

**OFFICIAL STATEMENT DATED APRIL 29, 2010**

*THE DELIVERY OF THE BONDS IS SUBJECT TO THE OPINION OF VINSON & ELKINS LLP, BOND COUNSEL, TO THE EFFECT THAT INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW, SUBJECT TO THE MATTERS DESCRIBED UNDER "TAX MATTERS" HEREIN, AND IS NOT A SPECIFIC PREFERENCE ITEM OR INCLUDED IN A CORPORATION'S ADJUSTED CURRENT EARNINGS FOR PURPOSES OF THE ALTERNATIVE MINIMUM TAX. SEE "TAX MATTERS" HEREIN FOR A DISCUSSION OF BOND COUNSEL'S OPINION AND OTHER FEDERAL TAX CONSEQUENCES.*

**NEW ISSUE - Book-Entry-Only**

**RATING: S&P: "BBB"**  
(See "RATING" herein)

**\$50,090,000**

**TEXAS PUBLIC FINANCE AUTHORITY CHARTER SCHOOL FINANCE CORPORATION**  
**Education Revenue Bonds (Cosmos Foundation, Inc.), Series 2010A**

**Interest Accrues From Date of Delivery**

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

Interest on the \$50,090,000 Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Cosmos Foundation, Inc.), Series 2010A (the "Bonds") will accrue from the date of delivery of the Bonds, and is payable February 15, 2011, and each August 15 and February 15 thereafter until the earlier of maturity or redemption. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC"), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Trustee, initially, Regions Bank, which is an affiliate of Morgan Keegan & Company, Inc., Houston, Texas, as trustee (the "Trustee"), to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

The Bonds are subject to optional and mandatory redemption, as described herein.

The Bonds are being issued by, and are special and limited obligations of, the Texas Public Finance Authority Charter School Finance Corporation (the "Issuer"), and the proceeds thereof will be loaned to Cosmos Foundation, Inc. (the "Borrower"), which operates open enrollment charter schools under the laws of the State of Texas (the "State"), to finance the cost of acquiring, constructing, equipping, and renovating certain "educational facilities" (as that term is defined within Chapter 53, Texas Education Code, as amended) and facilities incidental, subordinate, or related thereto or appropriate in connection therewith at the Borrower's campuses (see "PLAN OF FINANCING - Projects" herein), to fund a debt service reserve fund, and to pay the costs of issuing the Bonds for the benefit of the Borrower. The Bonds are being issued as additional Debt on a parity basis under the Master Indenture hereinafter described with those certain previously issued Texas Public Finance Authority Charter School Finance Corporation (Cosmos Foundation, Inc.) \$28,860,000 Education Revenue Bonds, Series 2007A and \$1,135,000 Taxable Education Revenue Bonds, Series 2007B, those certain previously issued La Vernia Higher Education Finance Corporation (Cosmos Foundation, Inc.) \$30,075,000 Education Revenue Bonds, Series 2008A and \$980,000 Taxable Education Revenue Bonds, Series 2008B, and those certain \$39,910,000 Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Cosmos Foundation, Inc.), Series 2010Q (Qualified School Construction Bonds – Direct Pay) (the "Series 2010Q Bonds"), being issued contemporaneously with the Bonds. The Bonds, the parity bonds described above, and any other parity bonds issued hereafter are collectively referred to as the "Debt".

The Bonds are special and limited obligations of the Issuer, payable solely from revenues received by the Issuer pursuant to a Loan Agreement dated as of May 1, 2010 (the "Loan Agreement"), between the Issuer and the Borrower, as amended from time to time, and the promissory note (the "Master Note") to be issued under the Master Trust Indenture and Security Agreement, dated as of May 1, 2007, as supplemented by Supplemental Master Trust Indenture Nos. 1 through 6, and as further supplemented by that certain Supplemental Master Trust Indenture No. 7, dated as of May 1, 2010 (collectively, the "Master Indenture"), all between the Borrower and Regions Bank, which is an affiliate of Morgan Keegan & Company, Inc., Houston, Texas (as successor in trust to Amegy Bank National Association), as master trustee (the "Master Trustee"), and delivered to the Issuer pursuant to the Loan Agreement, and, in certain circumstances, further payable out of amounts secured by the exercise of remedies provided in the Trust Indenture and Security Agreement, dated as of May 1, 2010 (the "Indenture"), between the Issuer and the Trustee, the Loan Agreement, and the Master Note. The Borrower has issued the Deed of Trust and the Leasehold Mortgage, as such terms are defined in the Master Indenture, covering its real properties comprising the campuses, in favor of the Master Trustee for the benefit of the holder of the Master Note, which Deed of Trust and Leasehold Mortgage will be further supplemented as set forth herein, and will issue security agreements in favor of the Master Trustee covering personal property located on certain of the Borrower's leased campuses. **THE BONDS ARE NOT OBLIGATIONS OF THE STATE, OR ANY ENTITY OTHER THAN THE ISSUER. NONE OF THE STATE, OR ANY POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE SHALL BE OBLIGATED TO PAY THE BONDS OR THE INTEREST THEREON AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, OR ANY OTHER POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. THE ISSUER HAS NO TAXING POWER.**

The Bonds are offered by the Underwriters shown below, subject to prior sale, when, as, and if issued by the Issuer and accepted by the Underwriters, subject, among other things, to the approval of the initial Bond by the Attorney General of Texas and the approval of certain legal matters by Vinson & Elkins LLP, Houston, Texas, Bond Counsel. Certain other matters will be passed upon for the Underwriters by Petruska & Associates, A Professional Limited Liability Company, Dallas, Texas. Delivery of the Bonds is expected on or about May 6, 2010.

**Morgan Keegan & Company, Inc.**

**Jefferies & Company**

## MATURITY SCHEDULE

Education Revenue Bonds, Series 2010A<sup>(a)</sup>

\$8,285,000 6.00% Term Bond due February 15, 2030,<sup>(a)(b)</sup> Yield 6.00%,<sup>(c)</sup> CUSIP 88276PCJ3<sup>(d)</sup>  
\$41,805,000 6.20% Term Bond due February 15, 2040,<sup>(a)(b)</sup> Yield 6.20%,<sup>(c)</sup> CUSIP 88276PCK0<sup>(d)</sup>

(Interest to accrue from the date of delivery of the Bonds)

- <sup>(a)</sup> The Bonds maturing on or after February 15, 2021, are subject to optional redemption prior to scheduled maturity, in whole or in part, on February 15, 2020, and on any date thereafter at par plus accrued interest (see “THE BONDS – Redemption Provisions” herein).
- <sup>(b)</sup> Certain maturities of the Bonds are subject to Mandatory Sinking Fund Redemption as described herein (see “THE BONDS - Mandatory Sinking Fund Redemption” herein).
- <sup>(c)</sup> The initial yields at which the Bonds are priced are established by and are the sole responsibility of the Underwriters and may be changed at any time at the discretion of the Underwriters.
- <sup>(d)</sup> CUSIP numbers have been assigned to this issue by Standard & Poor’s CUSIP Service Bureau, a Division of The McGraw-Hill Companies, Inc. and are included solely for the convenience of the purchasers of the Bonds. Neither the Issuer, the Borrower, nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

## USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document constitutes an Official Statement with respect to the Bonds that has been “deemed final” by the Issuer as of the date hereof, except for the omission of no more than the information permitted by Rule 15c2-12.

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

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

References to or descriptions of financing documents, resolutions, contracts, and other related reports made in this Official Statement are subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the Issuer or from Vinson & Elkins LLP, 1001 Fannin, Suite 2500, Houston, Texas 77002; Telephone: 713.758.2222.

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

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

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

ANY INFORMATION AND EXPRESSIONS OF OPINION HEREIN CONTAINED ARE SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER, THE BORROWER, OR OTHER MATTERS DESCRIBED HEREIN SINCE THE DATE HEREOF. THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAW PROVISIONS OF ANY JURISDICTION IN WHICH THE BONDS HAVE BEEN QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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**SCHEDULE 1 - PROJECTED DEBT SERVICE**

**APPENDIX A - AUDITED FINANCIALS OF BORROWER FOR YEARS ENDED AUGUST 31, 2009, AUGUST 31, 2008,  
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**APPENDIX B - PROFORMA FORECAST (Source – School Officials)**

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**APPENDIX E - SUBSTANTIALLY FINAL FORM OF THE INDENTURE**

**APPENDIX F - SUBSTANTIALLY FINAL FORM OF THE LOAN AGREEMENT**

**APPENDIX G - CAMPUS DATA (Source – School Officials)**

## OFFICIAL STATEMENT

**\$50,090,000**

### **TEXAS PUBLIC FINANCE AUTHORITY CHARTER SCHOOL FINANCE CORPORATION Education Revenue Bonds (Cosmos Foundation, Inc.), Series 2010A**

This Official Statement provides certain information in connection with the issuance by the Texas Public Finance Authority Charter School Finance Corporation (the "Issuer") of its \$50,090,000 Education Revenue Bonds (Cosmos Foundation, Inc.), Series 2010A (the "Bonds").

The Bonds are being issued pursuant to a Trust Indenture and Security Agreement dated as of May 1, 2010 (the "Indenture"), by and between the Issuer and Regions Bank, which is an affiliate of Morgan Keegan & Company, Inc., Houston, Texas, as trustee (the "Trustee"), and a resolution of the Issuer (the "Resolution"). Under the Indenture, the Borrower will pay Regions Bank an acceptance fee and an annual fee for serving as Trustee under the Indenture. The proceeds from the sale thereof will be loaned to Cosmos Foundation, Inc. (the "Borrower"), which operates open enrollment charter schools under the laws of the State of Texas, (i) to finance the cost of acquiring, constructing, equipping, and renovating certain "educational facilities" (as that term is defined within Chapter 53, Texas Education Code, as amended) and facilities incidental, subordinate, or related thereto or appropriate in connection therewith for the Borrower's campuses (the "Campuses") (See "PLAN OF FINANCING - Projects" herein), (ii) to fund a debt service reserve fund, and (iii) to pay the costs of issuing the Bonds. The Bonds are being issued as additional Debt on a parity basis under the Master Indenture hereinafter described with those certain previously issued Texas Public Finance Authority Charter School Finance Corporation (Cosmos Foundation, Inc.) \$28,860,000 Education Revenue Bonds, Series 2007A and \$1,135,000 Taxable Education Revenue Bonds, Series 2007B, those certain previously issued La Vernia Higher Education Finance Corporation (Cosmos Foundation, Inc.) \$30,075,000 Education Revenue Bonds, Series 2008A and \$980,000 Taxable Education Revenue Bonds, Series 2008B, and certain \$39,910,000 Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Cosmos Foundation, Inc.), Series 2010Q (Qualified School Construction Bonds – Direct Pay) (the "Series 2010Q Bonds"), being issued contemporaneously with the Bonds (the Bonds, the parity bonds described above, and any other parity bonds issued hereafter are collectively referred to as the "Debt").

The Bonds are limited obligations of the Issuer, payable solely out of the revenues received by the Issuer pursuant to a Loan Agreement dated as of May 1, 2010 (the "Loan Agreement"), between the Borrower and the Issuer as amended from time to time, and the promissory note (the "Master Note") to be issued under the Master Trust Indenture and Security Agreement dated as of May 1, 2007, as supplemented by Supplemental Master Trust Indenture Nos. 1 through 6 and as further supplemented by that certain Supplemental Master Trust Indenture No. 7, dated as of May 1, 2010 (collectively, the "Master Indenture"), all between the Borrower and Regions Bank, which is an affiliate of Morgan Keegan & Company, Inc., Houston, Texas (successor in trust to Amegy Bank National Association), as master trustee (the "Master Trustee"), including all money and investments held for the credit of the funds and accounts established by or under the Indenture (except the Rebate Fund), and in certain events out of amounts secured through the exercise of the remedies provided in the Indenture, the Loan Agreement, and the Master Note upon occurrence of an Event of Default (as defined in the Indenture). The Borrower has issued the Deed of Trust and the Leasehold Mortgage, as such terms are defined in the Master Indenture, covering its real properties comprising the campuses in favor of the Master Trustee for the benefit of the holder of the Master Note, which Deed of Trust and Leasehold Mortgage will be further supplemented as set forth herein. The Bonds shall never be payable out of any funds of the Issuer except such revenues and amounts.

This Official Statement includes descriptions of, among other items, the Indenture, the Master Indenture, the Resolution, the Bonds, the Loan Agreement, the Master Note, the Deed of Trust, the Issuer, the Borrower, and the system of charter schools under Texas law. All descriptions of documents contained herein are only summaries, with the form of the documents attached hereto, and are qualified in their entirety by reference to each document. Copies of the final versions of the Indenture, the Master Indenture, the Loan Agreement, the Deed of Trust, the Resolution, and the Master Note, as executed, are available from Vinson & Elkins LLP, 1001 Fannin, Suite 2500, Houston, Texas 77002, Telephone: 713.758.2222.

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

### **PLAN OF FINANCING**

#### **Purpose**

The Borrower is a Texas nonprofit corporation created and operating under the Texas Nonprofit Corporation Act and operates twenty-five (25) open enrollment charter schools under Chapter 12, Texas Education Code, as amended. The Issuer is a nonprofit higher education finance corporation organized and operating under Section 53.351, Texas Education Code, as amended. The Issuer will issue the Bonds and loan the proceeds thereof to the Borrower for the purpose of financing the Projects (as described below), funding a debt service reserve fund, and paying the costs of issuance of the Bonds.

**Facilities and the Projects**

The Borrower operates twenty-five (25) open-enrollment charter schools in the State of Texas (the “Schools”), providing education to pre-kindergarten through twelfth grade students as authorized under Chapter 12, Subchapter D, Texas Education Code, as amended. The Projects will consist of constructing and equipping of new campuses and equipping and improving existing campuses. See APPENDIX G attached hereto for detailed information about the campuses.

The proceeds of the Bonds, together with the proceeds of the Series 2010Q Bonds, will be used for the Projects described below and to pay the costs of issuance of the Bonds. A portion of the proceeds of the Bonds will be utilized to refinance all of the outstanding principal of a \$12,500,000 interim loan from Regions Bank, which is an affiliate of Morgan Keegan & Company, Inc., the proceeds of which were utilized for Project expenses. Once the Projects are complete, the Borrower will have the capacity to accommodate up to 23,845 students. The Borrower’s current charters allow them to accommodate a maximum enrollment of up to 21,700 students.

**Projects**

<u>Campus</u>	<u>2010Q Bonds Project- Related Costs*</u>	<u>2010A Bonds Project Related Costs*</u>	<u>Total Project Costs*</u>	<u>Project Description</u>
Harmony Science Academy – College Station	\$1,975,000	\$ 0	\$ 1,975,000	Remodel and Addition
Harmony School of Nature - Dallas	5,063,947	0	5,063,947	Construction
Harmony School of Fine Arts - Houston	5,578,000	5,001,118	10,579,118	Construction
Harmony Science Academy – Lubbock	1,438,776	0	1,438,776	Remodel and Addition
Harmony School of Innovation - San Antonio	5,092,500	4,082,500	9,175,000	Construction
Harmony School of Advancement - Houston	5,101,500	6,198,500	11,300,000	Acquisition of Land and Construction
Harmony School of Innovation - Houston	3,263,929	1,660,459	4,924,388	Remodel and Addition
Harmony School of Ingenuity - Houston	1,790,571	0	1,790,571	Remodel and Addition
Harmony School of Political Sciences and Communication – Austin	5,011,000	6,111,449	11,122,449	Acquisition of Land and Construction
Harmony School of Science – Houston	5,000,000	5,886,224	10,886,224	Construction
Harmony Science Academy – Houston		2,300,000	2,300,000	Acquisition of Existing Building
Harmony Science Academy – Austin		1,700,000	1,700,000	Acquisition of Existing Building
Harmony School of Excellence - Austin		750,000	750,000	Remodeling and Addition
Harmony Science Academy – N. Austin		850,000	850,000	Remodeling and Addition
Harmony School of Innovation - Dallas		500,000	500,000	Remodeling and Addition
Harmony School of Innovation - El Paso		850,000	850,000	Remodeling and Addition
Harmony Science Academy – Dallas		1,100,000	1,100,000	Remodeling and Addition
Harmony School of Discovery - Houston		1,250,000	1,250,000	Remodeling and Addition
Harmony Science Academy - Garland		<u>6,100,000</u>	<u>6,100,000</u>	Acquisition of New Campus Building
<b>Total</b>	<b>\$ 39,315,223</b>	<b>\$ 44,340,250</b>	<b>\$83,655,473</b>	

\* Preliminary, based upon current construction estimates.

**Sources and Uses of Funds**

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

<b>Sources</b>	
Par Amount	<u>\$50,090,000.00</u>
<b>TOTAL</b>	<u>\$50,090,000.00</u>
<b>Uses</b>	
Project Fund*	\$44,340,250.03
Debt Service Reserve Fund	5,009,000.00
Costs of Issuance, including Underwriters’ Discount	<u>740,749.97</u>
<b>TOTAL</b>	<u>\$50,090,000.00</u>

\*A portion of the proceeds of the Bonds will be utilized to refinance all of the outstanding principal of a \$12,500,000 interim loan from Regions Bank, which is an affiliate of Morgan Keegan and Company, Inc., the proceeds of which were utilized for Project expenses.



## THE BONDS

### Description

The Bonds will be issued in the aggregate principal amounts, will mature on the dates and in the amounts, and will bear interest at the rates per annum set forth on the inside cover page of this Official Statement. Interest on the Bonds will accrue from the date of delivery of the Bonds, and be calculated on the basis of a 360-day year of twelve 30-day months. Interest is payable on February 15, 2011, and on each August 15 and February 15 thereafter until the earlier of maturity or redemption.

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

The principal of, premium, if any, and interest on the Bonds are payable in lawful money of the United States of America. Amounts due on the Bonds will be paid by check mailed to the owner thereof at its address as it appears on the bond registration books at close of business on the last business day of the preceding month the principal and/or interest payment date (the "Record Date"). Upon written request of a registered owner of at least \$1,000,000 in principal amount of Bonds, all payments of principal, premium, if any, and interest on 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. Notwithstanding the foregoing, while the Bonds are held in book-entry-only form, interest, principal, and redemption premium, if any, will be paid through the facilities of The Depository Trust Company ("DTC") as described under "BOOK-ENTRY-ONLY SYSTEM" herein.

