the charter contract, for a 10-year period through July 31, 2018.

### **Revocation and Nonrenewal**

Under the Charter Schools Act and the terms of the Borrower's charter contract, the Commissioner of Education (the "Commissioner") may modify, place on probation, revoke, or deny renewal of the charter contract of an open-enrollment charter school (such as the Borrower) if the Commissioner determines that the school has:

- (i) committed a material violation of the charter, including failure to satisfy accountability provisions prescribed by the charter;
- (ii) failed to satisfy generally accepted accounting standards of fiscal management;
- (iii) failed to protect the health, safety, or welfare of the students enrolled at the school; or
- (iv) failed to comply with any applicable law or rule.

Any action the Commissioner takes in this respect 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 may take a variety of actions if an open-enrollment charter school commits a material violation of its charter, fails to satisfy generally accepted accounting standards of fiscal management, or fails to comply with any applicable law or rule. The Commissioner may:

- (i) temporarily withhold funding;
- (ii) suspend the authority of an open-enrollment charter school to operate; or
- (iii) 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.

If the Commissioner takes such action, the open-enrollment charter school may not receive funding and may not resume operating until a determination is made that:

- (i) 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
- (ii) the conditions at the school that presented a danger of material harm to the health, safety, or welfare of students have been corrected.

Not later than the third business day after the date the Commissioner takes action, the Commissioner must provide the school an opportunity for a hearing, after which the Commissioner must take action or cease any temporary sanctions. Texas law provides that relevant provisions of the Texas Government Code do not apply to a hearing related to a modification, placement on probation, revocation, or denial of renewal of a charter. See "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW – CHARTER REVOCATION AND NON-RENEWAL."

### **Governance and Management**

The Borrower operates as a Texas non-profit corporation and as such is governed by the law applicable to such entities and its articles of incorporation and bylaws. The Borrower's articles of incorporation and bylaws provide that the Borrower is managed and controlled by a Board of Trustees.

#### **Board of Trustees**

The Borrower's bylaws provide that its Board of Trustees shall consist of not less than three Trustees. Trustees shall be elected at the annual meeting of the Trustees and each Trustee shall serve until the next succeeding annual meeting of the Trustees or special meeting in lieu thereof, and until his/her successor is duly elected, or until he/she sooner dies, resigns or is removed. The Borrower's bylaws provide that its officers shall be a President, a Treasurer, a Secretary, a Chairman of the Board and such other officers as the Board of Trustees may, in its discretion, elect or appoint. The President need not be a Trustee. So far as is permitted by law, any two or more offices may be held by the same person, except that no one individual shall serve as both the President and the Secretary simultaneously. The President, the Treasurer, and the Secretary shall be elected by the Board of Trustees at its annual meeting, by vote of a majority of the full Board of Trustees for a term not exceeding three years. Vacancies may be filled by the affirmative vote of a majority of the Trustees remaining in office, even if a quorum is not present when such a vote is taken. The following section provides information on the current members of the Board of Trustees.

### **Fernando Cruz – President**

Fernando Cruz serves as President of the Board of Trustees and has served on the Board since 2008. Mr. Cruz is currently a personal injury litigator. He is licensed by the State Bar of Texas and is admitted to practice before the U.S. District Courts for the Western District of Texas. Prior to becoming a personal injury litigator, Mr. Cruz served seven years as a litigator specializing in insurance defense. Mr. Cruz is a strong supporter of ACTS Missions of San Antonio and is a sought-after motivational speaker who has spoken to hundreds of students at numerous schools through San Antonio. Mr. Cruz is a member of the Texas Trial Lawyers Association, San Antonio Trial Lawyers Association, San Antonio Bar Association, Mexican-American Bar Association and the Phi Alpha Delta Law Fraternity International Alumni Association. Mr. Cruz received his bachelor's degree from Southern Methodist University and his law degree from Drake Law School.

### **Angela G. Etter – Secretary**

Angela G. Etter serves as Secretary of the Board of Trustees and has served on the Board since 2008. Ms. Etter is currently a Special Education Management System / Special Education Resource System ("SEMS-SERS") Clerk for the Austin Academy. Prior to working for Austin Academy, Ms. Etter was a SEMS-SERS Clerk for Tynan and Travis Elementary Schools. She also worked for eight years at the Texas Department of Human Resources in San Antonio. Ms. Etter has taken courses at San Antonio College.

### **Joe Jesse Sanchez – Trustee**

Joe Jesse Sanchez serves as Treasurer of the Board of Trustees and has served on the Board since 2009. Mr. Sanchez currently serves as the Administrator for the Bexar County Juvenile Justice Academy under the Bexar County Juvenile Probation Department. Prior to this position, Mr. Sanchez worked for the Harlandale Independent School District as an Assistant Superintendent of Administration, and Interim Assistant Superintendent of Administration, an Interim Director of Personnel and Director of Student Support Services. Mr. Sanchez has also taught Educational Administration graduate level courses as an adjunct professor at Texas A&M University. Mr. Sanchez is a life member of the San Antonio Youth Literacy Council and is a member and Chairperson of the Bexar County Juvenile Justice Academy Advisory Board. Mr. Sanchez received an associate's degree from San Antonio College, his bachelor's degree from St. Mary's University, his master's degree from Our Lady of the Lake University and has pursued graduate studies at Texas A&M University, University of Texas at San Antonio and Texas A&I University.

### **Greg Garcia – Trustee**

Greg Garcia serves as a Trustee and has served on the Board since 2010. Mr. Garcia has been directly associated with Texas A&M University for over 45 years. He is currently the Assistant Vice-Chancellor for Governmental Affairs. Prior to working for Texas A&M, Mr. Garcia was a Corporate National Sales and Division Manager for Superior Surgical Manufacturing Incorporated, with whom he worked for 20 years. Mr. Garcia is actively engaged in the San Antonio community. His involvement includes grassroots campaigning, strategic planning, program development and public relations. He served as Senator Frank Madla's campaign manager for several years and has worked on a multitude of campaigns on the local, state and federal level. Mr. Garcia is a member of The Greater San Antonio Chamber of Commerce and presently serves on the Public Affairs Steering, Legislative Task Force and the Education Task Force Committees. He was appointed to the San Antonio Bexar County Bond Oversight Board and also served on the San Antonio Greater Chamber Red Carpet & Diplomat Committees and was selected "Diplomat of the Year" by the Chamber. Mr. Garcia received his bachelor's degree from Texas A&M University and attended graduate school at St. Mary's University.

### **Tom Brady – Trustee**

Tom Brady serves as a Trustee and has served on the Board of Trustees since 2009. Mr. Brady is the Director of Security for the San Antonio Menger Hotel. Mr. Brady was previously employed by the Bexar County Sheriff's Office where he was assigned to the Court Security Division as a bailiff. He was also a part-time instructor at St. Phillip's College. Mr. Brady served in the United States Army from 1962 to 1965. He is a member of the Harp & Shamrock Society of Texas, the past President of the Sons of Hermann and former President of the Downtown Security Directors Association. He received his associate's degree from San Antonio College.

### **Senior Leadership**

Listed below are key administrators of the Borrower, along with a brief description of the responsibilities of their respective positions and biographical information pertaining to each.

#### **Alfredo Segura, Jr. – Chief Executive Officer**

Alfredo Segura, Jr. serves as Chief Executive Officer of the Borrower and has served in that capacity since October 2005. As Chief Executive Officer, Mr. Segura is the chief administrator for the Borrower and is responsible for developing and implementing its policies, programs, curriculum activities and budgets in a manner that promotes the educational development of the Borrower's students and the professional development of the Borrower's educators and staff. Prior to coming to the Borrower, Mr. Segura was the Director of Compliance and Operations for Texas with Charter Schools USA. Mr. Segura is currently a Board Member of the Association of Charter Educators, serves on the Membership Council Executive Committee of the Texas Charter Schools Association, is the Charter School Representative of the Region 20 Board of Directors, and is a Certified Provider (Board/Administration Trainer) with the Texas Education Agency. He received his bachelor's degree from Our Lady of the Lake University.

#### **Jesse Jimenez – Business Manager**

Jesse Jimenez serves as the Business Manager of the Borrower and has served in that capacity since 2005. As Business Manager, Mr. Jimenez is responsible for maintaining a financial management system in accordance with applicable rules and guidelines. During his time as Business Manager, Mr. Jimenez has been responsible for the financial oversight of the Borrower's after school program, the national school lunch program and advanced placement program. Mr. Jimenez is also involved in the processing of payroll, supervision of facilities maintenance and repairs. Mr. Jimenez has served on the Board of Trustees of the Inman Christian Center. He received his bachelor's degree from The University of Texas at San Antonio.

### **Employees and Labor Relations**

The Borrower currently employs 46 full-time teachers, 5 administrators and 22 support staff. The Borrower's target class size is 22 students. The following table sets forth student-faculty ratios (i.e., the number of students compared to the number of in-classroom teachers) at the Borrower on a grade-by-grade basis in general classes for the school years shown below.

**TABLE B-1:  
STUDENT / TEACHER  
RATIOS**

Grade	2009-10
K	21:1
1	19:1
2	19:1
3	22:1
4	19:1
5	24:1
6	24:1
7	21:1
8	26:1

Source: The Borrower.

All of the Borrower's teachers, support staff and additional employees are employees of and are compensated by the Borrower. Teachers and other employees are employed as "at will" employees. Teachers and other employees receive a salary agreement on an annual basis which provides what they will earn for the duration of the year should they continue their employment with the Borrower. At the end of each school year, each position is evaluated and decisions to extend offers for the following school year are made. In an effort to continue to improve the school's performance, the Borrower recently did not extend offers for the 2010-11 school year to 20 of its teachers and support staff. The Borrower's decision not to extend offers to these teachers and support staff were based on a variety of factors including targeting certain areas for improvement such as middle school and special education instruction, seeking to build favorable relationships with parents and having a strong market for hiring new teachers. All of the teaching positions for the 2010-11 school year have since been filled. The Borrower believes that the faculty, administration and the Board of Trustees have a strong and collaborative working relationship. The Borrower monitors its teachers and makes determinations about their ongoing status with the Borrower. Prior to this year, the Borrower retained between approximately 75% and 90% of its teachers each year, year-to-year since 2007-08. The Borrower considers relations with the teachers to be good.

**Enrollment**

Enrollment in the Borrower is open to all residents of Texas subject to compliance with State statutes, which prohibit discrimination in admission policy on the basis of sex, national origin, ethnicity, religion, disability, academic, artistic, or athletic ability, or the district the applicant would otherwise attend. Texas law requires that open-enrollment charter schools such as the Borrower must (i) require applicants to complete and submit an application not later than a reasonable deadline established by the school, and (ii) upon receipt of more acceptable applications for admission than available positions in the school, fill the available positions either by lottery, or if the school has published a notice of the opportunity to apply, the school may fill available positions in the order in which applications were received before the application deadline. See "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW – GENERAL – Admission and Evaluation."

The following table sets forth data provided by the Borrower regarding the school's historical and projected enrollment. For the years 2006-07 through 2008-09, data presented is based on the Texas Education Agency's Academic Excellence Indicator System counts. For 2009-10, the data presented represents actual enrollment as of the end of the school year. For 2010-11, the data presented represents actual enrollment as of September 15, 2010. Enrollment data for 2011-12 is estimated by the Borrower, and is subject to the general qualifications and limitations described under "INTRODUCTION – Forward-Looking Statements," above. The Borrower's Original Charter Contract limits the number of students that may enroll in the charter school to 1,176. The Borrower estimates that the physical capacity of the current site is approximately 640 students.

**TABLE B-2: HISTORICAL AND FUTURE PROJECTED ENROLLMENT**

Grade	<i>Historical</i>					<i>Projected</i>		
	2006-07	2007-08	2008-09	2009-10	2010-11*	2011-12	2012-13	2013-14
K	44	57	53	64	67	63	63	63
1	59	53	69	58	68	63	63	63
2	73	54	69	59	65	63	63	63
3	61	65	53	67	68	63	63	63
4	65	63	70	58	63	63	63	63
5	74	64	62	72	74	70	70	70
6	87	68	72	72	77	70	70	70
7	76	84	79	65	74	70	70	70
8	88	75	79	79	66	70	70	70
<b>Total</b>	<b>627</b>	<b>583**</b>	<b>606</b>	<b>594</b>	<b>622</b>	<b>595</b>	<b>595</b>	<b>595</b>

Source: Borrower.

\*2010-11 reflects enrollment at the school as of September 2010. There is space for all enrolled students to return in future years, however, for budgeting purposes, the Borrower plans to have approximately 595 students for future years.

\*\*The Borrower made a decision in the years leading up to and including 2007-08 to decrease enrollment to allow for more student intervention during the school day with the goal of improving academic results. After 2007-08, the Borrower believed it had successfully implemented its intervention programs and began slowing growing enrollment to its goal to maintain approximately 600+ students.

### Marketing Efforts

The Borrower conducts an advertising and marketing campaign throughout the year to attract new students by publishing in the local newspapers and by holding informational meetings at the school. The Borrower uses a grass roots marketing approach based on word of mouth referrals and door-to-door visits, targeting certain neighborhoods in the vicinity of the Borrower's campus. In addition, the Borrower conducts summer marketing activities by sending direct mailings to 22,750 homes, advertising in the local newspaper, displaying two outdoor banners, using eight junior billboards which are rotated every two weeks to new locations, holding an annual open house and barbecue for new student recruitment and organizing a San Antonio Area Charter School Student and Parent Charter School Fair.

### Wait List

The Borrower accepts applications throughout the year, with re-enrollment beginning in May of each year and open-enrollment beginning in June. Students must complete an application and meet all deadlines for the application process. If at any time enrollment exceeds the capacity of the school, subsequent applicants are put on a waiting list. When space becomes available, the school holds a lottery to determine which students are allowed to enroll. Only applications received prior to the July 31st application deadline are eligible to participate in the lottery. Students that are not selected in the lottery process remain on the waiting list, and are admitted as space becomes available throughout the year. The Borrower purges its waiting list throughout the year, removing students as they are admitted or as students are enrolled elsewhere. As the application period begins for the following year, the process as described above is repeated. The following table presents waiting list data as of August of each year for the years shown. The Borrower has not historically emphasized or sought to build a waiting list. The Borrower represents that it serves a student population that tends to enroll when the school year starts (or shortly thereafter) versus in the spring or summer. Further, the Borrower has historically been of the opinion that attracting students to only place them on the waiting list would tend to hurt its reputation with the community it serves. Starting with the 2010-11 school year, the Borrower will seek to develop a waiting list. The Borrower has consistently maintained its enrollment levels over the past 3-4 years despite the fact that it did not seek to build a waiting list in the past.

**TABLE B-3:  
WAITING LIST DATA**

Grade	2010-11
K	2
1	4
2	3
3	3
4	1
5	2
6	22
7	4
8	0
<b>Total</b>	<b>41</b>

Source: Borrower.

### Student Retention

The following table compares the number of K-7 students enrolled on October 31, 2008 who were also enrolled on October 31, 2009 in grades 1-8.

**TABLE B-4:  
STUDENT RETENTION DATA**

Enrollment as of October 31, 2008	Enrollment as of October 31, 2009	Retention Rate
K-7 527	1-8 406	77.03%

Source: Borrower.

### Service Area and Competing Schools

The Borrower's facilities are located in the City of San Antonio. Students comprising approximately 97.2% of the Borrower's current student body reside in the City of San Antonio, and students comprising approximately 81.9% of the Borrower's current student body reside within the San Antonio Independent School District (the "District") within the City of San Antonio. The Borrower believes that it competes for students with public schools and private schools within the City of San Antonio and the District. For the 2009-10 school year, there were approximately 89 public schools serving an estimated 47,500 students in the District. For that same period, there were approximately 36 charter schools with 63 individual campus locations in the District. The Borrower considers its primary competition to be those schools that are generally within walking distance of the Borrower and do not cross physical barriers, such as busy intersections or railroad tracks. The Borrower faces constant competition for students and there can be no assurance that the Borrower will continue to attract and retain the number of students that are needed to generate sufficient revenues for the Borrower to make payments on the Series 2010 Bonds in an amount necessary to pay debt service on the Series 2010 Bonds. See "RISK FACTORS – Competition for Students."



Information set forth in this section is meant to provide prospective investors with general information concerning certain economic and demographic conditions existing in the Borrower's service area. Such information has been obtained from the referenced sources and is believed to represent the most current information available from such sources, but certain of the information is released only after a significant amount of time has passed and hence such information may not be indicative of economic and demographic conditions as they currently exist or conditions which may be experienced in the near future. Further, the reported data has not been adjusted to reflect economic trends, notably inflation.

### Population

The following table sets forth comparative population statistics for the City of San Antonio, Bexar County and the State of Texas:

**TABLE B-5: COMPARATIVE POPULATION**

Year	City of San Antonio*	Percent Change	Bexar County	Percent Change	State of Texas	Percent Change
2004	1,240,223	--	1,487,463	--	22,418,319	--
2005	1,260,333	1.62%	1,511,506	1.62%	22,801,920	1.71%
2006	1,293,203	2.61%	1,550,921	2.61%	23,369,024	2.49%
2007	1,325,660	2.51%	1,588,905	2.45%	23,837,701	2.01%
2008	1,351,305	1.93%	1,621,304	2.04%	24,304,290	0.82%

Source: U.S. Census Bureau, Population Estimates Program; estimates as of July 1 of the years shown.

\*Data for the City of San Antonio was taken from the "2008 Population Estimates" as 2009 data was not available. Data presented for Bexar County and the State of Texas were taken from the "2009 Population Estimates" as that was the most current information available.

### Median Age

According to the U.S. Census Bureau, 2006-2008 American Community Survey, the three-year estimated median ages for the residents of the City of San Antonio was 32.6 years, for the residents of Bexar County was 32.8 years, and for the State of Texas was 33.2 years.

### Housing Stock

The following table sets forth housing unit information for the City of San Antonio and Bexar County.

**TABLE B-6: HOUSING UNITS**

	2000	2006*	Percent Change
City of San Antonio	433,122	489,867	13.10%
Bexar County	521,359	589,853	13.13%

Source: U.S. Census Bureau, Summary File 1 (SF 1) and Summary File 3 (SF 3).

\*2006 data is presented as it is the most current data available for the City of San Antonio.

## Income

The following table sets forth per capita personal income for Bexar County, the State of Texas and the United States.

**TABLE B-7: PER CAPITA PERSONAL INCOME**

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Bexar County	31,597	33,353	34,586	35,090
State of Texas	33,185	35,272	36,838	37,809
United States	35,424	37,698	39,392	40,166

Source: U.S. Department Commerce, Bureau of Economic Analysis.

## Building Permit Activity

The following table provides information regarding the number of residential building permits in the City of San Antonio for the years indicated.

**TABLE B-8:  
HISTORY OF ESTIMATED RESIDENTIAL BUILDING  
ACTIVITY IN THE CITY OF SAN ANTONIO**

<b>Year</b>	<b>City of San Antonio</b>
2003	6,250
2004	7,729
2005	8,699
2006	7,655
2007	4,440
2008	2,907
2009	2,864

Source: U.S. Census Bureau.

## Student Performance

The Student Assessment Division of the Texas Education Agency manages and oversees the development, administration, scoring, and analysis of the State's assessment program. The State-wide assessment program includes the Texas Assessment of Knowledge and Skills ("TAKS") and the Texas English Language Proficiency Assessment System ("TELPAS").

### Texas Assessment of Knowledge and Skills ("TAKS")

TAKS currently measures a student's mastery of the State-mandated curriculum, the Texas Essential Knowledge and Skills ("TEKS"). While the criteria measured under TAKS is subject to change, TAKS is currently administered for the following:

- Grades 3-9 reading (grades 3-5 for the Spanish version of TAKS);
- Grades 3-10 and exit level mathematics (grades 3-5 for the Spanish version);
- Grades 4 and 7 writing (grade 4 for the Spanish version);
- Grade 10 and exit level English Language Arts;
- Grades 5, 8, 10, and exit level science (grade 5 for the Spanish version); and
- Grades 8, 10, and exit level social studies.

TAKS includes an accommodated form called TAKS-Accommodated for students served by special education who meet the eligibility requirements for certain specific accommodations. TAKS also includes an alternate assessment called TAKS-Modified for students receiving special education services who meet certain participation requirements and for whom TAKS is not appropriate. TAKS also includes an alternate assessment called TAKS-Alternate based on alternate academic achievement standards designed for students with significant cognitive disabilities who meet the participation requirements.

Student performance on the TAKS tests is categorized into achievement levels "Did Not Meet Standard," "Met Standard," or "Commended Performance." The following table provides data comparing the percentage of the Borrower's students who have "Met Standard" (which by definition includes students who have also achieved "Commended Performance") to the performance of schools the Borrower considers to be its primary competition, the District, Region 20 Educational Service Center ("ESC") and the State. Region 20 ESC is one of 20 regional educational service agencies within Texas that assist school districts in improving student performance and increasing the efficiency and effectiveness of school operations. Region 20 ESC includes the City of San Antonio, within which the Borrower resides.

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**TABLE B-9:  
TEXAS ASSESSMENT OF KNOWLEDGE AND SKILLS (ENGLISH)  
PERCENTAGE OF STUDENTS WHO "MET STANDARD" (INCLUDING "COMMENDED PERFORMANCE")\***

**2009-10**

	<b>Borrower</b>	<b>Riverside Park Academy</b>	<b>Eloise Japhet Elementary</b>	<b>Steele Elementary</b>	<b>Connell Middle</b>	<b>District</b>	<b>Region 20 ESC</b>	<b>State of Texas</b>
<b>Grade 3</b>								
Reading	82%	77%	91%	96%	--	84%	90%	92%
Math	65%	51%	76%	90%	--	72%	83%	86%
<b>Grade 4</b>								
Reading	78%	76%	88%	68%	--	76%	84%	86%
Math	93%	66%	81%	82%	--	79%	85%	88%
Writing	84%	70%	87%	91%	--	85%	91%	92%
<b>Grade 5</b>								
Reading	75%	56%	82%	82%	--	77%	84%	85%
Math	76%	64%	86%	89%	--	76%	85%	86%
Science	76%	79%	92%	88%	--	79%	86%	88%
<b>Grade 6</b>								
Reading	77%	--	--	--	74%	76%	84%	86%
Math	66%	--	--	--	70%	66%	78%	82%
<b>Grade 7</b>								
Reading	78%	--	--	--	70%	77%	85%	86%
Math	61%	--	--	--	57%	65%	78%	81%
Writing	88%	--	--	--	89%	89%	94%	95%
<b>Grade 8</b>								
Reading	86%	--	--	--	84%	85%	90%	91%
Math	70%	--	--	--	58%	63%	78%	80%
Science	53%	--	--	--	53%	59%	73%	78%
Social Studies	89%	--	--	--	89%	90%	94%	95%

**2008-09**

	<b>Borrower</b>	<b>Riverside Park Academy</b>	<b>Eloise Japhet Elementary</b>	<b>Steele Elementary</b>	<b>Connell Middle</b>	<b>District</b>	<b>Region 20 ESC</b>	<b>State of Texas</b>
<b>Grade 3</b>								
Reading	--	--	--	--	--	32%	37%	40%
Math	90%	60%	74%	91%	--	70%	81%	84%
<b>Grade 4</b>								
Reading	64%	70%	72%	82%	--	74%	83%	84%
Math	67%	50%	58%	77%	--	73%	83%	86%
Writing	84%	82%	79%	78%	--	86%	90%	91%
<b>Grade 5</b>								
Reading	50%	--	--	--	--	35%	41%	41%
Math	53%	60%	75%	95%	--	74%	83%	84%
Science	59%	54%	74%	97%	--	72%	83%	84%
<b>Grade 6</b>								
Reading	83%	--	--	--	85%	86%	91%	91%
Math	44%	--	--	--	50%	61%	75%	80%
<b>Grade 7</b>								
Reading	74%	--	--	--	75%	76%	85%	84%
Math	69%	--	--	--	53%	60%	76%	79%
Writing	92%	--	--	--	87%	90%	93%	93%
<b>Grade 8</b>								
Reading	40%	--	--	--	--	36%	45%	46%
Math	59%	--	--	--	44%	61%	77%	79%
Science	40%	--	--	--	46%	55%	70%	72%
Social Studies	57%	--	--	--	85%	85%	91%	92%

Source: The Borrower, from information made available by the Texas Education Agency.

\* The results presented above include the first administration of tests (within the year) only.

## **Texas English Language Proficiency Assessment System ("TELPAS")**

The Texas English Language Proficiency Assessment System ("TELPAS") is designed to assess the progress that English language learners ("ELLs") make in learning the English language. Texas assesses ELLs in listening, speaking, reading, and writing in grades K-12.

The TELPAS assessment components are as follows:

- For ELLs in grades K-1, TELPAS is composed of holistically rated listening, speaking, reading, and writing assessments based on classroom observations.
- For ELLs in grades 2-12, TELPAS is composed of multiple-choice reading tests, holistically rated student writing collections, and holistically rated speaking and listening assessments. The listening and speaking assessments are based on classroom observations.

The TELPAS assessments are not designed to measure mastery of content with a pass or fail score, which is one of the main differences between TELPAS and TAKS. TELPAS measures the learning of English according to a second language acquisition continuum that reflects distinct stages of second language development. These stages are termed English language proficiency levels. TELPAS assesses and reports four proficiency levels: "Beginning," "Intermediate," "Advanced," and "Advanced High." The following table provides data comparing the percentage of the Borrower's students who have tested "Advanced" or "Advanced High" to the performance of the District, Region 20 ESC and the State.

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**TABLE B-10:  
TEXAS ENGLISH LANGUAGE PROFICIENCY ASSESSMENT SYSTEM  
PERCENTAGE OF STUDENTS WHO TESTED "ADVANCED HIGH" or "ADVANCED "**

**2009-10**

	Borrower		District		Region 20 ESC		State of Texas	
	Advanced	Advanced High	Advanced	Advanced High	Advanced	Advanced High	Advanced	Advanced High
	<b>Grade K</b>							
Listening	17%	17%	11%	6%	18%	12%	18%	10%
Speaking	50%	0%	10%	5%	15%	10%	16%	8%
Reading	67%	0%	4%	3%	11%	8%	12%	7%
Writing	17%	17%	3%	2%	10%	7%	10%	5%
<b>Grade 1</b>								
Listening	86%	0%	25%	10%	29%	21%	30%	20%
Speaking	57%	29%	21%	7%	25%	18%	25%	16%
Reading	86%	0%	14%	7%	20%	16%	21%	16%
Writing	14%	0%	9%	3%	17%	13%	18%	11%
<b>Grade 2</b>								
Listening	17%	67%	34%	26%	35%	34%	35%	32%
Speaking	67%	17%	32%	18%	33%	27%	32%	25%
Reading	50%	50%	26%	21%	27%	34%	27%	34%
Writing	33%	0%	19%	11%	25%	18%	26%	16%
<b>Grade 3</b>								
Listening	50%	13%	34%	34%	35%	41%	35%	41%
Speaking	50%	13%	33%	26%	33%	35%	34%	33%
Reading	0%	50%	27%	37%	26%	46%	26%	47%
Writing	38%	25%	26%	17%	32%	20%	32%	21%
<b>Grade 4</b>								
Listening	50%	30%	35%	46%	33%	50%	33%	49%
Speaking	60%	20%	35%	39%	34%	42%	35%	40%
Reading	30%	50%	29%	50%	28%	50%	28%	48%
Writing	40%	30%	35%	27%	35%	28%	36%	28%
<b>Grade 5</b>								
Listening	27%	27%	32%	55%	31%	55%	31%	52%
Speaking	27%	36%	35%	46%	34%	47%	35%	42%
Reading	27%	36%	20%	67%	20%	66%	21%	62%
Writing	9%	36%	35%	36%	37%	32%	37%	29%
<b>Grade 6</b>								
Listening	29%	57%	38%	41%	31%	52%	32%	49%
Speaking	29%	43%	40%	39%	34%	46%	34%	43%
Reading	43%	43%	31%	52%	32%	53%	33%	50%
Writing	43%	29%	40%	30%	39%	31%	37%	29%
<b>Grade 7</b>								
Listening	17%	83%	37%	43%	32%	47%	31%	49%
Speaking	0%	83%	35%	43%	32%	42%	33%	43%
Reading	67%	33%	26%	57%	27%	55%	29%	53%
Writing	33%	50%	36%	30%	37%	30%	38%	30%
<b>Grade 8</b>								
Listening	9%	64%	35%	44%	31%	46%	31%	48%
Speaking	9%	73%	39%	38%	31	405	32%	42%
Reading	18%	73%	22%	62%	25	55%	26%	55%
Writing	36%	18%	39%	29%	35	295	36%	32%

2008-09

	Borrower		District		Region 20 ESC		State of Texas	
	Advanced	Advanced High	Advanced	Advanced High	Advanced	Advanced High	Advanced	Advanced High
<b>Grade K</b>								
Listening	14%	57%	12%	4%	14%	57%	12%	4%
Speaking	14%	0%	8%	3%	14%	0%	8%	3%
Reading	0%	14%	4%	2%	0%	14%	4%	2%
Writing	29%	29%	3%	1%	29%	29%	3%	1%
<b>Grade 1</b>								
Listening	33%	50%	22%	8%	33%	50%	22%	8%
Speaking	0%	33%	18%	7%	0%	33%	18%	7%
Reading	33%	33%	12%	6%	33%	33%	12%	6%
Writing	50%	17%	7%	2%	50%	17%	7%	2%
<b>Grade 2</b>								
Listening	25%	25%	35%	18%	25%	25%	35%	18%
Speaking	13%	25%	30%	14%	13%	25%	30%	14%
Reading	38%	13%	24%	19%	38%	13%	24%	19%
Writing	25%	0%	21%	7%	25%	0%	21%	7%
<b>Grade 3</b>								
Listening	20%	40%	38%	32%	20%	40%	38%	32%
Speaking	20%	40%	35%	27%	20%	40%	35%	27%
Reading	20%	60%	25%	37%	20%	60%	25%	37%
Writing	30%	30%	27%	17%	30%	30%	27%	17%
<b>Grade 4</b>								
Listening	36%	27%	32%	47%	36%	27%	32%	47%
Speaking	27%	36%	33%	42%	27%	36%	33%	42%
Reading	18%	27%	27%	53%	18%	27%	27%	53%
Writing	18%	18%	31%	33%	18%	18%	31%	33%
<b>Grade 5</b>								
Listening	--	--	32%	48%	--	--	32%	48%
Speaking	--	--	33%	41%	--	--	33%	41%
Reading	--	--	18%	65%	--	--	18%	65%
Writing	--	--	30%	36%	--	--	30%	36%
<b>Grade 6</b>								
Listening	--	--	38%	46%	--	--	38%	46%
Speaking	--	--	37%	45%	--	--	37%	45%
Reading	--	--	26%	57%	--	--	26%	57%
Writing	--	--	35%	35%	--	--	35%	35%
<b>Grade 7</b>								
Listening	9%	73%	33%	45%	9%	73%	33%	45%
Speaking	9%	73%	30%	42%	9%	73%	30%	42%
Reading	18%	64%	19%	65%	18%	64%	19%	65%
Writing	18%	45%	33%	37%	18%	45%	33%	37%
<b>Grade 8</b>								
Listening	--	--	29%	45%	--	--	29%	45%
Speaking	--	--	36%	35%	--	--	36%	35%
Reading	--	--	33%	45%	--	--	33%	45%
Writing	--	--	34%	28%	--	--	34%	28%

Source: Borrower, from information made available by the Texas Education Agency.

## **AYP Status**

In Texas, under the accountability provisions of Title I of the Elementary and Secondary Education Act, as reauthorized by the No Child Left Behind Act of 2001 ("NCLB"), all public school campuses, school districts, and the State are evaluated for Adequate Yearly Progress ("AYP"). Districts, campuses, and the state are required to meet AYP criteria on three measures: Reading/Language Arts, Mathematics, and either Graduation Rate (for high schools and districts) or Attendance Rate (for elementary and middle/junior high schools).

Materials published by the Texas Education Agency's Office of Assessment, Accountability and Data Quality, *Final AYP Results by District Name*, indicate each of the Borrower's campuses (Early Childhood Academy (2009-2010\*), Elementary School (2005-2010), and Middle School (2007-2010)) have met AYP each year in which they were subject to evaluation since 2005.

Charter schools are also evaluated on a "district" basis. The districts must count subgroups within the district which have 50 or more students for purposes of AYP. For the Borrower, the special education subgroup has 50 or more students and must be counted in determining its district AYP. As a result, the Borrower as a district did not meet AYP in 2007-2010.

In Texas, if a campus or district that receives Title I, Part A funds fails to meet AYP for two consecutive years, that campus or district is subject to certain requirements such as offering supplemental education services, offering school choice, and/or taking other corrective actions. The Borrower has taken proactive measures to rectify areas of deficiencies by providing more emphasis on the special education student population in the district as addressed through a District Improvement Plan, required for Title I, Part A Stage 1 and 2 LEA School Improvement entities. Failure by the Borrower to meet the requirements of NCLB in the future could have a material adverse effect on the Borrower and its ability to generate revenues necessary to make loan payments representing debt service on the Series 2010 Bonds. See "RISK FACTORS – Compliance with No Child Left Behind Act of 2001."

## **Accountability Rating**

The State's accountability system assigns ratings to every district and campus in the public education system each year. In most cases, the State assigns one of four rating labels, ranging from lowest to highest: Academically Unacceptable, Academically Acceptable, Recognized, and Exemplary. The State may also assign "Not Ranked" under certain circumstances, generally in cases where there is insufficient data to rate the school or campus. To determine the rating label, the State evaluates indicators of performance including assessment results on the State standardized assessment instruments as well as longitudinal completion rates and annual dropout rates. In addition to evaluating performance for all students, the performance of individual groups of students is held to the rating criteria. The student groups are defined to be the major ethnic groups and the group of students designated as economically disadvantaged. All of the evaluated groups must meet the criteria for a given rating category in order to earn that label.

A set of alternative performance measurers for campuses serving at-risk students was developed in late 1994 and implemented in the 1995-96 school year. Campuses that are evaluated under these measurers are alternative education campuses ("AECs") including charters and charter campuses that: 1) are dedicated to serving students at risk of dropping out of school; 2) are eligible to receive an alternative education accountability ("AEA") rating; and 3) register annually for evaluation under AEA procedures. Registered AECs and charters rated under AEA procedures are assigned three rating labels: AEA: Academically Acceptable; AEA: Academically Unacceptable; and AEA: Not Rated - Other.

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\* AYP data for 2010 is "preliminary" data at this time.



**TABLE B-11: ACCOUNTABILITY RATINGS**

2008-09		
	District Rating	Campus Ratings
New Frontiers	Academically Acceptable	
Middle School		AEA: Academically Acceptable
Elementary School		Academically Acceptable
Early Childhood Academy		Exemplary
2009-10		
	District Rating	Campus Ratings
New Frontiers	Recognized	
Middle School		AEA: Academically Acceptable
Elementary School		Recognized
Early Childhood Academy		Recognized

Source: The Borrower, from information made available by the Texas Education Agency.

In January 2009, the United States Department of Education approved the use of the Texas Projection Measure ("TPM") for calculating AYP. The TPM estimates whether a student is likely to pass TAKS assessments at a future grade (grade 5, 7 writing only, 8 or 11). This measure is based on three pieces of data: (1) the student's current performance on TAKS, (2) the student's previous year performance in the subject of interest, and (3) the TAKS scores of all students on the campus that the student attends. The TPM is currently used in the state accountability system only in ways that can benefit districts, meaning no campus or district rating is lowered as a result of applying the TPM. Students who achieve Met Standard in 2010 or are projected to meet the standard at the next high-stakes grade will be included in district and campus performance rates for evaluating 2010 AYP results. The following table provides information regarding the percentage of students who "Met Standard" (including "Commended Performance") or "Met TPM" for the 2009-10 school year.

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**TABLE B-12:  
TEXAS ASSESSMENT OF KNOWLEDGE AND SKILLS (ENGLISH) FOR TPM  
PERCENTAGE OF STUDENTS WHO "MET STANDARD" (INCLUDING "COMMENDED PERFORMANCE")**

2009-10

	Borrower	Riverside Park Academy	Eloise Japhet Elementary	Steele Elementary	Connell Middle	District	Region 20 ESC	State of Texas
<b>Grade 3</b>								
Reading	87%	80%	91%	96%	--	85%	92%	93%
Math	84%	67%	93%	96%	--	87%	92%	93%
<b>Grade 4</b>								
Reading	86%	79%	91%	84%	--	82%	90%	91%
Math	95%	83%	88%	91%	--	86%	90%	92%
Writing	96%	95%	100%	100%	--	98%	99%	99%
<b>Grade 5</b>								
Reading	95%	90%	96%	100%	--	95%	97%	97%
Math	82%	69%	88%	91%	--	82%	89%	90%
Science	87%	82%	95%	88%	--	82%	88%	89%
<b>Grade 6</b>								
Reading	94%	--	--	--	92%	92%	96%	96%
Math	72%	--	--	--	81%	77%	85%	87%
<b>Grade 7</b>								
Reading	87%	--	--	--	88%	88%	93%	93%
Math	63%	--	--	--	61%	69%	82%	85%
Writing	*	--	--	--	*	*	*	*
<b>Grade 8</b>								
Reading	100%	--	--	--	99%	98%	99%	99%
Math	85%	--	--	--	82%	82%	91%	92%
Science	85%	--	--	--	85%	86%	93%	94%
Social Studies	99%	--	--	--	95%	98%	99%	99%

Source: The Borrower, from information made available by the Texas Education Agency.

\* TPM not calculated.

### Debt and Lease Obligation Summary

The Borrower currently has no long term outstanding debt obligations.

The Borrower currently leases and will continue to lease its central office space indefinitely. The current lease term is effective from August 1, 2010 through July 31, 2013. For the current fiscal year, the Borrower pays approximately \$45,000 in lease payments on an annual basis, which could increase to a maximum of approximately \$48,000 annually in 2013.

The Borrower's lease with ASI Texas for the Facilities will conclude upon the closing of the Series 2010 Bonds. The Borrower's lease with GE for the 6 modular buildings that the Borrower has not purchased will end upon the completion of the Project.

### Conflicts and Financial Control Policies

In connection with the issuance of the Series 2010 Bonds, the Borrower represents that it will not purchase or sell goods, services, or property from (i) any officer, director, trustee, individual with significant influence over the Borrower, (ii) any business owned or controlled by any such person, or (iii) any relative of any such person. For purposes of conflict of interest laws, Texas law treats a member of a board of a charter holder, a member of the board of a charter school, or an officer of a charter school to be a local public official.

Additionally, the Borrower maintains a policy whereby any purchase of over \$50,000 is required to have approval of the full Board.

## Projected Revenues and Expenditures

This Official Statement contains certain "forward-looking" statements of the type described in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. See "INTRODUCTION – Forward-Looking Statements" above. Although the Borrower believes that the assumptions upon which the forward-looking statements contained in this Official Statement are based are reasonable, any of the assumptions could prove to be inaccurate and, as a result, the forward-looking statements based on those assumptions could also be incorrect. All phases of the operations of the Borrower involve risks and uncertainties, many of which are outside of the Borrower's control and any one of which, or a combination of which, could materially affect the Borrower's results with respect to the school's operations. Factors that could cause actual results to differ from those expected include, but are not limited to, general economic conditions; the willingness of the State to fund public schools including charter schools at present or increased levels; competitive conditions within the Borrower's service area; lower-than-projected enrollment; unanticipated expenses; changes in government regulation including changes in the law governing charter schools in Texas; future claims for accidents against the Borrower and the extent of insurance coverage for such claims; and other risks discussed in this Official Statement. See "RISK FACTORS" above.

The Borrower is providing the following Historical and Projected Revenues and Expenses table for illustrative purposes only. These projections have been prepared by the Borrower with assistance from its financial advisor, based on the Borrower's operating history and its assumptions about future State funding levels and future operations of the Borrower, including student enrollment and expenses. The Borrower's projections have not been independently verified by any party other than the Borrower. No feasibility studies have been conducted with respect to operations of the Borrower pertinent to the Series 2010 Bonds. The Underwriter has not independently verified the Borrower's projections, and makes no representations nor gives any assurances that such projections, or the assumptions underlying them, are complete or correct.

The following Historical and Projected Revenues and Expenses table is not presented in the format of the financial statements included herein (see "APPENDIX C – FINANCIAL STATEMENTS"), was not prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), and has not been prepared or reviewed by the certified public accounting firm that prepares the school's audited financial statements.

NO REPRESENTATION OR ASSURANCE CAN BE GIVEN THAT THE BORROWER WILL REALIZE REVENUES IN AMOUNTS SUFFICIENT TO MAKE ALL REQUIRED DEBT SERVICE PAYMENTS ON THE SERIES 2010 BONDS. THE REALIZATION OF FUTURE REVENUES DEPENDS ON, AMONG OTHER THINGS, THE MATTERS DESCRIBED IN "RISK FACTORS" AND FUTURE CHANGES IN ECONOMIC AND OTHER CONDITIONS THAT ARE UNPREDICTABLE AND CANNOT BE DETERMINED AT THIS TIME. THE UNDERWRITER MAKES NO REPRESENTATION AS TO THE ACCURACY OF THE PROJECTIONS CONTAINED HEREIN, NOR AS TO THE ASSUMPTIONS ON WHICH THE PROJECTIONS ARE BASED.

**TABLE B-11: HISTORICAL AND PROJECTED REVENUES AND EXPENSES**

	Actual 2008	Actual 2009	Pro Forma 2010	Budget 2011	Pro-forma 2012
<b>Assumptions: (\$ in 000s)</b>					
Average Daily Attendance	555	568	572	565	565
State Revenue per Student	7,788	8,221	8,839	8,500	8,500
<b>Revenue</b>					
State Revenue	4,321,410	4,672,175	5,057,828 (1)	4,802,500	4,802,500
State Revenue Carry Forward	-	-	97,748	-	-
Federal Revenue	859,930	886,275	1,017,982	1,149,686	980,382 (2)
Other (Food Service)	16,390	13,713	13,817	12,858	13,244
Other (Interest Income)	17,928	8,485	-	-	-
Other (Cocurricular, enterprising services, or activities)	13,746	10,660	8,908	-	-
<b>Total Revenue</b>	<b>5,229,404</b>	<b>5,591,308</b>	<b>6,196,283</b>	<b>5,965,044</b>	<b>5,796,126</b>
<b>Expenses</b>					
Instructional	2,669,609	3,051,703	3,181,934	3,231,769	3,176,349
Curriculum Development & Instructional Staff Dev.	25,835	10,644	3,750	3,750	3,863
Instructional Leadership	-	9,147	-	-	-
School Leadership	255,106	287,232	189,617	191,607	197,355
Guidance, Counseling and Evaluation Services	46,912	48,208	51,011	51,011	52,541
Health Services	49,853	52,191	52,987	52,987	54,577
Food Services	260,790	278,711	295,162	301,065	310,097
General Administration	527,536	564,604	598,897	568,952	569,091
Debt service (interest only)	-	-	-	485,000	580,000
Plant Maintenance and Operations	993,564	942,955	1,120,637	459,073 (3)	472,845
Security and Monitoring Services	861	1,432	1,780	1,872	1,928
Community Services	7,885	9,650	5,440	5,440	5,603
Fundraising	-	-	10,000	16,000	16,480
<b>Total Expenses</b>	<b>4,837,951</b>	<b>5,256,477</b>	<b>5,511,215</b>	<b>5,368,526</b>	<b>5,440,729</b>
<b>Total Change in Net Assets</b>	<b>391,453</b>	<b>334,831</b>	<b>685,068</b>	<b>596,518</b>	<b>355,397</b>
<b>Change in Unrestricted Net Assets</b>	<b>404,681</b>	<b>338,910</b>	<b>686,318</b>	<b>595,018</b>	<b>353,897</b>
<b>Change in Temporarily Restricted Net Assets (4)</b>	<b>(13,228)</b>	<b>(4,079)</b>	<b>(1,250)</b>	<b>1,500</b>	<b>1,500</b>
<b>Total Change in Net Assets</b>	<b>391,453</b>	<b>334,831</b>	<b>685,068</b>	<b>596,518</b>	<b>355,397</b>
Add: Interest expense	-	-	-	485,000	580,000
Add: Depreciation (5)	45,244	55,949	-	-	-
Add: Other (Lease expense term. after closing)	408,420	408,420	408,420	-	-
<b>Adjusted Net Change in Unrestricted Assets</b>	<b>858,345</b>	<b>803,279</b>	<b>1,094,738</b>	<b>1,080,018</b>	<b>933,897</b>
<b>Estimated Net Annual Debt Service</b>	<b>570,000</b>	<b>570,000</b>	<b>570,000</b>	<b>465,000</b>	<b>570,000</b>
<b>Estimated Net Debt Service Coverage</b>	<b>1.51</b>	<b>1.41</b>	<b>1.92</b>	<b>2.32</b>	<b>1.64</b>
<b>Estimated Gross Annual Debt Service (w/o QSCB Pmt.)</b>	<b>770,000</b>	<b>770,000</b>	<b>770,000</b>	<b>630,000</b>	<b>770,000</b>
<b>Estimated Gross Debt Service Coverage</b>	<b>1.11</b>	<b>1.04</b>	<b>1.42</b>	<b>1.71</b>	<b>1.21</b>
<b>(Includes Total Change in Net Assets)</b>					

(1) Reflects cash payments received through FY2010 before "settle-up" process;

management does not expect settle up to result in a material difference in FY2010 State Revenues

(2) Reduction from loss of American Recovery and Reinvestment Act of 2009 Funds

(3) Decline from 2010 to 2011 reflects elimination of lease expense and anticipated lower maintenance costs, one time expenses for 2010 and expense re-allocations in 2011.

(4) Temporarily restricted net assets represent net assets in any federal funds that may be used in the following fiscal year.

The change in temporarily restricted net assets represent the operating results of the food service activities

(5) Depreciation is not included in the 2010 Pro Forma, 2011 budget or 2012 pro forma columns under total expenses therefore it is not added back in the corresponding years.

Source: the Borrower. Project information constitutes forward-looking statements. See "INTRODUCTION - Forward-Looking Statements," see also "RISK FACTORS - Operating History; Reliance on Projections."

**APPENDIX C**  
**FINANCIAL STATEMENTS**

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**New Frontiers Charter School, Inc.**

Financial Report

August 31, 2009 and 2008

# New Frontiers Charter School, Inc.

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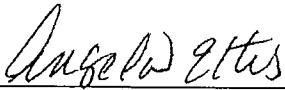


**New Frontiers Charter School, Inc.**

Federal Employer Identification Number: 31-1598661

Certificate of Board

We, the undersigned, certify that the attached financial and compliance report of the above-named charter holder was reviewed and (check one)  approved  disapproved for the year ended August 31, 2009, at a meeting of the governing body of the charter holder on the 13<sup>th</sup> day of January, 2010.



\_\_\_\_\_  
Signature of Board Secretary



\_\_\_\_\_  
Signature of Board President

If the governing body of the charter holder disapproved the independent auditors' report, the reason(s) for disapproving it is (are): (attach list as necessary)



## Padgett Stratemann & Co. LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

### Independent Auditors' Report

To the Board of Trustees  
New Frontiers Charter School, Inc.  
San Antonio, Texas

We have audited the accompanying statements of financial position of New Frontiers Charter School, Inc. ("NFCS, Inc.") as of August 31, 2009 and 2008, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of NFCS, Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NFCS, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NFCS, Inc. as of August 31, 2009 and 2008, and the results of its operations and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2010, on our considerations of NFCS, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

SAN ANTONIO • AUSTIN

100 N.E. Loop 410, Suite 1100 • San Antonio, Texas 78216 • P 210.828.6281 • T 800.879.4966 • F 210.826.8606 • [www.padgett-cpa.com](http://www.padgett-cpa.com)

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Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise NFCS, Inc.'s financial statements. The accompanying Schedule of Expenditures of Federal Awards for the year ended August 31, 2009 is presented for purposes of additional analysis, as required by the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the financial statements. The other supplemental information is presented for purposes of additional analysis and is also not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Padgett, Stratmann & Co., L.L.P.*

Certified Public Accountants

January 8, 2010

## Financial Statements

# New Frontiers Charter School, Inc.

## Statements of Financial Position

August 31, 2009 and 2008

### Assets

<b>Current Assets</b>	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 1,203,680	\$ 1,025,675
Due from state	41,527	-
Accounts receivable	28,403	62,516
Prepaid expenses and other assets	<u>46,246</u>	<u>83,147</u>
Total current assets	1,319,856	1,171,338
<b>Property and Equipment – net</b>	<u>237,548</u>	<u>129,312</u>
Total assets	\$ <u>1,557,404</u>	\$ <u>1,300,650</u>

### Liabilities and Net Assets

#### Current Liabilities

Accounts payable	\$ 28,054	\$ 16,938
Due to state	-	100,592
Accrued payroll liabilities	81,138	74,624
Accrued expenses	2,956	-
Due to student groups	<u>1,929</u>	<u>-</u>
Total current liabilities	<u>114,077</u>	<u>192,154</u>

#### Net Assets

Unrestricted net assets	1,429,924	1,091,014
Temporarily restricted	<u>13,403</u>	<u>17,482</u>
Total net assets	<u>1,443,327</u>	<u>1,108,496</u>
Total liabilities and net assets	\$ <u>1,557,404</u>	\$ <u>1,300,650</u>

*Notes to financial statements from an integral part of these statements.*

## New Frontiers Charter School, Inc.

### Statement of Activities and Changes in Net Assets

Year Ended August 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals 2009</u>
<b>Revenues and Other Support</b>			
Local support:			
Food service	\$ -	\$ 13,713	\$ 13,713
Interest income	8,485	-	8,485
Cocurricular, enterprising services, or activities	<u>10,660</u>	<u>-</u>	<u>10,660</u>
Total local support	<u>19,145</u>	<u>13,713</u>	<u>32,858</u>
State program revenues:			
Foundation School Program	-	4,572,862	4,572,862
Accelerated Reading Instructional Technology Allotment	-	79,827	79,827
School Lunch Matching Allotment	-	17,067	17,067
	<u>-</u>	<u>2,419</u>	<u>2,419</u>
Total state program revenues	<u>-</u>	<u>4,672,175</u>	<u>4,672,175</u>
Federal program revenues:			
Title IV, Part A – Safe and Drug Free Schools	-	4,098	4,098
Title I, Part A – Grants to Local Education Agencies	-	324,172	324,172
Child Nutrition Cluster	-	239,671	239,671
IDEA-Part B, Formula	-	139,707	139,707
IDEA-Part B, Discretionary	-	95,309	95,309
IDEA-Part B, Preschool	-	2,784	2,784
Title II, Part A – Improving Teacher Quality	-	58,818	58,818
Title II, Part D – Education Technology Grants	-	2,886	2,886
United States Department of Agriculture donated commodities	<u>-</u>	<u>18,830</u>	<u>18,830</u>
Total federal program revenues	<u>-</u>	<u>886,275</u>	<u>886,275</u>
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>5,576,242</u>	<u>(5,576,242)</u>	<u>-</u>
Total revenues and other support	<u>5,595,387</u>	<u>(4,079)</u>	<u>5,591,308</u>