### Mandatory Sinking Fund Redemption

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

#### Bonds (maturing 2/15/2030):

<u>Date</u>	<u>Principal Amount</u>
2/15/2028	\$2,595,000
2/15/2029	\$2,760,000
2/15/2030	\$2,930,000*

#### Bonds (maturing 2/15/2040):

<u>Date</u>	<u>Principal Amount</u>
2/15/2031	\$3,115,000
2/15/2032	\$3,310,000
2/15/2033	\$3,525,000
2/15/2034	\$3,750,000
2/15/2035	\$3,990,000
2/15/2036	\$4,245,000
2/15/2037	\$4,515,000
2/15/2038	\$4,805,000
2/15/2039	\$5,110,000
2/15/2040	\$5,440,000*

\* Maturity.

### Redemption Provisions

Optional Redemption. The Bonds maturing on or after February 15, 2021, are subject to optional redemption prior to scheduled maturity, in whole or in part, on February 15, 2020, and on any date thereafter, at the option of the Borrower at a redemption price of par, plus accrued interest to the date of redemption.

Mandatory Redemption Upon Determination of Taxability. The Bonds will be redeemed in whole prior to maturity on a date selected by the Borrower which is not more than 120 days following receipt by the Trustee of a 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.

Mandatory Redemption With Excess Proceeds. The Bonds will be redeemed in whole or in part prior to maturity as a result of any deposit of amounts transferred from the Construction Fund to the Debt Service Fund as excess proceeds upon completion of the Projects.

Bonds redeemed as described in this paragraph will be redeemed within sixty (60) days of such deposit at a redemption price equal to the unpaid principal amount of the Bonds being redeemed, without premium, plus accrued interest to the redemption date.

Extraordinary Optional Redemption. The Bonds are subject to extraordinary redemption, at the option of the Issuer upon the request of a Borrower Representative, at a redemption price of par plus interest accrued thereon to the redemption date, without premium, on any date, in the event a 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 or condemnation 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 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 or condemnation proceeds transferred from the Construction Fund to the Debt Service Fund for such purpose.

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

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

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

## **SECURITY AND SOURCE OF PAYMENT**

### **Security for the Bonds**

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE ISSUER, PAYABLE SOLELY FROM REVENUES RECEIVED PURSUANT TO THE LOAN AGREEMENT, THE MASTER NOTE, AND, IN CERTAIN CIRCUMSTANCES, OUT OF AMOUNTS SECURED THROUGH THE EXERCISE OF REMEDIES PROVIDED IN THE INDENTURE, THE LOAN AGREEMENT, AND THE MASTER NOTE. THE BONDS ARE NOT OBLIGATIONS OF THE STATE, OR ANY ENTITY OTHER THAN THE ISSUER. NONE OF THE STATE, OR ANY POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE SHALL BE OBLIGATED TO PAY THE BONDS OR THE INTEREST THEREON AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, OR ANY OTHER POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. THE ISSUER HAS NO TAXING POWER.

### **The Loan Agreement**

The Bonds are payable from amounts payable by the Borrower to the Issuer under the Loan Agreement and secured by a pledge and assignment to the 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 to the Issuer sufficient to provide funds to make required payments of principal, premium, if any, and interest on the Bonds in full, which loan shall be evidenced by the Master Note. All such loan payments are required to be made to the Trustee by the Borrower.

### **The Master Note**

Pursuant to the Loan Agreement, the Borrower will execute and deliver to the Trustee, as the designee of the Issuer, the Master Note in the principal amount equal to the principal amount of the Bonds. Payments under the Master Note are scheduled to be made at the times and in the amounts required to pay debt service on the Bonds and will be credited against the Loan Payments required to be made by the Borrower under the Loan Agreement (see "APPENDIX F – Substantially Final Form of the Loan Agreement" attached hereto).

## **The Master Indenture**

The Master Note issued by the Borrower to the Trustee evidencing the obligation of the Borrower to make the payments required under the Loan Agreement is a duly authorized promissory note of the Borrower issued pursuant to and secured by the Master Indenture. Under the Master Indenture, the Borrower unconditionally and irrevocably covenants that it will promptly pay the principal of, premium, if any, and interest and any other amount due on every Note issued under the Master Indenture, subject to certain limitations relating to fraudulent conveyance, insolvency, and other considerations, and has granted a security interest in its Adjusted Revenues to the Master Trustee, which Adjusted Revenues are pledged to the payment of all Notes issued under the Master Indenture, including the Master Note. The Borrower has also granted a lien on certain real and personal property for the benefit of the Master Trustee (see “APPENDIX D – Final Form of the Master Indenture and Substantially Final Form of Supplemental Master Trust Indenture No. 7” attached hereto).

## **Revenue Fund**

As security for the repayment of the Master Note and the performance by the Borrower of its other obligations under the Bond Documents (as defined in the Indenture), the Borrower covenants and agrees in the Master Indenture that, if an Event of Default under the Master Indenture shall occur, it will deliver or cause to be delivered to the Master Trustee within five Business Days from the day of receipt all of its Adjusted Revenues for deposit into the Revenue Fund held by the Master Trustee until no default exists under the Master Indenture. The Borrower authorizes and directs the Master Trustee to invest and disburse such amounts and proceeds in accordance with the Master Indenture.

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

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

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

Any balance remaining in the Revenue Fund, on the later of the last day of any fiscal year or the day following the end of the month in which all defaults in the payment of principal, premium, and interest on any Note when due have been cured or waived, will be paid to the Borrower at its depository bank upon request to be used for any lawful purpose.

Upon satisfaction of the applicable requirements of Section 212 of the Master Indenture, additional Debt may be issued for the 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 certain conditions are met. Among those conditions are (A) delivery of an Officer's Certificate stating that, for either the Company's most recently completed Fiscal Year or for any consecutive twelve months of the most recent eighteen months immediately preceding the issuance of the additional Debt, the Available Revenues equal at least 1.20 times the Maximum Annual Debt Service on all Debt then Outstanding prior to the issuance of the additional Debt and (B) an Independent Management Consultant selected by the Company provides a written report setting forth projections which indicate that the estimated Available Revenues are equal to at least 1.00 times the Maximum Annual Debt Service for all Debt then Outstanding, including the proposed additional Debt, in the Fiscal Year immediately following the completion of the Projects being financed. For all requirements relating to the issuance of additional Debt, see Section 212 of "APPENDIX D - Final Form of the Master Indenture and Substantially Final Form of Supplemental Master Trust Indenture No. 7" attached hereto.

## **The Indenture**

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

## **Debt Service Fund**

The Indenture establishes a Debt Service Fund. The money deposited into the Debt Service Fund, together with all investments thereof and investment income therefrom, will be held in trust and applied solely as provided in the Indenture. The Trustee will deposit to the credit 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 Note, (ii) any other amounts required by the Indenture, and (iii) any other amounts delivered to the Trustee for deposit thereto. On each Interest Payment Date, the Trustee will withdraw money from the Debt Service Fund to pay the principal and interest due on the Bonds.

## **Debt Service Reserve Fund**

The Indenture establishes a Debt Service Reserve Fund. There will initially be deposited in the Debt Service Reserve Fund from the proceeds of the Bonds an amount equal to the least of (i) the Maximum Annual Debt Service on the Bonds, (ii) one hundred twenty-five percent (125%) of the average annual Debt Service on the Bonds, or (iii) ten percent (10%) of the initial principal amount of the Bonds (or sale proceeds in the event that the amount of original issue discount exceeds two percent multiplied by the stated redemption price at maturity of the Bonds) (the "Debt Service Reserve Fund Requirement"). Except as otherwise provided in the Indenture, the Debt Service Reserve Fund at all times will be maintained at an amount equal to the Debt Service Reserve Fund Requirement. If there are insufficient funds in the Debt Service Fund to pay the Debt Service on the Bonds by 12:00 noon (Central Time) four Business Days prior to the day on which payment of the Debt Service on the Bonds is due, the Trustee will transfer from the Debt Service Reserve Fund to the Debt Service Fund amounts necessary to make such payments from the Debt Service Fund on the day on which payment of the Debt Service on the Bonds is due.

If the amount in the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement because the Trustee has applied funds in the Debt Service Reserve Fund to pay Debt Service on the Bonds, the Trustee will promptly notify the Borrower in writing that a deficiency in the Debt Service Reserve Fund exists, and the Borrower will (1) within 30 days of receipt of such notice, pay to the Trustee the full amount needed to restore the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement or (2) in twelve (12) consecutive equal monthly installments, the first of which shall be made within thirty (30) days from the date of receipt of such notice, pay such deficiency to the Trustee for deposit into the Debt Service Reserve Fund to restore the amount in the Debt Service Reserve Fund to equal the Debt Service Reserve Fund Requirement. Notwithstanding the foregoing, moneys in the Debt Service Reserve Fund may be applied to pay Debt Service during the 12 months immediately preceding and including the final maturity of the Bonds without violating the foregoing requirement to maintain the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Fund Requirement.

Upon any redemption or defeasance of all Outstanding Bonds, the moneys on deposit in the Debt Service Reserve Fund will be transferred to the Debt Service Fund to be used for the purposes of such redemption or to an escrow fund for the purpose of defeasance, as the case may be. If the balance of the Debt Service Reserve Fund is equal to or in excess of the aggregate requirements on the then outstanding Bonds, the Trustee will transfer the balance on deposit in the Debt Service Reserve Fund to the Debt Service Fund.

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

## **Deed of Trust, Leasehold Mortgage and Security Agreements**

For the benefit of the holder of the Master Note, the Borrower has issued in favor of the Master Trustee the following Deeds of Trust and Leasehold Mortgages covering its real properties and leasehold estates that comprise the Campuses: (1)(a) a Deed of Trust and Security Agreement (With Assignment of Rents and Leases) dated as of June 1, 2007, as supplemented by the First Supplement to Deed of Trust and Security Agreement dated July 6, 2007 and as further supplemented by the Second Supplement to Deed of Trust and Security Agreement (with Assignment of Rents and Leases) dated as of May 1, 2008; (b) a Deed of Trust and Security Agreement (With Assignment of Rents and Leases) dated as of May 1, 2008, as supplemented by the Second Supplement to Deed of Trust and Security Agreement (with Assignment of Rents and Leases) dated as of May 1, 2008; and (c) a Deed of Trust and Security Agreement (With Assignment of Rents and Leases) dated as of August 1, 2008, as supplemented by the Third Supplement to Deed of Trust and Security Agreement (with Assignment of Rents and Leases) dated as of August 1, 2008; all as supplemented by the Fourth Supplement to Deed of Trust and Security Agreement (with Assignment of Rents and Leases) dated as of September 1, 2008, (collectively, the “Deed of Trust”); and (2)(a) a Leasehold Deed of Trust, Security Agreement, Fixture Filing and Assignment of Rents (Waco) dated as of June 1, 2007; (b) a Leasehold Deed of Trust, Security Agreement, Fixture Filing and Assignment of Rents (Beaumont) dated as of June 1, 2007; (c) a Leasehold Deed of Trust, Security Agreement, Fixture Filing and Assignment of Rents (Lubbock) dated as of June 1, 2007; (d) a Leasehold Deed of Trust, Security Agreement, Fixture Filing and Assignment of Rents (Austin-Stonehollow) dated as of May 1, 2008; (e) a Leasehold Deed of Trust, Security Agreement, Fixture Filing and Assignment of Rents (Austin-Rundberg Road) dated as of May 1, 2008; (f) a Leasehold Deed of Trust, Security Agreement, Fixture Filing and Assignment of Rents (Gessner) dated as of May 1, 2008; (g) a Leasehold Deed of Trust, Security Agreement, Fixture Filing and Assignment of Rents (Bellfort) dated as of May 1, 2008; (h) a Leasehold Deed of Trust, Security Agreement, Fixture Filing and Assignment of Rents (El Paso) dated as of May 1, 2008; (i) a Leasehold Deed of Trust, Security Agreement, Fixture Filing and Assignment of Rents (Lubbock) dated as of May 1, 2008; and (j) a Leasehold Deed of Trust, Security Agreement, Fixture Filing and Assignment of Rents (Fort Worth) dated as of May 1, 2008 (collectively, the “Leasehold Mortgage”).

The Deed of Trust will be further supplemented by the Fifth Supplement to Deed of Trust and Security Agreement (with Assignment of Rents and Leases) dated as of May 1, 2010 and the Leasehold Mortgage will be further supplemented by the Leasehold Deed of Trust, Security Agreement, Fixture Filing and Assignment of Rents dated as of May 1, 2010, to cover the real property to be acquired by the Borrower with Bond proceeds (collectively, the “Land and Improvements”), in favor of the Master Trustee for the benefit of the Holder of the Master Note. Two of the campuses which are currently owned by the Borrower (Harmony School of Ingenuity – Houston and Harmony School of Discovery – Houston) will not be covered by the Deed of Trust, as they are already subject to deeds of trust in favor of the current mortgagees, which deeds of trust prohibit further encumbrance. In addition, the Harmony Science Academy – Grand Prairie campus is not subject to the Deed of Trust because it is subject to a financing and lease agreement and a deed of trust in favor of Regions Equipment Finance Corporation, an affiliate of Morgan Keegan & Company, Inc. Also, three of the campuses currently being leased by the Borrower (Harmony School of Excellence – Austin, Harmony Science Academy – North Austin and Harmony School of Innovation – Dallas) will not be covered by the Leasehold Mortgage. The Borrower’s personal property located on the three leased campuses will instead be subject to Security Agreements (Leasehold) executed by the Borrower, which will grant security interests to the Master Trustee in such personal property.

## **RISK FACTORS**

### **Limited Obligations**

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

### **Dependence on the Operations of the Borrower**

Dependence on Per Student Revenues. The Borrower derived approximately 78% of its revenues during the 2008-2009 school year from payments by the State based on the school district that a student would otherwise attend for each student in average daily attendance. The timely payment of principal and interest on the Bonds therefore depends on operations of the Borrower attracting and retaining the number of students that are needed to provide sufficient revenues to make timely payment of Loan Payments securing payment of the Debt Service on the Bonds. See “FINANCIAL AND OPERATIONS INFORMATION – Projections by the Borrower; Required Increases in Attendance for Payment of Future Debt Service” herein and “APPENDIX B – Proforma Forecast” attached hereto.

Growth of Student Enrollment. The Borrower expects to receive approximately \$7,200 in State funding per student in average daily attendance for 2009-2010, but such amount may vary from year to year. See “THE SYSTEM OF CHARTER SCHOOLS IN TEXAS – State Funding” and “–Local Funding” herein. The student enrollment was 436 for the 2002 – 2003 fiscal year, 525 for the 2003-2004 fiscal year, 811 for the 2004-2005 fiscal year, 1,189 for the 2005-2006 fiscal year, 3,180 for the 2006-2007 fiscal year, 4,654 for the 2007-2008 fiscal year, and 7,827 for the 2008-2009 fiscal year. As of January 11, 2010, enrollment was 12,342. The Borrower anticipates that it will be able to fulfill its enrollment projections based on past trends in enrollment. Failure to attract and retain students in amounts projected by the Borrower would adversely affect the Borrower’s ability to provide sufficient revenues to make timely payment of Loan Payments securing payment of the Debt Service on the Bonds. See “FINANCIAL AND OPERATIONS INFORMATION – Projections by the Borrower; Required Increases in Attendance for Payment of Future Debt Service” herein and “APPENDIX B – Proforma Forecast” attached hereto.

Accuracy of Borrower Projections of Growth. To pay projected operation costs and debt service on the Bonds, the Borrower has projected increases in its average daily attendance to approximately 16,922 by fiscal year 2014. The basis for such projections are the applications for admissions for the Borrower's grades currently in operation (grades K-12). Currently, there are 21,813 applications on the waiting list for admission and the Borrower's historical ratio of acceptance of applications has been approximately 20% (see "APPENDIX B – Proforma Forecast" attached hereto). These projections may involve known and unknown risks, uncertainties, and other factors, which may cause the actual results, performance, and achievements to be different from the future results, performance, or achievements expressed or implied by such forward-looking statements. Potential investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements. **The projections are from the Borrower, and neither the Issuer nor the Underwriters have commissioned an independent feasibility analysis of any of the projected student attendance figures upon which the Borrower's projections are based. No independent confirmation of the Borrower's projections has been made, and while the Borrower believes its projections of growth of average daily attendance are reasonable, such growth may or may not occur and may be affected by a variety of factors, including completion of the Projects in a timely manner, continued provision for funding of the Borrower by the State at adequate levels, operations and maintenance of the Borrower, and competition from other public or private schools in the areas where the Borrower operates its schools.** See "FINANCIAL AND OPERATIONS INFORMATION –Projections by the Borrower; Required Increases in Attendance for Payment of Future Debt Service" herein and "APPENDIX B – Proforma Forecast" attached hereto.

Risks of Non-Completion. The financed facilities requiring construction are located in several Texas cities (see "PLAN OF FINANCING – Projects" herein). A brief description of the facilities and the projected completion dates are as follows:

Harmony Science Academy-College Station (HSA-CS). Harmony Science Academy-College Station is located at 2031 S. Texas Avenue, Bryan, Texas 77802, with an enrollment of approximately 275 students in grade K-12. The building was purchased through the Series 2007 Bonds. The Borrower plans to build new gym on its land with the proceeds of the Series 2010Q Bonds. It is anticipated that gym construction will be completed by July 2011.

Harmony School of Nature-Dallas (HSN-D). Harmony School of Nature will be located at 8120 W. Camp Wisdom Road, Dallas, Texas 75249 with a maximum enrollment of 700 new students in grades K-12. A portion of Series 2008 Bonds was used to acquire the site and begin construction. The Borrower plans to complete the construction of the new facility with the proceeds of the Series 2010Q Bonds.

Harmony School of Fine Arts-Houston (HSFA-H). Harmony School of Fine Arts will be located at 9185 Kirby Drive, Houston, Texas 77054 with a maximum enrollment of 900 new students in grades K-12. A portion of Series 2008 Bonds were used to acquire the land and a portion of a Regions Bank loan was used to begin construction. It is anticipated that the construction will be completed by August 2010 utilizing the proceeds of the Series 2010A Bonds and the Series 2010Q Bonds.

Harmony Science Academy-Lubbock (HSA-L). Harmony Science Academy-Lubbock is located at 1516 53<sup>rd</sup> Street, Lubbock, Texas 79412 with a maximum enrollment of 900 students in grades K-12. A portion of the Series 2007 Bonds and the Series 2008 Bonds were used to purchase the facility and make additional renovations. The Borrower plans to build new gym on its land with the proceeds of the Series 2010Q Bonds. It is anticipated that gym construction will be completed by July 2011.

Harmony School of Innovation-San Antonio (HSI-SA). Harmony School of Innovation will be located at 6630 Glen Mont Drive, San Antonio, Texas 78239 with a maximum enrollment of 900 students in grades K-12. The Borrower used its own funds to purchase the land and a portion of a Regions Bank loan was used to begin construction. The Borrower plans to complete the construction by August 2010 with the proceeds of the Series 2010A Bonds and the Series 2010Q Bonds.