*Notes to financial statements from an integral part of these statements.*

**New Frontiers Charter School, Inc.**

Statement of Activities and Changes in Net Assets

Year Ended August 31, 2009

(Continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals 2009</u>
<b>Expenses</b>			
11 Instructional	\$ 3,051,703	\$ -	\$ 3,051,703
13 Curriculum development and instructional staff development	10,644	-	10,644
21 Instructional leadership	9,147	-	9,147
23 School leadership	287,232	-	287,232
31 Guidance, counseling, and evaluation services	48,208	-	48,208
33 Health services	52,191	-	52,191
35 Food services	278,711	-	278,711
41 General administration	564,604	-	564,604
51 Plant maintenance and operations	942,955	-	942,955
52 Security and monitoring services	1,432	-	1,432
61 Community services	9,650	-	9,650
	<u>5,256,477</u>	<u>-</u>	<u>5,256,477</u>
Total expenses			
Change in net assets	338,910	(4,079)	334,831
Net assets at beginning of year	<u>1,091,014</u>	<u>17,482</u>	<u>1,108,496</u>
Net assets at end of year	<u>\$ 1,429,924</u>	<u>\$ 13,403</u>	<u>\$ 1,443,327</u>

*Notes to financial statements from an integral part of these statements.*

## New Frontiers Charter School, Inc.

### Statement of Activities and Changes in Net Assets

Year Ended August 31, 2008

	<u>Unrestricted Funds</u>	<u>Temporarily Restricted Funds</u>	<u>Totals 2008</u>
<b>Revenues and Other Support</b>			
Local support:			
Food service	\$ -	\$ 16,390	\$ 16,390
Interest income	17,928	-	17,928
Cocurricular, enterprising services, or activities	<u>13,746</u>	<u>-</u>	<u>13,746</u>
Total local support	<u>31,674</u>	<u>16,390</u>	<u>48,064</u>
State program revenues:			
Foundation School Program	-	4,232,321	4,232,321
Accelerated Reading Instructional Technology Allotment	-	70,355	70,355
School Lunch Matching Allotment	<u>-</u>	<u>16,188</u>	<u>16,188</u>
	<u>-</u>	<u>2,546</u>	<u>2,546</u>
Total state program revenues	<u>-</u>	<u>4,321,410</u>	<u>4,321,410</u>
Federal program revenues:			
Title IV, Part A – Safe and Drug Free Schools	-	4,965	4,965
Title I, Part A – Grants to Local Education Agencies	-	359,560	359,560
Title I, Part C – Migrant Education	-	2,409	2,409
Child Nutrition Cluster	-	228,627	228,627
IDEA-Part B, Formula	-	185,464	185,464
IDEA-Part B, Preschool	-	4,427	4,427
Title II, Part A – Improving Teacher Quality	-	69,239	69,239
Title II, Part D – Education Technology Grants	-	3,164	3,164
Title V, Part A – Innovative Education Program Strategies	-	1,709	1,709
United States Department of Agriculture donated commodities	-	-	-
Medicaid Administrative Claiming Program	<u>-</u>	<u>366</u>	<u>366</u>
Total federal program revenues	<u>-</u>	<u>859,930</u>	<u>859,930</u>
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>5,210,958</u>	<u>(5,210,958)</u>	<u>-</u>
Total revenues and other support	<u>5,242,632</u>	<u>(13,228)</u>	<u>5,229,404</u>

*Notes to financial statements from an integral part of these statements.*



**New Frontiers Charter School, Inc.**

Statement of Activities and Changes in Net Assets

Year Ended August 31, 2008

(Continued)

	<u>Unrestricted Funds</u>	<u>Temporarily Restricted Funds</u>	<u>Totals 2008</u>
<b>Expenses</b>			
11 Instructional	\$ 2,669,609	\$ -	\$ 2,669,609
13 Curriculum development and instructional staff development	25,835	-	25,835
23 School leadership	255,106	-	255,106
31 Guidance, counseling, and evaluation services	46,912	-	46,912
33 Health services	49,853	-	49,853
35 Food services	260,790	-	260,790
41 General administration	527,536	-	527,536
51 Plant maintenance and operations	993,564	-	993,564
52 Security and monitoring services	861	-	861
61 Community services	7,885	-	7,885
	<u>4,837,951</u>	<u>-</u>	<u>4,837,951</u>
Total expenses			
Change in net assets	404,681	(13,228)	391,453
Net assets at beginning of year	<u>686,333</u>	<u>30,710</u>	<u>717,043</u>
Net assets at end of year	<u>\$ 1,091,014</u>	<u>\$ 17,482</u>	<u>\$ 1,108,496</u>

*Notes to financial statements from an integral part of these statements.*

# New Frontiers Charter School, Inc.

## Statements of Cash Flows

Years Ended August 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 334,831	\$ 391,453
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	55,949	45,244
Changes in current assets and liabilities:		
(Increase) decrease in:		
Accounts receivable and due from state	(69,814)	118,196
Prepaid expenses and other assets	36,901	(19,392)
Increase (decrease) in:		
Accounts payable and due to state	(27,076)	59,178
Due to students	1,929	-
Accrued payroll liabilities and expenses	<u>9,470</u>	<u>(51,426)</u>
Net cash provided by operating activities	342,190	543,253
<b>Cash Flows Used In Investing Activities – capital expenditures</b>	<u>(164,185)</u>	<u>(21,063)</u>
Net increase in cash and cash equivalents	178,005	522,190
Cash and cash equivalents at beginning of year	<u>1,025,675</u>	<u>503,485</u>
Cash and cash equivalents at end of year	<u>\$ 1,203,680</u>	<u>\$ 1,025,675</u>

*Notes to financial statements from an integral part of these statements.*

# New Frontiers Charter School, Inc.

## Notes to Financial Statements

### Note 1 – Organization and Significant Accounting Policies

#### *Organization*

New Frontiers Charter School, Inc. (“NFCS, Inc.”) is a Texas nonprofit corporation located in San Antonio, Texas. NFCS, Inc. is governed by a Board of Trustees (the “Board”) comprised of five members in accordance with the open-enrollment charter described below. The Board is selected pursuant to the bylaws of NFCS, Inc. and has the authority to make decisions, appoint the chief executive officer, and significantly influence operations. The Board has the primary accountability for the fiscal affairs of NFCS, Inc.

In 1998, the State Board of Education of the State of Texas granted NFCS, Inc. an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable Contract for Charter, NFCS, Inc. established New Frontiers Charter School (the “School”), formerly San Antonio Advantage Charter School, in the summer of 1998. The School serves grades kindergarten through eighth grade, but is authorized to render services to pre-kindergarten through twelfth grade with a maximum enrollment of 1,176 students. The terms of the current applicable Contract for Charter are from August 1, 2008 to July 31, 2018.

NFCS, Inc. only operates the School and does not conduct any other charter or noncharter activities.

Since NFCS, Inc. receives funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

#### *Basis of Presentation*

NFCS, Inc.’s financial statements have been prepared on the accrual basis of accounting applicable to not-for-profit organizations in accordance with accounting principles generally accepted in the United States of America. Under the accrual method, income and expenses are recognized when earned or incurred. The accompanying financial statements and the related accounting system are organized and prepared in accordance with the Special Supplemental to Financial Accounting and Reporting – Nonprofit Charter School Chart of Accounts, a module of Texas Education Agency’s (“TEA”) *Financial Accountability Resource Guide* (the “Resource Guide”).

NFCS, Inc. accounts and reports its activities in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 116, *Accounting for Contributions Received and Contributions Made* and SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*.

# New Frontiers Charter School, Inc.

## Notes to Financial Statements

### **Note 1 – Organization and Significant Accounting Policies (continued)**

#### ***Basis of Presentation (continued)***

In accordance with these standards, net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions or relevant law. Accordingly, the net assets of NFCS, Inc. and the changes therein are classified and reported as follows.

#### ***Unrestricted***

Unrestricted net assets are resources over which the Board has discretionary control.

#### ***Temporarily Restricted***

Temporarily restricted net assets are those resources, subject to donor-imposed restrictions that will be satisfied by the actions of NFCS, Inc. or the passage of time. At fiscal year end, these net assets represent net assets in any federal funds that may be used in the following fiscal year. As of August 31, 2009 and 2008, temporarily restricted net assets represent the net assets of the food service fund which must be used for future food service activities.

#### ***Permanently Restricted***

Permanently restricted net assets are those resources subject to the donor-imposed restriction that they be maintained permanently by NFCS, Inc. The donors of these resources require that the principal be invested in perpetuity and permit the income earned, including unrealized appreciation, to be used, all or in part, for unrestricted or temporarily restricted purposes. As of August 31, 2009 and 2008, NFCS, Inc. had no permanently restricted net assets.

#### ***Cash and Cash Equivalents***

NFCS, Inc. considers all highly liquid investments purchased with an original maturity date of three months or less to be cash equivalents. Cash and cash equivalents consist of all cash on hand and in banks, money markets, and Texpool accounts.

#### ***Revenue Recognition***

Capitation received, including base capitation, entitlements, and special services, is recognized in the period services are provided. Revenues from the state of Texas are earned based on reported attendance. Public and private grants received are recognized in the period received and when the terms of the grant are met.

# New Frontiers Charter School, Inc.

## Notes to Financial Statements

### Note 1 – Organization and Significant Accounting Policies (continued)

#### *Accounts Receivable*

NFCS, Inc.'s accounts receivable represent capitation funding due from the state of Texas, as well as grants receivable from federal agencies.

The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Losses are charged against the allowance when management believes the uncollectibility of a receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance. NFCS, Inc. considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required.

#### *Due From/To State*

Due from/to state consists of underpayments or overpayments made to NFCS, Inc. from the TEA.

#### *Due to Students*

Due to students represent cash that belongs to various student fundraising groups which are being held by NFCS, Inc.

#### *Property and Equipment*

Property and equipment are stated at cost, if purchased, or at fair value if donated. Additions and improvements are capitalized, while ordinary repairs and maintenance are charged to expense as incurred. Depreciation on property and equipment is calculated on the straight-line method over the estimated useful life of the asset. The capitalization policy for NFCS, Inc. is \$5,000.

<u>Asset Classification</u>	<u>Estimated Useful Life</u>
Improvements, other than building	5 years
Furniture and equipment	10 years
Computer software	5 years

# **New Frontiers Charter School, Inc.**

## Notes to Financial Statements

### **Note 1 – Organization and Significant Accounting Policies (continued)**

#### ***Federal Income Taxes***

NFCS, Inc. is a nonprofit organization and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business income. No such provision was made to the accompanying financial statements.

#### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Advertising Costs***

NFCS, Inc. expenses advertising costs when they are incurred. Advertising costs for the year ended August 31, 2009 totaled approximately \$15,000 (\$13,000 in 2008).

#### ***Functional Allocation of Expenses***

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### ***Subsequent Events***

NFCS, Inc. has evaluated subsequent events that occurred after August 31, 2009 through the filing of this report on January 8, 2010. Any material subsequent events that occurred during this time have been properly recognized or disclosed in the financial statements.

#### ***Reclassification***

Reclassifications have been made to the prior year's financial statements to conform to the current year's presentation. There is no effect on previously reported change in net assets or ending net assets.

## New Frontiers Charter School, Inc.

### Notes to Financial Statements

#### Note 2 – Property and Equipment

Property and equipment consist of the following:

	Balance at September 1, 2008	Additions	Deductions	Balance at August 31, 2009
Improvements, other than building	\$ 87,141	\$ 33,070	\$ -	\$ 120,211
Furniture and equipment	263,496	125,530	-	389,026
Computer software	21,111	5,585	-	26,696
	<u>371,748</u>	<u>164,185</u>	<u>-</u>	<u>535,933</u>
Less accumulated depreciation	<u>(242,436)</u>	<u>(55,949)</u>	<u>-</u>	<u>(298,385)</u>
	<u>\$ 129,312</u>	<u>\$ 108,236</u>	<u>\$ -</u>	<u>\$ 237,548</u>

	Balance at September 1, 2007	Additions	Deductions	Balance at August 31, 2008
Improvements, other than building	\$ 87,141	\$ -	\$ -	\$ 87,141
Furniture and equipment	242,433	21,063	-	263,496
Computer software	21,111	-	-	21,111
	<u>350,685</u>	<u>21,063</u>	<u>-</u>	<u>371,748</u>
Less accumulated depreciation	<u>(197,192)</u>	<u>(45,244)</u>	<u>-</u>	<u>(242,436)</u>
	<u>\$ 153,493</u>	<u>\$ (24,181)</u>	<u>\$ -</u>	<u>\$ 129,312</u>

Depreciation expense totaled \$55,949 for the year ended August 31, 2009 (\$45,244 in 2008).

#### Note 3 – Operating Leases

Operating leases consist of the following:

- NFCS, Inc. entered into a lease agreement with ASI Texas, LLC on August 1, 2000, for the use of its premises for the school facility. The lease agreement is a 15-year term that expires on July 31, 2015. Currently, NFCS, Inc. has entered into the third-year clause of the contract, as per Article 3.1, Section ii, in which the annual fixed rent for the period from August 1, 2005 through July 31, 2010 shall be the sum of \$358,278, plus the product of

# New Frontiers Charter School, Inc.

## Notes to Financial Statements

### Note 3 – Operating Leases (continued)

\$358,278 times the lesser of (a) the change in the Consumer Price Index over the prior 5-year period, or (b) 12.5%. However, according to the settlement agreement signed October 2002, if NFCS, Inc. was unable to either purchase the premises for \$1.7 million or find a third-party buyer within 180 days of that agreement, the fixed annual rent would be adjusted to \$310,000 a year, or \$25,833 per month, with this new amount being the basis for subsequent adjustments to the annual fixed rent in accordance with the original agreement.

For each of the fiscal years 2009 and 2008, NFCS, Inc. recognized rent expense of \$345,650, per this agreement.

- NFCS, Inc. had an operating lease agreement for modular classroom space. The lease required monthly payments of \$10,320 through July 2009. Beginning August 2009, the monthly payment increased to \$10,861 through August 2010.
- NFCS, Inc. also leases office equipment. The lease requires monthly payments of \$2,450 through May 2011 and monthly payments of \$1,120 through September 2014.
- NFCS, Inc. had a lease agreement with a church to rent office space for the central office. The lease expired in July 2008 and was continued on a month to month basis through February 2009 for \$870 a month. The lease was cancelled at that time.
- NFCS, Inc. has a lease agreement for the central office location that requires monthly payments of \$3,715 through July 2010.

Future minimum payments on long-term noncancellable operating leases which were listed above at August 31, 2009 are as follows:

Year ending August 31,	
2010	\$ 534,469
2011	359,089
2012	359,089
2013	359,089
2014	359,089
Thereafter	<u>317,965</u>
	<u>\$ 2,288,790</u>

Total rent expense totaled \$526,683 and \$498,140, respectively, for the years ended August 31, 2009 and 2008.



# New Frontiers Charter School, Inc.

## Notes to Financial Statements

### **Note 4 – Contingencies**

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

### **Grants**

NFCS, Inc. receives a portion of its funding from federal and state programs that are governed by various rules and regulations of the grantors. The ultimate determination of amounts received under these programs is generally based upon allowable costs reported to the government. Until such audits have been completed and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

### **Note 5 – Commitments**

On May 13, 2005, NFCS, Inc. signed an interlocal agreement with Education Service Center Region 20 primarily to process and to record the daily accounting transactions of NFCS, Inc. The monthly fee is based on the School's enrollment. The monthly fee totaled \$4,790, for the years ended August 31, 2009 and 2008. This agreement will automatically renew each fiscal year unless terminated by either party. In addition, NFCS, Inc. signed a three-year agreement for basic internet services for a monthly fee of \$180.

### **Note 6 – Regulated Industry**

The majority of NFCS, Inc.'s activities and revenues are a result of contracts with TEA. NFCS, Inc.'s operations are concentrated in the education field. As such, NFCS, Inc. operates in a heavily regulated environment. The operations of NFCS, Inc. are subject to administrative directives; rules; and regulations of federal, state, and local regulatory agencies, including, but not limited to, TEA. Such administrative directives, rules, and regulations are subject to change by an act of Congress or act of the state legislature or an administrative change mandated by TEA. Funding may be changed or decreased as a result of the above legislative or administrative changes.

# New Frontiers Charter School, Inc.

## Notes to Financial Statements

### Note 7 – Pension Plan Obligations

#### *Plan Description*

NFCS, Inc. began contributing to the Teacher Retirement System of Texas (“TRS”), a public employee retirement system in fiscal year 2006. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by NFCS, Inc., but are the liability of the state of Texas. TRS provides service retirement, disability retirement, and death benefits to plan members and beneficiaries. TRS operates under the authority of provisions contained primarily in Texas Government Code, Title 8, *Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas*, which is subject to amendment by the Texas Legislature. TRS’ annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 877-0123.

#### *Funding Policy*

Under provisions in state law, plan members are required to contribute 6.40% of their annual covered salary and the state of Texas contributes an amount equal to 6.58% of NFCS, Inc.’s covered payroll. NFCS, Inc.’s employees’ contributions to TRS for the year ended August 31, 2009 were \$192,691 (\$190,649 in 2008), the required contributions for the year.

### Note 8 – Health Care Coverage

During the years ended August 31, 2009 and 2008, employees of NFCS, Inc. were covered by a health insurance plan. NFCS, Inc. contributed 95% of the employee’s premium and none of dependent’s premium during the year ended August 31, 2009 and 2008. Employees, at their option, authorize payroll withholdings to pay contributions or premiums for dependents. NFCS, Inc. paid medical premiums of \$306 and dental premiums of \$11 (\$275 and \$11 in 2008) per month, per employee with an aggregate cost of \$228,575 for the year (\$180,533 in 2008). All premiums were paid to licensed insurers.

## **New Frontiers Charter School, Inc.**

### **Notes to Financial Statements**

#### **Note 9 – State Compliance Matters**

NFCS, Inc. reflected a nonfavorable budget variance in Function 52, Security and monitoring services, totaling \$152.

#### **Note 10 – Cash Balance and Credit Risk**

NFCS, Inc. maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Interest bearing accounts are guaranteed by the Federal Deposit Insurance Corporation (“FDIC”) up to a minimum of \$250,000. Noninterest accounts had unlimited FDIC coverage through December 31, 2009. In addition, NFCS, Inc. has an agreement with the Bank of New York where the bank provides pledged collateral in NFCS, Inc.’s name in the event deposits exceed FDIC limits. NFCS, Inc. has not experienced any losses in such accounts.

## Other Supplemental Information

**New Frontiers Charter School, Inc.**

**Schedules of Expenses**

Years Ended August 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Expenses</b>		
6100 Payroll costs	<b>\$ 3,637,445</b>	\$ 3,241,791
6200 Professional and contracted services	<b>1,044,402</b>	1,071,829
6300 Supplies and materials	<b>477,295</b>	435,585
6400 Other operating costs	<b><u>97,335</u></b>	<u>88,746</u>
Total expenses	<b><u>\$ 5,256,477</u></b>	<b><u>\$ 4,837,951</u></b>

**New Frontiers Charter School, Inc.**

**Schedule of Ownership Interest**

August 31, 2009

<u>Asset Classification</u>	<u>Ownership Interest</u>		
	<u>Local</u>	<u>State</u>	<u>Federal</u>
Cash	\$ 2,181	\$ 1,193,205	\$ 8,294
Improvements, other than building	-	120,211	-
Furniture and equipment	-	389,026	-
Computer software	-	26,696	-
	<u>\$ 2,181</u>	<u>\$ 1,729,138</u>	<u>\$ 8,294</u>

# New Frontiers Charter School, Inc.

## Budgetary Comparison Schedule

Year Ended August 31, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance From Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		<u>(Unfavorable)</u>
<b>Revenues and Other Support</b>				
5700 Other local and intermediate sources	\$ 40,000	\$ 55,560	\$ 32,858	\$ (22,702)
5800 State program revenues	4,285,902	4,382,367	4,672,175	289,808
5900 Federal program revenues	242,453	922,154	886,275	(35,879)
<b>Total revenues and other support</b>	<u>4,568,355</u>	<u>5,360,081</u>	<u>5,591,308</u>	<u>231,227</u>
<b>Expenses</b>				
11 Instructional	2,326,330	3,076,492	3,051,703	24,789
13 Curriculum development and instructional staff development	1,500	22,420	10,644	11,776
21 Instructional leadership	41,656	41,656	9,147	32,509
23 School leadership	286,909	286,909	287,232	(323)
31 Guidance, counseling, and evaluation services	48,061	48,061	48,208	(147)
33 Health services	49,869	49,869	52,191	(2,322)
35 Food services	264,953	264,953	278,711	(13,758)
41 General administration	537,256	541,198	564,604	(23,406)
51 Plant maintenance and operations	776,081	1,001,081	942,955	58,126
52 Security and monitoring services	1,280	1,280	1,432	(152)
61 Community services	9,650	9,650	9,650	-
<b>Total expenses</b>	<u>4,343,545</u>	<u>5,343,569</u>	<u>5,256,477</u>	<u>87,092</u>
Change in net assets	224,810	16,512	334,831	318,319
Net assets at beginning of year	<u>1,108,496</u>	<u>1,108,496</u>	<u>1,108,496</u>	<u>-</u>
Net assets at end of year	<u>\$ 1,333,306</u>	<u>\$ 1,125,008</u>	<u>\$ 1,443,327</u>	<u>\$ 318,319</u>

## Compliance Section





Padgett Stratemann & Co. LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Independent Auditors' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed  
in Accordance With *Government Auditing Standards*

To the Board of Trustees  
New Frontiers Charter School, Inc.  
San Antonio, Texas

We have audited the statement of financial position of New Frontiers Charter School, Inc. ("NFCS, Inc.") as of August 31, 2009, and the related statements of activities and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated January 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered NFCS, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NFCS, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NFCS, Inc.'s internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

***Compliance and Other Matters***

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

We noted certain matters that we reported to management of NFCS, Inc. in a separate letter dated January 8, 2010.

This report is intended solely for the information and use of management, others within NFCS, Inc., the Board of Trustees, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Padgett, Stratmann & Co., L.L.P.*

Certified Public Accountants  
January 8, 2010



Padgett Stratemann & Co. LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Independent Auditors' Report on Compliance  
With Requirements Applicable to Each Major  
Program and on Internal Control Over Compliance  
in Accordance With OMB Circular A-133

To the Board of Trustees  
New Frontiers Charter School, Inc.  
San Antonio, Texas

**Compliance**

We have audited the compliance of New Frontiers Charter School, Inc. ("NFCS, Inc.") with the types of compliance requirements described in the United States Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2009. NFCS, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of NFCS, Inc.'s management. Our responsibility is to express an opinion on NFCS, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NFCS, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on NFCS, Inc.'s compliance with those requirements.

In our opinion, NFCS, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2009.

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### *Internal Control Over Compliance*

The management of NFCS, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered NFCS, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of NFCS, Inc.'s internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within NFCS, Inc., the Board of Trustees, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Padgett, Stratemann & Co., L.L.P.*

Certified Public Accountants  
January 8, 2010

# New Frontiers Charter School, Inc.

## Schedule of Findings and Questioned Costs

Year Ended August 31, 2009

### I – Summary of Auditors’ Results

#### Financial Statements

Type of auditors’ report issued:	<u>Unqualified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes	_____ <u>X</u> None Reported
Noncompliance material to financial statements noted?	_____ Yes	_____ <u>X</u> No

#### Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes	_____ <u>X</u> None Reported
Type of auditors’ report issued on compliance for major programs:	<u>Unqualified</u>	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133	_____ Yes	_____ <u>X</u> No

Identification of major programs:

#### CFDA Number(s)

#### Name of Federal Program

10.553	National School Breakfast Program
10.555	National School Lunch Program
10.565	United States Department of Agriculture donated commodities

Dollar threshold used to distinguish between type A and type B programs:	<u>\$300,000</u>	
Auditee qualified as low-risk auditee?	_____ <u>X</u> Yes	_____ No

### II – Financial Statement Finding

*None noted.*

### III – Federal Awards Findings and Questioned Costs

*None noted.*

**New Frontiers Charter School, Inc.**

Summary Schedule of Prior Audit Findings

Year Ended August 31, 2009

None

**New Frontiers Charter School, Inc.**

**Schedule of Expenditures of Federal Awards**

Year Ended August 31, 2009

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>United States Department of Agriculture:</u>			
Passed Through TEA:			
USDA donated commodities	10.565	N/A	\$ 18,830
National School Breakfast Program	10.553	71400901	37,023
National School Lunch Program	10.555	71300901	<u>202,648</u>
Total Passed Through TEA			<u>258,501</u>
<u>United States Department of Education:</u>			
Passed Through TEA:			
Title IV, Part A – Safe and Drug Free Schools	84.186	09691001015805	4,098
Title I, Part A – Grants to Local Education Agencies	84.010	09610101015805	324,172
IDEA-Part B, Formula	84.027	09660001015805660	235,016
IDEA-Part B, Preschool	84.173	09661001015805661	2,784
Title II, Part A – Improving Teacher Quality	84.367	09694501015805	58,818
Title II, Part D – Education Technology Grants	84.318	09630001015805	<u>2,886</u>
Total United States Department of Education			<u>627,774</u>
Total Expenditures of Federal Awards			<u>\$ 886,275</u>

**Note**

Expenditures are recognized on the accrual basis.

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## APPENDIX D

### FORM OF BOND COUNSEL OPINION

[CLOSING DATE]

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

Wells Fargo Bank, N.A.  
1445 Ross Avenue, 2nd Floor  
MAC T5303-022  
Dallas, TX 75202

Re: Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds  
(New Frontiers Charter School) Series 2010A and Taxable Education Revenue Bonds (New  
Frontiers Charter School) Series 2010B

Ladies and Gentlemen:

We have been engaged by New Frontiers Charter School (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 (i) Education Revenue Bonds (New Frontiers Charter School) Series 2010A (the "*Series 2010A Bonds*"), and (ii) Taxable Education Revenue Bonds (New Frontiers Charter School) Series 2010B (the "*Series 2010 B Bonds*" and, together with the Series 2010A Bonds, the "*Bonds*"). The Bonds are issued pursuant to a Trust Indenture and Security Agreement, dated as of October 1, 2010 (the "*Bond Indenture*"), between the Issuer and Wells Fargo Bank, National Association, as trustee (the "*Trustee*"). The proceeds of the Bonds will be loaned by the Issuer to the Company, pursuant to a Loan Agreement (the "*Loan Agreement*"), dated as of October 1, 2010, between the Issuer and the Company, which loan will be evidenced by two promissory notes (together, the "*Series 2010 Notes*"), issued pursuant to the Master Trust Indenture and Security Agreement, dated as of October 1, 2010 (as amended and supplemented as set forth herein, the "*Master Indenture*"), between the Company and Wells Fargo Bank, National Association, as master trustee (the "*Master Trustee*"), as amended and supplemented by the Supplemental Master Trust Indenture No. 1, dated as of October 1, 2010, 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 2010 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.

We have acted as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion of interest on the Series 2010A Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Company or the Issuer or the disclosure thereof in connection with the offer and sale of the Bonds. We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Preliminary Official Statement, Official Statement or other offering material relating to the Bonds, and we express no opinion relating thereto.

In our capacity as Bond Counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the authorization and issuance of the Bonds on which we have relied in giving

our opinion. The transcript contains certified copies of certain proceedings of the Company and the Issuer; customary certificates of officials, agents and representatives of the Company, the Issuer, the Trustee, and certain other parties; the opinion of the Attorney General of the State of Texas approving the Bond Indenture and the Bonds; and other certifications relating to the authorization and issuance of the Bonds. We have examined applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury Regulations promulgated under the Code and published rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined a specimen of the form of registered bond of this issue.

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 Section 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 against the Issuer in accordance with its terms. 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 2010 Notes, and all Adjusted Revenues derived by the Issuer from the Loan Agreement and the Series 2010 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, and, subject to the qualifications stated below, are enforceable against the Issuer in accordance with their terms.
4. Interest on the Series 2010A Bonds is excludable from gross income of the owners of the Series 2010A Bonds for federal income tax purposes under existing law.
5. The Series 2010A Bonds are "qualified 501(c)(3) bonds" within the meaning of section 145 of the Code, and interest on the Series 2010A Bonds is not (i) a specific preference item subject to the alternative minimum tax on individuals and corporations or (ii) included in a corporation's adjusted current earnings for purposes of computing the 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 Issuer, the Company and Robert W. Baird & Co. the ("*Underwriter*") with respect to certain material facts, estimates and expectations which are solely within the knowledge of the Issuer, the Company and the Underwriter, respectively, 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 2010A 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 2010A Bonds could become includable in gross income from the date of their original delivery, regardless of the date on which the event causing such inclusion occurs.

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

Owners of the Series 2010A 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, 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 2010A 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 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 regarding whether or not the Service will commence an audit of the Series 2010A 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 2010A 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.

Very truly yours,

Vinson & Elkins

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## APPENDIX E

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated as of October 1, 2010 (the "Continuing Disclosure Agreement"), is executed and delivered by and among New Frontiers Charter School, Inc., a Texas non-profit corporation (the "Borrower") and Wells Fargo Bank, National Association, as trustee and dissemination agent (the "Trustee" or "Dissemination Agent"), in connection with the issuance by the Texas Public Finance Authority Charter School Finance Corporation (the "Issuer"), of its \$3,185,000 Education Revenue Bonds (New Frontiers Charter School) Series 2010A and its \$435,000 Taxable Education Revenue Bonds (New Frontiers Charter School) Series 2010B (collectively, the "Series 2010AB Bonds"). The Series 2010AB Bonds are being issued pursuant to a Trust Indenture and Security Agreement, dated as of October 1, 2010 (the "Bond Indenture") between the Issuer and the Trustee. The proceeds of the sale of the Series 2010AB Bonds will be loaned to the Borrower pursuant to the terms of a Loan Agreement, dated as of October 1, 2010 (the "Loan Agreement"). Capitalized terms used but not otherwise defined herein shall have the meanings assigned to them in the Bond Indenture and the Loan Agreement.

#### **Section 1. Purpose of Agreement**

This Continuing Disclosure Agreement is being executed and delivered by the Borrower for the benefit of the registered owners of the Series 2010AB Bonds (for such purpose beneficial owners of the Series 2010AB Bonds shall also be considered registered owners of the Series 2010AB Bonds) and to assist Robert W. Baird & Co. Incorporated (the "Underwriter") in complying with paragraph (b)(5) of Securities and Exchange Commission ("SEC") Rule 15c2-12 (17 C.F.R. § 240.15c2-12) (the "Rule"). This Continuing Disclosure Agreement constitutes the written Undertaking required by the Rule. Each and every filing made hereunder shall be disseminated by transmission to the Municipal Securities Rulemaking Board (the "MSRB") through the Electronic Municipal Market Access ("EMMA") System at [www.emma.msrb.org](http://www.emma.msrb.org) or any successor system that the MSRB may prescribe. Such filings will be in the format and will be accompanied by the identifying information prescribed by the MSRB.

#### **Section 2. Defined Terms**

*"Annual Report"* means the reports required to be provided pursuant to Section 3 hereof.

*"Bond Indenture"* means the Trust Indenture and Security Agreement, dated as of October 1, 2010, between the Issuer and the Trustee.

*"Borrower"* means New Frontiers Charter School, Inc., a Texas non-profit corporation.

*"Dissemination Agent"* means, initially, the Trustee, and thereafter, any successor appointed by the Borrower pursuant to the provisions hereof.

*"Interim Report"* means the reports required to be provided pursuant to Section 4 hereof.

*"Loan Agreement"* means the Loan Agreement with respect to the Series 2010AB Bonds, dated as of October 1, 2010, between the Issuer and the Borrower.

*"MSRB"* means the Municipal Securities Rulemaking Board.

*"Official Statement"* means the Official Statement dated October 6, 2010 pertaining to the Series 2010AB Bonds.

*"Trustee"* means Wells Fargo Bank, National Association, or any successor thereto under the Bond Indenture.

### **Section 3. Annual Reports**

Each year, the Borrower shall cause the Dissemination Agent to provide for dissemination in the manner required under this Continuing Disclosure Agreement, within six months after the end of the immediately preceding fiscal year, commencing with the fiscal year that ended August 31, 2010, an Annual Report for the immediately preceding fiscal year which shall include all annual information pertinent to such fiscal year as provided below:

- (a) *Audited Financials*: Each Annual Report shall include a copy of the Borrower's annual audited financial statements for the immediately preceding fiscal year, together with a copy of any accompanying management letter and a copy of the accompanying audit report; provided, however, that such annual audited financial statements may be submitted separately from the balance of the Annual Report and that, if such audited financial statements are not available within six months of the end of the immediately preceding fiscal year, then the Borrower shall provide unaudited financial statements by that date and shall subsequently provide the pertinent audited financial statements as soon as they become available.
- (b) *Updated Table Data from Appendix B to the Official Statement*. Each Annual Report shall include updated financial information and operating data with respect to the Borrower of the general type included in Appendix B to the Official Statement including in the following tables, but subject to adjustments as may be noted below:
  - (i) TABLE B-1: STUDENT / TEACHER RATIOS;
  - (ii) TABLE B-2: HISTORICAL AND FUTURE PROJECTED ENROLLMENT, *provided, however,* that only historical data will be provided;
  - (iii) TABLE B-3: WAITING LIST DATA; and
  - (iv) TABLE B-11: ACCOUNTABILITY RATINGS.

Each Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by specific reference other information provided pursuant to this Continuing Disclosure Agreement. If the Borrower fails to provide any Annual Report within the time periods required hereby, then the Borrower shall promptly send a notice of such failure in the manner required under this Continuing Disclosure Agreement.

### **Section 4. Interim Reports**

Consistent with the Loan Agreement, the Borrower shall also cause the Dissemination Agent to provide, simultaneously with its delivery to the required parties as set forth in the Loan Agreement as described below, all documents and information as set forth below.

- (a) The Borrower shall deliver to the Dissemination Agent within 60 days after the end of each calendar quarter commencing September 30, 2010, copies of:
  - (i) the unaudited financial reports customarily prepared for and provided to the Borrower's Board during such calendar quarter; and
  - (ii) the most recent enrollment and attendance reports submitted to the Texas Education Agency.
- (b) The Borrower shall deliver construction reports (including cost information) to the Dissemination Agent every six weeks for those projects to be completed in 2010 and on a quarterly basis for those projects to be completed in 2011.

Each Interim Report may be submitted as a single document or as separate documents comprising a package, and may include by specific reference other information provided pursuant to this Agreement. No notice is required if the Borrower fails to provide the information required by this Section.

#### **Section 5. Material Events**

The Borrower agrees to provide or cause to be provided, in a timely manner (provided that notice of (h) and (i) need not be given prior to notice to the Registered Owners as provided in the Bond Indenture), notice of the occurrence of any of the following events with respect to the Series 2010AB Bonds, if material under applicable federal securities laws (provided that any event under subsection (h), (i) or (k) will always be deemed to be material):

- (a) principal and interest payment delinquencies;
- (b) nonpayment related defaults;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinions or events affecting the tax-exempt status of the Series 2010A Bonds;
- (g) modifications to rights of the Registered Owners;
- (h) Series 2010AB Bond calls (other than mandatory sinking fund redemptions);
- (i) defeasances;
- (j) release, substitution, or sale of property securing repayment of the Series 2010AB Bonds; and
- (k) rating changes.

Each material event notice shall be so captioned and shall prominently state the date, title and (to the extent less than all of the Series 2010AB Bonds are affected by the related material event) CUSIP numbers of the Series 2010AB Bonds.

The Borrower may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, but the Borrower does not undertake any commitment to provide such notice of any event except those events listed above.

#### **Section 6. Dissemination Agent; Initial Dissemination Agent**

The Borrower has engaged the Dissemination Agent to assist it in disseminating information hereunder. The Borrower shall send all annual financial information, operating data, interim reports and event notices required by this Agreement to the Dissemination Agent. Unless otherwise agreed to, the Dissemination Agent shall, as soon as practicable but not later than 15 days of receipt of such information forward the same to (i) the MSRB, as described herein and (ii) any Registered or Beneficial Owner of the Series 2010AB Bonds who requests such information in writing to the Dissemination Agent or the Borrower. The Dissemination Agent shall have no duty to review the materials described in this paragraph prior to disseminating such materials. The Borrower agrees to pay any costs incurred as a result of disseminating information to any requesting Registered or Beneficial Owners of the Series 2010AB Bonds.

The Initial Dissemination Agent shall be the Trustee. The Borrower may discharge the Dissemination Agent or any successor Dissemination Agent, but in such event shall take steps necessary to appoint a successor Dissemination Agent who shall be responsible for undertaking all responsibilities of Dissemination hereunder.

#### **Section 7. Termination of Obligations**

Pursuant to paragraph (b)(5)(iii) of the Rule, the obligation of the Borrower to provide financial and operating information of the Borrower and notices of material events, as set forth herein, shall terminate if and when the Borrower no longer remains an obligated person with respect to the Series 2010AB Bonds, which shall occur upon either payment of the Series 2010AB Bonds in full or the legal defeasance of the Series 2010AB Bonds in accordance with the Bond Indenture.

#### **Section 8. Enforceability and Remedies**

This Continuing Disclosure Agreement is intended to be for the sole benefit of the Trustee, the Underwriter and the registered owners of the Series 2010AB Bonds (for such purpose beneficial owners of the Series 2010AB Bonds shall also be considered registered owners of the Series 2010AB Bonds) and shall create no rights in any other person or entity.

This Continuing Disclosure Agreement shall be enforceable by or on behalf of any registered owner of the Series 2010AB Bonds, provided that the right of any registered owner to challenge the timely filing, failure to file or the adequacy of the information furnished pursuant to this Continuing Disclosure Agreement shall be limited to an action by or on behalf of registered owners representing at least 25% of the aggregate outstanding principal amount of the Series 2010AB Bonds. This Continuing Disclosure Agreement is also enforceable on behalf of the registered owners of the Series 2010AB Bonds by the Trustee, and the Trustee may, and upon the written direction of the registered owners of not less than 25% of the aggregate outstanding principal amount of the Series 2010AB Bonds or the Underwriter shall, proceed to protect and enforce the rights of the registered owners of the Series 2010AB Bonds pursuant to this Continuing Disclosure Agreement; provided that in all cases the Trustee shall be entitled to the indemnification and other provisions of the Bond Indenture with regard to any actions, and prior to proceeding at the request or direction of the Underwriter the Trustee may require the same types of indemnification and related protections from the Underwriter to which the Trustee would otherwise be entitled under the Bond Indenture if so requested or directed by the registered owners.

Any failure by the Borrower to comply with the provisions of this Continuing Disclosure Agreement shall not be an Event of Default under the Loan Agreement or the Bond Indenture. The registered owners' and the Trustee's rights to enforce the provisions of this Continuing Disclosure Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel the Borrower to perform under this Continuing Disclosure Agreement, and their directors, officers and employees shall incur no liability under this Continuing Disclosure Agreement by reason of any act or failure to act hereunder. Without limiting the generality of the foregoing, neither the commencement nor the successful completion of an action to compel performance under this Section shall entitle the Trustee or any other person to attorneys' fees, financial damages of any sort or any other relief other than an order or injunction compelling performance.

#### **Section 9. Amendment**

Notwithstanding any other provision of this Continuing Disclosure Agreement, the Borrower and the Trustee may amend this Continuing Disclosure Agreement, and any provision of this Continuing Disclosure Agreement may be waived, without the consent of the registered owners but with the consent of the Trustee, under the following conditions:

- (a) The amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Borrower, or type of business conducted;



- (b) This Continuing Disclosure Agreement, as amended or with the provision so waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) The amendment or waiver does not materially impair the interest of registered owners of the Series 2010AB Bonds, as determined either by parties unaffiliated with the Borrower (which shall include the Trustee or nationally recognized bond counsel, or any other party determined by any of them to be unaffiliated), or by approving vote of registered owners of the Series 2010AB Bonds.

The Borrower shall provide notice of each amendment or waiver for dissemination in the manner specified herein. The initial annual financial or operating information provided by the Borrower after the amendment or waiver shall explain, in narrative form, the reasons for the amendment or waiver and the effect of the change in the type of operating data or financial information being provided.

**Section 10. Counterparts**

This Continuing Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute one instrument.

IN WITNESS WHEREOF, we have set our hands as of the date set forth above.

NEW FRONTIERS CHARTER SCHOOL, INC.

By \_\_\_\_\_  
Title:

WELLS FARGO BANK, NATIONAL ASSOCIATION  
as Dissemination Agent

By \_\_\_\_\_  
Title:

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**APPENDIX F**

**SUBSTANTIALLY FINAL FORM OF THE MASTER INDENTURE  
AND SUPPLEMENTAL MASTER TRUST INDENTURE NO. 1**

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MASTER TRUST INDENTURE AND SECURITY AGREEMENT

between

NEW FRONTIERS CHARTER SCHOOL, INC.

and

WELLS FARGO BANK, NATIONAL ASSOCIATION  
as Master Trustee

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Dated as of

October 1, 2010

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## MASTER TRUST INDENTURE AND SECURITY AGREEMENT

**THIS MASTER TRUST INDENTURE AND SECURITY AGREEMENT** (this “Master Indenture”), dated as of October 1, 2010, is between NEW FRONTIERS CHARTER SCHOOL, INC., a Texas non-profit corporation (the “Company”), and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association with a corporate trust office in Dallas, 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 depository accounts 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) all accounts, bank accounts, general intangibles, Contract Rights, and related rights of the Company (each as defined in the UCC), whether now owned or hereafter acquired or arising and wherever located;

(d) 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;

(e) the lien of the Deed of Trust (as hereinafter defined); and

(f) proceeds of the foregoing, including cash proceeds and cash equivalents, products, accessions and replacements.

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 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, except as set forth in such Notes and in the Supplemental Master Indenture executed with respect to such Notes; 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:

## **ARTICLE I**

### **DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION**

#### **Section 101. Construction of Terms; Definitions.**

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

(1) The term “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.

(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.

(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.

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

(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 and (e) proceeds of borrowing. Notwithstanding any provision herein to the contrary, State Revenues received by each of the Borrower’s campuses will be used in accordance with Section 12.107(a) of the Texas Education Code, as amended.

“Annual Debt Service Requirements” of the Company 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:

(i) Committed Take Out - if the Company 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 the Company, 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;

(ii) 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) with a Stated Maturity not greater than 30 years is reasonably attainable 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;

(iii) 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);

(iv) 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 greater 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 Company's financial advisor) 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;

(v) 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

(vi) 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, as calculated by the financial advisor to the Company.

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

“Authorized Representative” means the CEO/Superintendent of the Company, or any other person duly appointed by the Governing Body of the Company to act on behalf of the Company, each as evidenced by a written certificate furnished to the Master Trustee 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 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 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, but less: (a) unrealized 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 (b) insurance (other than business interruption) and condemnation proceeds.

“Balloon Debt” means 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.

“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 New Frontiers Charter School, 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 President of the Governing Body, the Principal, a Vice Principal, the Business Manager 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 (other than items described under Section 201(b)(iii) 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. In addition, for the purpose of computing "Debt," there shall be excluded any loans between Participating Campuses for the purpose of making Loan Payments as required by the Related Loan Documents due to a notice from the Texas Education Agency, the Texas Attorney General, the Texas Comptroller of Public Accounts or any other agency with authority over the expenditures or safekeeping of State Revenues.

"Deed of Trust" means that certain Deed of Trust and Security Agreement 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 therefor 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.

"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.

“GAAP” means generally accepted accounting principles, applied on a consistent basis, as stated in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants or in statements and pronouncements of the Financing Accounting Standards Board or in such other statements by another entity or entities as may be approved by a significant segment of the accounting profession, that are applicable to the circumstances for that day.

“Governing Body” means the board of trustees 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 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.

“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.

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

“Master Trustee” means Wells Fargo Bank, National Association, a national banking association with a corporate trust office in Dallas, 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 Annual Debt Service Requirements (net of the tax credit applicable to the Series 2010Q Bonds and excluding the final maturity payment for any Debt) with respect to all Outstanding Debt for any succeeding Fiscal Year.

“Net Income Available for Debt Service” means, for any period of determination thereof, the Adjusted Revenues of the Company for such period, plus the interest earnings on moneys held in the Debt Service Reserve Fund, if any, established under the Related Indenture, plus the amount of unrestricted net assets in excess of the balance required in Section 5.9 of the Agreement, minus the total Operating Expenses of the Company for such period but excluding (i) any profits or losses which would be regarded as extraordinary items under GAAP, (ii) gain or loss in the extinguishment of Debt of the Company, (iii) proceeds of any Series of Bonds and any other Debt permitted by this Indenture, and (iv) proceeds of insurance policies, other than policies for business interruption insurance, maintained by or for the benefit of the Company, the proceeds of any sale, transfer or other disposition of the Project or any other of the Company’s assets by the Company, and any condemnation or any other damage award received by or owing to the Company.

“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.

“Officer’s Certificate” means a certificate of the Company signed by the president of the Governing Body, CEO/Superintendent, principal, vice principal, business manager, the Authorized Representative 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.

“Operating Expenses” means fees and expenses of the Company, including maintenance, repair expenses, utility expenses, real estate taxes, if any, insurance premiums, administrative and legal expenses, miscellaneous operating expenses, advertising and promotion costs, payroll expenses (including taxes), the cost of material and supplies used

for current operations of the Company, the cost of vehicles, equipment leases and service contracts, taxes, if any, upon the operations of the Company not otherwise mentioned herein, charges for the accumulation of appropriate reserves (excluding deposits to the Repair and Replacement Fund) for current expenses not annually recurrent, but which are such as may reasonably be expected to be incurred in accordance with generally accepted accounting principles of governmental entities in the State, all in such amounts as reasonably determined by the Company; provided, however, "Operating Expenses" shall not include (i) spending for items which could reasonably be accounted for as capital expenditures under generally accepted accounting principles of governmental entities in the State, (ii) deposits into and expenditures from the Repair and Replacement Fund, or (iii) replenishments of the Reserve Fund.

"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.

"Participating Campuses" means the authorized charter schools operated by the Company that are (i) acquired, constructed, renovated, improved or equipped with the proceeds of Related Bonds and (ii) made part of the Trust Estate pursuant to any Supplemental Master Indenture.

"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 located upon a Participating Campus 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 Bonds, 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” 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 Related Bonds Outstanding 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 Related Bonds Outstanding 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.

"Repair and Replacement Fund" means the fund created pursuant to Section 406.

"Repair and Replacement Fund Costs" means repair and replacement costs permitted to be paid out of the Repair and Replacement Fund.

"Repair and Replacement Fund Requirement" means an amount equal to 2% of the budgeted Operating Expenses (as defined in the Related Loan Documents) as of the first business day of each fiscal year of the Company.

"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 407 hereof.

“Senior Note” means any Note issued hereunder that has the highest priority of payment over any other Note issued hereunder.

“Series 2010 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 Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (New Frontiers Charter School) Series 2010A (the “Series 2010A Bonds”), the Texas Public Finance Authority Charter School Finance Corporation Taxable Revenue Bonds (New Frontiers Charter School) Series 2010B (the “Series 2010B Bonds”) and the Texas Public Finance Authority Charter School Finance Corporation Education Taxable Education Revenue Bonds (New Frontiers Charter School) Series 2010Q (Qualified School Construction Bonds – Direct Pay) (the “Series 2010Q Bonds”).

“Short-Term Debt” means indebtedness that is subordinate to any Debt under this Master Indenture; shall be utilized for the acquisition, construction, renovation or equipment of educational facilities; and shall be payable within five (5) years of the incurrence of said indebtedness. Short Term Debt shall not be considered “Debt” under this Master Indenture.

“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 directly attributable to Participating Campuses.

“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.

“Subordinate Note” means a Note issued hereunder that is subordinate in priority of payment to Senior Notes, as permitted by Section 212(c) and designated in the Supplemental Master Indenture authorizing such Note.

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



“TCEP Note” means the Note issued pursuant to a Supplemental Master Indenture and secured by this Master Indenture to evidence payment obligations of the Company with respect to that certain Guaranty Agreement, dated October 1, 2010 between the Company and the Texas Public Finance Authority Charter School Finance Corporation. The TCEP Note is a Subordinate Note.

“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.

**Section 102. 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.

### **Section 103. 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) [Reserved]

(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 that are owned by the Company shall be disregarded and deemed not to be Outstanding 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 which the Master Trustee has actual notice or knowledge are so owned shall be so disregarded and deemed not to be Outstanding Notes. Notes so owned that have been pledged in good faith may be regarded as Outstanding 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. 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 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. Except upon such revocation or such action taken by the Holder of a Note in any direction, demand, request, waiver, consent, vote or other action of the Holder of such Note 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, and of any Note issued in lieu thereof, whether or not any notation in regard thereto is made upon such Note. 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.

**Section 104. 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) 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 1445 Ross Avenue, 2<sup>nd</sup> Floor, MAC T5303-022, Dallas, Texas 75202, Attention: Sandra Jones, or at any other address subsequently furnished in writing to the Company and the Holders by the Master Trustee; and

(2) 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 1313 S.E. Military Drive, San Antonio, Texas 78214, Attention: CEO/Superintendent, or at any other address subsequently furnished in writing to the Master Trustee by the Company.

**Section 105. 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.

**Section 106. 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.

**Section 107. 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.

**Section 108. 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.

**Section 109. 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.

**Section 110. 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.

## ARTICLE II

### ISSUANCE AND FORM OF NOTES

**Section 201. 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 \_\_\_-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.

**Section 202. 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; such 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) 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 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 with all applicable provisions of such Act.

(d) The title insurance policy, or endorsement thereof, required by Sections 212 and 409.

(e) If in connection with the issuance of additional Debt, any other certificate, report or other item required under Section 212.

**Section 203. 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, and evidence of satisfaction of the other requirements contained herein, 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:

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WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Master Trustee, or its agent

By: \_\_\_\_\_  
Authorized Signature

**Section 204. Form and Terms of Notes.** The Notes of each series 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 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."

**Section 205. Registration, Transfer and Exchange.**

(a) The Company shall cause to be kept at the corporate trust office of the Master Trustee in Dallas, Texas, or the payment office of the Master Trustee in Dallas, Texas, 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. 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.

**Section 206. 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.

**Section 207. 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 Dallas, Texas, 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.

**Section 208. 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.

**Section 209. 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.

**Section 210. Security for Notes; Subordination.**

(a) Except as otherwise expressly provided herein or in any Supplemental Master Indenture pursuant to which such Note or obligation is issued, 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 or obligations 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. Notes issued hereunder shall be designated as Senior Notes or Subordinate Notes. All Senior 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. The Subordinate Notes issued hereunder are subordinated and subject in right of payment to the prior payment of all of the Senior Notes issued hereunder.