Harmony School of Advancement-Houston (HSA-H). Harmony School of Advancement-Houston will be located at 3100 N. Sam Houston Pkwy W., Houston, Texas 77038 with a maximum enrollment of 900 in grades 9-12. A portion of a Regions Bank loan was used to begin construction. The Borrower plans to complete the construction by August 2010 with the proceeds of the Series 2010A Bonds and the Series 2010Q Bonds.

Harmony School of Innovation-Houston (HSI-H). Harmony School of Innovation is located at 9421 W. Sam Houston Parkway S., Houston, Texas 77099 with a maximum enrollment of 900 in grades K-12. A portion of the Series 2007 Bonds and the Series 2008 Bonds were used to purchase land and facilities. In addition to the existing facility, a portion of the Series 2008 Bonds was used to begin a new administration and gymnasium facility. It is anticipated that the construction will be completed by August 2010 utilizing the proceeds of the Series 2010A Bonds and the Series 2010Q Bonds.

Harmony School of Ingenuity-Houston (HSI-H). Harmony School of Ingenuity is located at 10555 Stella Link Road, Houston, Texas 77025 with a maximum enrollment of 900 in grades K-12. A portion of a Regions Bank loan was used to purchase the existing facility. The Borrower plans to make additional renovations and complete renovation by August 2010 utilizing the proceeds of the Series 2010Q Bonds.

Harmony School of Political Science and Communication-Austin (HSPSC-A). Harmony School of Political Science and Communication-Austin will be located at RR620 Lake Creek Parkway, Maconda Park, Austin, Texas with a maximum enrollment of 900 in grades K-12. Proceeds of the Series 2010A Bonds and the Series 2010Q Bonds will be used to purchase the new school site and construct a new building. The Borrower plans to complete construction by August 2011.

Harmony School of Science-Houston 2 (HSA-H 2). Harmony School of Science-Houston 2 will be located at NE W. Airport Boulevard & Eldridge, Sugar Land, Texas 77478 with a maximum enrollment of 900 in grades 9-12. A portion of the Series 2010A Bonds

and the Series 2010Q Bonds will be used to purchase of a new school site and construct a new building. The Borrower plans to complete construction by August 2011.

Harmony Science Academy-Houston (HSA-H). Harmony Science Academy is located at 5434 S. Braeswood Boulevard, Houston, Texas 77096 with a maximum enrollment 450 in grades 6-12. A portion of a Regions Bank loan was used to purchase the facility. The Borrower plans to refinance Regions Bank loan with a portion the Series 2010A Bonds.

Harmony Science Academy-Austin (HSA-A). Harmony Science Academy-Austin is located at 930 E. Rundberg Lane, Austin, Texas 78753 with a maximum enrollment of 600 in grades 6-12. The facility is currently leased by the Borrower. The Borrower plans to purchase existing facility with a portion the Series 2010A Bonds.

Harmony School of Excellence-Austin (HSE-A). Harmony School of Excellence-Austin is located at 2100 E. Street Elmo Road, Austin, Texas 78744 and is currently leased by the Borrower. The facility will accommodate up to 900 students in grades K-12. The Borrower plans to make additional renovations with a portion the Series 2010A Bonds. It is anticipated that the renovations will be completed by August 2010.

Harmony Science Academy- North Austin (HSA-NA). Harmony Science Academy-North Austin is located at 1421 Wells Branch Parkway, Suite 200, Pflugerville, Texas 78660 and is currently leased by the Borrower. The facility will accommodate up to 900 students in grades 6-12. The Borrower plans to make additional renovations with a portion the Series 2010A Bonds. It is anticipated that the renovations will be completed by August 2010.

Harmony School of Innovation-Dallas (HSI-D). Harmony School of Innovation-Dallas is located at 1024 W. Rosemeade Parkway, Carrollton, Texas 75007 and is currently leased by the Borrower. The facility will accommodate up to 900 students in grades K-12. The Borrower plans to make additional renovations with a portion the Series 2010A Bonds. It is anticipated that the renovations will be completed by August 2010.

Harmony School of Innovation-El Paso (HSI-EP). Harmony School of Innovation-El Paso is located at 5210 Fairbanks Drive, El Paso, Texas 79924 and is currently leased by the Borrower. The facility will accommodate up to 900 students in grades K-12. The Borrower plans to make additional renovations with a portion the Series 2010A Bonds. It is anticipated that the renovations will be completed by August 2010.

Harmony Science Academy-Dallas (HSA-D). Harmony Science Academy-Dallas is located at 11995 Forestgate Drive, Dallas, Texas 75243 with a maximum enrollment of 850 in grades K-12. The Borrower plans to lease an adjacent facility, which will accommodate up to 900 students. The Borrower plans to make these renovations with a portion the Series 2010A Bonds. It is anticipated that the renovations will be completed by August 2010.

Harmony School of Discovery-Houston (HSD-H). Harmony School of Discovery-Houston will be located at 6270 Barker Cypress Road, Houston, Texas 77084 with a maximum enrollment of 900 in grades K-12. The Borrower plans to make additional renovations with a portion the Series 2010A Bonds. It is anticipated that the renovations will be completed by August 2010.

Harmony Science Academy-Garland (HSA-G). Harmony Science Academy-Garland will be located at 2302 Firewheel Parkway, Garland, Texas 75040 with a maximum enrollment of 900 in grades K-12. The Borrower plans to purchase and renovate the facility with a portion the Series 2010A Bonds. It is anticipated that the facility will be completed by May 2010.

Risks of Construction Contract. The Borrower does not anticipate entering into a fixed-price construction contract for construction of the Projects prior to closing. The Borrower has been advised by its architect that the proceeds of the Bonds and the Series 2010Q Bonds, together with other available funds of the Borrower, will be sufficient for completion of the Projects. If proceeds are not in fact sufficient, the restrictions on issuance of additional Debt by the Borrower contained in the Loan Agreement could limit the ability of the Borrower to borrow any additional funds necessary for completion of the Projects, which could adversely affect payment of the Bonds. Completion of the Projects may be at risk in the event of failures of the contractor or of any underlying bonding companies. As noted, restrictions on issuance of additional Debt by the Borrower contained in the Loan Agreement could limit the ability of the Borrower to borrow additional funds necessary for completion of the Projects, which could adversely affect payment of the Bonds.

Risks Associated with Charter School Operations. The likelihood of success of the Borrower must be viewed in light of the special problems, expenses, difficulties, delays, and complications often encountered in the operation of a charter school. The Borrower has been operating since July 5, 1999. The Borrower's revenues per student should equal the revenues per student of traditional public schools available for operations and maintenance, but do not include the revenues available for capital outlays, and are significantly less than revenues received by many private schools in the area. A potential investor should anticipate that significant operational difficulties will exist for the Borrower which may not exist for traditional public schools or for established private schools.

The system of charter schools in Texas was established in 1995. Potential purchasers should therefore be aware that the system under which the Borrower operates could be significantly affected by unforeseen problems arising from the statutory provisions governing charter schools in Texas or future changes therein. See "–Dependence on the State – Changes in the School Finance System" and "THE SYSTEM OF CHARTER SCHOOLS IN TEXAS" herein.

Competition. Unlike school districts, the Borrower must attract students from other schools, both public and private, within the general area of the schools. No students are required to attend the Borrower's charter schools, and students at the Borrower's charter schools

may subsequently transfer to other public or private schools at will. There are numerous public and private schools in the immediate areas where the Borrower's schools are located, many of which may be closer to the homes of present or prospective students of the Borrower's charter schools. Failure by the Borrower to provide facilities or academics at a level acceptable to students and their parents would presumably cause the Borrower to fail to attract or maintain students, and would negatively affect the ability of the Borrower to make Loan Payments in an amount sufficient to pay the debt service on the Bonds.

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

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

No Taxing Power. Neither the Issuer nor the Borrower has taxing power.

Payment of State Funds to Trustee. The Master Indenture provides that, upon the occurrence and continuance of an Event of Default, all of the Adjusted Revenues will be deposited into the Revenue Fund held by the Trustee, and the Borrower covenants and agrees in the Master Indenture that, without demand by the Master Trustee, it will deliver or cause to be delivered to the Master Trustee within five Business Days from the day of receipt the Adjusted Revenues to be so deposited. If the Borrower were to fail to deliver the Adjusted Revenues, the only remedy available to the Master Trustee and/or Bondholders would be a suit against the Borrower to enforce the provisions of the Master Indenture.

#### **Assumptions Regarding Enrollment, Revenues, and Expenditures**

The Borrower has prepared internally the Proforma Forecast (the "Projections"), a copy of which is reproduced as APPENDIX B hereto. The Projections contain information that the Borrower believes to be material to a decision to purchase the Bonds and should be read by potential investors in their entirety. The Projections may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from the future results, performance and achievements expressed or implied by the Projections. The Projections contain (a) projections of future enrollment, (b) forecasts of gross revenues and net revenues, and (c) forecasts of expenditures, including debt service. The Projections are based solely on the business plan of the Borrower. The accuracy of the Projections is dependent on the occurrence of assumptions and other future events which cannot be assured, and therefore, the actual results achieved during the period will vary from those forecast and other differences may be material and adverse. See "APPENDIX B – Proforma Forecast" attached hereto. The Projections were prepared solely by the Borrower and neither the Issuer nor the Underwriters participated in such preparation and neither of such parties makes any representations or gives any assurances regarding the Projections. The ability of the Borrower to achieve and maintain financially sustaining levels of enrollment on a continuing basis is subject to a number of factors; including, but not limited to, the physical condition of the Projects, the programs provided for students, accreditation of the Borrower, and the supply of other public, private, and charter schools elsewhere. In addition, the Projections are only for the 12-month periods ending August 31<sup>st</sup> for the years 2010 through 2014, and, consequently, do not cover the whole period during which the Bonds may be outstanding.

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

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

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



The Borrower has not sought to obtain a private letter ruling from the IRS with respect to the Bonds, and the opinion of Bond Counsel is not binding on the IRS. There is no assurance that any IRS examination of the Bonds will not adversely affect the market value of the Bonds. See “TAX MATTERS” herein.

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

The tax-exempt status of the Bonds presently depends upon maintenance by the Borrower of its status as an organization described in section 501(c)(3) of the Code. The maintenance of this status depends on compliance with general rules regarding the organization and operation of tax-exempt entities, including operation for charitable and educational purposes and avoidance of transactions that may cause earnings or assets to inure to the benefit of private individuals, such as the private benefit and inurement rules.

Tax-exempt organizations are subject to scrutiny from and face the potential for sanction and monetary penalties imposed by the IRS. One primary penalty available to the IRS under the Code with respect to a tax-exempt entity engaged in inurement or unlawful private benefit is the revocation of tax-exempt status. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of non-profit organizations, it could do so in the future. Loss of tax-exempt status by the Borrower could result in loss of tax exemption of the Bonds and defaults in covenants regarding the Bonds and other obligations would likely be triggered. Loss of tax-exempt status by the Borrower could also result in substantial tax liabilities on its income. For these reasons, loss of tax-exempt status of the Borrower could have material adverse consequences on the financial condition of the Borrower.

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 Bonds and any other tax-exempt debt issued for the Borrower.

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

The State has not been as active as the IRS in scrutinizing the tax-exempt status of 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 circumstance 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.

### **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 Bonds.

## **Dependence on the State**

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

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

Revocation or Non-renewal of Charter. The Borrower’s charters will be subject to renewal as set forth under “THE BORROWER - Terms of Operation Under Charters” herein. However, the Borrower’s charter may be revoked if the persons operating the Borrower’s charter schools commit a material violation of the charters, including failure to satisfy accountability provisions prescribed by the charter, failure to satisfy generally accepted accounting standards of fiscal management, failure to protect the health, safety, and welfare of the students, or failure to comply with the provisions of Chapter 12 of the Texas Education Code, as amended, or other applicable laws or rules. The State has closed three charter schools during oversight reviews, but the Borrower believes that there is no current condition which would cause revocation of its charter. See “THE SYSTEM OF CHARTER SCHOOLS IN TEXAS” herein.

Payment of State Revenues to Trustee. The Master Indenture provides that, upon an occurrence and continuance of an Event of Default, all of the Adjusted Revenues (including State Revenues) required to be deposited under the Master Indenture will be deposited into the Revenue Fund held by the Master Trustee, and the Borrower covenants and agrees in the Master Indenture that, without demand by the Master Trustee, it will deliver or cause to be delivered to the Master Trustee, within five Business Days from the day of receipt, the Adjusted Revenues to be so deposited. If the Borrower were to fail to deliver the Adjusted Revenues, the only remedy available to the Master Trustee or a Bondholder would be a suit against the Borrower to enforce the provisions of the Master Indenture.

## **Risk of Catastrophic Loss**

In the event a natural or man-made disaster, such as a hurricane, fire, earthquake, tornado, or war destroyed one or more of the Borrower’s schools (or significant outlying improvements, once constructed), the revenues of the Borrower would be drastically reduced. Moreover, the market value of the property pledged under the Deed of Trust would also be drastically reduced.

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

## **Limited Remedies After Default**

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

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

The enforceability of the rights and remedies of the bondholders may further be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors such as the Issuer or the Borrower (see “– Risk of Bankruptcy” herein).

### **Risk of Bankruptcy**

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

Similarly, there is a risk that the Borrower may file for bankruptcy and afford itself the protection of the federal Bankruptcy Code. In that case, the Borrower would receive the benefit of the automatic stay and creditors, such as the owners of the Bonds, would not be able to pursue their remedies against it without the permission of the Bankruptcy Court. The Borrower would also have the right to reorganize and adjust its debts with the approval of the Bankruptcy Court. While the Borrower is a nonprofit corporation, the Borrower is a part of the public school system. Consequently, it is not clear whether the Borrower would properly file as a corporate debtor or under Chapter Nine of the United States Bankruptcy Code governing government subdivisions. So long as the Borrower is a non-profit corporation, it cannot be forced into an involuntary bankruptcy by one or more creditors, even if it is properly characterized as a corporate debtor. A bankruptcy filing by or against the Borrower could adversely affect the receipt of principal of and interest on the Bonds.

### **Value of Land and Improvements**

Under the Deed of Trust, the Borrower will grant to the Mortgage Trustee (as defined in the Deed of Trust) a first lien on and security interest in the Land and Improvements. The Land and Improvements are located within various cities in Texas (see “PLAN OF FINANCE - Projects” herein).

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

### **Inability to Liquidate or Delay in Liquidating the Projects**

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

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

### **Risk of Increased Debt**

Subject to certain conditions provided in the Indenture, the Issuer has reserved the right to issue additional Debt which is secured under the Master Indenture on an equal basis with the Bonds. The issuance of additional Debt may adversely affect the investment security of the Bonds. For a description of the circumstances under which additional Debt may be issued, see “APPENDIX D – Final Form of the Master Indenture and Substantially Final Form of Supplemental Master Trust Indenture No. 7” attached hereto.

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

Failure of the Issuer to comply with certain covenants contained in the Indenture or of the Borrower with certain covenants in the Loan Agreement on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactive to the date of original issuance (see “TAX MATTERS” herein).

## Limited Marketability of the Bonds

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

## THE BORROWER

### Organization

The Borrower is a non-profit corporation established under the laws of the State in 1999.

### Management

The Borrower is governed by a Board of Directors. The Board of Directors is selected pursuant to the bylaws of the Borrower and has the authority to make decisions, appoint the President of the Borrower, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Borrower. The Board of Directors is comprised of the following members:

### Board of Directors

<u>Member</u>	<u>Board Title</u>	<u>Occupation</u>	<u>Began Service on the Board</u>
Dr. Oner U. Celepcikay	President	University of Houston, Technology Assistant	May 12, 2002
Mrs. Ellen A. MacDonald	Vice President	MacDonald and Lay Medical Legal Nurse Consultants, LLC	December 3, 2008
Mr. Cengizhan Keskin	Vice President	SPT Group, Senior Flow Assurance Consultant	December 3, 2008
Dr. Bilal Akin	Secretary	Texas Instruments, Applications Engineer	December 3, 2008
Dr. Mustafa A. Atik	Treasurer	Baylor College of Medicine, Physician	August 6, 2005

### Biographies of Certain Administrators

**Soner Tarim, Ph.D., Superintendent of Schools** – Dr. Tarim is the superintendent of schools of the Harmony School System. Dr. Tarim received his Ph.D. from Texas A&M University located in College Station, Texas. He is a trained biologist and ecologist. He taught many courses in the field of biology, ecology, management, general science, and physical education over the years at the high school, college, and graduate school levels. He has exceptional leadership and organizational talent. He organized symposiums and science projects for college professionals and high school students. He developed and directed successful after-school programs at a private high school where he was awarded teacher of the year. Dr. Tarim is qualified to provide services for charter schools in all areas of education (Vision, Structure, Accountability, Advocacy, and Unity) specifically school law, school finance, and safety issues because he established or helped to establish several non-profit organizations that are sponsoring entities for successful charter schools in several states including Texas, Oklahoma, Missouri, Louisiana, and Arkansas. Dr. Tarim wrote and was awarded over a dozen charter school applications and start up grants for many non-profit organizations in several states. Moreover, he has held positions at every level in a school setting. Due to his vast experience in charter school establishment, he understands all federal and state charter school laws and he is familiar with accountability requirements, open meeting acts, and requirements relating to charter and public schools operations. Dr. Tarim published various peer reviewed articles, policies, procedures, and guidelines for charter schools in the areas of admission, English as a second language, governance, and human resources. Dr. Tarim is a certified school board member and school administrator trainer. Currently he also serves as a board member representing over fifty (50) charter schools at the Region 4 Education Service Center in Houston, Texas.

**Mr. Umit Pecan, Associate Superintendent and CFO** – Mr. Pecan is the Associate Superintendent and Chief Financial Officer of Cosmos Foundation, Inc. (Harmony Public Schools). Prior to this appointment, Mr. Pecan was Vice President/CFO United Smart Inc. and other business companies located in Chicago from 2005 to 2008. Prior to that, Mr. Pecan worked for the Turkish Treasury - Banking Regulation and Supervision Agency (BRSA) from 2000 to 2005, starting as a Sworn Bank Auditor, then Chief Bank Examiner of Board of Sworn Auditors. Prior to that, Mr. Pecan worked for the Turkish Government Treasury as Assistant Sworn Bank Auditor and Sworn Bank Auditor from 1992 to 2000. During his tenure at the Turkish Banking Regulation and Supervision Agency, Mr. Pecan was also a part-time adjunct instructor at a number of universities and private and public organizations to teach courses and organize workshops in the areas of banking, enhancement of funds management, and accounting. Mr. Pecan has attended a number of national and international conferences and seminars. Mr. Pecan has authored and co-authored two books and published a number of papers on the subjects of small and medium size business companies, finance, accounting, and banking. Mr. Pecan is a member of the Association of Certified Fraud Examiners and holds an international Certified Public Accountants license. Mr. Pecan holds a Bachelor of Art's degree in Public Finance and a Master's degree in finance, in particular money and banking. Mr. Pecan also holds a M.B.A. in international management from the University of Illinois - Urbana Champaign.