(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.

**Section 211. 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 and be valid and binding from and after delivery of the Notes.

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, 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. 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.

The Master Trustee shall confirm, prior to the fifth anniversary of this Master Indenture and each fifth anniversary thereafter, the filing of continuation statements by the Company required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents and, if necessary, make such filings as may be required to maintain the perfection and priority of the security interests granted hereby. Notwithstanding the foregoing, the Master Trustee shall not be responsible for the sufficiency of the proper indexing or recording of any financing or continuation statements.

(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 or subordinate Debt. 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 collateral granted hereunder that ranks on a parity with or prior to the lien granted hereunder that will remain outstanding on the Closing Date. The Company has not described such collateral 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 collateral described hereunder that ranks prior to or on parity with the lien granted hereunder, or file any financing statement describing any such pledge, assignment, lien or security interest, except as expressly permitted by the Bond Documents. The security interest granted hereunder is and shall be prior to any judicial lien hereafter imposed on such collateral to enforce a judgment against the Issuer on a simple contract.

(d) The Company covenants that all Adjusted Revenues will be deposited into the account (or accounts) maintained with the depository institution that has been identified to the Texas Education Agency as the Company's depository bank.

**Section 212. Additional Debt.**

(a) Parity Debt. The Company shall be precluded from incurring additional Debt secured by liens on the Participating Campuses or the Adjusted Revenues that are senior to the Deed of Trust on the Participating Facilities and the security interest in the Adjusted Revenues granted by this Master Indenture. Upon satisfaction of the applicable requirements of Section 202, one or more series of parity 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) 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;

(2) 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);

(3) Coverage for Additional Debt. For purposes of showing sufficient coverage to incur additional Debt as discussed below, all calculations of Available Revenues shall take into account Asset Valuation. Sufficient funds must be evidenced as follows:

Borrower's Net Income Available for Debt Service for the most recent school year for which a budget has been adopted by Borrower and submitted to the State must be sufficient to pay an amount representing

not less than 120% of the Maximum Annual Debt Service for currently outstanding Long-Term Debt related to the Participating Campuses and the Long-Term Debt related to Participating Campuses proposed to be incurred. For purposes of calculating Net Income Available for Debt Service in this Section 212(a)(3), the Borrower may include revenues derived by lease or sublease of the Participating Campuses to be received as evidenced by signed lease or sublease documents customary in commercial real estate transactions.

(4) 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 Available Revenues equal at least 1.10 times Maximum Annual Debt Service on all Debt then Outstanding as well as the additional Debt;

(5) Reserve Fund Deposits. For the purpose of calculating Maximum Annual Debt Service in Section 212(a)(3) and Section 212(a)(4) above, the principal and interest payable upon final maturity for any outstanding Debt for which a reserve fund has been established shall be reduced by the amounts held in such reserve fund(s); and

(6) 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 (6) above shall be evidenced to the Master Trustee. The Master Trustee may rely, and shall be fully protected in relying upon, an Opinion of Counsel that items (1) through (6) were completed.

(b) Reserved.

(c) Completion Debt. 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) Interim Construction Financing. The Company reserves the right to issue and incur Short-Term Debt.

(e) Subordinate Debt. The Borrower may incur Debt subordinate to the obligations of the Borrower under this Master Indenture and may grant liens on the Participating Campuses, Adjusted Revenues or other assets of the Borrower securing such subordinate Debt, so long as same are subordinate to the Deed of Trust and obligations under this Master Indenture.

(f) Exemption. The TCEP Note, the Series 2010 Notes and related Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (New Frontiers Charter School) Series 2010A, Taxable Education Revenue Bonds (New Frontiers Charter School) Series 2010B and Taxable Education Revenue Bonds (New Frontiers Charter School) Series 2010Q (Qualified School Construction Bonds – Direct Pay) shall not be considered additional Debt and are not subject to the provisions of this Section 212.

### ARTICLE III

#### REDEMPTION OR PREPAYMENT OF NOTES

**Section 301. 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.

**Section 302. 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 60 days prior to the redemption or prepayment date fixed by the Company, unless a shorter notice shall be satisfactory to the Master Trustee.

**Section 303. Deposit of Redemption or Prepayment Price.** 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.

**Section 304. 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.

**Section 305. 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.

## ARTICLE IV

### COVENANTS OF THE COMPANY

**Section 401. 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.

**Section 402. Repair and Replacement Fund Payments.** The Company unconditionally and irrevocably covenants that it will deposit on or before the 25th day of each month, unless the amount on deposit in the Repair and Replacement Fund on the first Business Day of any Fiscal Year equals or exceeds the Repair and Replacement Fund Requirement (in which event no additional deposits are required), substantially equal monthly amounts which, in the aggregate, equal (i)  $\frac{1}{2}$  of one percent of the current Fiscal Year's Operating Expenses, or (ii) the deficiency in the Repair and Replacement Fund if such deficiency is less than  $\frac{1}{2}$  of one percent of such Operating Expenses for the current Fiscal Year. The Company shall not be required to pay or cause to be paid to the Master Trustee any amounts which would result in moneys in excess of the Repair and Replacement Fund Requirement being held in the Repair and Replacement Fund.

**Section 403. 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) 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;

(2) 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

(3) 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, shall, at the written direction of the Company, 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.

**Section 404. 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.

**Section 405. 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.

**Section 406. Repair and Replacement Fund.**

(a) There is hereby created by the Company and established with the Master Trustee the special fund of the Company designated its Repair and Replacement Fund (the "Repair and Replacement Fund"). There shall be deposited into the Repair and Replacement Fund as and when received (a) all payments pursuant to Section 402 and (b) all other moneys deposited into the Repair and Replacement Fund pursuant this Master Indenture. There shall also be retained in the Repair and Replacement Fund, interest and other income received on investment of moneys in the Repair and Replacement Fund. Any amounts on deposit in the Repair and Replacement Fund in excess of the Repair and Replacement Fund Requirement shall be transferred by the Master Trustee to the Company; provided, however, that the amount remaining in the Repair and Replacement Fund immediately after such transfer shall not be less than the Repair and Replacement Fund Requirement. Bondholders shall have no rights in or claims to money held in the Repair and Replacement Fund.

(b) The Repair and Replacement Fund shall be in the custody of the Master Trustee, but in the name of the Company. Absent an Event of Default hereunder, the Company hereby authorizes and directs the Master Trustee to make each disbursement authorized or required by the provisions of this Section and to issue its checks therefore. The Master Trustee shall keep and maintain adequate records pertaining to the Repair and Replacement Fund and all disbursements there from and shall annually file an accounting thereof with the Company.

(c) Payments shall be made from the Repair and Replacement Fund no later than three Business Days following receipt by the Master Trustee of a written requisition from an authorized representative of the Company substantially in the form of Exhibit B to this Master Indenture setting forth the amount and the payee for the purpose of paying the cost of

extraordinary maintenance and replacements which may be required to keep the Project in sound condition, including but not limited to replacement of equipment, replacement of any roof or other structural component, exterior painting and the replacement of heating, air conditioning, plumbing and electrical equipment, architectural, engineering, legal and other professional services and other costs reasonably necessary and incidental thereto. The Master Trustee may rely fully on any requisition in substantially the form of Exhibit B to this Master Indenture, and shall not be required to make any investigation in connection therewith.

**Section 407. Revenue Fund.**

(a) There is hereby created by the Company and established with the Master Trustee the special fund of the Company designated the "New Frontiers 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 under 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 (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, beginning on the first day of such Event of Default 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) to the Master Trustee any fees or expenses which are then payable;
- (2) equally and ratably to the Holder of each instrument evidencing a Senior 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), interest and obligations on such Senior Note;
- (3) equally and ratably to the Holder of each instrument evidencing a Subordinate 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), interest and obligations on such Subordinate Note;
- (4) a transfer to the Interest Account of an amount necessary to accumulate in equal monthly installments the interest on the Senior 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 Senior 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 Senior Note the amount of interest on each Senior Note as such interest becomes due;

(5) a transfer to the Principal Account of the amount necessary to accumulate in equal monthly installments the principal of the Senior 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 Senior Note the amount of principal payments due on each Senior 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;

(6) to the Holder of any Senior Note entitled to maintain a reserve fund for the payment of such Senior 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

(7) a transfer to the Interest Account of an amount necessary to accumulate in equal monthly installments the interest on the Subordinate 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 Subordinate 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 Subordinate Note the amount of interest on each Subordinate Note as such interest becomes due;

(8) a transfer to the Principal Account of the amount necessary to accumulate in equal monthly installments the principal of the Subordinate 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 Subordinate Note the amount of principal payments due on each Subordinate 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;

(9) to the Holder of any Subordinate Note entitled to maintain a reserve fund for the payment of such Subordinate 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

(10) 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 a deposit account of the Company, 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.

**Section 408. 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 "New Frontiers 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 411 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 and direction from the Company designating the Related Indenture to which such insurance or condemnation proceeds relate, 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.

**Section 409. Title Insurance.** The Company shall obtain and deliver to the Master Trustee on or prior to the closing date of any Debt a standard Texas form T-1 owner's policy of title insurance and a standard Texas form T-2 lender's policy of title insurance issued by a title insurance company selected by the Company, showing the Master Trustee as insured party, as its interests may appear, with respect to the Mortgaged Property, 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(o) hereof. There shall be deleted in such policies 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.

**Section 410. 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 408 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, 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.

**Section 411. 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) 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 the replacement cost of the Related Project as originally determined on the Closing Date of the Series 2010 Bonds and subsequently determined after construction is completed on any properties covered under the Deed of Trust;

(2) 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;

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

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

(5) worker's compensation insurance as required by the laws of the State; and

(6) 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) acceptable to the Company 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 and the Company and (iv) shall name the Master Trustee as additional insured. Without limiting the generality of the foregoing, all insurance policies carried pursuant to clause (a)(1) of this Section 411 contain a standard NY Mortgagee clause in favor of the Master Trustee (as mortgagee/loss payee), shall name the Master Trustee 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.

(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 411(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.

(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 an Officer's Certificate substantially in the form of Exhibit A hereto 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 411(d).

## ARTICLE V

### CONSOLIDATION, MERGER, CONVEYANCE AND TRANSFER

**Section 501. 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) 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, 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;

(2) 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

(3) the Company shall have delivered to the Master 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.

**Section 502. 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.

## ARTICLE VI

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

**Section 601. 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 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 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 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 such Financial Products Agreement, as therein defined, has occurred and is continuing beyond the applicable grace period, if any.

**Section 602. 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, Related Bonds, 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) the Company has caused to be paid or deposited with the Master Trustee a sum sufficient to pay:

(i) all overdue installments of interest on all Notes;

(ii) 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

(iii) 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

(2) 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.

**Section 603. Collection of Indebtedness and Suits for Enforcement by Master Trustee.**

(a) The Company covenants that if:

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

(2) 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

(3) 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 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 and other obligations secured hereunder 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 provide a Notice of Exclusive Control to the Company's Depository Bank.

(e) If an Event of Default occurs and is continuing, the Mortgage Trustee may foreclose on any property subject to the Deed of Trust, subject, to the extent applicable, to Section 12.128 of the Texas Education Code, as amended.

**Section 604. 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) 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

(2) 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.

**Section 605. 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.

**Section 606. 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 407, 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.

**Section 607. 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) such Holder has previously given written notice to the Master Trustee of a continuing Event of Default;
- (2) 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;
- (3) 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;
- (4) 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
- (5) 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 (except as expressly authorized herein), or to

enforce any right under this Master Indenture, except in the manner herein provided and for the benefit of all the Holders of Notes in the priority of payment set forth herein.

**Section 608. 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.

**Section 609. 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.

**Section 610. 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.

**Section 611. 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.

**Section 612. 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.

**Section 613. 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) a default in the payment of the principal of (or premium, if any) or interest or any other amount on any Note; or

(2) 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.

**Section 614. 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).

**Section 615. 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.

**Section 616. 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.

## ARTICLE VII

### CONCERNING THE MASTER TRUSTEE

#### **Section 701. 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. The Master Trustee shall not be liable for the performance of any duties, except such duties as are specifically set forth in this Master Indenture. 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(i) 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) this subsection shall not be construed to limit the effect of subsection (a) of this Section or Section 703 hereof;

(2) 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;

(3) 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

(4) 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.

**Section 702. 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 from the Holders of the Notes 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.

**Section 703. 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 or certified minutes.



(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 be under no obligation to exercise any of the discretionary rights or powers vested in it by this Master Indenture at the request or direction of any of the Holders of Notes pursuant to the provisions of this Master Indenture, unless such Holders, as applicable 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. Wherever in this Master Indenture provision is made for the indemnity by the Holder of the Notes, if the Holder providing such indemnity has an aggregate net worth or net asset value of at least \$50,000,000 as set forth in its most recent audited financial statements or as otherwise satisfactorily demonstrated to the Master Trustee, the Master Trustee may not require any indemnity bond or other security for such indemnity. In any case where more than one owner is providing indemnity, such indemnity shall be several and not joint and, as to each owner, such indemnity obligations shall not exceed its percentage interest of outstanding Notes;

(g) 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.

(h) 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.

(i) The Master Trustee shall not be required to take notice or be deemed to have notice of any default or Event of Default hereunder unless the Master Trustee shall be specifically notified of such default or 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 default or 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.

(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 Master Trustee may seek the approval of the Holders of the Notes by any means it deems appropriate and not inconsistent with the terms of this Master Indenture in connection with the giving of any consent or taking of any action;

(m) 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.

(n) 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.

(o) 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.

(p) The Master Trustee shall not be bound to ascertain or inquire as to the performance or observance of any covenants, conditions or agreements on the part of the Company herein or in the Deed of Trust hereunder except as may be expressly provided for herein or therein. The Master Trustee may require of the Company full information and advice as to the performance of the aforesaid covenants, conditions and agreements.

(q) The Master Trustee shall not be liable for an error of judgment made in good faith by its officers unless it shall be proven that the Master Trustee was negligent in ascertaining the pertinent facts.

**Section 704. 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 value or condition of the Trust Estate or any part thereof or as to the title of the Company thereto or as to the adequacy, sufficiency or perfection of the security afforded thereby or hereby as to the validity or sufficiency of this Master Indenture or of the Notes; or as to the correctness or sufficiency of any statement made in connection with the offer or sale of any Related Bonds. 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.

**Section 705. 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.

**Section 706. 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.

**Section 707. Compensation and Expenses of Master Trustee.**

(a) The Company hereby agrees:

(1) 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;

(2) 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 securities or transaction charges to the extent not waived by the Master Trustee as a result of its receipt of compensation with respect to such securities or transactions); and

(3) 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. The provisions of this Section 707(a)(3) will survive the satisfaction and the discharge of this Master Indenture and the payment of all Notes issued hereunder.

(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.

**Section 708. 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.

**Section 709. 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) the Master Trustee shall cease to be eligible under Section 708 and shall fail to resign after written request by the Company or by any Holder of Notes; or

(2) 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.

**Section 710. 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.

**Section 711. 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.

**Section 712. Release of Property.** At the request of a majority of the Holders of the Notes, the Master Trustee shall execute and deliver in recordable form any releases of Property encumbered hereby or by the Deed of Trust.

**Section 713. 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) the requested release is for a facility funded solely with restricted donations (the "Endowed Facility");
- (2) the Endowed Facility is solely owned by the Company;
- (3) the Company has no outstanding Debt incurred in connection with the construction of the Endowed Facility;
- (4) 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
- (5) 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 certificate of an Authorized Representative requesting the release;
- (2) the identification of the facility and land requested for release (the "Released Facility");
- (3) an appraisal of the Facility and land that remain subject to the Deed of Trust (the "Retained Facility");
- (4) evidence that cash, letter of credit or securities have been deposited with the Master Trustee that, together with the appraised value of the Retained Facility, equal at least 50% of the principal amount of all Notes Outstanding hereunder; and
- (5) a Supplemental Master Indenture, pursuant to Section 801(n) permitting the substitution of cash, letter of credit or securities for real property in the Trust Estate.

## ARTICLE VIII

### SUPPLEMENTS

**Section 801. 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 Bond Counsel, does not materially adversely affect the owners of the Related Bonds, 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, a copy of whose report shall be filed with the Master Trustee:

(1) is in the best interest of the Company; and

(2) does not materially adversely affect the Holder of any Note.

provided however, with respect to each applicable series of Related Bonds, the Master Trustee shall be provided with 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 provided further that, no such amendment, directly or indirectly, shall (A) change the provisions of this clause (l), (B) make any modification of the type prohibited by 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 then rating the Notes or Related Bonds 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 schools on acceptable terms and such change and affirmation are in the best interests of the Holders of the Outstanding Notes.

**Section 802. 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 affected by such Supplemental Master Indenture, 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 requisite percentage, as required pursuant to the Related Bond Indenture, of Holders of the Outstanding Notes affected thereby:

(1) 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

(2) 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

(3) 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.

**Section 803. 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 and all conditions precedent have been

satisfied. 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.

**Section 804. 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.

**Section 805. 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.

## ARTICLE IX

### SATISFACTION AND DISCHARGE OF MASTER INDENTURE

**Section 901. 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.

**Section 902. 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.

**Section 903. 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.

**NEW FRONTIERS CHARTER SCHOOL, INC.**

By: \_\_\_\_\_  
Alfredo Segura, Chief Executive Officer

**WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Master Trustee**

By: \_\_\_\_\_  
Sandra Y. Jones, Assistant Vice President

**Exhibit A**

**Form of Officer's Certificate**

**OFFICER'S CERTIFICATE**

The undersigned, the duly elected, authorized and acting President of the Board of Directors of New Frontiers Charter School, Inc. (the "Company") hereby certifies pursuant to Section 410(d) of the Master Trust Indenture and Security Agreement, dated as of October 1, 2010 (the "Master Indenture") between the Company and Wells Fargo Bank, National Association, as Master Trustee (capitalized terms used herein and not otherwise defined have the meanings assigned to them in the Master Indenture):

All insurance required by the Master Indenture is in full force and effect as of the date hereof and all Impositions, as defined in Section 4.1(k) of the Deed of Trust, have been paid.

IN WITNESS WHEREOF, the undersigned has executed this certificate as of \_\_\_\_\_.

NEW FRONTIERS CHARTER SCHOOL, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



**Exhibit B**

**Form of Requisition Certificate**

Company Request No.: \_\_\_\_\_

\_\_\_\_\_, 20\_\_

Wells Fargo Bank, National Association, as Trustee  
1445 Ross Avenue, 2<sup>nd</sup> Floor  
Dallas, Texas 75202  
MAC T5303-022

Attention: Corporate Trust

Re: Disbursement from Repair and Replacement Fund

Ladies and Gentlemen:

This Request is provided to you pursuant to Section 405A of the Master Trust Indenture and Security Agreement, dated as of October 1, 2010 (the "Master Indenture"), between the New Frontiers Charter School, Inc. (the "Company") and you, as Master Trustee for requesting payment to the Company as provided herein. Capitalized terms used in this Request have the same meanings given such terms in the Master Indenture.

(a) Pay to (name and address):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(b) (i) There has been expended, or is being expended concurrently with the delivery of this certificate, on account of Repair and Replacement Fund Costs an amount at least equal to the amount requisitioned below for disbursement;

(ii) No Event of Default under the Master 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 Master Trustee;

(iv) You are hereby directed to pay the amount of \$\_\_\_\_\_ from the Repair and Replacement Fund in the amounts and to the parties as set forth in the attached schedule.

(v) Such payment will constitute payment of or reimbursement for a properly incurred obligation, is a proper charge against the Repair and Replacement Fund (as defined in the Master Indenture), is unpaid or not reimbursed to the Company, and has not been the basis of any previous withdrawal or payment.

(vi) The payment of the amount requested herein will not result in a breach of any covenant of the Company contained in the Master Indenture or any Related Loan Document, including particularly the covenants contained in Section 5.3 of the Related Loan Documents.

(c) [Insert wire instructions if applicable.]

(d) All other items required by the Master Indenture to be delivered to the Trustee in connection with this Certificate have been delivered to the Trustee.

(e) To the best of the undersigned's knowledge, there has not been filed with or served upon the Company notice of any lien, right or attachment upon, or claim affecting the right of any such Persons to receive payment of the respective amounts stated in this Disbursement, which has not been released or will not be released simultaneously with the payment of such obligation.

(f) We further certify that (A) obligations as stated on this Disbursement have been properly incurred, (B) such work was actually performed or such materials or supplies were actually furnished or installed in or about the Project, (C) if contested, bond has been made by the Company and (D) either such materials or supplies are not subject to any lien or security interest or any such lien or security interest will be released or discharged upon payment of this Requisition.

(g) All rights, title and interest to any and all personal property acquired with the proceeds of this Disbursement is vested in the Company.

NEW FRONTIERS CHARTER SCHOOL, INC.

By: \_\_\_\_\_  
Authorized Representative

SUPPLEMENTAL MASTER TRUST INDENTURE NO. 1

Dated as of October 1, 2010

Between

NEW FRONTIERS CHARTER SCHOOL, INC.

and

WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Master Trustee

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Supplemental to:

Master Trust Indenture  
Dated as of October 1, 2010

In connection with the issuance of the  
Series 2010 Notes

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## SUPPLEMENTAL MASTER TRUST INDENTURE NO. 1

**THIS SUPPLEMENTAL MASTER TRUST INDENTURE NO. 1**, dated as of October 1, 2010 (this "Supplemental Master Indenture"), is between **WELLS FARGO BANK, NATIONAL ASSOCIATION**, a national banking association, having a corporate trust office in Dallas, Texas, as master trustee (the "Master Trustee"), and **NEW FRONTIERS CHARTER SCHOOL, 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 October 1, 2010 (being referred to herein as the "Original Master Indenture"), with Wells Fargo Bank, National Association, as Master Trustee, for the purpose of providing for the issuance of Notes thereunder to evidence certain Debt issued for the benefit 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 (New Frontiers Charter School) Series 2010A entitled to the security of the Master Indenture in the original principal amount of \$3,185,000 (the "Tax-Exempt Master Note"), and (ii) a Taxable Master Indenture Note (New Frontiers Charter School) Series 2010B entitled to the security of the Master Indenture in the original principal amount of \$435,000 (the "Taxable Master Note"), and together with the Tax-Exempt Master Note, the "Series 2010 Notes") and to deliver such Series 2010 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, dated as of October 1, 2010 (the "Related Loan Agreement"), between the Issuer and the Company, relating to, respectively, the Issuer's Education Revenue Bonds (New Frontiers Charter School) Series 2010A (the "Series 2010A Bonds") and the Issuer's Taxable Education Revenue Bonds (New Frontiers Charter School) Series 2010B (the "Series 2010B Bonds") issued pursuant to a Trust Indenture and Security Agreement, dated as of October 1, 2010 (the "Related Bond Indenture"), between the Issuer and Wells Fargo Bank, National Association, as trustee (in such capacity, the "Bond Trustee"); and

WHEREAS, all acts and things necessary to make the Series 2010 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 2010 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 2010 Notes authorized hereby are authenticated, issued and delivered, and in consideration of the premises and the acquisition and acceptance of the Series 2010 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

Section 101. 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.

Section 102. Designation of Participating Campus. The Company hereby designates the following school as a "Participating Campus": the campus located at 4018 South Presa Street, San Antonio, Texas.

The revenues and assets of the Participating Campus shall, so long as any Debt is outstanding, be subject to all terms, covenants and restrictions contained in the Master Indenture and shall comprise all of part of the Trust Estate created therein.

## ARTICLE II

### THE SERIES 2010 NOTES

Section 201. Authorization of Series 2010 Notes.

(a) There is hereby created and authorized to be issued hereunder a Note, described as follows: "Tax-Exempt Master Indenture Note (New Frontiers Charter School) Series 2010A" in the aggregate original principal amount of \$3,185,000, dated October 1, 2010, issued by 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 (New Frontiers Charter School) Series 2010B" in the aggregate original principal amount of \$435,000, dated October 1, 2010, issued by 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, or its successors or assigns, and shall be executed, authenticated and delivered in accordance with Article II of the Original Master Indenture.

Section 202. Form of Series 2010 Notes. The Tax-Exempt Master Note and the Taxable Master Note shall be issued as single, fully-registered promissory notes without coupons, in substantially the forms set forth in Exhibit A and Exhibit B hereto, respectively.

Section 203. Payments on Series 2010 Notes. The principal of the Series 2010 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.

Section 204. Credits on Series 2010 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 2010A 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 2010B 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 2010 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 that 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.

Section 205. 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 2010A Bonds and the Series 2010B Bonds.

Section 206. Registration, Transfer and Exchange. The Series 2010 Notes shall be transferred or exchanged pursuant to Section 205 of the Original Master Indenture.



## ARTICLE III

### REDEMPTION OR REDUCTION OF SERIES 2010 NOTES; SATISFACTION AND RELEASE

Section 301. 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 2010A Bonds and the Series 2010B Bonds, respectively, in accordance with the terms of the Related Bond Indenture. Notice of redemption of the Series 2010 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 2010 Bonds or at such earlier time as payment is required with respect thereto pursuant to the terms of the Related Bond Indenture.

Section 302. Partial Redemption or Reduction. In the event of a partial redemption of the Tax-Exempt Master Note or 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 Taxable Master Note correspond to the payments of the principal of and interest on the Outstanding Series 2010A Bonds and Series 2010B Bonds, respectively.

Section 303. 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 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 Taxable Master Note are held by the Master Trustee or the Related Bond Trustee, (i) interest on such Tax-Exempt Master Note or Taxable Master Note or portion thereof so called for prepayment or redemption shall cease to accrue, (ii) such Tax-Exempt Master Note or 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 Taxable Master Note or portion thereof so called for prepayment or redemption shall be deemed paid and no longer outstanding.

Section 304. Satisfaction and Release. The Company's obligations with respect to the Tax-Exempt Master Note or 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 2010A Bonds and Series 2010B Bonds, respectively, including the payment of any Reimbursement Obligations described in Section 5.8 of the Loan Agreement, have been paid or deemed paid under the Related Bond Indenture.

## ARTICLE IV

### REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 401. 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 2010 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 2010 Notes has been duly and effectively taken.

Section 402. Covenants under the Original Master Indenture and Related Bond Documents. The Company covenants and agrees that so long as any of the Series 2010 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 2010 Notes, and the Company hereby confirms its covenants and agrees with its undertakings in the Master Indenture.

## ARTICLE V

### MISCELLANEOUS PROVISIONS

Section 501. 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.

Section 502. 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.

Section 503. Limitation of Rights. Nothing in this Supplemental Master Indenture or in the Series 2010 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 2010 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 2010 Notes.

Section 504. 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.

Section 505. 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.

Section 506. 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.

Section 507. 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.

Section 508. 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.

**NEW FRONTIERS CHARTER SCHOOL, INC.**

By: \_\_\_\_\_  
Alfredo Segura, Chief Executive Officer

**WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Master Trustee**

By: \_\_\_\_\_  
Sandra Y. Jones, Assistant Vice President

EXHIBIT A

FORM OF TAX-EXEMPT MASTER INDENTURE NOTE

TAX-EXEMPT MASTER INDENTURE NOTE  
(New Frontiers Charter School)  
Series 2010A

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 \$3,185,000
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Interest Rate: AS SET FORTH HEREIN

Maturity Date: August 15, 2040

Issue Date: October 20, 2010

Registered Holder: TEXAS PUBLIC FINANCE AUTHORITY CHARTER SCHOOL  
FINANCE CORPORATION

Principal Amount: THREE MILLION ONE HUNDRED EIGHTY-FIVE THOUSAND  
DOLLARS

New Frontiers Charter School, 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 (New Frontiers Charter School) Series 2010A" (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 October 1, 2010, between the Company, acting in its own behalf, and Wells Fargo Bank, National Association, as trustee (the "Master Trustee"), as supplemented by the Supplemental Master Trust Indenture No. 1, dated as of October 1, 2010, 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 October 1, 2010 (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 \$3,185,000 designated Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (New Frontiers Charter School) Series 2010A (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 October 1, 2010 (the "Indenture"), between the Issuer and Wells Fargo Bank, National Association, as trustee (the "Bond Trustee"). This Note is a Senior Note, as such term is defined in the Master Indenture.

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 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, will rank *pari passu*.

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 to be 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 Dallas, 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 2010A 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 2010A 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.

NEW FRONTIERS CHARTER SCHOOL, INC.

By: \_\_\_\_\_  
President, Board of Directors

ASSIGNMENT

For value received, the undersigned hereby assigns to Wells Fargo Bank, National Association, as Bond Trustee (the "Bond Trustee") under a Trust Indenture and Security Agreement, dated as of October 1, 2010, 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:

\_\_\_\_\_

WELLS FARGO BANK, NATIONAL  
ASSOCIATION,  
as Master Trustee

By: \_\_\_\_\_  
Authorized Signature



Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (New Frontiers Charter School) Series 2010B (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 October 1, 2010 (the "Indenture"), between the Issuer and Wells Fargo Bank, National Association, 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 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 will rank *pari passu*.

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 to be 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 Dallas, 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 2010B 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 2010B 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.

NEW FRONTIERS CHARTER SCHOOL, INC.

By: \_\_\_\_\_  
President, Board of Directors

ASSIGNMENT

For value received, the undersigned hereby assigns to Wells Fargo Bank, National Association., as Bond Trustee (the "Bond Trustee") under a Trust Indenture and Security Agreement, dated as of October 1, 2010, 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:

\_\_\_\_\_

WELLS FARGO BANK, National Association,  
as Master Trustee

By: \_\_\_\_\_  
Authorized Signature

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**APPENDIX G**  
**SUBSTANTIALLY FINAL FORM OF THE BOND INDENTURE**

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TRUST INDENTURE AND SECURITY AGREEMENT

between

TEXAS PUBLIC FINANCE AUTHORITY  
CHARTER SCHOOL FINANCE CORPORATION

and

WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Trustee

Relating to  
\$3,185,000  
Texas Public Finance Authority Charter School Finance Corporation  
Education Revenue Bonds  
(New Frontiers Charter School)  
Series 2010A

and

\$435,000  
Texas Public Finance Authority Charter School Finance Corporation  
Taxable Education Revenue Bonds  
(New Frontiers Charter School)  
Series 2010B

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Dated as of

October 1, 2010

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## TRUST INDENTURE AND SECURITY AGREEMENT

**THIS TRUST INDENTURE AND SECURITY AGREEMENT** (this "Indenture"), dated as of October 1, 2010, is between the **TEXAS PUBLIC FINANCE AUTHORITY CHARTER SCHOOL FINANCE CORPORATION**, a non-profit corporation created and existing under the Act (the "Issuer"), and **WELLS FARGO BANK, NATIONAL ASSOCIATION**, a national banking corporation with a corporate trust office in Dallas, 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 duly 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 State of Texas, 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 facilities 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, New Frontiers Charter School, Inc., a Texas nonprofit corporation (the "Company") requests that the Issuer issue, and the Issuer proposes to issue, bonds pursuant to the Board Resolution of the Issuer and this Indenture, which will be designated "Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (New Frontiers Charter School) Series 2010A" (the "Series 2010A Bonds") and "Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (New Frontiers Charter School) Series 2010B" (the "Series 2010B Bonds" and, together with the Series 2010A Bonds, 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 the Company's Participating Campus; fund a debt service reserve fund and capitalized interest; and pay certain of the costs of issuing the Bonds and the Series 2010Q 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;

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, 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 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 Company pursuant to Sections 4.7, 5.1 and 6.6 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 Company, 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, as follows:

## ARTICLE I

### DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

#### Section 101. Construction of Terms; Definitions.

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

(1) “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.

(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 Indenture as a whole and not to any particular Article, Section or other subdivision.

(3) 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 and in the Master 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 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 Exhibit A or B hereto:

“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 Chief Executive Officer/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 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 may rely on such written certificate until it is given written notice to the contrary.

“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 Master Note, the Bonds, the Master Indenture, the Deed of Trust 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 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, collectively, the Series 2010A Bonds and the Series 2010B Bonds and any Bonds issued upon transfer thereof or in exchange therefor or in lieu thereof.

“Book-Entry-Only Form” or “Book-Entry-Only 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 New Frontiers Charter School, 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 within the meaning of Section 147(g) of the Code.

“DTC” means The Depository Trust Company, New York, New York, the initial securities depository of the Book-Entry-Only System described in Section 211 hereof.

“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, dated as of October 1, 2010 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 obligations now or hereafter provided in Section 1207.062(b), Texas Government Code.

“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-Only System to record ownership of beneficial interests in the Bonds, and to effect transfers of the Bonds, in Book-Entry-Only 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), obligations or securities now or hereafter authorized as investments under the Public Funds Investment Act, Chapter 2256, Texas Government Code, 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.

“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 an unqualified opinion of counsel, which shall be from Bond Counsel, delivered to and in form and substance satisfactory to the Trustee and the Issuer to the effect that such action does not violate the laws of the State (including the Act) and the Indenture and will not adversely affect the exclusion of interest on the Series 2010A 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.

“Initial Bonds” means the initial Series 2010A Bond and Series 2010B Bond authorized in Section 210 herein.

“Interest Payment Date” means each August 15 and February 15, commencing February 15, 2011.

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

“Issuer” means the 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.

“Master Indenture” means that certain Master Trust Indenture and Security Agreement, dated as of October 1, 2010, 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 Wells Fargo Bank, National Association, with a corporate trust office in Dallas, 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” has the meaning assigned to it in the Master Indenture.

“Note” means the Master Note.

“Officer’s Certificate” of any specified Person means a certificate signed by the president of the Governing Body, a principal, vice principal, business manager 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 205.

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.

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

“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.

“Requisition Certificate” means any Requisition Certificate in substantially the form attached as Exhibit B to this Indenture.

“Reserve Fund Requirement” means for the Series 2010A Bonds \$229,220.42 and for the Series 2010B Bonds \$31,306.40. Such amounts, when added to the debt service reserve fund requirement for the Series 2010Q Bonds, shall equal the aggregate Maximum Annual Debt Service for the Bonds and the Series 2010Q Bonds.

“Reserve Fund Surety Policy” means an insurance policy, surety policy, credit agreement or other guaranty as permitted 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 2010A Bonds” means the Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (New Frontiers Charter School) Series 2010A, authorized to be issued pursuant to Section 201 of this Indenture.

“Series 2010B Bonds” means the Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (New Frontiers Charter School) Series 2010B, authorized to be issued pursuant to Section 201 of this Indenture.

“Series 2010Q Bonds” means the Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (New Frontiers Charter School) Series 2010Q (Qualified School Construction Bonds—Direct Pay), issued simultaneously with the Bonds.

“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 October 1, 2010, between the Company and the Master Trustee.

“Taxable Interest Rates” means the 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 2010B Bonds.

“Tax-Exempt Interest Rates” means the 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 2010A Bonds.

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

“Trustee” means Wells Fargo Bank, National Association, a national banking corporation, with a corporate trust office in Dallas, 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 the Company and provided to the Trustee.

Section 102. 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.

Section 103. 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.

Section 104. 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.

Section 105. 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) 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 1445 Ross Avenue, 2<sup>nd</sup> Floor, Dallas, Texas 75202, MAC T5303-022 or at any other address subsequently furnished in writing to the Bondholders and the other parties to the Bond Documents by the Trustee;

(2) 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;

(3) 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 New Frontiers Charter School, Inc., 1313 S.E. Military Drive, San Antonio, Texas 78214, Attention: Chief Executive Officer/Superintendent, or at any other address subsequently furnished in writing to the Trustee and the Issuer by the Company;

(4) 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.

Section 106. 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.

Section 107. 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.

Section 108. 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.

Section 109. 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, and the Holders of Bonds, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 110. 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.

Section 111. 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

Section 201. Authorization and Form of Bonds. (a) The Series 2010A Bonds shall be designated "Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (New Frontiers Charter School) Series 2010A." The aggregate principal amount of Series 2010A Bonds is \$3,185,000. Each of the Series 2010A Bonds shall be numbered separately from RA-1 upwards. The Series 2010A Bonds shall be issued only in fully registered form in Authorized Denominations. The Series 2010A 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; funding a debt service reserve fund and capitalized interest; and paying a portion of the Costs of Issuance of the Bonds.

(b) The Series 2010B Bonds shall be designated "Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (New Frontiers Charter School) Series 2010B." The aggregate principal amount of Series 2010B Bonds is \$435,000. Each of the Series 2010B Bonds shall be numbered separately from RB-1 upwards. The Series 2010B Bonds shall be issued only in fully registered form in Authorized Denominations. The Series 2010B 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.

Section 202. Terms of Bonds. (a) The Series 2010A Bonds shall be dated as of October 1, 2010, shall mature on August 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) the date of delivery 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>
2040	\$3,185,000	5.800%

(b) The Series 2010B Bonds shall be dated as of October 1, 2010, shall mature on August 15 in the years and in the amounts set forth below, and shall bear interest at the following rates (the "Taxable Interest Rates") from the later of (i) the date of delivery 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>
2013	\$435,000	7.000%

(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 Exhibits A-1 and 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 Register 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 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.

Section 203. Execution, Authentication and Delivery. The Bonds shall be executed on behalf of the Issuer by its President or its Vice President and attested to by its Secretary. 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, 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) 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;

(f) the Opinion of Counsel specified in Sections 202(c) of the Master Indenture;

(g) 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;

(h) 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 2010A Bonds is excludable from gross income of the holders of the Series 2010A Bonds for federal income tax purposes, and (v) the Series 2010A Bonds are “qualified 501(c)(3) bonds” within the meaning of Section 145 of the Code; and

(i) 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.

Section 204. Registration, Transfer and Exchange. The Trustee is hereby appointed as Bond Registrar (the “Bond Registrar”) for the purpose of registering Bonds and transfers of Bonds as herein provided. 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 Bond Registrar shall keep the Bond Register with respect to the Bonds at its principal payment office in Dallas, Texas.

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.

Section 205. 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.

Section 206. 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 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 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.

Section 207. Persons Deemed Owners. The Issuer, the Trustee, the Authenticating Agent, the Bond Registrar, 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.

Section 208. 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.

Section 209. 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.

Section 210. Initial Bonds. Pending the preparation of definitive Bonds, the Issuer will execute, and the Bond Registrar shall deliver the Initial Bonds, which may be printed, lithographed, typewritten, mimeographed or otherwise produced, 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 Initial Bonds may determine, as evidenced by their execution of such Initial Bonds.

Upon the issuance of the Initial Bonds, the Issuer will cause definitive Bonds to be prepared without unreasonable delay. After the preparation of definitive Bonds, the Initial Bond shall be exchangeable for definitive Bonds upon surrender of the Initial Bonds at the office of the Trustee in a Place of Payment, without charge to the Holder. Upon surrender for cancellation of the Initial Bond, 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, the Initial Bonds shall in all respects be entitled to the same benefits under this Indenture as definitive Bonds.

Section 211. Book-Entry-Only System.

(a) The Bonds may and initially shall be registered under a Book-Entry-Only 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-Only Form.

(b) Under the Book-Entry-Only 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. 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-Only 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

Section 301. Redemption. The Bonds shall be subject to redemption as set forth in the forms of Bonds in Exhibit A-1 and Exhibit A-2 hereto.

Section 302. 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 60 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.

Section 303. 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, and provided further that if the Company fails to give such written direction, such Bonds shall be selected by lot.

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.

Section 304. 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.

Section 305. 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.

Section 306. 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.

Section 307. 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

Section 401. 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.

Section 402. Proceeds Fund. There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated its "New Frontiers Education Revenue Bonds Series 2010 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 2010A 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), as applicable, all as specified in the Issuer Order to authenticate and deliver the Series 2010A Bonds. The proceeds of the sale of the Series 2010B 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 2010B Bonds.

Section 403. Debt Service Fund.

(a) There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated its "New Frontiers Education Revenue Bonds Series 2010 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.

(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 each Interest Payment Date, the Trustee shall withdraw money from the corresponding account of the Debt Service Fund in an amount sufficient to pay the Bondholders interest on the related series of the Bonds.

Section 404. Debt Service Reserve Fund.

(a) There is hereby created by the Issuer and established with the Trustee, for the benefit of the Series 2010A Bonds, the Series 2010B Bonds and the Series 2010Q Bonds, the special fund of the Issuer designated its "New Frontiers Education Revenue Bonds Series 2010 A/B Debt Service Reserve Fund" (herein referred to as the "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 with the Trustee in 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 with respect to each Series of Bonds.

(b) If there are insufficient funds in either the Tax-Exempt Bonds Account or the Taxable Bonds Account of the Debt Service Fund to pay the Debt Service on the Series 2010A Bonds or the Series 2010B Bonds, respectively, by 12:00 noon (Central Time) four Business Days prior to any Interest Payment Date, the Trustee shall transfer from the appropriate account of the Debt Service Reserve Fund to the appropriate account of the Debt Service Fund the amounts necessary to make such payments from the appropriate account of the Debt Service Fund on such 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 the withdrawal, 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 deficiency, such additional decline shall be restored in equal monthly installments over the remainder of the restoration period for the initial deficiency. Notwithstanding the foregoing, moneys in the Debt Service Reserve Fund may be applied to pay the final Debt Service payment at maturity.

(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, 2011; 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 such deficiency, 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 funded with Series 2010A Bond proceeds exceeds the lesser of (i) 10 percent of the Proceeds of the Series 2010A Bonds, (ii) the maximum annual debt service on the Series 2010A Bonds, or (iii) 125 percent of the average annual debt service on the Series 2010A Bonds, within the meaning of Section 1.148-2(f)(2)(ii) of the Regulations, such excess shall be (A) used to pay principal or interest on the Bonds, subject to the limitations described in Section 1.148-6(d)(3) of the Regulations or (B) invested as directed in writing by the Company at a yield which is not "materially higher" than the Yield on the Series 2010A Bonds, as provided in Section 148(a) of the Code or invested in obligations the yield of which is in excess of the Yield on the Series 2010A Bonds, provided the Company and the Issuer agree to make yield reduction payments described in Section 1.148-5(c) of the Regulations. 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 authority to direct the use of 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. 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 at the time of the issuance of the Reserve Fund Surety Policy for its long term unsecured debt or claims paying

ability in the highest letter category by two Rating Agencies or (ii) a Guaranty Agreement issued by the Texas Public Finance Authority Charter School 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 Company lawfully available for such purpose. Any Reserve Fund Surety Policy shall be authorized by Board Resolution of the Company 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 reimbursement obligations 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.

Section 405. Rebate Fund.

(a) There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated as its "New Frontiers Education Revenue Bonds Series 2010A 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.

#### Section 406. Construction Fund.

(a) There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated its "New Frontiers Education Revenue Bonds Series 2010 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, an Insurance Proceeds Account and a Costs of Issuance Account and within the 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. The Trustee may transfer funds between subaccounts in the Project Account as needed to fund the Project upon the direction of the Company pursuant to an Officer's Certificate.

(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 the Issuer Order.

(b-1) The Trustee shall disburse amounts in the Costs of Issuance Account on or after the Closing Date upon receipt of a Requisition Certificate. Such amounts may be disbursed without the consent of any Construction Consultant.

(b-2) The Trustee shall disburse amounts in the Insurance Proceeds Account on or after the Closing Date upon receipt of a Requisition Certificate. Such amounts may be disbursed without the consent of any Construction Consultant.

(c) At Closing and without the consent of any Construction Consultant, the Trustee shall disburse amounts from the Project Account as specified in the Issuer Order. The Trustee shall disburse amounts in the Project Account of the Construction Fund to pay or reimburse the Company for all other Project Costs 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.

(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. To the extent the amounts are transferred to the Debt Service Fund, such amounts may be used to (i) pay principal or interest on the Bonds, subject to the limitations described in Section 1.148-6(d)(3) of the Regulations or (ii) redeem Bonds in Authorized Denominations, to the maximum degree permissible, and at the earliest dates at which the Bonds may be redeemed under this Indenture; provided, however, if the Bonds may not be redeemed, the Bonds may be defeased in accordance with Section 1.141-12 of the Regulations.

(e) Any moneys remaining in either account of the Costs of Issuance Account ninety (90) days after the Closing Date and not needed to pay unpaid Costs of Issuance shall be transferred to the Project Account of 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.

(g) Notwithstanding any other provision contained herein, no disbursement of moneys from the Project Account of the Construction Fund shall be made unless the conditions specified in Section 3.3 of the Agreement have been satisfied.

(h) Any funds remaining in the Construction Fund or any sub-account thereto after the Project is certified or deemed "complete" pursuant to Section 3.5 of the Agreement shall be transferred to the Debt Service Fund to redeem Bonds pursuant to the procedures set forth in Exhibit A hereto regarding "Mandatory Redemption with Excess Proceeds."

Section 407. Investment of Bond Proceeds. Pending the disbursement of any amounts deposited from the proceeds of the 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 Section 2256.009, Texas Government Code.

Section 408. Investment of Funds.

(a) Except as provided in Section 407, 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 the Wells Fargo Advantage Funds Treasury Plus Money Market Fund. 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(e), 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 transactions as they occur, the Issuer and the Company waive receipt of such confirmations. The Trustee shall furnish to the Company a periodic statement, made at least yearly, that includes details of all investment transactions made by the Trustee.

Section 409. 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 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.

## ARTICLE V

### COVENANTS OF THE ISSUER

Section 501. 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.

Section 502. 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 in the United States designated by such registered Owner upon written notice to the Trustee prior to the Record Date.

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) 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;

(2) 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

(3) 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, shall, upon receipt of a Company Order, 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. 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 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 shall be appointed. Notice of the designation of a successor Paying Agent shall be sent by the Trustee by first-class mail to each Holder of the Bonds.

Section 503. 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. The Issuer has not heretofore made a pledge of, granted a lien on or security interest in, or made an assignment or sale of the collateral granted hereunder that ranks on a parity with or prior to the lien granted hereunder that will remain outstanding on the Closing Date. The Issuer has not described such collateral in a UCC financing statement that will remain effective on the Closing Date. The Issuer will not hereafter make or suffer to exist any pledge or assignment of, lien on, or security interest in the collateral described hereunder that ranks prior to or on parity with the lien granted hereunder, or file any financing statement describing any such pledge, assignment, lien or security interest, except as expressly permitted by the Bond Documents. The security interest granted hereunder is and shall be prior to any judicial lien hereafter imposed on such collateral to enforce a judgment against the Issuer on a simple contract.

Section 504. 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. The Trustee shall either (i) file continuation statements as may be required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents, or (ii) confirm, prior to the fifth anniversary of the Closing Date and each fifth anniversary thereafter, the filing of continuation statements by the Issuer required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents and, if necessary, make such filings as may be required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents. Notwithstanding the foregoing, the Trustee shall not be responsible for the sufficiency of or the proper recording or indexing of any financing or continuation statements.

Section 505. 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.

Section 506. 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; or (iv) knowingly take any other action that will impair the lien of this Indenture on the Trust Estate.

Section 507. Tax Covenants.

(a) The Issuer agrees that until the final Maturity of the Series 2010A 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 Series 2010A Bonds, whether or not such money was derived from the proceeds of the sale of the Series 2010A Bonds or from any other source, in a manner that would cause the Series 2010A 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 2010A 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 will not knowingly use or direct the use of any proceeds of the Series 2010A Bonds or any other funds of the Issuer, directly or indirectly, in any manner, and will not itself take or knowingly permit to be taken any other action or actions, which would result in any of the Series 2010A 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 2010A 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 2010A 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 that would result in all or any portion of the Series 2010A Bonds being treated as “federally guaranteed” within the meaning of Section 149(b)(2) of the Code.

(f) For purposes of this Section 507, 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 2010A Bonds. In complying with the foregoing covenants, the Issuer may rely from time to time upon a Favorable Opinion of Bond Counsel.

Section 508. 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 2010A 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

Section 601. 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, meeting the requirements of Section 602 and containing:

(1) 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

(2) 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 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 an Officers' Certificate and a Favorable Opinion of Bond 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.

Section 602. 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

Section 701. 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) 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

(2) 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 and the Company by the Trustee, or to the Issuer, 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, but in no instance shall it last longer than 90 days; or

(3) 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

(4) 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

(5) 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

(6) receipt by the Trustee of written notice from the Master Trustee that the Notes have been accelerated under the Master Indenture.

(7) an "Event of Default" has occurred under any of the Bond Documents as the term "Event of Default" is therein defined.

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 unless such amount is immediately thereafter paid.

Section 702. 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, at the direction of 25% of the Bondholders, give written notice to the Issuer, the Company 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) 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 direct the Trustee to rescind and annul such declaration and its consequences if:

(1) the Issuer has caused to be paid or deposited with the Trustee a sum sufficient to pay:

(A) all overdue installments of interest on all Bonds;

(B) 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;

(C) 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

(D) 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.

Section 703. Collection of Indebtedness and Suits for Enforcement by Trustee. The Issuer covenants that if

(1) default is made in the payment of any installment of interest on any Bond when such interest becomes due and payable, or

(2) 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 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, subject, to the extent applicable, to Section 12.128 of the Texas Education Code, as amended, the Trustee may 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.

Section 704. 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 be entitled and empowered, by intervention in such proceeding or otherwise,

(i) 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

(ii) 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.

Section 705. 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 to the extent of the obligations then owing to such Persons.

Section 706. 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 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, 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, 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 the Company, any remaining amounts of money so collected.

Section 707. Limitation on Suits. Subject to Section 712(i) 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 percent in principal amount of the Outstanding Bonds 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; and

(d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding;

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 to the extent of the amounts then owing to such Persons.

Section 708. 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.

Section 709. Restoration of Rights and Remedies. If the Trustee 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 or such Holder of Bonds, then and in every such case the Issuer, the Trustee, 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 and the Holders of Bonds shall continue as though no such proceeding had been instituted.

Section 710. Rights and Remedies Cumulative. No right or remedy herein conferred upon or reserved to the Trustee 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.

Section 711. Delay or Omission Not Waiver. No delay or omission of the Trustee 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 or the Holders of Bonds may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or the Holders of Bonds, as the case may be.

Section 712. Control by Holders of Bonds. The Holders of a majority in principal amount of the Outstanding Bonds 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:

- (i) such direction shall not be in conflict with any rule of law or with this Indenture, and
- (ii) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

Section 713. Waiver of Past Defaults. Each of the Holders of not less than a majority in principal amount of the Outstanding Bonds may 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.

Section 714. 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).

Section 715. 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.

Section 716. 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.

Section 717. 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 VIII

### CONCERNING THE TRUSTEE

#### Section 801. 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. The Trustee shall not be responsible for the performance of any duties, except such duties as are specifically set forth in this Indenture 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(j) 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) this subsection shall not be construed to limit the effect of subsection (a) of this Section or Section 803;

(2) 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;

(3) 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 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

(4) 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.

Section 802. Notice of Defaults. Within 60 days after the occurrence of any default hereunder of which the Trustee has knowledge of hereunder, the Trustee shall transmit by mail to all Holders of Bonds, 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 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 notice described in Section 701(2) is given and a cure is not forthcoming; 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.