### Terms of Operation Under Charters

The Borrower was granted its initial open-enrollment charters from the Texas Education Agency (the "TEA") to operate its initial three schools as open enrollment charter schools on May 19, 2000. The Borrower currently holds fifteen (15) charters from the TEA with a total current enrollment of 12,342 students. The TEA is only authorized to grant a total of 215 open-enrollment charters, 213 of which have

already been granted. In order to increase the number of open-enrollment charters available to new operators in Texas, the Borrower is currently working with the TEA to consolidate some of the Borrower's existing charters. Since the Borrower can operate multiple campuses under a single charter, this consolidation is not expected to have any impact on the number of campuses operated by the Borrower or on the planned Project.

The Borrower currently operates the following campuses:

<u>Campus Name</u>	<u>Original Charter/ Campus Opening Date</u>	<u>Original Expiration Date</u>	<u>Renewed (Y/N)</u>	<u>Current Expiration Date</u>
Harmony Science Academy	05/09/00	07/31/05	Y	07/31/15
Harmony Science Academy-Dallas	08/01/07	07/31/15	Y	07/31/15
Harmony Science Academy-Northwest	08/14/06	07/31/15	Y	07/31/15
Harmony School of Innovation-Houston	06/28/05	07/31/09	Y	07/31/19
Harmony School of Ingenuity	08/01/09		Y	07/31/19
Harmony School of Excellence	02/01/06	07/01/10	(a)	N/A
Harmony School of Excellence-Endeavor	08/01/09		(b)	N/A
Harmony School of Science-Houston	04/25/08	07/31/13	N/A	N/A
Harmony Science Academy-Austin	05/19/00	07/31/05	Y	07/31/15
Harmony Science Academy-North Austin	08/01/08	07/31/15	Y	07/31/15
Harmony School of Excellence-Austin	08/01/09	07/31/15	Y	07/31/15
Harmony School of Science-Austin	02/01/06	07/31/10	(a)	N/A
Harmony Science Academy-Fort Worth	02/01/06	07/31/10	(a)	N/A
Harmony Science Academy-Grand Prairie	08/01/08		(b)	N/A
Harmony Science Academy-Eules	08/01/09		(b)	N/A
Harmony School of Innovation-Dallas	08/01/09		(b)	N/A
Harmony Science Academy-El Paso	02/01/06	07/31/10	(a)	N/A
Harmony School of Innovation-El Paso	08/01/09		(b)	N/A
Harmony Science Academy-San Antonio	02/01/06	07/31/10	(a)	N/A
Harmony Science Academy-Beaumont	02/26/07	07/31/11	N/A	N/A
Harmony Science Academy-Bryan/College Station	02/26/07	07/31/11	N/A	N/A
Harmony Science Academy-Lubbock	02/26/07	07/31/11	N/A	N/A
Harmony Science Academy-Waco	02/26/07	07/31/11	N/A	N/A
Harmony Science Academy-Brownsville	05/05/08	07/31/13	N/A	N/A
Harmony Science Academy-Laredo	05/05/08	07/31/13	N/A	N/A

(a) The Borrower received the charter renewal packet from the TEA on April 7, 2010, and is in the process of preparing the renewal application. The deadline for submittal is May 7, 2010. The Borrower cannot guarantee the renewal of its charters.

(b) Additional campus opened under the charter named above.

See APPENDIX G attached hereto for detailed information about the Campuses.

**FINANCIAL AND OPERATIONS INFORMATION**

**Statement of Financial Position for the Years Ended August 31, 2009, 2008 and 2007**

The following is derived from the Borrower's audited financial statements for fiscal years 2009, 2008 and 2007 obtained from the Texas Education Agency website. The Borrower has not sought or obtained the consent of its auditors for inclusion of the audited financial information.

**Balance Sheet**

	<u>FYE</u> <u>2009 TOTAL</u>	<u>FYE</u> <u>2008 TOTAL</u>	<u>FYE</u> <u>2007 TOTAL</u>
<u>Assets:</u>			
Assets			
Cash	\$ 17,000,816	\$ 30,761,550	\$ 16,744,531
Grants receivable	3,165,176	2,651,777	2,946,794
Other receivable	2,194,925	1,063,892	1,318,904
Land	10,271,230	7,200,014	2,979,562
Lease property improvements	-	-	-
Building and improvements	54,064,118	23,760,334	11,160,866
Equipment and furniture	3,843,031	1,615,136	1,161,227
Accumulated depreciation	(5,438,997)	(2,818,574)	(1,297,547)
Deposits	480,792	370,994	202,102
Other assets	2,463,047	3,312,165	1,679,721
Total Assets	<u>\$ 88,044,138</u>	<u>\$ 67,917,288</u>	<u>\$ 36,896,160</u>
<u>Liabilities:</u>			
Liabilities			
Accounts payable	\$ 2,206,684	\$ 1,684,338	\$ 1,666,697
Payroll and related liabilities	702,992	779,308	960,390
Other liabilities	-	-	-
Interest Payable	155,794	157,647	-
Accrued payroll and benefits	1,950,070	1,318,896	-
Capital lease payable	334,020	550,036	544,849
Bond payable net of discount	59,619,212	59,969,667	29,678,658
Notes payable	12,438,415	-	680,197
Total Liabilities	<u>\$ 77,407,187</u>	<u>\$ 64,459,892</u>	<u>\$ 33,530,791</u>
Net Assets			
Unrestricted	7,938,414	3,457,396	3,365,369
Temporarily restricted	2,698,538	-	-
TOTAL NET ASSETS	<u>\$ 10,636,952</u>	<u>\$ 3,457,396</u>	<u>\$ 3,365,369</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 88,044,139</u>	<u>\$ 67,917,288</u>	<u>\$ 36,896,160</u>

**Statements of Activities for the Years Ended August 31, 2009, 2008 and 2007**

The following is derived from the Borrower's audited financial statements for fiscal years 2009, 2008 and 2007. The Borrower has not sought or obtained the consent of its auditors for inclusion of the audited financial information.

**Statement of Activities**

	<u>FYE</u> <u>2009 TOTAL</u>	<u>FYE</u> <u>2008 TOTAL</u>	<u>FYE</u> <u>2007 TOTAL</u>
<b><u>REVENUES AND OTHER SUPPORT</u></b>			
Federal grants	\$ 4,873,979	\$ 4,223,718	\$ 4,296,637
State and local grants	58,920,686	37,347,003	23,206,660
Donations	3,818,927	1,578,705	1,294,513
Interest Income	-	852,299	276,580
Other income	3,851,404	2,468,124	1,397,250
Net Assets released from restrictions		-	-
Total Support and Revenue	\$ 71,464,996	\$ 46,469,849	\$ 30,471,640
<b><u>EXPENSES</u></b>			
Program services	66,212,274	46,377,822	28,409,223
Total expenses	\$ 66,212,274	\$ 46,377,822	\$ 28,409,223
Change in assets	5,252,722	92,027	2,062,417
Net assets, beginning of year as restated	5,384,230	3,365,369	1,302,952
Net assets, ending of year	\$ 10,636,952	3,457,396	3,365,369

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**Statements of Functional Expenses for the Years Ended August 31, 2009, 2008 and 2007**

The following is derived from the Borrower’s audited financial statements for fiscal years 2009, 2008 and 2007. The Borrower has not sought or obtained the consent of its auditors for inclusion of the audited financial information. For a breakdown of program services and support services, see APPENDIX A.

	<b>FYE 2009</b>	<b>FYE 2008</b>	<b>FYE 2007</b>
Services	\$ 66,212,274	\$ 46,377,822	\$ 28,409,223
Fundraising	--	--	--
Administrative	--	--	--
<b>Total Expenses</b>	<b>\$ 66,212,274</b>	<b>\$ 46,377,822</b>	<b>\$ 28,409,223</b>

**Audited Financial Information**

Audited financial statements for the Borrower for the fiscal years 2009, 2008, and 2007 are included herein as APPENDIX A. The Borrower has not sought or obtained the consent of its auditors for inclusion of the audited financial statements in this Official Statement.

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

The Borrower has projected revenues for the fiscal years from 2009-2010 through 2013-2014 which include substantial increases in revenues. Such projections are attached hereto as APPENDIX B. See “RISK FACTORS – Dependence on the Operations of the Borrower – Growth of Student Enrollment” and “–Accuracy of Borrower Projections of Growth” herein. The increase in revenues contained in the Borrower’s projections are based on both stability in the system of charter schools in Texas, continued state funding at current levels, and growth in student populations. See “RISK FACTORS – Dependence on the Operations of the Borrower” and “–Dependence on the State” and “THE SYSTEM OF CHARTER SCHOOLS IN TEXAS” herein.

The maximum annual combined debt service for the Bonds, the Series 2010Q Bonds, and the outstanding parity debt of the Borrower is \$14,045,641 (2011). **See Schedule 1 – Projected Debt Service attached hereto.**

The following calculations show debt service coverage based on projections of the Borrower:

Maximum Annual Debt Service Requirement on all Debt (2011)	\$14,045,641*
Estimated Net Revenues Available for Debt Service (2010)	\$19,749,010
Projected Net Revenues Available for Debt Service (2011)	\$26,991,343
Estimated Coverage of MADS (2010)	1.406x
Projected Coverage of MADS (2011)	1.922x

\* Includes outstanding debt as well as the Bonds and the Series 2010Q Bonds.

**THE SYSTEM OF CHARTER SCHOOLS IN TEXAS**

**General**

The Texas Legislature adopted the Texas charter school system in 1995 to offer publicly funded choices to parents within the public school system. Texas law provides for three types of charters: home-rule school district charters, campus or campus program charters, and open-enrollment charters. The Borrower’s charter school operates under an open-enrollment charter. Under current statutes, the charter system effectively provides the same per student public funding for education (but not necessarily for capital needs) as is available to other public schools.

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

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



### **Limitation on Number of Charters Granted**

The Board of Education may, at this time, grant a total of not more than 215 charters for open-enrollment charter schools. Applicants are required to meet financial, governing, and operating standards adopted by the Texas Commissioner of Education (the "Commissioner").

### **Authority Under Charter**

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

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

An open-enrollment charter school has the powers granted to schools under Title 2, Texas Education Code ("Title 2"), as amended, which generally governs public primary and secondary education in Texas. An open-enrollment charter school is subject to any provisions of Title 2 establishing a criminal offense; prohibitions, restrictions, or requirements, as applicable, imposed by such title or a rule adopted under Title 2 relating to specific provisions governing the Public Education Information Management System ("PEIMS"), criminal history records; certain reading programs, assessment instruments, and accelerated instruction; high school graduation; special education programs; bilingual education; pre-kindergarten programs; extracurricular activities; discipline management practices; health and safety; and public school accountability (including testing requirements, and requirements to report an educator's misconduct).

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

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

### **State Funding**

Prior to August 31, 2001, an open-enrollment charter school was entitled to the distribution from the available school fund for a student attending the open-enrollment charter school to which the district in which the student resides would be entitled. A student attending an open-enrollment charter school who is eligible under Section 42.003, Texas Education Code, is entitled to the benefits of the Foundation School Program. The Commissioner will distribute from the Foundation School Fund to each charter school an amount equal to the cost of a Foundation School Program provided by the program for which the charter is granted, including the transportation allotment, for the student that the district in which the student resides would be entitled to, less an amount equal to the sum of the school's tuition receipts from the local district plus the school's distribution from the available school fund. This prior law provides the basis for a portion of the State Funding available to charter schools and more fully described below.

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

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

An open-enrollment charter school receives:

for the 2009-2010 school year, 30 percent of its funding according to the law in effect on August 31, 2001, and 70 percent of its funding according to the change;

for the 2010-2011 school year, 20 percent of its funding according to the law in effect on August 31, 2001, and 80 percent of its funding according to the change;

for the 2011-2012 school year, 10 percent of its funding according to the law in effect on August 31, 2001, and 90 percent of its funding according to the change;

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

The following discussion of school district funding relates to the Borrower through the charter school funding formulas described above. As the above timeline indicates the funding formula for the Borrower is in transition from being based on each student's resident district's characteristics to being based on State averages for all districts.

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

The Foundation School Program provides for (1) State guaranteed basic funding allotments per student ("Tier One") and (2) State guaranteed revenues per student per penny of local tax effort to provide operational funding for an "enriched" educational program ("Tier Two"). State funding allotments may be altered and adjusted in certain circumstances to account for shortages in State appropriations or to allocate available funds in accordance with wealth equalization goals. Tier One allotments are intended to provide a basic program of education rated academically acceptable and meeting other applicable legal standards. If needed, the State will subsidize local tax receipts to produce a basic allotment. The basic allotment is currently \$4,765 per student in average daily attendance. To receive the State subsidy, a local school district must levy an effective property tax of at least \$0.86 per \$100 of assessed valuation.

Tier Two allotments are intended to guarantee each school district an opportunity to provide a basic program and to supplement that program at a level of its own choice. For fiscal year 2009-10, the first six cents of tax effort that exceeds the compressed tax rate will generate a guaranteed yield equivalent to (a) that of the Austin Independent School District or (b) the amount of tax revenue per weighted average daily attendance ("WADA") received on that tax effort in the previous year, whichever is greater. The second level of Tier Two is generated by tax effort that exceeds the compressed tax rate plus six cents and has a guaranteed yield per penny of local tax effort of \$31.95.

The Borrower's total per student State funding budgeted for the 2009-2010 fiscal year is approximately \$7,200 per average daily attendance. The Borrower's historical total per student State funding is provided below:

	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
Enrollment	7827	4654	3180	1189	811	525	436
ADA <sup>(a)</sup>	7592	4514	3085	1153	787	504	419
% Attendance	0.97	0.97	0.97	0.97	0.97	0.96	0.96
Total State Funding	\$55,925,837	\$37,347,003	\$23,206,660	\$8,321,366	\$5,101,165	\$2,557,185	\$2,619,541
Funding Per ADA	\$7,366	\$8,273	\$7,523	\$7,215	\$6,485	\$5,074	\$6,258

<sup>(a)</sup>Average Daily Attendance.

### Local Funding

Except as specifically provided, an open-enrollment charter school is entitled to receive payments (referred to as tuition) from the school district in which a student attending the charter school resides, in an amount equal to the quotient of the tax revenue collected by the school district for maintenance and operations for the school year for which tuition is being paid divided by the sum of the number of students enrolled in the district as reported in the Public Education Information Management System (PEIMS), including the number of students for whom the district is required to pay tuition. The tuition to be paid by a school district with a wealth per student that exceeds the equalized wealth level under Chapter 41, Texas Education Code, as amended, will be based on the district's tax revenue after the district has acted to achieve the equalized wealth level under Chapter 41.

An open-enrollment charter school may not charge tuition to its students.

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

## **Provisions of Open-Enrollment Charters**

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

Each charter granted must describe the educational program to be offered, which must include the required curriculum as provided by statute, specify the period for which the charter or any charter renewal is valid; provide that continuation or renewal of the charter is contingent on acceptable student performance on assessment instruments and on compliance with any accountability provision specified by the charter, by a deadline or at intervals specified by the charter; establish the level of student performance that is considered acceptable; specify any basis, in addition to a basis specified by statute, on which the charter may be placed on probation or revoked or on which renewal of the charter may be denied; prohibit discrimination in admission policy on the basis of sex, national origin, ethnicity, religion, disability, academic or athletic ability, or the district the child would otherwise attend in accordance with the Texas Education Code; specify the grade levels to be offered; describe the governing structure of the program; specify the powers and duties of the governing body of the school; specify the manner in which the school will distribute certain information to parents; describe the process by which the person providing the program will adopt an annual budget; describe the manner in which an annual audit of the financial and programmatic operations of the program is to be conducted, including the manner in which the person providing the program will provide information necessary for the school district in which the program is located to participate, as required by this code or by Board of Education rule, in PEIMS; describe the facilities to be used; describe the geographical area served by the program; and specify any type of enrollment criteria to be used.

The grant of a charter does not create an entitlement to renewal of the charter. A revision of a charter of an open-enrollment charter school may be made only with the approval of the Board of Education.

Not more than once a year, an open-enrollment charter school may request approval to revise the maximum student enrollment. The Borrower will not be required to obtain approval to increase its maximum enrollment in order to meet its projected revenues.

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

The Commissioner may modify, place on probation, revoke, or deny renewal of the charter of an open-enrollment charter school if the Commissioner determines that the charter holder committed a material violation of the charter, including failure to satisfy accountability provisions prescribed by the charter; failure to satisfy generally accepted accounting standards of fiscal management; failure to protect the health, safety, or welfare of students; or failure to comply with any applicable law or rule. The action by the Commissioner with respect to modification, probation, revocation, or denial of renewal of a charter must be based on the best interest of the school's students, the severity of the violation, and any previous violation the school has committed. The Commissioner will adopt a procedure to be used for modifying, placing on probation, revoking, or denying renewal of the charter of an open-enrollment charter school.

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

The Commissioner may take certain disciplinary actions available for public schools generally to the extent the Commissioner determines necessary, if an open-enrollment charter school commits a material violation of the school's charter, fails to satisfy generally accepted accounting standards of fiscal management, or fails to comply with the requirements of the Texas Education Code, Chapter 12, Subchapter D, as amended, or other applicable state and/or federal law or rule, as determined by the Commissioner under Section 100.1022 and Section 100.1021, Chapter 100, Subchapter AA of Commissioner's Rules Concerning Open-Enrollment Charter Schools, 26 Tex Reg 8823 adopted effective November 6, 2001, amended to be effective April 6, 2005, 30 Tex Reg 1911, adopted April 6, 2005. The Commissioner may temporarily withhold funding, suspend the authority of an open-enrollment charter school to operate, or take any other reasonable action the Commissioner determines necessary to protect the health, safety, or welfare of students enrolled at the school based on evidence that conditions at the school present a danger to the health, safety, or welfare of the students. After the Commissioner so acts, the open-enrollment charter school may not receive funding and may not resume operating until a determination is made that, despite initial evidence, the conditions at the school do not present a danger of material harm to the health, safety, or welfare of students; or the conditions at the school that presented a danger of material harm to the health, safety, or welfare of the students have been corrected.