Section 803. 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 or certified minutes 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 discretionary rights or powers vested in it by this Indenture at the request or direction of any of the Holders of Bonds pursuant to the provisions of this Indenture, unless such Holders 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 be under no obligation to exercise any of the discretionary rights or powers vested in it by this Indenture at the request or direction of any of the Holders of Bonds pursuant to the provisions of this Indenture, unless such Holders, 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. Wherever in this Indenture provision is made for indemnity by the Holder of the Bonds, if the Holder providing such indemnity has an aggregate net worth or net asset value of at least \$50,000,000, as set forth in its most recent audited financial statements or as otherwise satisfactorily demonstrated to the Trustee, the Trustee may not require any indemnity bond or other security for such indemnity. In any case where more than one owner is providing indemnity, such indemnity shall be several and not joint and, as to each owner, such indemnity obligations shall not exceed its percentage interest of outstanding Bonds;

(g) 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;

(h) 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;

(i) The 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 Trustee in the exercise of such care. The 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 Trustee may in all cases pay reasonable compensation to any attorney or agent retained or employed by it in connection herewith.

(j) The Trustee shall not be required to take notice or be deemed to have notice of any default or Event of Default hereunder unless the Trustee shall be specifically notified of such default or Event of Default in writing by the Issuer 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 default or 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;

(k) The Trustee shall not be liable for any error of judgment made in good faith by its officers, unless it shall be proven that the Trustee was negligent in ascertaining the pertinent facts;

(l) 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;

(m) 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;

(n) The Trustee may seek the approval of the Holders of the Bonds by any means it deems appropriate and not inconsistent with the terms of this Indenture in connection with the giving of any consent or taking of any action in its capacity as Holder of any Note;

(o) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty to take such action and the Trustee shall not be answerable for other than its negligence or willful misconduct in accordance with the terms of this Indenture;

(p) 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

(q) 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.

(r) The Trustee shall not be bound to ascertain or inquire as to the performance or observance of any covenants, conditions or agreements on the part of the Issuer herein except as may be expressly provided for herein. The Trustee may require of the Issuer full information and advice as to the performance of the aforesaid covenants, conditions and agreements.

Notwithstanding the aforesaid, the Trustee shall be required to pay the Holders of the Bonds at the times required under this Indenture, but solely from funds held in the Trust Estate.

Section 804. 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.

Section 805. 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.

Section 806. 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 penultimate paragraph of Section 502), 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.

Section 807. 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) 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

(2) 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), 5.1(h) and 6.6 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.

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.

Section 808. 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.

Section 809. 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 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 an act of the Holders of a majority in principal amount of the Outstanding Bonds, delivered to the Trustee and the Issuer.

(d) If at any time:

(1) the Trustee shall cease to be eligible under Section 808 and shall fail to resign after written request by the Issuer or by any such Holder of Bonds, or

(2) 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 or (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.

(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 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.

Section 810. 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, any 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.

Section 811. 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.

Section 812. 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 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 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 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 Sections 803 and 807. The provisions of Sections 207, 803, 804, and 805 of this Indenture shall be applicable to any Authenticating Agent.

Section 813. 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 IX

### SUPPLEMENTS AND AMENDMENTS

Section 901. Supplemental Indentures and Amendatory Agreements Without Consent of Holders of Bonds. Without the consent of the Holders of any Bonds, the Issuer, when authorized by a Board Resolution, and the Trustee at any time upon receipt of Company Consent, may enter into or consent to one or more indentures supplemental hereto, subject to Section 903 hereof, or amendments to the Agreement for any of the following purposes:

- (1) 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;
- (2) 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;

(3) 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;

(4) 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;

(5) 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, (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

(6) 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 maintain an investment grade rating on the Bonds from each Rating Service.

Section 902. Supplemental Indentures and Amendatory Agreements With Consent of Holders of Bonds. 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 and the Rating Service, 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) or amendments to the Agreement for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or the Agreement or of modifying in any manner the rights of the Holders of the Bonds under this Indenture or the Agreement; provided, however, that no such supplemental indenture or amendment shall, without the consent of the Holder of each Bond affected thereby:

(1) 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

(2) 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

(3) 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.

Section 903. 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, a Favorable Opinion of Bond Counsel and an Opinion of Counsel stating that the execution of such supplemental indenture or consent is authorized or permitted by this Indenture and all conditions precedent have been satisfied. 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.

Section 904. 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.

Section 905. 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 X

### SATISFACTION AND DISCHARGE OF INDENTURE; UNCLAIMED MONEYS

Section 1001. 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) 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,

(2) 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

(3) 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.

Section 1002. 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.

Section 1003. 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.

## ARTICLE XI

### MISCELLANEOUS

Section 1101. 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.

Section 1102. 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

WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Trustee

By: \_\_\_\_\_  
Name: Sandra Y. Jones  
Title: Assistant Vice President

ACCEPTED AND AGREED TO BY:

WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Paying Agent and Bond Registrar

By: \_\_\_\_\_  
Name: Sandra Y. Jones  
Title: Assistant Vice President



EXHIBIT A-1

FORM OF SERIES 2010A 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 2010A Bonds.

NO. RA-\_\_\_\_

REGISTERED  
\$3,185,000

UNITED STATES OF AMERICA  
STATE OF TEXAS  
TEXAS PUBLIC FINANCE AUTHORITY  
CHARTER SCHOOL FINANCE CORPORATION  
EDUCATION REVENUE BOND  
(New Frontiers Charter School)  
Series 2010A

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Dated Date</u>	<u>CUSIP NO.</u>
5.800%	August 15, 2040	October 1, 2010	

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 53.351 thereof (the “Act”), hereby promises to pay to the order of \_\_\_\_\_, or registered assigns, at the principal payment office of Wells Fargo Bank, N.A., in Dallas, Texas (the “Place of Payment”), the aggregate principal amount of THREE MILLION ONE HUNDRED EIGHTY-FIVE THOUSAND DOLLARS (\$3,185,000) 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 the date of delivery 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 PLEDGED 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 Wells Fargo Bank, National Association (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") on the close of business for the Trustee on the last business day of the calendar month preceding any Interest Payment Date regardless of whether such day is a Business Day (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, 2011, 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 \$3,185,000 for the purpose of financing the cost of certain educational facilities (as that term is defined in the Act) for New Frontiers Charter School, Inc. (the "Company") on certain campuses, funding a debt service reserve fund and capitalized interest, 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 Governing Body of the Issuer, and a Trust Indenture and Security Agreement, dated as of October 1, 2010 (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 October 1, 2010 (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 October 1, 2010, (the "Master Indenture") as supplemented by Supplemental Master Trust Indenture No. 1, dated as of October 1, 2010 (the "Supplemental Indenture"), between the Company on behalf of itself and Wells Fargo Bank, National Association, 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 August 15 in each of the years, and in the principal amounts, respectively, as set forth in the following schedule:

Mandatory Redemption Date (August 15)	Principal Amount to be Mandatorily Redeemed
2028	\$170,000
2029	180,000
2030	190,000
2031	200,000
2032	215,000
2033	225,000
2034	240,000
2035	255,000
2036	270,000
2037	285,000
2038	300,000
2039	320,000
2040*	335,000

\* 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 60 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 August 15, 2020 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 less than 60 or such shorter period acceptable to the Trustee.

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.

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 Agreement dated as of October 1, 2010 by and between the Issuer and the Company, as evidenced by a promissory note (the "Note") issued by the Company to the Issuer 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 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, 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.

[To appear on Initial Series 2010A 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.

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, 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. Initial Series 2010A Bond.

The initial Series 2010A Bond shall be in the form set forth in "Form of Series 2010A Bonds" above except for the following alterations:

(a) The Initial Series 2010A Bond shall be numbered IA-1 and shall be payable to the initial purchaser of the Series 2010A Bonds.

(b) immediately under the name of the Bond, the word "CUSIP" shall be deleted;

5. Form of Comptroller's Registration Certificate to appear on the Initial Series 2010A 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 2010B 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 2010B Bonds.

NO. RB-\_\_\_\_

REGISTERED  
\$435,000

UNITED STATES OF AMERICA  
STATE OF TEXAS  
TEXAS PUBLIC FINANCE AUTHORITY  
CHARTER SCHOOL FINANCE CORPORATION  
TAXABLE EDUCATION REVENUE BOND  
(New Frontiers Charter School)  
Series 2010B

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Dated Date</u>	<u>CUSIP NO.</u>
7.000%	August 15, 2013	October 1, 2010	

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 53.351 thereof (the “Act”), hereby promises to pay to the order of \_\_\_\_\_, or registered assigns, at the principal payment office of Wells Fargo Bank, National Association, in Dallas, Texas (the “Place of Payment”), the aggregate principal amount of FOUR HUNDRED THIRTY-FIVE THOUSAND DOLLARS (\$435,000) 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 the date of delivery 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 PLEDGED 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 Wells Fargo Bank, National Association (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") on the close of business for the Trustee on the last business day of the calendar month preceding any Interest Payment Date regardless of whether such day is a Business Day (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, 2011, 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 \$435,000 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 Governing Body of the Issuer, and a Trust Indenture, dated as of October 1, 2010 (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 October 1, 2010 (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 taxable 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 October 1, 2010, (the "Master Indenture") as supplemented by Supplemental Master Trust Indenture No. 2, dated as of October 1, 2010 (the "Supplemental Indenture"), between the Company on behalf of itself and Wells Fargo Bank, National Association, 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 August 15 in each of the years, and in the principal amounts, respectively, as set forth in the following schedule:

<u>Mandatory Redemption Date (August 15)</u>	<u>Principal Amount to be Mandatorily Redeemed</u>
2011	\$150,000
2012	190,000
2013*	95,000

\* 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 60 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 not subject to optional redemption.

Extraordinary Optional Redemption. The Bonds are subject to extraordinary redemption, at the option of the Issuer upon a 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 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 at random; 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 Agreement, as evidenced by a promissory note (the "Note") issued by the Company to the Issuer 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 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, 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.

[To appear on Initial Series 2010B 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.

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, 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. Initial Series 2010B Bond.

The initial Series 2010B Bond shall be in the form set forth in "Form of Series 2010B Bonds" above except for the following alterations:

(a) The Initial Series 2010B Bond shall be numbered IB-1 and shall be payable to the initial purchaser of the Series 2010B Bonds.

(b) immediately under the name of the Bond, the word "CUSIP" shall be deleted;



EXHIBIT B

FORM OF REQUISITION CERTIFICATE

Company Request No.: \_\_\_\_\_

\_\_\_\_\_, 20\_\_

Wells Fargo Bank, National Association, as Trustee  
1445 Ross Avenue, 2<sup>nd</sup> Floor  
Dallas, Texas 75202  
MAC T5303-022

Attention: Corporate Trust

Re: Disbursement from Construction Fund

Ladies and Gentlemen:

This Requisition Certificate is provided to you pursuant to Section 406 of the Trust Indenture and Security Agreement, dated as of October 1, 2010 (the "Indenture"), between the Texas Public Finance Authority Charter School Finance Corporation (the "Issuer") and you, as Trustee for requesting payment to the Company as provided herein. The capitalized terms used in this Request have the same meanings given such terms in the Indenture or the Loan Agreement, dated as of October 1, 2010 (the "Loan Agreement"), between the Issuer and New Frontiers Charter School, Inc. (the "Company").

(a) Pay to (name and address):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(b) (i) There has been expended, or is being expended concurrently with the delivery of this certificate, on account of [Project Costs, as defined in the Loan Agreement] [Cost of Issuance, as defined in the Loan Agreement] 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 portion of the amount of the proceeds of the Series 2010A Bonds requested that will be used to pay Costs of Issuance, plus all previous

amounts requested for Costs of Issuance, does not exceed 2 percent of the proceeds of the Bonds deposited into the Proceeds Fund;]

[(v) The portion of the amount representing Proceeds of the Series 2010A Bonds requested to pay Project Costs which are Qualifying Costs (as such term is defined in Section 5.3 of the Loan Agreement) 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]

[You are hereby directed to pay the amount of \$ \_\_\_\_\_ from the Project Account of the Construction Fund in the amounts and to the parties as set forth in the attached schedule. Of such amount, \$ \_\_\_\_\_ shall be held as retainage, resulting in a disbursement amount of \$ \_\_\_\_\_.]

[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. Of such amount, \$ \_\_\_\_\_ shall be held as retainage, resulting in a disbursement amount of \$ \_\_\_\_\_.]

[You are hereby directed to pay the amount of \$ \_\_\_\_\_ from the \_\_\_\_\_ 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. To the extent such amount is to be paid from the Tax-Exempt Bonds Subaccount, such amount, in addition to amounts previously paid from 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 Insurance Proceeds Account of the Construction Fund in the amounts and to the parties as set forth in the attached schedule.]

(vi) Pay to the persons listed on Schedule A amounts not to exceed those set forth on Schedule A, upon receipt of individual invoices.

(vii) Such payment will constitute payment of or reimbursement for a properly incurred obligation, is a proper charge against the Construction Fund (as defined in the Agreement), is unpaid or not reimbursed to the Company, and has not been the basis of any previous withdrawal or payment.

(vii) The payment of the amount requested herein will not result in a breach of any covenant of the Company contained in the Agreement, including particularly the covenants contained in Section 5.3 thereof.

(c) [Insert wire instructions if applicable.]

(d) All other items required by the Agreement to be delivered to the Trustee in connection with this Requisition Certificate have been delivered to the Trustee.

(e) To the best of the undersigned's knowledge, there has not been filed with or served upon the Issuer or the Company notice of any lien, right or attachment upon, or claim affecting the right of any such Persons to receive payment of the respective amounts stated in this Requisition Certificate, which has not been released or will not be released simultaneously with the payment of such obligation.

(f) We further certify that (A) obligations as stated on this Requisition Certificate have been properly incurred, (B) such work was actually performed or such materials or supplies were actually furnished or installed in or about the Project, (C) if contested, bond has been made by the Company and (D) either such materials or supplies are not subject to any lien or security interest or any such lien or security interest will be released or discharged upon payment of this Requisition Certificate.

(g) All rights, title and interest to any and all personal property acquired with the proceeds of this disbursement is vested in the Company.

(h) All third party independent inspections of the Project required by the Construction Consultant in connection with this disbursement have been performed and copies of such reports provided to the Construction Consultant.

NEW FRONTIERS CHARTER SCHOOL, INC.

By: \_\_\_\_\_  
Authorized Representative

*[Only required for payment of Project Costs]*

CONSTRUCTION CONSULTANT'S APPROVAL

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

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**APPENDIX H**  
**SUBSTANTIALLY FINAL FORM OF THE LOAN AGREEMENT**

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LOAN AGREEMENT

between

TEXAS PUBLIC FINANCE AUTHORITY  
CHARTER SCHOOL FINANCE CORPORATION

and

NEW FRONTIERS CHARTER SCHOOL, INC.

Relating to

\$3,185,000

TEXAS PUBLIC FINANCE AUTHORITY  
CHARTER SCHOOL FINANCE CORPORATION  
EDUCATION REVENUE BONDS  
(New Frontiers Charter School)  
SERIES 2010A

and

\$435,000

TEXAS PUBLIC FINANCE AUTHORITY  
CHARTER SCHOOL FINANCE CORPORATION  
TAXABLE EDUCATION REVENUE BONDS  
(New Frontiers Charter School)  
Series 2010B

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Dated as of

October 1, 2010

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- Exhibit "A" - Description of Project
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## LOAN AGREEMENT

**THIS LOAN AGREEMENT** (this "Agreement"), dated as of October 1, 2010, is between the **TEXAS PUBLIC FINANCE AUTHORITY CHARTER SCHOOL FINANCE CORPORATION**, a non-profit, corporation created and existing under the Act (the "Issuer"), and **NEW FRONTIERS CHARTER SCHOOL, 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 \$3,620,000, which will be designated "Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (New Frontiers Charter School) Series 2010A" (the "Series 2010A Bonds") and "Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (New Frontiers Charter School) Series 2010B" (the "Series 2010B Bonds" and, together with the Series 2010A Bonds, 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 certain campuses of the Company; funding a debt service reserve fund or the purchase of a Reserve Fund Surety Policy and capitalized interest; 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 October 1, 2010, between the Issuer and Wells Fargo Bank, National Association, 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 (the "Master Indenture") dated as of October 1, 2010, between the Company, on behalf of itself, and Wells Fargo Bank, National Association, Dallas, Texas, as Master Trustee (the "Master Trustee"), and the Supplemental Master Trust Indenture No. 1 between the Company and the Master Trustee dated as of October 1, 2010, which secures payment of certain Debt (as defined in the Master Indenture) of the Company including the Notes (as hereinafter defined) which evidence the Loan made hereby (the "Loan");

WHEREAS, the Issuer shall issue the Series 2010A Bonds and the Series 2010B 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 2010A and Series 2010B 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 Notes and the Loan Payments (each as hereinafter defined) to be made by the Company pursuant to this Agreement; 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 I

### DEFINITIONS AND INTERPRETATIONS

#### Section 1.1 Construction of Terms; Definitions.

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

(1) "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.

(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 Agreement as a whole and not to any particular Article, Section or other subdivision.

(3) 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 and the Master 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.

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

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

“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.

“Beneficial Owner(s)” means the person or entity for whom the Bonds were deposited with DTC in the name of its nominee, Cede & Co.

“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.

“Capital Leases” means leases required to be capitalized in accordance with Generally Accepted Accounting Principles.

“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 the respective construction consultant hired by the Company for a Participating Campus, as identified to the Trustee by the Company.

“Debt” shall have the meaning assigned to such term in the Master Indenture.

“Excess Net Revenues” means, for any Fiscal Year, Adjusted Revenues of the Company less Operating Expenses, Maximum Annual Debt Service, Debt Service Reserve Fund deficiency payments, payments on Capital Leases and payments on any other Long-Term Indebtedness.

“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 2010A 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, 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 Wells Fargo Bank, National Association, as trustee, securing the Bonds.

“Indemnified Party” shall mean one or more of the Issuer, the Governing Body of the Issuer, the Sponsoring Entity, the Trustee 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.

“Maximum Annual Debt Service” shall have the meaning given to such term in the Trust Indenture.

“MSRB” means the Municipal Securities Rulemaking Board.

“Notes” means collectively, the Tax-Exempt Note and the Taxable Note.

“Operating Expenses” means fees and expenses of the Company, including maintenance, repair expenses, utility expenses, real estate taxes, if any, insurance premiums, administrative and legal expenses, miscellaneous operating expenses, advertising and promotion costs, payroll expenses (including taxes), the cost of material and supplies used for current operations of the Company, the cost of vehicles, equipment leases and service contracts, taxes, if any, upon the operations of the Company not otherwise mentioned herein, charges for the accumulation of appropriate reserves (excluding deposits to the Repair and Replacement Fund) for current expenses not annually recurrent, but which are such as may reasonably be expected to be incurred in accordance with generally accepted accounting principles of governmental entities in the State, all in such amounts as reasonably determined by the Company; provided, however, “Operating Expenses” shall not include (i) spending for items which could reasonably be accounted for as capital expenditures under generally accepted accounting principles of governmental entities in the State, (ii) deposits into and expenditures from the Repair and Replacement Fund, or (iii) replenishments of the Debt Service Reserve Fund.

“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.

“Participating Campuses” means, collectively, the charter school campuses of the Company so designated under any Supplemental Master Indenture.

“Payment and Performance Bonds” means payment and performance bonds required by Section 3.2(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.

“Project” means the Project described in Exhibit A hereto.

“Project Costs” means costs related to the Project (excluding the Costs of Issuance) permitted to be paid out of proceeds of the Bonds by the Act and by the Code.

“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.

“Repair and Replacement Fund” means the fund created pursuant to Section 406 of the Master Indenture.

“Requisition Certificate” means the certificate described in Section 3.2(a).

“Short-Term Indebtedness” means all Indebtedness the final maturity of which (taking into account any extensions available at the sole option of the Company) is one year or less after the initial incurrence thereof.

“Sponsoring Entity” means the State.

“State” means the State of Texas.

“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 2010A Note.

“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 2010B Note.

(c) Certain terms, used primarily in Sections 4.5, 4.7 and 5.3, are defined in those Sections.

Section 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.

Section 1.3 Communications. All notices, demands, certificates, requests, consents, submissions or other communications hereunder shall be given as provided in the Indenture.

Section 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 3.4, 3.6, 4.1(b), 4.3 and 5.3 of this Agreement shall continue until the final Maturity of the Bonds.

Section 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.

Section 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.

Section 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.

Section 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.

Section 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.

Section 1.10 Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State.

Section 1.11 Amendments. This Agreement may be amended only as provided in the Indenture.

## ARTICLE II

### REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 2.1 Representations, Warranties and Covenants of the Issuer. The Issuer represents, warrants and covenants that:

(a) 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.

(b) 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.

(c) 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.

(d) 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).

(e) No Litigation. 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, to the Issuer's knowledge, 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.

(f) Non-Contravention. 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 to the Issuer's knowledge, 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.

(g) 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.

(h) 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.

Section 2.2 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:

(a) Corporate Existence; Good Standing; Power. The Company is a non-profit corporation duly organized, validly existing and in good standing under the Texas Nonprofit Corporation Act; 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.

(b) 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.

(c) 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.

(d) 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.

(e) 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).

(f) 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).

(g) 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.

(h) 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 amount 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.

(i) Certain Federal Tax Matters. The Company makes the following representations:

(A) 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;

(B) 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, to the extent required by the Code or Regulations, have been subsequently 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;

(C) The Company has not diverted more than an insubstantial 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;

(D) 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;

(E) 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 "disqualified person" within the meaning of Section 4958(f) of the Code with respect to the Company has received an economic benefit in excess of the value of the consideration (including the performance of services) 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;

(F) The Company is not a "private foundation" within the meaning of Section 509(a) of the Code;

(G) The Company has not received any indication or notice whatsoever to the effect that its exemption under Section 501(a) of the Code by virtue of being an organization described 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;

(H) 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;

(I) The Company has not devoted more than an insubstantial part of its activities in furtherance of a purpose other than an exempt purpose as provided under Section 1.501(c)(3)-1(c)(1) of the Regulations;

(J) 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 that would cause the Company to lose its exemption from taxation under Section 501(a) of the Code or cause interest on the Series 2010A Bonds to be includable in the income of the recipients thereof for federal income tax purposes;

(K) Taking into account the Issue Price (as defined in Section 5.3(s) of this Agreement) of the various maturities of the Series 2010A Bonds, the average term of the Series 2010A Bonds does not exceed 120 percent of the average reasonably expected economic life of the assets to be financed or refinanced by the Series 2010A Bonds, weighted in proportion to the respective cost of each asset the cost of which has been or will be financed, directly or indirectly, with the Net Proceeds (as defined in Section 5.3(s) of this Agreement) of the Series 2010A Bonds. For purposes of the preceding sentence, the reasonably expected economic life of assets shall be determined as of the later of (A) the Closing Date for the Series 2010A 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 asset, except that, in the event 25 percent or more of the collective Net Proceeds of the Series 2010A 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 asset;

(L) 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 Series 2010A 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.

(j) Indenture. 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.

(k) Security 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 collateral granted hereunder and described in Section 4.3 that ranks on a parity with or prior to the lien granted hereunder that will remain outstanding on the Closing Date. The Company has not described the collateral 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 collateral that ranks prior to or on a parity with the lien granted hereunder, or file any financing statement describing any such pledge assignment, lien or security interest, except as expressly permitted by the Bond Documents.

(l) 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

Section 3.1 Acquisition and Construction of the Project. (a) 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.

(b) The Plans and Specifications for the part of the Project on each campus shall be approved prior to the commencement of construction of that part 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 and 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.

Section 3.2 Disbursements of Bond Proceeds.

(a) Disbursements from Project Account of the Construction Fund. Pursuant to the provisions of the Indenture, there shall be deposited into the Project Account of the Construction 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 Project Account, as requested by the Company and approved in writing by the respective 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 (a "Requisition Certificate") substantially in the form attached as Exhibit "B" to the Indenture. The Company shall retain copies of all Requisition Certificates until the date that is six years from the first date on which no Bonds are outstanding.

(b) Disbursements from the Costs of Issuance Account of the Construction Fund. Pursuant to the provisions of the Indenture, there shall be deposited into the Cost of Issuance Account of the Construction 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 disburse funds on or after the Closing Date for the Costs of Issuance of the Bonds upon receipt of a Requisition Certificate. The Company shall retain copies of all Requisition Certificates until the date that is six years from the first date on which no Bonds are Outstanding. Ninety (90) days following the Closing Date, the Costs of Issuance Account shall be closed and any funds remaining therein shall be transferred to the Project Account of the Construction Fund and made available to pay any Project Costs.

(c) Disbursements from the Acquisition Account of the Construction Fund. Pursuant to the provisions of the Indenture, there shall be deposited into the Acquisition Account of the Construction 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 Acquisition Account, as requested by the Company, for the Company to pay the acquisition expenses of the Participating Campuses. The Company shall retain copies of all Requisition Certificates until the date that is six years from the first date on which no Bonds are Outstanding.

(d) The Trustee may rely fully on any Requisition Certificate delivered pursuant to this Section 3.2 and shall not be required to make any investigation in connection therewith.

Section 3.3 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.

Section 3.4 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.

Section 3.5 Modification of the Project. 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.

Section 3.6 Casualty and Condemnation. (a) 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.

(b) 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 an Insurance Proceeds Account of the Construction Fund and shall be applied to repair, restore, modify, improve or replace the Project and shall be yield restricted if required by the Code. 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 Certificate 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.