## **Annual Evaluation**

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

## STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

### Funding Changes in Response to West Orange-Cove II

In response to the decision in West Orange-Cove II, the Texas Legislature (the "Legislature") enacted House Bill 1 ("HB 1"), which made substantive changes in the way the Finance System is funded, as well as other legislation which, among other things, established a special fund in the Texas state treasury to be used to collect new tax revenues that are dedicated under certain conditions for appropriation by the Legislature to reduce Operation and Maintenance Tax rates, broadened the State business franchise tax, modified the procedures for assessing the State motor vehicle sales and use tax and increased the State tax on tobacco products (HB 1 and other described legislation are collectively referred to as the "Reform Legislation"). The Reform Legislation generally became effective at the beginning of the 2006-07 fiscal year of each district.

### Possible Effects of Litigation and Changes in Law on Public School Obligations

In the future, the Legislature could enact additional changes to the Finance System which could benefit or be a detriment to a school district depending upon a variety of factors, including the financial strategies that the Borrower has implemented in light of past funding structures. Although, as a matter of law, the Bonds, upon issuance and delivery, will be entitled to the protections afforded previously existing contractual obligations under the Contract Clauses of the U.S. and Texas Constitutions, the Borrower can make no representations or predictions concerning the effect of future legislation or litigation, or how such legislation or future court orders may affect the Borrower's financial condition, revenues or operations. The disposition of any possible future litigation or the enactment of future legislation to address school funding in Texas could substantially adversely affect the financial condition, revenues or operations of the Borrower, as noted herein.

## CURRENT PUBLIC SCHOOL FINANCE SYSTEM

### General

The following description of the Finance System is a summary of the Reform Legislation and the changes made by the State Legislature to the Reform Legislation since its enactment, including modifications made during the regular session of the 81st Texas Legislature (the "2009 Regular Legislative Session"). For a more complete description of school finance and fiscal management in the State, reference is made to Vernon's Texas Codes Annotated, Education Code, Chapters 41 through 46, as amended.

The Reform Legislation, which generally became effective at the beginning of the 2006-07 fiscal year, made substantive changes to the manner in which the Finance System is funded, but did not modify the basic structure of the Finance System. While the goal of these changes to the Finance System are intended to reduce local school taxes, these changes have had a positive effect upon charter school funding.

Under the Finance System, State funds to public schools are increased in a manner intended to offset the reduction in school tax rates. Additional State funding needed to offset local tax rate reductions must be generated by the modified State franchise, motor vehicle and tobacco taxes or any other revenue source appropriated by the Legislature. The Legislative Budget Board projected that the Reform Legislation would be underfunded from the Reform Legislation revenue sources by a cumulative amount of \$25 billion over fiscal years 2006-07 through 2010-11, however State surpluses have been appropriated to offset the revenue shortfall in fiscal year 2006-07 and for the 2008-09 and 2010-11 State biennia.

Under the Finance System, as modified during the 2009 Regular Legislative Session, a school district that imposes an M&O Tax at least equal to the product of the "state compression percentage" (as defined below) multiplied by the district's 2005-06 M&O Tax rate is entitled to at least the amount of State funding necessary to provide the district with the sum of (A) the amount of State and local revenue per WADA to which the school district would be entitled for the 2009-10 school year as calculated under the law as it existed on January 1, 2009, (B) an additional \$120 per WADA, (C) an amount to which the district is entitled based on supplemental payments owed to any tax increment fund for a reinvestment zone and (D) any amount due to the district to the extent the district contracts for students residing in the district to be educated in another district (i.e., tuition allotment). If a district adopts an M&O Tax rate in any fiscal year below a rate equal to the state compression percentage for the district in that year multiplied by the M&O Tax rate adopted by the district for the 2005-06 fiscal year, the district's guaranteed amount is reduced in a proportionate amount. If a district would receive more State and local revenue from the Tier One and Tier Two allotments (each as hereinafter defined) and wealth equalization than the guaranteed amount described above, the amount of State funding will be reduced by the amount of such surplus over the guaranteed amount described above.

In general terms, funds are allocated to districts in a manner that requires districts to "compress" their tax rates in order to receive increased State funding at a level that equalizes local tax wealth at the 88th percentile yield for the 2006-07 fiscal year. The state compression percentage is a basic component of the funding formulas. The state compression percentage was 66.67% for fiscal years 2007-08 and 2008-09. For fiscal year 2009-10 and thereafter, the Commissioner is required to determine the state compression percentage for each fiscal year based on the percentage by which a district is able to reduce its M&O Tax rate for that year, as compared to such district's adopted M&O Tax rate for the 2005-06 fiscal year, as a result of State funds appropriated for distribution for the current fiscal year from the property tax relief fund established under the Reform Legislation, or from any other funding source made available by the Legislature for school district property tax relief. For fiscal year 2009-10, the Commissioner determined the State compression percentage to be 66.67%.

## State Funding for Local Public Schools

The Finance System provides for (1) State guaranteed basic funding allotments per student (“Tier One”) and (2) State guaranteed revenues per student for each cent of local tax effort that exceeds the compressed tax rate to provide operational funding for an “enriched” educational program (“Tier Two”). In addition, to the extent funded by the Legislature, the Finance System includes, among other funding allotments, an allotment to pay operational expenses associated with the opening of a new instructional facility. Tier One and Tier Two allotments represent the State funding share of the cost of maintenance and operations of public schools and supplement local ad valorem M&O Taxes levied for that purpose. Tier One and Tier Two allotments are generally required to be funded each year by the Legislature.

Tier One allotments are intended to provide all schools a basic program of education rated academically acceptable and meeting other applicable legal standards. Tier Two allotments are intended to guarantee each school that is not subject to the wealth transfer provisions described below an opportunity to supplement that program at a level of its own choice, however Tier Two allotments may not be used for the payment of debt service or capital outlay.

The cost of the basic program is based on an allotment per student known as the “Tier One Basic Allotment.” For the 2009-10 through 2012-13 school years, the basic allotment is set at the greater of \$4,765 or 1.65% of the statewide average property value per student in WADA and, thereafter, at the lesser of \$4,765 or that amount multiplied by the quotient of the district’s compressed tax rate divided by the State maximum compressed tax rate of \$1.00. This increase was due to changes in law effected by the Legislature during the 2009 Regular Legislative Session, which combined certain funding allotments that previously were separate components of Tier Two funding into the Tier One Basic Allotment. An additional change made during the 2009 Regular Legislative Session limits, beginning with 2010-11 school year, the annual increases in a district’s M&O Tax revenue per WADA for purposes of State funding to not more than \$350, excluding Tier Two funds. For the 2009-10 school year, the revenue increases are limited to the funds that a district would have received under the school finance formulas as they existed on January 1, 2009, plus an additional \$350 per WADA, excluding Tier Two funds.

Tier Two currently provides two levels of enrichment with different guaranteed yields depending on the district’s local tax effort. For fiscal year 2009-10, the first six cents of tax effort that exceeds the compressed tax rate will generate a guaranteed yield equivalent to (a) that of the Austin Independent School District or (b) the amount of tax revenue per WADA received on that tax effort in the previous year, whichever is greater. The second level of Tier Two is generated by tax effort that exceeds the compressed tax rate plus six cents and has a guaranteed yield per penny of local tax effort of \$31.95. Before 2009-10, Tier Two consisted of a district’s M&O Tax levy above \$0.86.

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

## BOOK-ENTRY-ONLY SYSTEM

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

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds (herein, the “Securities”). The Securities will be issued as fully-registered securities in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities and Exchange Act of 1934. DTC holds and provides asset servicing for over 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, the 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 Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmations 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 Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

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

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

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

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

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

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

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

#### **RATING**

Standard and Poor's Ratings Group ("S&P") has assigned its municipal rating of "BBB" to the Bonds. An explanation of the rating may be obtained from S&P. The rating reflects only the view of S&P and neither the Underwriters, the Issuer, nor the Borrower makes any representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

## THE ISSUER

### Creation and Authority

The Texas Public Finance Authority Charter School Finance Corporation is a public non-profit corporation created by the Texas Public Finance Authority (the “Authority” or “Sponsoring Entity”) and existing as an instrumentality of the Authority pursuant to 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 of the entire Board, while vacancies may be filled by a vote of a majority of the Board of the 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 of approximately \$5,000 in connection with the issuance of the Bonds, which amount shall be paid to the Authority and may be used by the Authority for any lawful purpose. Except for the issuance of the Bonds, the Issuer is not in any manner related to or affiliated with the Borrower. The Issuer has issued the Bonds and loaned the proceeds to the Borrower pursuant to the Loan Agreement 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 TRUSTEE

Regions Bank, which is an affiliate of Morgan Keegan & Company, Inc., Houston, Texas, will initially act as Trustee under the Indenture and is the successor Master Trustee under the Master Indenture.

## LEGAL MATTERS

### Legal Proceedings

Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding limited obligations of the Issuer under the Constitution and laws of the State of Texas payable from and secured by a lien on and pledge of the payments designated as Loan Payments to be paid, or caused to be paid, to the Trustee, pursuant to the Indenture and the Loan Agreement, as evidenced by the Master Note, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, and the approving legal opinion of Vinson & Elkins LLP, Houston, Texas, Bond Counsel, in substantially the form attached hereto as APPENDIX C.

Bond Counsel was not requested to participate and did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information appearing in this Official Statement: (i) under the captions “SECURITY AND SOURCE OF PAYMENT,” “THE BONDS,” “LEGAL MATTERS,” “TAX MATTERS,” “THE SYSTEM OF CHARTER SCHOOLS IN TEXAS,” and “LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS,” and is of the opinion that the information therein is correct as to matters of law; and (ii) under the captions “CONTINUING DISCLOSURE OF INFORMATION,” “APPENDIX C – FORM OF OPINION OF BOND COUNSEL,” “APPENDIX D –FINAL FORM OF THE MASTER INDENTURE AND SUBSTANTIALLY FINAL FORM OF SUPPLEMENTAL MASTER TRUST INDENTURE NO. 7,” “APPENDIX E – SUBSTANTIALLY FINAL FORM OF THE INDENTURE,” and “APPENDIX F – SUBSTANTIALLY FINAL FORM OF THE LOAN AGREEMENT” solely to determine whether such information fairly summarizes the documents referred to therein.

### No-Litigation Certificates

The Issuer will furnish the Underwriters a certificate, executed by both the President and Secretary of the Issuer, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the collection of Loan Payments for the payment thereof, or the organization of the Issuer, or the title of the officers thereof to their respective offices.

The Borrower will furnish the Underwriters a certificate, executed by both the President and Secretary of the Borrower, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the payment of Loan Payments for the payment thereof, or the organization of the Borrower, the granting of the Charter, the validity of the Loan Agreement, the Master Note, the Deed of Trust, or the title of the officers thereof to their respective offices.

## **TAX MATTERS**

### **Tax Exemption**

In the opinion of Vinson & Elkins LLP, Bond Counsel, assuming compliance with certain covenants and based on certain representations, (i) interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, and (ii) the Bonds will be “qualified 501(c)(3) bonds” under the Code, and, as such, interest on the Bonds will not be (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 Bonds, to be excludable from gross income for federal income tax purposes. These requirements include a requirement that the Borrower be a tax-exempt organization described in section 501(c)(3) of the Code, limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States, and a requirement that the Issuer file an information report with the IRS. The Borrower and the Issuer have covenanted in the Indenture and the Loan Agreement that they will comply with these requirements.

For purposes of its opinion that the Bonds are “qualified 501(c)(3) bonds,” Bond Counsel will rely upon representations of the Issuer and the Borrower in the Indenture and the Loan Agreement and will assume continuing compliance with the 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 Bonds for federal income tax purposes. In addition, Bond Counsel will rely on representations by the Issuer, the Borrower, and the Underwriters with respect to matters solely within the knowledge of the Issuer, the Borrower, and the Underwriters, respectively, which Bond Counsel has not independently verified. If the Borrower or the Issuer should fail to comply with the covenants in the Indenture or the Loan Agreement or the foregoing representations should be determined to be incorrect, inaccurate, or incomplete, interest on the Bonds could become includable in gross income for federal income tax purposes from the date of delivery of the 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 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 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 whether or not the IRS will commence an audit of the 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 Bonds may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds regardless of the ultimate outcome of the audit.

### **Collateral Tax Consequences**

Prospective purchasers of the 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 Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the 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 Bonds, received or accrued during the year.



## SALE AND DISTRIBUTION OF THE BONDS

### The Underwriters

The Bonds are being purchased by the Underwriters, pursuant to a bond purchase agreement with the Issuer, as approved by the Borrower, at a price of \$49,589,100, which reflects the par amount of the Bonds less an underwriting discount of \$500,900, plus accrued interest to the date of delivery. The Underwriters' obligation to purchase the Bonds is subject to certain conditions precedent, and they will be obligated to purchase all of the Bonds if any Bonds are purchased. The Issuer has no control over the price at which the Bonds are subsequently sold and the initial yields at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Underwriters.

### Prices and Marketability

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

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

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

### Securities Laws

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

## LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201, as amended), the Bonds (1) are negotiable instruments, (2) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (3) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256, as amended), the Bonds may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. The Bonds have been assigned a rating of "BBB" by a national rating agency. See "RATING" herein. However, political subdivisions otherwise subject to the Public Funds Investment Act may have additional statutory authority to invest in the Bonds independent of the Public Funds Investment Act. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of combined capital, and savings and loan associations. No review has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states. No representation is made that the Bonds will in fact be used as investments or security by any entity.

## CONTINUING DISCLOSURE OF INFORMATION

The Borrower in the Loan Agreement has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The Borrower is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the Borrower will be obligated to provide certain updated financial information and operating data upon request to any person or, at the option of the Borrower, at least annually to the Municipal Securities Rulemaking Board (the "MSRB"). Information will be available free of charge via the Electronic Municipal Market Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org). The Borrower will notify the Issuer when updates are made.

## **Annual Reports**

The Borrower will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data of the general type included in this Official Statement in APPENDIX A and APPENDIX G attached hereto. The Borrower will update and provide this information within six months after the end of each fiscal year. The Borrower will provide updated information to the MSRB.

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

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

## **Periodic Reports**

The Borrower will also provide to the Trustee and the MSRB, within 60 days after the end of each calendar quarter commencing June 30, 2010, copies of (i) the unaudited financial reports customarily prepared for and provided to the Board of the Borrower during such calendar quarter and (ii) the most recent enrollment and attendance reports submitted to the TEA. The Borrower 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.

## **Material Event Notices**

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

## **Limitations and Amendments**

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

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

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

## **PREPARATION OF OFFICIAL STATEMENT**

### **Sources and Compilation of Information**

The financial data and other information contained in this Official Statement have been obtained primarily from the Borrower and sources other than the Issuer. All of these sources are believed to be reliable, but no representation or guarantee is made by the Issuer as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation or guarantee on the part of the Issuer to such effect. Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, documents, and other related information set forth in this Official Statement are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

## **MISCELLANEOUS**

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

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**SCHEDULE 1  
PROJECTED DEBT SERVICE**

FYE 8/31/2010	Outstanding Debt Service <sup>(1)</sup>	Series 2010Q (QSCBs)		Series 2010A (Tax Exempt Bonds)		Total Parity Debt Service
		Sinking Fund Deposits <sup>(2)</sup>	Interest <sup>(3)</sup>	Principal	Interest	
2010	\$ 4,900,839					\$ 4,900,839
2011	5,202,103	\$ 770,624	\$ 4,134,427		\$ 3,938,488	14,045,641
2012	5,204,684	1,890,642	3,242,688		3,089,010	13,427,023
2013	5,255,046	1,890,642	3,242,688		3,089,010	13,477,385
2014	5,249,015	1,890,642	3,242,688		3,089,010	13,471,354
2015	4,951,311	1,890,642	3,242,688		3,089,010	13,173,650
2016	4,799,521	1,890,642	3,242,688		3,089,010	13,021,860
2017	4,803,365	1,890,642	3,242,688		3,089,010	13,025,704
2018	4,805,533	1,890,642	3,242,688		3,089,010	13,027,873
2019	4,804,165	1,890,642	3,242,688		3,089,010	13,026,504
2020	4,806,108	1,890,642	3,242,688		3,089,010	13,028,448
2021	4,807,205	1,890,642	3,242,688		3,089,010	13,029,544
2022	4,807,143	1,890,642	3,242,688		3,089,010	13,029,482
2023	4,800,743	1,890,642	3,242,688		3,089,010	13,023,082
2024	4,807,380	1,890,642	3,242,688		3,089,010	13,029,719
2025	4,637,592	1,890,642	3,242,688		3,089,010	12,859,931
2026	4,557,025	1,890,642	3,242,688		3,089,010	12,779,364
2027	4,559,875	2,382,532	1,621,344		3,089,010	11,652,761
2028	4,558,666			\$ 2,595,000	3,011,160	10,164,826
2029	4,557,906			2,760,000	2,850,510	10,168,416
2030	4,556,928			2,930,000	2,679,810	10,166,738
2031	4,559,928			3,115,000	2,495,345	10,170,273
2032	4,556,281			3,310,000	2,296,170	10,162,451
2033	4,555,319			3,525,000	2,084,285	10,164,604
2034	4,556,059			3,750,000	1,858,760	10,164,819
2035	4,557,522			3,990,000	1,618,820	10,166,342
2036	4,558,725			4,245,000	1,363,535	10,167,260
2037	4,558,731			4,515,000	1,091,975	10,165,706
2038	2,537,281			4,805,000	803,055	8,145,336
2039				5,110,000	495,690	5,605,690
2040				5,440,000	168,640	5,608,640
<b>Totals</b>	<b>\$135,872,001</b>	<b>\$31,512,779</b>	<b>\$54,396,083</b>	<b>\$50,090,000</b>	<b>\$76,180,403</b>	<b>\$348,051,266</b>

<sup>(1)</sup> Includes Series 2007 and Series 2008 bonds and parity bank loans.

<sup>(2)</sup> Represents annual sinking fund deposits to provide for principal repayment. Based on estimated fund earnings rate of 3.00%.

<sup>(3)</sup> Gross taxable bond interest; does not reflect anticipated federal subsidy receipts base on 5.66% tax credit rate.

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**APPENDIX A**

**AUDITED FINANCIALS OF BORROWER FOR  
YEARS ENDED AUGUST 31, 2009, AUGUST 31, 2008, AND AUGUST 31, 2007**

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**COSMOS FOUNDATION, INC.**

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**FOR THE YEAR ENDED AUGUST 31, 2009**

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**GOMEZ & COMPANY**

CERTIFIED PUBLIC ACCOUNTANTS  
6750 W. LOOP SOUTH, SUITE 520  
HOUSTON, TEXAS 77401  
TEL: (713) 666-9800  
FAX: (713) 666-1019  
<http://www.gomezandco.com>

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors of  
Cosmos Foundation, Inc.  
Houston, Texas

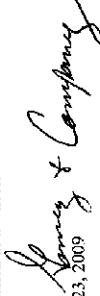
We have audited the accompanying statement of financial position of Cosmos Foundation, Inc. (HSA) as of August 31, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of HSA management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In accordance with Government Auditing Standards, we have also issued our report dated November 23, 2009 on our consideration of HSA internal control over financial reporting and 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 important for assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of HSA taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
November 23, 2009


**COSMOS FOUNDATION, INC.**


- 071-806
- 101-858
- 220-813
- 015-828
- 227-822
- 101-857
- 101-846
- 227-816
- 152-805
- 123-806
- 161-807
- 021-804
- 031-803
- 101-862
- 240-804

**CERTIFICATE OF BOARD**

August 31, 2009

We, the undersigned, certify that the attached Annual Financial and Compliance Report of Cosmos Foundation, Inc. was reviewed and X approved disapproved for the year ended August 31, 2009, at a meeting of the governing body of said charter school on the 8<sup>th</sup> day of December, 2009.

  
Signature of Board Secretary

  
Signature of Board President

COSMOS FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2009

<b>ASSETS</b>	
Assets:	
Cash	\$ 17,000,816
Receivables	3,165,176
Other receivables	2,194,925
Land	10,271,230
Buildings and improvements	54,064,118
Furniture and equipment	3,843,031
Accumulated depreciation	(5,438,997)
Deposits	480,792
Other assets	2,463,047
<b>Total assets</b>	<b>\$ 88,044,138</b>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Accounts payable	\$ 2,206,684
Accrued liabilities	702,992
Wages payable	1,950,070
Interest payable	155,794
Notes payable	12,438,415
Capital lease payable	334,020
Bond payable net of discount	59,619,212
<b>Total liabilities</b>	<b>77,407,186</b>
<b>Net Assets:</b>	
Unrestricted	7,918,414
Temporarily restricted	2,698,538
<b>Total net assets</b>	<b>10,636,952</b>
<b>Total liabilities and net assets</b>	<b>\$ 88,044,138</b>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2009

	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>			
Federal grants	\$	\$ 4,873,979	\$ 4,873,979
State and local grants		58,920,686	58,920,686
Donations	3,818,927		3,818,927
Other income	3,851,404		3,851,404
Net assets released from restrictions	61,096,127	(61,096,127)	
<b>Total revenues</b>	<b>68,766,458</b>	<b>2,698,538</b>	<b>71,464,996</b>
<b>EXPENSES</b>			
Program services	66,212,274		66,212,274
<b>Total expenses</b>	<b>66,212,274</b>		<b>66,212,274</b>
<b>Change in net assets</b>	<b>2,554,185</b>	<b>2,698,538</b>	<b>5,252,722</b>
Net assets, beginning of year as restated	5,384,230		5,384,230
<b>Net assets, ending of year</b>	<b>\$ 7,938,414</b>	<b>\$ 2,698,538</b>	<b>\$ 10,636,952</b>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2009

Cash Flows From Operating Activities	
Change in net assets	
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	
(Increase) decrease in accounts receivable	
(Increase) decrease in other assets	
Increase (decrease) in accounts payable	
Increase (decrease) in payroll taxes	
Increase ( decrease ) in interest payable	
Net Cash Provided (Used) by Operating Activities	8,089,835
Cash Flows From Investing Activities	
Purchase of fixed assets	(33,698,028)
Net Cash Provided (Used) by Investing Activities	(33,698,028)
Cash Flows From Financing Activities	
Proceeds from bonds and loans	12,467,897
Repayment of long-term debt	(620,438)
Net Cash Provided (Used) by Financing Activities	11,847,459
NET INCREASE ( DECREASE ) IN CASH	(13,760,734)
CASH AT BEGINNING OF YEAR	30,761,550
CASH AT END OF YEAR	<u>\$ 17,000,816</u>
Supplemental Disclosures:	
Cash Paid During the Year for:	
Interest	\$ 1,930,266

COSMOS FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

A. Organization:  
Cosmos Foundation, Inc. (HSA), a nonprofit organization, provides curricula for students in grades kindergarten through 12. The school was incorporated in the State of Texas in September 1999, under the Texas Non-Profit Corporation Act. The Internal Revenue Service determined that the organization was exempt from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3).  
Pursuant to its charter granted by the State Board of Education in accordance with Texas Education Code Section 12, Subchapter D, Open-Enrollment Charter School, the Organization operates as part of the state public school system subject to all federal and state laws and rules governing public schools. The Organization is also subject to all laws and rules pertaining to open-enrollment charter schools in section 12 of the Texas Education Code.

B. Summary of Significant Accounting Policies:

**BASIS OF PRESENTATION**

The Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, the Corporation is required to present a statement of cash flows.

**PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements include all of the agencies accounts. All significant intercompany balance and transactions have been eliminated.

**SUPPORT AND REVENUE**

Support and revenue are recorded based on the accrual method.

**CASH DONATIONS AND DONATED SERVICES**

Cash donations are considered to be available for unrestricted use unless specifically restricted by the donor. No amounts have been reflected in the financial statements for donated services since no objective basis is available to measure the value of such donations. Nevertheless, a substantial number of volunteers have donated their time in connection with the program service and administration of the organization.

**CONTRIBUTIONS**

In accordance with Statement of Financial Accounting Standards (SFAS) No. 116, "Accounting for Contributions Received and Contributions Made," contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

B. Summary of Significant Accounting Policies: (Continued)

**PROPERTY AND EQUIPMENT**

Property and equipment purchased by HSA are recorded at cost. Donations of property and equipment are recorded at their fair value at the date of the gift. All assets acquired with a value in excess of \$5,000 are recorded as fixed assets. Depreciation is provided on the straight-line method based upon estimated useful lives of ten years for equipment. Gains or losses on retired or on sale of property and equipment are reflected in income for the period. The proceeds from such sales which are not legally required or expected to be reinvested in property and equipment are transferred to unrestricted net assets.

**PLEDGES AND ACCOUNTS RECEIVABLE**

Contributions are recognized when the donor makes a promise to give to HSA which is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

No provision has been made for uncollectible promises to give and accounts receivable as of the statement of financial position date, given that none have been identified.

**FUNCTIONAL EXPENSES**

Expenses are charged to each program based on direct expenditures incurred. Functional expenses which cannot readily be related to a specific program are charged to the various programs based upon hours worked, square footage, number of program staff, or other reasonable methods for allocating the organization's multiple function expenditures.

**INCOME TAXES**

HSA qualifies as a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for income taxes.

**CASH AND CASH EQUIVALENTS**

For purpose of the statement of cash flows, cash and cash equivalents are comprised of cash on hand and in banks.

COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

B. Summary of Significant Accounting Policies: (Continued)

**ESTIMATES**

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

Pension Plan:

Plan Description

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

Funding Policy

Under provisions in State law, plan members are required to contribute 6.9% of their annual covered salary, and the State of Texas contributes an amount equal to 7.05% of the charter school's covered payroll. In certain instances, the reporting entity (school district, charter school, college, university, or state agency) is required to make all or a portion of the State's 6.0% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following funding policy: (1) The State constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a State contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize the System's unfunded actuarial liabilities would be increased to a period that exceeds 30 years by one or more years. State contributions to the System made on behalf of Cosmos Foundation, Inc. employees for the year ended August 31, 2009 were \$340,537 for Houston campus, \$105,276 for Austin campus, \$112,986 for San Antonio campus, \$292,772 for Houston Elementary campus, \$104,088 for El Paso campus, \$110,963 for Excellence campus, \$186,866 for Fort Worth campus, \$61,264 for College Station campus, \$68,157 for Beaumont campus, \$64,845 for Lubbock campus, \$65,029 for Waco campus, \$56,258 for Brownsville campus, \$70,226 for Harmony School of Science campus, \$37,743 for Laredo campus and \$88,024 for Austin Elementary campus.

Budget

The official school budget is prepared for adoption for required Governmental Fund Types. The annual budget is adopted on a basis consistent with generally accepted accounting principles and is formally adopted by the Board of Directors.

COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

**E. Operating Lease Commitment:**

HSA is currently leasing its office equipment and building on a non-cancelable operating lease.

HSA minimum annual lease commitment is as follows:

Year months ending August 31,	<u>Amount</u>
2010	\$ 8,967,070
2011	9,027,745
2012	7,757,850
2013	5,623,200
2014	3,541,723
Total	<u>\$ 34,917,588</u>

Operating lease expense amounted to \$7,607,154 for the year ended August 31, 2009.

**F. Notes Payable:**

HSA's obligations under notes payable consists of the following:

Note payable to a bank, secured by land and buildings. The note is dated August 5, 2009, and has a variable interest rate and a face amount of \$6,650,000. The date of maturity is December 3, 2009.

Note payable to a finance company, secured by land and buildings. The note is dated June 15, 2009, and has a 6.15% interest rate and a face amount of \$4,290,000. The date of maturity is May 15, 2039.

Note payable to a finance company, secured by land and buildings. The note is dated June 15, 2009, and has a 6.25% interest rate and a face amount of \$2,110,000. The date of maturity is May 15, 2039.

Total notes payable

Maturities of notes payable over the next five years are as follows:

<u>Year Ending August 31,</u>	<u>Amount</u>
2010	\$ 6,521,363
2011	503,681
2012	334,289
2013	5,079,082
Total	<u>\$ 12,438,415</u>

COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

**G. Capital Leases:**

HSA has acquired equipment under the provisions of twenty long-term leases. For financial reporting purposes, minimum lease payments to the equipment have been capitalized.

The first lease expires May 2010. The equipment under capital lease as of August 31, 2009 has a cost of \$39,980, accumulated amortization of \$27,656 and a net book value of \$12,324. Amortization of the equipment is included in depreciation expense.

The second lease expires July 2010. The equipment under capital lease as of August 31, 2009 has a cost of \$29,491, accumulated amortization of \$19,509 and a net book value of \$9,982. Amortization of the equipment is included in depreciation expense.

The third lease expires July 2010. The equipment under capital lease as of August 31, 2009 has a cost of \$35,710, accumulated amortization of \$22,509 and a net book value of \$13,210. Amortization of the equipment is included in depreciation expense.

The fourth lease expires July 2010. The equipment under capital lease as of August 31, 2009 has a cost of \$66,243, accumulated amortization of \$41,867 and a net book value of \$24,376. Amortization of the equipment is included in depreciation expense.

The fifth lease expires July 2010. The equipment under capital lease as of August 31, 2009 has a cost of \$20,584, accumulated amortization of \$12,970 and a net book value of \$7,614. Amortization of the equipment is included in depreciation expense.

The sixth lease expires August 2010. The equipment under capital lease as of August 31, 2009 has a cost of \$23,142, accumulated amortization of \$13,940 and a net book value of \$9,202. Amortization of the equipment is included in depreciation expense.

The seventh lease expires August 2010. The equipment under capital lease as of August 31, 2009 has a cost of \$12,560, accumulated amortization of \$7,536 and a net book value of \$5,024. Amortization of the equipment is included in depreciation expense.

The eighth lease expires August 2010. The equipment under capital lease as of August 31, 2009 has a cost of \$12,420, accumulated amortization of \$7,840 and a net book value of \$4,580. Amortization of the equipment is included in depreciation expense.

The ninth lease expires August 2010. The equipment under capital lease as of August 31, 2009 has a cost of \$12,810, accumulated amortization of \$6,984 and a net book value of \$5,826. Amortization of the equipment is included in depreciation expense.

The tenth lease expires August 2010. The equipment under capital lease as of August 31, 2009 has a cost of \$32,834, accumulated amortization of \$19,830 and a net book value of \$13,004. Amortization of the equipment is included in depreciation expense.

COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

G. Capital Leases: (Continued)

The eleventh lease expires August 2010. The equipment under capital lease as of August 31, 2009 has a cost of \$22,730, accumulated amortization of \$13,204 and a net book value of \$9,526. Amortization of the equipment is included in depreciation expense.

The twelfth lease expires August 2010. The equipment under capital lease as of August 31, 2009 has a cost of \$80,109, accumulated amortization of \$50,765 and a net book value of \$29,344. This lease is being paid on the agency's behalf by a charter school in Kansas City which has a support services agreement with Cosmos Foundation, Inc.; therefore a receivable from the charter school was also booked in the amount of \$29,344.

The thirteenth lease expires August 2010. The equipment under capital lease as of August 31, 2009 has a cost of \$84,991, accumulated amortization of \$54,194 and a net book value of \$30,797. This lease is being paid on the agency's behalf by a charter school in Kansas City which has a support services agreement with Cosmos Foundation, Inc.; therefore a receivable from the charter school was also booked in the amount of \$30,797.

The fourteenth lease expires August 2010. The equipment under capital lease as of August 31, 2009 has a cost of \$27,300, accumulated amortization of \$14,232 and a net book value of \$13,068. Amortization of the equipment is included in depreciation expense.

The fifteenth lease expires January 2013. The equipment under capital lease as of August 31, 2009 has a cost of \$41,600, accumulated amortization of \$11,509 and a net book value of \$30,091. Amortization of the equipment is included in depreciation expense.

The sixteenth lease expires February 2013. The equipment under capital lease as of August 31, 2009 has a cost of \$36,883, accumulated amortization of \$9,663 and a net book value of \$27,220. Amortization of the equipment is included in depreciation expense.

The seventeenth lease expires August 2011. The equipment under capital lease as of August 31, 2009 has a cost of \$20,667, accumulated amortization of \$7,049 and a net book value of \$13,628. Amortization of the equipment is included in depreciation expense.

The eighteenth lease expires August 2011. The equipment under capital lease as of August 31, 2009 has a cost of \$44,716, accumulated amortization of \$14,137 and a net book value of \$30,580. Amortization of the equipment is included in depreciation expense.

The nineteenth lease expires August 2011. The equipment under capital lease as of August 31, 2009 has a cost of \$29,422, accumulated amortization of \$2,989 and a net book value of \$26,433. Amortization of the equipment is included in depreciation expense.

The twentieth lease expires August 2010. The equipment under capital lease as of August 31, 2009 has a cost of \$61,506, accumulated amortization of \$43,316 and a net book value of \$18,190. Amortization of the equipment is included in depreciation expense.

COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

G. Capital Leases: (Continued)

The future minimum lease payments under capital lease together with their present value as of August 31, 2009 is as follows:

Total minimum lease payments	\$ 377,735
Less amount representing interest	(43,715)
Present value of net minimum lease payments	<u>\$ 334,020</u>

H. Bonds Payable:

HSA has secured bond financing pursuant to Chapter 53 of the Texas Education Code, \$28,860,000 of "Qualified Tax Exempt" Education Revenue Bonds, Series 2007A and \$1,135,000 Taxable Education Revenue Bonds, Series 2007B. The organization also has \$30,075,000 of "Qualified Tax Exempt" Education Revenue Bonds, Series 2008A and \$980,000 Taxable Educational Revenue Bonds, Series 2008B. The bonds are limited obligations of the issuer payable solely from revenues received by the issuer pursuant to a loan agreement between the issuer and the borrower. None of the state, the city, nor any political corporation, subdivision, or agency of the state is pledged to the payment of the principal of premium, or interest on the bonds.

Bonds payable at August 31, 2009 consist of the following:

2007A Bonds, 5.35% interest; principle and interest due in semi-annual installments, commencing August 15, 2008; Maturity dates range from 2011 to 2037.	\$ 28,860,000
2007B Bonds, 6.75% interest; principle and interest due in semi-annual installments, commencing August 15, 2008; Maturity dates range from 2008 to 2010.	405,000
2008A Bonds, 6.25% interest; principle and interest due in semi-annual installments, commencing February 15, 2007; Maturity dates range from 2013 to 2038.	30,075,000
2008B Bonds, 7.82% interest; principle and interest due in semi-annual installments, commencing February 15, 2007; Maturity dates range from 2010 to 2012.	<u>980,000</u>
Total	\$ 60,320,000
Less unamortized discount	(700,788)
Amount of bond net of discount	<u>\$ 59,619,212</u>



COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

H. Bonds Payable: (Continued)

Future maturities of long-term debt at August 31, 2009 are as follows:

Year ending August 31,	Amount
2010	\$ 705,000
2011	825,000
2012	880,000
2013	985,000
2014	1,035,000
Thereafter	\$ 53,890,000
Less unamortized discount	(700,788)
Amount of bond net of discount	\$ 59,619,212

HSA must maintain a debt service fund which is required to maintain a minimum balance of \$3,562,851. At August 31, 2009, the debt service fund had a balance of \$3,620,866. The debt service fund consist of \$2,620,866 in a debt service fund account and a grant from the Texas Credit Enhancement Program securing the additional debt service fund requirement in the amount of \$1,000,000.

I. Commitments and Contingencies:

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

J. Health Care Coverage:

During the year ended August 31, 2009, employees of HSA were covered by a group insurance plan. The school paid premiums up to \$300 for teachers, \$500 for assistant principals, \$700 for principals and central office administrators, \$900 for assistant superintendents, cluster superintendents, and superintendents, for each campus per month per employee (depending upon coverage selected) to the plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer.

COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

J. Prior Period Adjustment:

Net assets were restated at August 31, 2008 due to capitalization of bond interest and overstatements and understatement of accounts payable. The result of this change increased net assets by \$1,926,834 at August 31, 2008.

The charter school's adjustments are as follows:

Houston-Reclassification of Capital Interest and overstatement of liabilities	\$ 211,666
Harmony School of Innovation-Reclassification of Capital Interest and overstatement of liabilities	480,185
San Antonio-Reclassification of Capital Interest and overstatement of liabilities	405,277
Fort Worth-Reclassification of Capital Interest and overstatement of liabilities	243,855
Harmony School of Science-Reclassification of Capital Interest and overstatement of liabilities	11,009
Excellence-Reclassification of Capital Interest and overstatement of liabilities	213,726
Waco-Reclassification of Capital Interest	65,496
Lubbock-Reclassification of Capital Interest	75,847
Beaumont-Reclassification of Capital Interest	57,003
College Station-Reclassification of Capital Interest	123,626
School of Science Houston-Reclassification of Capital Interest	39,144
Net effect of the charter school's adjustments	\$1,926,834

K. Temporarily Restricted Net Assets:

Temporarily restricted net assets at August 31, 2009, are available for the following periods:

Periods after August 31, 2009	\$ 2,698,538
Total restricted funds	\$ 2,698,538

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

State Funds	\$ 56,222,148
Federal Funds	4,873,979
Total restrictions released	\$ 61,096,127

L. Certificate of Deposit:

HSA - El Paso has invested in a one-year certificate of deposit with an interest rate of 4.64% as of August 31, 2009. The certificate of deposit matures December 2009. Investments in certificate of deposit total \$313,948 at August 31, 2009.