(c) 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 Insurance Proceeds Account of the Construction Fund for the Bonds, and:

(1) 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 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 the Trustee:

(A) 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

(B) such other documents and information as the Holders of a majority of the Outstanding Bonds 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.

(2) 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.

(d) 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.

(e) 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.

Section 3.7 Inspection of the Project. The Company agrees that the Issuer and its duly authorized agents, including the Trustee, may, but have no obligation to 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.

Section 3.8 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.

Section 3.9 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, 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.

Section 3.10 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.

Section 3.11 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 this Agreement), and if the Company gives notice and full particulars of such Force Majeure in writing to the Issuer 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 Series 2010A Bonds 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.

Section 3.12 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.

Section 3.13 Disposition of Project. Subject to Section 5.12 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 and the Trustee. 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

Section 4.1 Loan Payments.

(a) To repay the Loan of the proceeds of the Bonds evidenced by the 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:

(i) 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;

(ii) 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

(iii) 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 Reserve Fund Requirement.

(b) 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, shall pay to the Trustee for deposit in the Debt Service Fund the amount of any such deficiency below such sufficient amount.

(c) If the Texas Education Agency, the Texas Attorney General, the Texas Comptroller of Public Accounts, or any other agency with authority over the expenditures or safekeeping of State Revenues, notifies the Company that the Bonds do not provide benefits to all Participating Campuses sufficient to satisfy the requirements under Section 12.107, Texas Education Code, as amended, then the Company shall only provide Loan Payments from any Participating Campuses in excess of its Pro-Rata share through a loan to any other Participating Campuses that cannot pay its Pro-Rata share. Such loan shall not constitute Debt under the terms of the Master Indenture, the Indenture or any Supplement to either document, the Company shall have no duty to notify the Trustee of any such notification or loan, and the Trustee shall have no duty or responsibility to enforce this Section 4.1(c); provided, that nothing herein shall diminish or otherwise excuse performance of the payment obligations of the Company pursuant to this Loan Agreement or limit the application of Section 4.4 hereof. For purposes of this paragraph, "Pro-Rata" means in proportion to the percentage of Bond proceeds spent on improvements to schools operated under a specific charter, such that the amount of Loan Payments made from State Revenues with respect to schools operated under a particular charter is proportional to the percentage of Bond proceeds spent on improvements to the schools operated under such charter in accordance with Section 12.107, Texas Education Code, as amended.

Section 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 of any such deemed payment or any redemption

of the Bonds in whole or in part, neither the Loan made hereunder nor the 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.

#### Section 4.3 Security Interests.

(a) As security for repayment of the 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 invest and disburse such amounts and proceeds in accordance with the Indenture and this Agreement. The Company represents that, under the laws of the State, (i) this Agreement creates a valid and binding lien in favor of the Issuer as security for the payment of the Notes, enforceable in accordance with the terms hereof; and (ii) the lien on the collateral granted hereunder, is and shall be prior to any judicial lien hereafter imposed on such collateral to enforce a judgment against the Company on a simple contract.

(b) 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 financing statements 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) to the extent permitted by applicable law, 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 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 either (i) file continuation statements as may be required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents, or (ii) confirm, before the fifth anniversary of the Closing Date and every fifth anniversary thereafter, the filing of continuation statements by the Company required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents and, if necessary, make such filings as may be required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents. Notwithstanding the foregoing, the Trustee shall not be responsible for the sufficiency of or the proper recording and indexing of any financing or continuation statements.

(c) 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 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 assignee of 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.

Section 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 Bonds 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.

Section 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.

Section 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 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 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 calculation of the Reserve Fund Requirement showed a deficiency in the Debt Service Reserve Fund; 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.

Section 4.7 Fees and Expenses.

(a) 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.

(b) 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

Section 5.1 Indemnification.

(a) 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.

(b) 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.

(c) 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.

(d) 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.

(e) 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).

(f) 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).

(g) 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.

(h) Trustee. The Company also agrees to indemnify the Trustee, and any of its 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 not misleading in any statement, information or material furnished by the Company to the Issuer 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.

Section 5.2 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:

(a) 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,

(b) subject the Bondholders to any obligation to refund any money applied to payment of principal (premium, if any) and interest on any Bond, or

(c) 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.

Section 5.3 Tax Covenants. The Company will not, through any act or omission, adversely affect the exclusion from gross income of interest paid or payable on the Series 2010A Bonds for federal income tax purposes, 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(s). 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 2010A Bonds, unless it has received and filed with the Issuer and the Trustee a Favorable Opinion of Bond Counsel:

(a) 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.

(b) 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.

(c) Ownership of Project. All of the property financed or refinanced with the Net Proceeds of the Series 2010A Bonds will, at all times prior to final Maturity of the Series 2010A

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.

(d) Limit on Costs of Issuance. The Sale Proceeds of the Series 2010A 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 2010A Bonds, within the meaning of Section 147(g) of the Code, will be expended to pay Costs of Issuance with respect to the Series 2010A Bonds.

(e) 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 2010A Bonds or (ii) \$15,000,000. For purposes of the preceding sentence, (w) 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; (x) use of any property financed with the Net Proceeds of the Series 2010A Bonds constitutes use of such proceeds to the extent of the cost of such property financed with such Net Proceeds; (y) any use of the Net Proceeds of the Series 2010A 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 a Person who is not an Exempt Person; and (z) any use of the Net Proceeds to pay Costs of Issuance shall constitute the use of such proceeds in the trade or business of a Person who is not an Exempt Person.

(f) Loans of Proceeds. The Company will not use or permit the use of any portion of the Sale Proceeds of the Series 2010A 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 that constructively transfers ownership of property financed with Sale Proceeds of the Series 2010A Bonds for federal income tax purposes constitutes a loan of such Sale Proceeds.

(g) 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:

(i) Delivery of Documents and Money on Computation Dates. The Company shall deliver to the Trustee, within 45 days after each Computation Date for the Series 2010A Bonds,

(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 the Series 2010A Bonds as of such Installment Computation Date, less any prior payments

made to the United States for rebatable arbitrage in respect of the Series 2010A 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 2010A 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 the Series 2010A 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 2010A Bonds, is equal to the Rebate Amount in respect of the Series 2010A Bonds as of such Expenditure Date; and

(C) an IRS Form 8038-T completed as of such Computation Date.

(ii) 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 2010A 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.

(iii) Records. The Company shall retain all of its accounting records relating to the Debt Service Fund, the Construction Fund, the Debt Service Reserve Fund and the Rebate Fund and the investment and expenditure of the Proceeds of the Series 2010A 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 2010A Bonds or the first date on which no Series 2010A Bonds are Outstanding.

(iv) 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.

(v) 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 2010A Bonds

that is not purchased at fair market value or includes terms that the Company would not have included if the Series 2010A Bonds were not subject to Section 148(f) of the Code.

(vi) 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 that 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).

Notwithstanding the foregoing, the Company will not be required to perform the obligations set forth in Section 5.3(g) (except for the obligation to retain accounting records as described in Section 5.3(g)(iii)) if the Company has not earned any rebatable arbitrage, and, therefore, is not subject to the rebate obligation set forth in Section 148(f) of the Code. To the extent the Company will not be required to perform such obligation, the Company shall send written notice of such to the Trustee within 45 days after each Computation Date.

(h) "Federally Guaranteed" Obligations. The Company will not cause the Series 2010A Bonds to be treated as "federally guaranteed" obligations for purposes of Section 149(b) of the Code.

(i) Prohibited Facilities. None of the Proceeds of the Series 2010A 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.

(j) 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 2010A Bonds to be filed with the IRS within prescribed time limits.

(k) Yield on Investment of Gross Proceeds. The Company will restrict the cumulative, blended Yield on the investment of the Gross Proceeds of the Series 2010A 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, or as a result of being on 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.

(l) 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.

(m) No Arbitrage. The Company will not use or invest the Proceeds of the Series 2010A Bonds such that the Series 2010A 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 2010A Bonds and the Company understands, and will take (or request the Trustee or the Issuer to take), the actions described therein.

(n) Bonds are Not Hedge Bonds. The Company covenants and agrees that not more than 50 percent of the Proceeds of the Series 2010A 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 2010A Bonds will be used to carry out the governmental purposes of the Series 2010A Bonds within the three-year period beginning on the Closing Date.

(o) Limit on Nonhospital Bonds. The Company will not take any action or fail to take any action that would cause the aggregate authorized face amount of the Series 2010A Bonds, which are or become allocated, pursuant to section 145(b)(2) of the Code, (i) to the Company, (ii) to any Person who is or becomes an owner or a principal user of the facilities being financed by the issue within the meaning of section 144(a)(2), (iii) to any Person under common management or control with any Person described in (i) or (ii) above, pursuant to section 145(b)(3) of the Code, or (iv) to any Person which is a related person, within the meaning of section 144(a)(3) of the Code, to any Person described in (i), (ii) or (iii) above, during the three-year period beginning on the later of the date the facilities were placed in service or the Closing Date, to exceed the \$150,000,000 limitation imposed under section 145 of the Code. For purposes of this Section 5.3(o), bonds will not be taken into account if the (A) bonds were issued as part of an issue at least 95% of the net proceeds of which are used with respect to a hospital or (B) bonds were issued after August 5, 1997, at least 95% of the net proceeds of which are used to finance capital expenditures.

(p) Public Approval. The Company covenants and agrees that the Proceeds of the Series 2010A Bonds will not be used in a manner that deviates other than in an insubstantial degree from the Project described in the written notice of public hearing regarding the Series 2010A Bonds published by the Issuer on June 25, 2010 in the *Texas Register* and on June 24, 2010 in the *San Antonio Express-News*.

(q) Limitation on Maturity. The Company will not make any changes to the assets to be financed or refinanced by the Series 2010A Bonds that would, at the time made, cause the Company to violate the covenant set forth in Section 2.2(i)(K).

(r) Limitation of Project Expenditures. Other than to the extent of preliminary expenditures (i.e. architectural, engineering, surveying, soil testing, bond issuance, and similar costs that are incurred prior to commencement of acquisition, construction or rehabilitation of the assets to be financed by the Series 2010A Bonds (other than land acquisition, site preparation and similar costs incident to commencement of construction)), no portion of the Proceeds of the Series 2010A Bonds will be disbursed to reimburse the Issuer, the Company or any "related person" (within the meaning of section 144(a)(3) of the Code) for any expenditures paid or incurred prior to the date that is 60 days before the Closing Date or the date the Company entered into a reimbursement resolution described in Section 1.150 2 of the Regulations.

(s) Definitions. The following terms have the meanings assigned to them below whenever they are used in this Agreement:

“Available Construction Proceeds” has the meaning set forth in Section 148(f)(4)(C)(vi) of the Code.

“Bond Year” means, with respect to the Series 2010A 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 2010A Bonds which is a Construction Bond Issue, 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 2010A 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, 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 2010A Bonds within the meaning of Section 147(g) of the Code as further described in Section 1.150-1(b) of the Regulations.

“Exempt Person” means a state or local governmental unit as defined in Section 1.141-1(b) of the Regulations 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 2010A 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 2010A Bonds that is a Construction Bond Issue, an amount equal to (i) the amount calculated under Section 1.148-3 of the Regulations (i.e., the Rebate Amount calculated as if no part of the Series 2010A 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 2010A Bonds.

“Gross Proceeds” means any Proceeds and Replacement Proceeds of the Series 2010A 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 2010A 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 2010A Bonds is sold.

“Net Proceeds” means, any Net Sale Proceeds, Investment Proceeds and Transferred Proceeds of the Series 2010A 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 2010A Bonds.

“Proceeds” means, any Sale Proceeds, Investment Proceeds and Transferred Proceeds of the Series 2010A Bonds.

“Qualifying Costs” means the Project Costs (excluding the costs for funding a debt service reserve fund or the purchase of a Reserve Fund Surety Policy) 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 2010A Bonds invested at a Yield materially higher than the Yield on the Series 2010A Bonds does not exceed the lesser of (i) 10 percent of the stated principal amount of the Series 2010A Bonds;

(ii) the maximum annual debt service on the Series 2010A Bonds; or (iii) 125 percent of the average annual debt service on the Series 2010A Bonds, within the meaning of Section 1.148-2(f)(2)(ii) of the Regulations; provided that, if the Series 2010A Bonds are sold with more than a de minimus amount of original issue discount or premium, the issue price will be used to measure the 10 percent limit.

“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.

“Replacement Proceeds” has the meaning set forth in Section 1.148-1(c) of the Regulations.

“Required Amount” means, with respect to the Series 2010A Bonds (or portion thereof) that is a Construction Bond Issue, (i) 10 percent of the Available Construction Proceeds on the Expenditure Date that falls on the six-month anniversary of the Closing Date, (ii) 45 percent of the Available Construction Proceeds on the Expenditure Date that falls on the one-year anniversary of the Closing Date, (iii) 75 percent of the Available Construction Proceeds on the Expenditure Date that falls on the 18-month anniversary of the Closing Date, and (iv) 100 percent of the Available Construction Proceeds 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 2010A 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 any Series 2010A 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 2010A 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 2010A 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 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 actually expended shall include a reasonable retainage (not in excess of five percent of Available Construction Proceeds if such retainage is expended prior to the three year anniversary of the Closing Date.

“Yield” of (i) the Series 2010 Bonds has the meaning set forth in Section 1.148-4 of the Regulations and (ii) any investment has the meaning set forth in Section 1.148-5 of the Regulations.

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 2010A Bonds for federal income tax purposes, the Company and the Issuer will comply with such modifications.

#### Section 5.4 Financial Reports; No Default Certificates; Notice of Default

(a) The Company shall cause an annual audit of its books and accounts to be made by independent certified public accountants and delivered to it 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, a copy of the management letter of such accountants and a certificate signed by the Chief Executive Officer or President of the Governing Body of the Company stating that such person has reviewed the obligations of the Company under the Agreement, the Deed of Trust, the Series 2010A Note, 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 such 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.

(b) 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 2010A Note and Series 2010B Note, the Master Indenture or the Indenture.

Section 5.5 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 and the Indenture.

The Company covenants that it will act and cooperate so that this Agreement, 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.

Section 5.6 Environmental Indemnity. The Company hereby agrees to indemnify and hold harmless the Master Trustee, the Trustee, 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:

(a) 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

(b) 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

(c) 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

(d) arises out of any misrepresentations of the Company concerning any matter involving Regulated Chemicals; or

(e) 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.

**The indemnification of the Indemnified Parties as provided in this Section shall remain in full force and effect if any such Losses directly or indirectly results from, arises out of, or relates to, or is asserted to have resulted from arisen out of or related to, the sole or contributory negligence of any of the Indemnified Parties.**

Section 5.7 Continuing Disclosure Undertaking.

(a) Annual Reports. The Company shall provide annually to the MSRB, 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 B including in the following tables, but subject to adjustments as noted: Table B-1: Student/Teacher Ratios; Table B-2: Historical and Future Projected Enrollment, *provided, however,* that only historical data will be provided; Table B-3: Waiting List Data; and Table B-11: Accountability Ratings. 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 the MSRB, 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 the MSRB 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.

(b) Material Event Notices. The Company shall notify 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. Substitution of credit or liquidity providers, or their failure to perform;
- F. Adverse tax opinions or events affecting the tax-exempt status of the Series 2010A Bonds;
- G. Modifications to rights of holders of the Bonds;

- H. Bond calls;
- I. Defeasances;
- J. Release, substitution, or sale of property securing repayment of the Bonds; and
- K. Rating changes.

The Company shall notify 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.

(c) Periodic Reports. The Company shall deliver to the Trustee and the MSRB, within 60 days after the end of each calendar quarter commencing September 30, 2010, copies of (i) the unaudited financial reports customarily prepared for and provided to the Board of the Company during such calendar quarter and (ii) the most recent enrollment and attendance reports submitted to the Texas Education Agency. The Company shall deliver construction reports (including cost information) to the Trustee and the MSRB every six weeks for those projects to be completed in 2010 and on a quarterly basis for those projects to be completed in 2011.

(d) 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 (i) 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 (ii) 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.

Section 5.8 Existence of the Company. While any of the Bonds remain Outstanding, the Company shall maintain its corporate existence and qualification to do business in the State, the state of the Company's incorporation, 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 3.133.14 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 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; and (e) the Trustee shall have received, to its reasonable satisfaction, such other information, documents, certificates and opinions as the Trustee may reasonably require. Prior to the consummation of any such merger, sale, conveyance or transfer, (y) the Company shall deliver to the Issuer 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 and the Trustee to the effect that each of the conditions stated in clauses (a) through (e) 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.

Section 5.9 Minimum Net Assets Covenant. The Company hereby covenants that, so long as any Bonds remain Outstanding, it will:

(a) maintain an unrestricted net asset balance which equals not less than an amount calculated as a percentage of Operating Expenses for the prior Fiscal Year as follows:

(i) such percentage shall be 5.0% for any Fiscal Year if, in the Fiscal Year immediately preceding such Fiscal Year, the total of the Maximum Annual Debt Service plus any Capital Leases or any similar lease-purchase or loan payment obligations of the Borrower, excluding Short-Term Indebtedness, were equal to or less than 10% of Adjusted Revenues; and

(ii) such percentage shall be 7.5% for any Fiscal Year if, in the Fiscal Year immediately preceding such Fiscal Year, the total of the Maximum Annual Debt Service plus any Capital Leases or any similar lease-purchase or loan payment obligations of the Borrower, excluding Short-Term Indebtedness, were greater than 10% but less than 15% of Adjusted Revenues; and

(iii) such percentage shall be 10.0% for any Fiscal Year if, in the Fiscal Year immediately preceding such Fiscal Year, the total of the Maximum Annual Debt Service plus any Capital Leases or any similar lease-purchase or loan payment obligations of the Borrower, excluding Short-Term Indebtedness, were greater than 15% of Revenues.

(b) The covenants of the Company in this Section shall be tested as of August 31 of each Fiscal Year based on the results of the annual audit of the Company. If on any such testing date the Company's unrestricted net assets are below that required by this Section, the Company shall retain on an annual basis a minimum of 50% of the Excess Net Revenues until such time as the Company is in compliance with the minimum unrestricted net assets required by this Section.

(c) If the Company is unable to comply with the requirements of this Section within twenty-four (24) months of the Company's initial non-compliance, the Beneficial Owners of two thirds (2/3) of the Outstanding Bonds shall have the right to direct the Trustee to require the Company to engage, at the Company's expense, a Management Consultant acceptable to the Trustee, which shall deliver a written report within sixty (60) days of such engagement to the Trustee and the governing board of the Company containing recommendations concerning the Company:

(i) operations;

(ii) financing practices and activities, including Short-Term Indebtedness, lease financing, and investment activities;

(iii) management practices, including the use of consultants, budgeting practices, and ongoing financial systems and monitoring of the Company's financial condition;

(iv) governance and administration practices; and

- (v) other factors relevant to maintaining compliance with this Section.

Upon submission of the Management Consultant's report, the Company's governing board shall arrange for payment of the amount owed to the Independent Management Consultant and issue a written certificate to the Trustee indicating its acceptance or rejection of all or any material portion of the recommendations of the Independent Management Consultant within 30 days of receiving the report of the Independent Management Consultant. The Beneficial Owners of two thirds (2/3) of the Outstanding Bonds shall have the right to require the governing board of the Company to comply with any reasonable recommendation of the Independent Management Consultant with respect to items (i) through (v) above.

Section 5.10 Minimum Cash on Hand Covenant.

(a) The Company will covenant that, so long as any Bonds remain Outstanding, it will maintain cumulative unrestricted cash reserves (including payments due from the State) to meet 30 days of Operating Expenses.

(b) The covenants of the Company in this Section shall be tested as of August 31 of each Fiscal Year based on the results of the annual audit of the Company. If on any such testing date the Company's unrestricted cash reserves are below the required amount, the Company shall retain on an annual basis 50% of the Excess Net Revenues until such time as the Company is in compliance. In the event that the Company is unable to comply with the requirements of the above covenant within 12 months on the initial non-compliance, then the Beneficial Owners of two-thirds (2/3rds) of the Outstanding Bonds have the right to direct the Trustee to require the Company to engage, at the Company's expenses, an Independent Management Consultant acceptable to the Trustee, which shall deliver a written report within sixty (60) days of such engagement to the Trustee and the governing board of the Company containing recommendations concerning the Company:

- (i) operations;
- (ii) financing practices and activities, including Short-Term Indebtedness, lease financing, and investment activities;
- (iii) management practices, including the use of consultants, budgeting practices, and ongoing financial systems and monitoring of the Company's financial condition;
- (iv) governance and administration practices; and
- (v) other factors relevant to maintaining compliance with this Section.

Upon submission of the Management Consultant's report, the Company's governing board shall arrange for payment of the amount owed to the Independent Management Consultant and issue a written certificate to the Trustee indicating its acceptance or rejection of all or any material portion of the recommendations of the Independent Management Consultant within 30 days of receiving the report of the Independent Management Consultant. The Beneficial Owners of two thirds (2/3) of the Outstanding Bonds shall have the right to require the governing board of the

Company to comply with any reasonable recommendation of the Independent Management Consultant with respect to items (i) through (v) above.

Section 5.11 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, including, without limitation, any mortgage or other lien on the property comprising the Company's Participating Campuses (except in connection with the issuance of additional Debt for such campuses and provided that any such mortgage or other lien on these campuses shall secure the Bonds in addition to such additional Debt).

Section 5.12 Disposition of Assets.

(a) Property Plant and Equipment ("PP&E"). No PP&E of the Company 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, and such disposition must comply with the requirements of Section 45.082, Texas Education Code.

(b) Cash, Investments and Other Current Assets ("Liquid Assets"). No Liquid Assets of the Company 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.

## ARTICLE VI

### EVENTS OF DEFAULT; REMEDIES

Section 6.1 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:

(a) Failure by the Company to pay the Loan Payments when due.

(b) 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 a 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.

(c) 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 or a default under any other payment obligation of the Company hereunder) 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



to make Loan Payments or other payments due hereunder, 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.

Section 6.2 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, subject to Article VIII of the Indenture, take any one or more of the following remedial steps:

(a) 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.

(b) 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.

Section 6.3 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.

Section 6.4 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.

Section 6.5 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.

Section 6.6 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 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 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

Section 7.1 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.

Section 7.2 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.

Section 7.3 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.

Section 7.4 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.

Section 7.5 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.

Section 7.6 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.

Section 7.7 Governing Law. The validity, interpretation, and performance of this Agreement shall be governed by the laws of the State.

Section 7.8 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.

Section 7.9 Third Party Beneficiary. The parties hereto expressly recognize that 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.

(Signature Pages Follow)

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

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NEW FRONTIERS CHARTER SCHOOL, INC.

By: \_\_\_\_\_  
Alfredo Segura, Chief Executive Officer

EXHIBIT A  
TO  
LOAN AGREEMENT

The Project consists of the following “educational facilities” (as defined in the Higher Education Authority Development Act):

(i) payment of a portion of the cost of acquiring an approximately 2.539-acre tract of land and an approximately 50,000-square foot educational building located at 4018 South Presa Street in San Antonio, Texas (the “Facilities”) and a portion of the costs of certain renovations and improvements to such Facilities, including the construction of additional parking spaces and a covered outdoor physical education pavilion and the purchase and installation of portable modular classroom buildings (collectively, the “Project”);

(ii) funding a debt service reserve fund or the purchase of a reserve fund surety policy or reserve fund guaranty;

(iii) paying capitalized interest on the Bonds; and

(iv) paying a portion of the costs of issuance of the Bonds.

EXHIBIT B

[RESERVED]

EXHIBIT C

FORM OF COMPLETION CERTIFICATE

\_\_\_\_\_, \_\_\_\_\_  
Wells Fargo Bank, National Association  
1445 Ross Avenue, 2nd Floor  
Dallas, Texas 75202  
Attention: Corporate Trust

Re: \$3,185,000 TEXAS PUBLIC FINANCE AUTHORITY CHARTER SCHOOL FINANCE CORPORATION EDUCATION REVENUE BONDS (New Frontiers Charter School) SERIES 2010A and \$435,000 TEXAS PUBLIC FINANCE AUTHORITY CHARTER SCHOOL FINANCE CORPORATION EDUCATION REVENUE BONDS (New Frontiers Charter School) SERIES 2010B (the "Bonds")

Ladies and Gentlemen:

The undersigned, being the owner of the Project, as defined in that certain Loan Agreement dated as of October 1, 2010 (the "Loan Agreement") by and among the undersigned and the Issuer hereby certifies to Wells Fargo Bank, National Association, 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(q) of the Loan Agreement) totaled \$\_\_\_\_\_.
4. Not less than 95 percent of the Net Proceeds of the Series 2010A Bonds were used for Qualifying Costs. If less than 95 percent of the Proceeds of the Series 2010A Bonds were used for Qualified Costs, the Company has redeposited amounts into the Construction Fund such that the amount of proceeds disbursed for Qualified Costs is equal to at least 95 percent of the Net Proceeds of the Series 2010A 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 Series 2010A Bonds or the date 60 days after the



retirement of the issue, if earlier. Moreover, proceeds in an amount equal to not more than 2 percent of the Sale Proceeds of the Series 2010A Bonds were used for Costs of Issuance.

INC.

NEW FRONTIERS CHARTER SCHOOL,

By: \_\_\_\_\_  
Authorized Representative

**APPROVED BY:**

\_\_\_\_\_  
as Construction Consultant for the  
\_\_\_\_\_ Campus

By: \_\_\_\_\_  
Authorized Representative

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Financial Advisory Services  
Provided By

**FirstSouthwest**   
A PlainsCapital Company<sup>SM</sup>