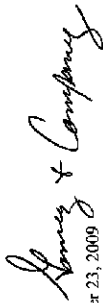
**GOMEZ & COMPANY**

CERTIFIED PUBLIC ACCOUNTANTS  
6750 W. LOOF SOUTH, SUITE 520  
HOUSTON, TEXAS 77401  
TEL: (713) 666-9900  
FAX: (713) 666-1049  
<http://www.gomezandco.com>

**INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION**

To The Board of Directors of  
Cosmos Foundation, Inc.  
Houston, Texas

Our report on our audit of the consolidated financial statement of Cosmos Foundation, Inc. (HSA) for year ended August 31, 2009 appears on page 1. The audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Financial Statements and Schedules for Individual Charter School are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

  
November 23, 2009

COSMOS FOUNDATION, INC.  
HOUSTON CAMPUS  
STATEMENT OF FINANCIAL POSITION  
AUGUST 31, 2009

ASSETS	
Assets:	
Cash	\$ 419,090
Receivables	442,019
Other receivables	290,514
Land	860,000
Buildings and improvements	5,318,006
Furniture and equipment	616,093
Accumulated depreciation	(1,193,658)
Other assets	234,785
Total assets	\$ 6,986,850

LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	\$ 155,505
Wages payable	300,915
Interest payable	11,054
Accrued liabilities	44,881
Notes payable	101,053
Capital leases payable	43,160
Bonds payable net of discount	4,828,318
Total liabilities	5,484,885
Net Assets:	
Unrestricted	1,333,824
Temporarily Restricted	168,141
Total net assets	1,501,965
Total liabilities and net assets	\$ 6,986,850

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
AUSTIN CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2009

<b>ASSETS</b>	
Assets:	
Cash	\$ (50,657)
Receivables	251,796
Other receivables	402,943
Buildings and improvements	522,586
Furniture and equipment	497,375
Accumulated depreciation	(87,375)
Other assets	98,300
<b>Total assets</b>	<b>\$ 1,634,968</b>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Accounts payable	\$ 596,916
Wages payable	198,780
Intercompany liabilities	250,000
Accrued liabilities	49,861
Payroll taxes payable	(2,487)
Notes payable	386,486
<b>Total liabilities</b>	<b>1,479,556</b>
<b>Net Assets:</b>	<b>155,412</b>
Unrestricted	155,412
<b>Total net assets</b>	<b>\$ 1,634,968</b>
<b>Total liabilities and net assets</b>	

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF INNOVATION

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2009

<b>ASSETS</b>	
Assets:	
Cash	\$ 5,660,094
Receivables	244,269
Intercompany receivables	81,645
Other receivables	191,133
Land	2,359,397
Buildings and improvements	16,037,064
Furniture and equipment	373,493
Accumulated depreciation	(601,107)
Other assets	368,793
<b>Total assets</b>	<b>\$ 24,714,781</b>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Accounts payable	\$ 316,569
Wages payable	141,919
Intercompany liabilities	604,002
Interest payable	41,621
Accrued liabilities	198,427
Notes payable	6,629,767
Capital leases payable	85,946
Bonds payable net of discount	15,268,034
<b>Total liabilities</b>	<b>23,286,284</b>
<b>Net Assets:</b>	<b>1,428,497</b>
Unrestricted	1,428,497
<b>Total net assets</b>	<b>\$ 24,714,781</b>
<b>Total liabilities and net assets</b>	

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
SAN ANTONIO CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2009

ASSETS	
Assets:	
Cash	\$ 944,568
Receivables	214,862
Intercompany receivables	669,842
Other receivables	4,952
Land	1,718,271
Buildings and improvements	7,778,520
Furniture and equipment	225,839
Accumulated depreciation	(269,591)
Other Assets	387,705
Total assets	<u>\$ 11,674,969</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 33,768
Wages payable	118,734
Interest payable	23,176
Accrued liabilities	50,900
Bonds payable net of discount	9,899,626
Total liabilities	<u>10,126,204</u>
Net Assets:	
Unrestricted	1,548,765
Total net assets	<u>1,548,765</u>
Total liabilities and net assets	<u>\$ 11,674,969</u>

See accompanying notes to financial statements.  
-18-

COSMOS FOUNDATION, INC.  
EL PASO CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2009

ASSETS	
Assets:	
Cash	\$ 1,767,031
Receivables	262,097
Intercompany receivables	454,231
Other receivables	1,496
Buildings and improvements	1,080,729
Furniture and equipment	216,172
Accumulated depreciation	(92,301)
Other assets	37,854
Total assets	<u>\$ 3,227,307</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 82,880
Wages payable	146,125
Accrued liabilities	34,157
Capital leases	24,376
Notes payable	1,093,278
Total liabilities	<u>1,380,816</u>
Net Assets:	
Unrestricted	1,800,382
Temporarily Restricted	46,109
Total net assets	<u>1,846,492</u>
Total liabilities and net assets	<u>\$ 3,227,307</u>

See accompanying notes to financial statements.  
-19-

COSMOS FOUNDATION, INC.  
FORT WORTH CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2009

<b>ASSETS</b>	
Assets:	
Cash	\$ 5,837,162
Receivables	451,393
Intercompany receivables	145,000
Other receivables	133,999
Land	1,542,339
Buildings and improvements	8,934,188
Furniture and equipment	837,795
Accumulated depreciation	(618,981)
Other assets	642,207
<b>Total assets</b>	<b>\$ 17,905,101</b>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Accounts payable	\$ 335,248
Wages payable	291,967
Interest payable	36,698
Intercompany liabilities	454,231
Accrued liabilities	75,407
Capital lease payable	13,628
Notes payable	2,781,771
Bonds payable net of discount	12,310,208
<b>Total liabilities</b>	<b>16,299,158</b>
<b>Net Assets:</b>	
Unrestricted	1,600,712
Temporarily restricted	5,231
<b>Total net assets</b>	<b>1,605,943</b>
<b>Total liabilities and net assets</b>	<b>\$ 17,905,101</b>

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF SCIENCE AUSTIN

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2009

<b>ASSETS</b>	
Assets:	
Cash	\$ 196,337
Receivables	123,785
Other receivables	3,707
Buildings and improvements	536,205
Furniture and equipment	79,404
Accumulated depreciation	(202,312)
Other assets	21,416
<b>Total assets</b>	<b>\$ 758,541</b>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Accounts payable	\$ 32,453
Wages payable	92,412
Interest payable	1,588
Accrued liabilities	32,091
Capital leases	12,324
Bonds payable net of discount	486,704
<b>Total liabilities</b>	<b>657,572</b>
<b>Net Assets:</b>	
Unrestricted	(31,796)
Temporarily restricted	124,764
<b>Total net assets</b>	<b>100,969</b>
<b>Total liabilities and net assets</b>	<b>\$ 758,541</b>

See accompanying notes to financial statements.  
-21-

COSMOS FOUNDATION, INC.  
HOUSTON EXCELLENCE CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2009

<b>ASSETS</b>	
Assets:	
Cash	\$ 898,492
Receivables	304,346
Other receivables	9,750
Land	3,085,000
Buildings and improvements	3,871,757
Furniture and equipment	601,878
Accumulated depreciation	(221,351)
Other assets	569,753
Total assets	<u>\$ 9,119,624</u>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Accounts payable	\$ 54,951
Wages payable	177,015
Interest payable	16,413
Intercompany liabilities	10,000
Accrued liabilities	32,675
Notes payable	1,446,060
Bond payable net of discount	6,533,275
Total liabilities	<u>8,270,389</u>
Net Assets:	
Unrestricted	827,897
Temporarily restricted	21,337
Total net assets	<u>849,235</u>
Total liabilities and net assets	<u>\$ 9,119,624</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
LUBBOCK CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2009

<b>ASSETS</b>	
Assets:	
Cash	\$ 171,894
Receivables	106,763
Other receivables	145,594
Land	60,893
Buildings and improvements	2,640,360
Furniture and equipment	68,828
Accumulated depreciation	(273,558)
Other assets	111,742
Total assets	<u>\$ 3,032,515</u>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Accounts payable	\$ 117,609
Wages payable	68,476
Interest payable	7,244
Accrued liabilities	6,989
Capital lease	18,729
Bonds payable net of discount	2,609,879
Total liabilities	<u>2,828,926</u>
Net Assets:	
Unrestricted	72,028
Temporarily restricted	131,561
Total net assets	<u>203,589</u>
Total liabilities and net assets	<u>\$ 3,032,515</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
BEAUMONT CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2009

<b>ASSETS</b>	
Assets:	
Cash	\$ 282,657
Receivables	116,243
Intercompany receivables	100,000
Other receivables	144,585
Buildings and improvements	1,240,980
Furniture and equipment	74,299
Accumulated depreciation	(641,271)
Other assets	51,103
<b>Total assets</b>	<b>\$ 1,368,596</b>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Accounts payable	\$ 14,011
Wages payable	70,566
Interest payable	2,601
Accrued liabilities	28,820
Capital leases	18,234
Bonds payable net of discount	1,302,692
<b>Total liabilities</b>	<b>1,436,923</b>
Net Assets:	
Unrestricted	(482,378)
Temporarily restricted	414,051
<b>Total net assets</b>	<b>(68,327)</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,368,596</b>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
COLLEGE STATION CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2009

<b>ASSETS</b>	
Assets:	
Cash	\$ 226,496
Receivables	75,749
Other receivables	978
Land	645,330
Buildings and improvements	2,040,287
Furniture and equipment	100,097
Accumulated depreciation	(297,790)
Other assets	177,725
<b>Total assets</b>	<b>\$ 2,968,871</b>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Accounts payable	\$ 24,547
Wages payable	46,369
Intercompany liabilities	250,000
Interest payable	6,502
Accrued liabilities	25,404
Capital lease	41,781
Bonds payable net of discount	3,037,353
<b>Total liabilities</b>	<b>3,431,957</b>
Net Assets:	
Unrestricted	(471,245)
Temporarily restricted	8,159
<b>Total net assets</b>	<b>(463,086)</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,968,871</b>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
WACO CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2009

<b>ASSETS</b>	
Assets:	
Cash	\$ 315,008
Receivables	109,142
Intercompany receivables	520,334
Other receivables	142,480
Buildings and improvements	1,809,065
Furniture and equipment	93,604
Accumulated depreciation	(698,671)
Other Assets	35,724
Total assets	<u>\$ 2,326,686</u>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Accounts payable	\$ 133,032
Wages payable	69,046
Interest payable	3,251
Accrued liabilities	26,688
Capital lease	45,262
Bonds payable net of discount	1,435,469
Total liabilities	<u>1,712,749</u>
Net Assets:	
Unrestricted	289,821
Temporarily restricted	324,116
Total net assets	<u>613,937</u>
Total liabilities and net assets	<u>\$ 2,326,686</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
BROWNSVILLE CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2009

<b>ASSETS</b>	
Assets:	
Cash	\$ 401,291
Receivables	120,784
Other receivables	451,119
Buildings and improvements	185,630
Accumulated depreciation	(4,194)
Other assets	24,000
Total assets	<u>\$ 1,178,629</u>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Accounts payable	\$ 105,269
Wages payable	57,268
Intercompany liabilities	550,000
Accrued liabilities	25,349
Total liabilities	<u>737,886</u>
Net Assets:	
Unrestricted	119,221
Temporarily restricted	321,523
Total net assets	<u>440,743</u>
Total liabilities and net assets	<u>\$ 1,178,629</u>

See accompanying notes to financial statements.



COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF SCIENCE HOUSTON

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2009

<b>ASSETS</b>	
Assets:	
Cash	\$ 94,374
Receivables	174,438
Other receivables	21,514
Buildings and improvements	2,046,035
Furniture and equipment	13,439
Accumulated depreciation	(216,099)
Other assets	158,983
Total assets	<u>\$ 2,292,683</u>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Accounts payable	\$ 139,141
Wages payable	91,754
Intercompany liabilities	12,821
Interest payable	5,646
Accrued liabilities	32,815
Bonds payable net of discount	1,907,655
Total liabilities	<u>2,189,831</u>
Net Assets:	
Unrestricted	(151,640)
Temporarily restricted	234,492
Total net assets	<u>102,852</u>
Total liabilities and net assets	<u>\$ 2,292,683</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
LAREDO CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2009

<b>ASSETS</b>	
Assets:	
Cash	\$ 336,982
Receivables	167,489
Intercompany receivables	160,000
Other receivables	250,163
Buildings and improvements	22,705
Furniture and equipment	44,716
Accumulated depreciation	(20,737)
Other assets	23,750
Total assets	<u>\$ 985,068</u>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Accounts payable	\$ 64,786
Wages payable	78,725
Accrued liabilities	41,013
Capital leases	30,580
Total liabilities	<u>215,104</u>
Net Assets:	
Unrestricted	(109,088)
Temporarily restricted	879,053
Total net assets	<u>769,965</u>
Total liabilities and net assets	<u>\$ 985,068</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
HOUSTON CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2009

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 780,434	\$	\$ 780,434
5750 Revenue from Curricular	293,640		293,640
Total Local Support	1,074,074		1,074,074
State Program Revenues		10,751,483	10,751,483
5810 Foundation School Program Act Revenues			
5820 State Program Revenues Distributed by Texas Education Agency		63,581	63,581
Total State Program Revenues		10,815,064	10,815,064
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		962,685	962,685
Total Federal Program Revenues		962,685	962,685
Net assets released from restrictions: Restrictions satisfied by payments	11,609,608	(11,609,608)	
Total Revenues	12,683,682	168,141	12,851,823
<b>EXPENSES</b>			
11 Instruction	6,195,121		6,195,121
12 Instructional Resources and Media Services	50,079		50,079
13 Curriculum Development and Instructional Staff Development	72,609		72,609
23 School Leadership	1,023,122		1,023,122
31 Guidance, Counseling, and Evaluation Services	96,750		96,750
33 Health Services	55,146		55,146
34 Student (Pupil) Transportation	52,700		52,700
35 Food Service	423,978		423,978
36 Cocurricular/Extracurricular Activities	246,110		246,110
41 General Administration	1,673,034		1,673,034
51 Plant Maintenance and Operations	2,184,757		2,184,757
52 Security and Monitoring Services	31,989		31,989
Total Expenses	12,105,394		12,105,394
Change in Net Assets	578,288	168,141	746,429
Net Assets, Beginning of Year as Restated	755,536		755,536
Net Assets, End of Year	\$ 1,333,824	\$ 168,141	\$ 1,501,965

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
AUSTIN CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2009

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 526,639	\$	\$ 526,639
5750 Revenue from Curricular	87,844		87,844
Total Local Support	614,483		614,483
State Program Revenues		3,175,852	3,175,852
5810 Foundation School Program Act Revenues			
5820 State Program Revenues Distributed by Texas Education Agency		15,135	15,135
Total State Program Revenues		3,190,987	3,190,987
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		201,069	201,069
Total Federal Program Revenues		201,069	201,069
Net assets released from restrictions: Restrictions satisfied by payments	3,392,056	(3,392,056)	
Total Revenues	4,006,539		4,006,539
<b>EXPENSES</b>			
11 Instruction	2,006,335		2,006,335
12 Instructional Resources and Media Services	10,556		10,556
13 Curriculum Development and Instructional Staff Development	18,096		18,096
23 School Leadership	430,619		430,619
31 Guidance, Counseling, and Evaluation Services	35,914		35,914
33 Health Services	120,493		120,493
35 Food Service	103,370		103,370
36 Cocurricular/Extracurricular Activities	418,710		418,710
41 General Administration	1,051,268		1,051,268
51 Plant Maintenance and Operations	8,953		8,953
52 Security and Monitoring Services	173		173
53 Data Processing Services	4,204,487		4,204,487
Total Expenses	4,204,487		4,204,487
Change in Net Assets	(197,947)		(197,947)
Net Assets, Beginning of Year as Restated	353,360		353,360
Net Assets, End of Year	\$ 155,412	\$	\$ 155,412

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF INNOVATION  
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2009

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 6,437,041	\$ 3,835,147	\$ 10,272,188
5750 Revenue from Curricular	139,764	19,246	159,010
Total Local Support	6,576,805	3,854,393	10,431,198
State Program Revenues:			
5810 Foundation School Program Act Revenues		3,835,147	3,835,147
5820 State Program Revenues Distributed by Texas Education Agency		19,246	19,246
Total State Program Revenues		3,854,393	3,854,393
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		396,680	396,680
Total Federal Program Revenues		396,680	396,680
Net assets released from restrictions: Restrictions satisfied by payments	4,251,073	(4,251,073)	
Total Revenues	10,827,878		10,827,878
<b>EXPENSES</b>			
11 Instruction	2,608,829		2,608,829
12 Instructional Resources and Media Services	110,290		110,290
13 Curriculum Development and Instructional			
Staff Development	40,718		40,718
21 Instructional Leadership	908,578		908,578
23 School Leadership	345,224		345,224
31 Guidance, Counseling, and Evaluation			
33 Health Services	805		805
35 Food Service	188,979		188,979
36 Co-curricular/Extracurricular Activities	87,552		87,552
41 General Administration	5,302,785		5,302,785
51 Plant Maintenance and Operations	852,671		852,671
52 Security and Monitoring Services	10,043		10,043
53 Data Processing Services	246,088		246,088
Total Expenses	10,702,562		10,702,562
Change in Net Assets	125,316		125,316
Net Assets, Beginning of Year as Restated	1,303,182		1,303,182
Net Assets, End of Year	\$ 1,428,498	\$	\$ 1,428,498

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
SAN ANTONIO CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2009

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 39,595	\$	\$ 39,595
5750 Revenue from Curricular	100,312		100,312
Total Local Support	139,907		139,907
State Program Revenues:			
5810 Foundation School Program Act Revenues		4,755,243	4,755,243
5820 State Program Revenues Distributed by Texas Education Agency		20,939	20,939
Total State Program Revenues		4,776,182	4,776,182
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		224,547	224,547
Total Federal Program Revenues		224,547	224,547
Net assets released from restrictions: Restrictions satisfied by payments	5,000,729	(5,000,729)	
Total Revenues	5,140,636		5,140,636
<b>EXPENSES</b>			
11 Instruction	2,854,689		2,854,689
13 Curriculum Development and Instructional			
Staff Development	36,347		36,347
23 School Leadership	280,478		280,478
31 Guidance, Counseling, and Evaluation	10,858		10,858
33 Health Services	41,826		41,826
35 Food Service	122,510		122,510
36 Co-curricular/Extracurricular Activities	83,341		83,341
41 General Administration	638,590		638,590
51 Plant Maintenance and Operations	535,802		535,802
52 Security and Monitoring Services	9,924		9,924
Total Expenses	4,614,365		4,614,365
Change in Net Assets	526,271		526,271
Net Asset, Beginning of Year as Restated	1,022,494		1,022,494
Net Assets, End of Year	\$ 1,548,765	\$	\$ 1,548,765

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
EL PASO CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2009

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
5740 Other Revenues from Local Sources	\$ 25,540	\$	\$ 25,540
5750 Food Service Sales	110,170		110,170
Total Local Support	135,710		135,710
State Program Revenues:			
5810 Foundation School Program Act Revenues		4,913,990	4,913,990
5820 State Program Revenues Distributed by Texas Education Agency		30,649	30,649
Total State Program Revenues		4,944,639	4,944,639
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		432,386	432,386
Total Federal Program Revenues		432,386	432,386
Net assets released from restrictions: Restrictions satisfied by payments	5,330,916	(5,330,916)	
Total Revenues	5,466,626	46,109	5,512,735
<b>EXPENSES</b>			
11 Instruction	2,353,177		2,353,177
12 Instructional Resources and Media Services	28,717		28,717
13 Curriculum Development and Instructional Staff Development	53,849		53,849
21 Instructional Leadership	36,187		36,187
23 School Leadership	307,874		307,874
33 Health Services	39,043		39,043
35 Food Service	152,705		152,705
36 Cocurricular/Extracurricular Activities	108,932		108,932
41 General Administration	639,570		639,570
51 Plant Maintenance and Operations	1,346,279		1,346,279
52 Security and Monitoring Services	14,234		14,234
Total Expenses	5,080,567		5,080,567
Change in Net Assets	386,059	46,109	432,169
Net Assets, Beginning of Year as Restated	1,414,323		1,414,323
Net Assets, End of Year	\$ 1,800,382	\$ 46,109	\$ 1,846,492

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
FORT WORTH CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2009

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 433,168	\$	\$ 433,168
5750 Revenue from Curricular	190,269		190,269
Total Local Support	623,437		623,437
State Program Revenues:			
5810 Foundation School Program Act Revenues		7,112,228	7,112,228
5820 State Program Revenues Distributed by Texas Education Agency		41,568	41,568
Total State Program Revenues		7,153,796	7,153,796
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		291,571	291,571
Total Federal Program Revenues		291,571	291,571
Net assets released from restrictions: Restrictions satisfied by payments	7,440,136	(7,440,136)	
Total Revenues	8,063,573	5,231	8,068,804
<b>EXPENSES</b>			
11 Instruction	3,912,293		3,912,293
12 Instructional Resources and Media Services	89,841		89,841
13 Curriculum Development and Instructional Staff Development	35,410		35,410
23 School Leadership	546,240		546,240
33 Health Services	20,304		20,304
35 Food Service	199,361		199,361
36 Cocurricular/Extracurricular Activities	146,958		146,958
41 General Administration	1,122,899		1,122,899
51 Plant Maintenance and Operations	1,587,658		1,587,658
52 Security and Monitoring Services	30,523		30,523
53 Data Processing Services	122		122
Total Expenses	7,691,609		7,691,609
Change in Net Assets	371,964	5,231	377,195
Net Assets, Beginning of Year as Restated	1,228,749		1,228,749
Net Assets, End of Year	\$ 1,600,712	\$ 5,231	\$ 1,605,943

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF SCIENCE AUSTIN  
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2009

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 77,310	\$	\$ 77,310
5750 Revenue from Curricular	114,012		114,012
Total Local Support	191,322		191,322
State Program Revenues			
5810 Foundation School Program Act Revenues		2,966,257	2,966,257
5820 State Program Revenues Distributed by			
Texas Education Agency		20,442	20,442
Total State Program Revenues		2,986,699	2,986,699
Federal Program Revenues:			
5920 Federal Revenues Distributed by			
Texas Education Agency		128,412	128,412
Total Federal Program Revenues		128,412	128,412
Net assets released from restrictions: Restrictions satisfied by payments	2,990,347	(2,990,347)	
Total Revenues	3,181,669	124,764	3,306,433
<b>EXPENSES</b>			
11 Instruction	1,601,284		1,601,284
12 Instructional Resources and Media Services	45,240		45,240
13 Curriculum Development and Instructional			
Staff Development	14,723		14,723
School Leadership	220,494		220,494
Health Services	21,153		21,153
Food Service	107,209		107,209
Cocurricular/Extracurricular Activities	90,896		90,896
General Administration	483,046		483,046
Plant Maintenance and Operations	731,498		731,498
Security and Monitoring Services	3,312		3,312
Total Expenses	3,318,854		3,318,854
Change in Net Assets	(137,185)	124,764	(12,421)
Net Assets, Beginning of Year as Restated	113,389		113,389
Net Assets, End of Year	(23,796)	\$ 124,764	\$ 100,969

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
HOUSTON EXCELLENCE CAMPUS  
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2009

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 146,316	\$	\$ 146,316
5750 Revenue from Curricular	147,620		147,620
Total Local Support	293,936		293,936
State Program Revenues			
5810 Foundation School Program Act Revenues		4,790,675	4,790,675
5820 State Program Revenues Distributed by			
Texas Education Agency		27,368	27,368
Total State Program Revenues		4,818,043	4,818,043
Federal Program Revenues:			
5920 Federal Revenues Distributed by			
Texas Education Agency		132,324	132,324
Total Federal Program Revenues		132,324	132,324
Net assets released from restrictions: Restrictions satisfied by payments	4,929,029	(4,929,029)	
Total Revenues	5,222,966	21,337	5,244,303
<b>EXPENSES</b>			
11 Instruction	2,356,076		2,356,076
12 Instructional Resources and Media Services	24,004		24,004
13 Curriculum Development and Instructional			
Staff Development	47,409		47,409
School Leadership	270,942		270,942
Health Services	41,727		41,727
Food Service	93,256		93,256
Cocurricular/Extracurricular Activities	94,829		94,829
General Administration	613,329		613,329
Plant Maintenance and Operations	1,249,027		1,249,027
Security and Monitoring Services	4,486		4,486
Total Expenses	4,795,085		4,795,085
Change in Net Assets	427,880	21,337	449,218
Net Assets, Beginning of Year as Restated	400,017		400,017
Net Assets, End of Year	\$ 827,897	\$ 21,337	\$ 849,235

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
LUBBOCK CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2009

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 442,503	\$	\$ 442,503
5750 Revenue from Curricular	25,235		25,235
Total Local Support	467,738		467,738
State Program Revenues:			
5810 Foundation School Program Act Revenues		2,081,164	2,081,164
5820 State Program Revenues Distributed by Texas Education Agency		19,270	19,270
Total State Program Revenues		2,100,434	2,100,434
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		238,022	238,022
Total Federal Program Revenues		238,022	238,022
Net assets released from restrictions:			
Restrictions satisfied by payments	2,206,895	(2,206,895)	
Total Revenues	2,674,632	131,561	2,806,194

<b>EXPENSES</b>			
11 Instruction	1,389,197		1,389,197
12 Instructional Resources and Media Services	1,300		1,300
13 Curriculum Development and Instructional Staff Development	31,794		31,794
23 School Leadership	218,855		218,855
33 Health Services	33,264		33,264
35 Food Service	122,673		122,673
36 Curricular/Extracurricular Activities	21,692		21,692
41 General Administration	314,469		314,469
51 Plant Maintenance and Operations	249,192		249,192
52 Security and Monitoring Services	1,420		1,420
Total Expenses	2,383,856		2,383,856
Change in Net Assets			
Net Assets, Beginning of Year as Restated	290,776	131,561	422,338
Net Assets, End of Year	(218,749)		(218,749)
	\$ 72,028	\$ 131,561	\$ 203,589

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
BEAUMONT CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2009

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 446,472	\$	\$ 446,472
5750 Revenue from Curricular	104,691		104,691
Total Local Support	551,163		551,163
State Program Revenues:			
5810 Foundation School Program Act Revenues		2,474,921	2,474,921
5820 State Program Revenues Distributed by Texas Education Agency		9,269	9,269
Total State Program Revenues		2,484,190	2,484,190
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		119,470	119,470
Total Federal Program Revenues		119,470	119,470
Net assets released from restrictions:			
Restrictions satisfied by payments	2,189,609	(2,189,609)	
Total Revenues	2,740,771	414,051	3,154,822

<b>EXPENSES</b>			
11 Instruction	1,352,824		1,352,824
12 Instructional Resources and Media Services	185		185
13 Curriculum Development and Instructional Staff Development	27,348		27,348
23 School Leadership	181,116		181,116
33 Health Services	621		621
35 Food Service	78,622		78,622
36 Curricular/Extracurricular Activities	40,960		40,960
41 General Administration	305,830		305,830
51 Plant Maintenance and Operations	703,390		703,390
52 Security and Monitoring Services	1,966		1,966
Total Expenses	2,692,861		2,692,861
Change in Net Assets			
Net Assets, Beginning of Year as Restated	47,910	414,051	461,961
Net Assets, End of Year	(530,288)		(530,288)
	\$ (482,378)	\$ 414,051	\$ (68,327)

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
COLLEGE STATION CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2009

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 131,515	\$	\$ 131,515
5750 Revenue from Curricular	77,393		77,393
Total Local Support	208,909		208,909
State Program Revenues:			
5810 Foundation School Program Act Revenues		1,659,294	1,659,294
5820 State Program Revenues Distributed by Texas Education Agency		16,798	16,798
Total State Program Revenues		1,676,092	1,676,092
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		88,551	88,551
Total Federal Program Revenues		88,551	88,551
Net assets released from restrictions: Restrictions satisfied by payments	1,756,484	(1,756,484)	
Total Revenues	1,965,392	8,159	1,973,551
<b>EXPENSES</b>			
11 Instruction	1,166,445		1,166,445
12 Instructional Resources and Media Services	(1,855)		(1,855)
13 Curriculum Development and Instructional Staff Development	21,041		21,041
23 School Leadership	278,329		278,329
33 Health Services	19,182		19,182
35 Food Service	94,501		94,501
36 Co-curricular/Extracurricular Activities	43,156		43,156
41 General Administration	299,731		299,731
51 Plant Maintenance and Operations	239,913		239,913
52 Security and Monitoring Services	2,019		2,019
Total Expenses	2,162,460		2,162,460
Change in Net Assets	(197,068)	8,159	(188,909)
Net Assets, Beginning of Year as Restated	(274,177)		(274,177)
Net Assets, End of Year	\$ (471,245)	\$ 8,159	\$ (463,086)

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
WACO CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2009

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 430,804	\$	\$ 430,804
5750 Revenue from Curricular	73,745		73,745
Total Local Support	504,549		504,549
State Program Revenues:			
5810 Foundation School Program Act Revenues		2,974,905	2,974,905
5820 State Program Revenues Distributed by Texas Education Agency		19,944	19,944
Total State Program Revenues		2,994,850	2,994,850
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		273,134	273,134
Total Federal Program Revenues		273,134	273,134
Net assets released from restrictions: Restrictions satisfied by payments	2,943,868	(2,943,868)	
Total Revenues	3,448,417	324,116	3,772,533
<b>EXPENSES</b>			
11 Instruction	1,363,873		1,363,873
12 Instructional Resources and Media Services	275		275
13 Curriculum Development and Instructional Staff Development	11,984		11,984
23 School Leadership	240,143		240,143
33 Health Services	2,767		2,767
35 Food Service	197,613		197,613
36 Co-curricular/Extracurricular Activities	42,979		42,979
41 General Administration	365,207		365,207
51 Plant Maintenance and Operations	901,305		901,305
52 Security and Monitoring Services	3,046		3,046
Total Expenses	3,129,192		3,129,192
Change in Net Assets	319,225	324,116	643,341
Net Assets, Beginning of Year as Restated	(29,405)		(29,405)
Net Assets, End of Year	\$ 289,821	\$ 324,116	\$ 613,937

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
BROWNSVILLE CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2009

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 275,872	\$	\$ 275,872
5750 Revenue from Curricular	81,391		81,391
Total Local Support	357,263		357,263
State Program Revenues:			
5810 Foundation School Program Act Revenues		1,937,919	1,937,919
5820 State Program Revenues Distributed by Texas Education Agency		9,165	9,165
Total State Program Revenues		1,947,084	1,947,084
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		507,356	507,356
Total Federal Program Revenues		507,356	507,356
Net assets released from restrictions: Restrictions satisfied by payments	2,132,917	(2,132,917)	
Total Revenues	2,490,180	321,523	2,811,703
<b>EXPENSES</b>			
11 Instruction	1,109,586		1,109,586
12 Instructional Resources and Media Services	10,024		10,024
13 Curriculum Development and Instructional Staff Development	35,594		35,594
23 School Leadership	252,147		252,147
33 Health Services	3,008		3,008
35 Food Service	81,447		81,447
36 Cocurricular/Extracurricular Activities	77,467		77,467
41 General Administration	386,681		386,681
51 Plant Maintenance and Operations	332,691		332,691
52 Security and Monitoring Services	3,354		3,354
Total Expenses	2,291,999		2,291,999
Change in Net Assets	198,181	321,523	519,704
Net Assets, Beginning of Year	(78,961)		(78,961)
Net Assets, End of Year	\$ 119,221	\$ 321,523	\$ 440,743

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF SCIENCE HOUSTON

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2009

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 331,659	\$	\$ 331,659
5750 Revenue from Curricular	118,896		118,896
Total Local Support	450,555		450,555
State Program Revenues:			
5810 Foundation School Program Act Revenues		2,520,406	2,520,406
Texas Education Agency		10,849	10,849
Total State Program Revenues		2,531,255	2,531,255
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		432,103	432,103
Total Federal Program Revenues		432,103	432,103
Net assets released from restrictions: Restrictions satisfied by payments	2,708,866	(2,708,866)	
Total Revenues	3,159,421	254,492	3,413,913
<b>EXPENSES</b>			
11 Instruction	1,596,078		1,596,078
12 Instructional Resources and Media Services	10,446		10,446
13 Curriculum Development and Instructional Staff Development	31,268		31,268
23 School Leadership	283,358		283,358
33 Health Services	2,976		2,976
35 Food Service	110,540		110,540
36 Cocurricular/Extracurricular Activities	94,567		94,567
41 General Administration	392,986		392,986
51 Plant Maintenance and Operations	775,104		775,104
52 Security and Monitoring Services	5,409		5,409
Total Expenses	3,302,731		3,302,731
Change in Net Assets	(143,310)	254,492	111,182
Net Assets, Beginning of Year as Restated	(8,330)		(8,330)
Net Assets, End of Year	\$ (151,640)	\$ 254,492	\$ 102,852

See accompanying notes to financial statements.



COSMOS FOUNDATION, INC.  
LAREDO CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2009

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 291,434	\$	\$ 291,434
5750 Revenue from Curricular	177,947		177,947
Total Local Support	469,380		469,380
State Program Revenues:			
5810 Foundation School Program Act Revenues		2,636,231	2,636,231
5820 State Program Revenues Distributed by Texas Education Agency		10,748	10,748
Total State Program Revenues		2,646,979	2,646,979
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		445,668	445,668
Total Federal Program Revenues		445,668	445,668
Net assets released from restrictions:			
Restrictions satisfied by payments	2,213,595	(2,213,595)	
Total Revenues	2,682,975	879,053	3,562,028
<b>EXPENSES</b>			
11 Instruction	1,252,130		1,252,130
12 Instructional Resources and Media Services	9,974		9,974
13 Curriculum Development and Instructional Staff Development	15,946		15,946
23 School Leadership	255,756		255,756
33 Health Services	2,319		2,319
35 Food Service	132,545		132,545
36 Curricular/Extra-curricular Activities	106,876		106,876
41 General Administration	334,035		334,035
51 Plant Maintenance and Operations	584,459		584,459
52 Security and Monitoring Services	1,373		1,373
81 Fund Raising	29,740		29,740
Total Expenses	2,725,152		2,725,152
Change in Net Assets	(42,177)	879,053	836,876
Net Assets, Beginning of Year	(66,912)		(66,912)
Net Assets, End of Year	\$ (109,089)	\$ 879,053	\$ 769,965

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
HOUSTON CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2009

Cash Flows From Operating Activities	\$ 746,429
Change in net assets	419,387
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	(106,675)
Depreciation	29,454
(Increase) decrease in accounts receivable	(238,816)
(Increase) decrease in intercompany receivable	(109,525)
(Increase) decrease in other assets	48,632
Increase (decrease) in accounts payable	(448,255)
Increase (decrease) in intercompany payable	(18,318)
Increase (decrease) wages payable	2,829
Increase (decrease) in accrued liabilities	(179)
Increase (decrease) in interest payable	
Net Cash Provided (Used) by Operating Activities	324,963
Cash Flows From Investing Activities	(396,282)
Purchase of fixed assets	(396,282)
Net Cash Provided (Used) by Investing Activities	
Cash Flows From Financing Activities	190,791
Proceeds from loans	(15,721)
Repayment of long-term debt	
Net Cash Provided (Used) by Financing Activities	175,070
NET INCREASE (DECREASE) IN CASH	103,751
CASH AT BEGINNING OF YEAR	315,339
CASH AT END OF YEAR	\$ 419,090
Supplemental Disclosures:	
Cash Paid During the Year for:	
Interest	\$ (270,186)

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
AUSTIN CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2009

Cash Flows From Operating Activities	
Change in net assets	\$ (197,947)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	42,461
(Increase) decrease in accounts receivable	(134,972)
(Increase) decrease in intercompany receivable	6,080
(Increase) decrease in other receivables	(392,144)
(Increase) decrease in other assets	56,833
Increase (decrease) in accounts payable	566,679
Increase (decrease) in intercompany payable	225,562
Increase (decrease) in wages payable	102,090
Increase (decrease) in accrued liabilities	38,255
Increase (decrease) in interest payable	(5,992)
Net Cash Provided (Used) by Operating Activities	<u>306,898</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	(812,630)
Net Cash Provided (Used) by Investing Activities	<u>(812,630)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	386,486
Repayment of long-term debt	(2,065,945)
Net Cash Provided (Used) by Financing Activities	<u>(1,679,459)</u>
NET INCREASE ( DECREASE ) IN CASH	<u>(2,185,191)</u>
CASH AT BEGINNING OF YEAR	<u>2,134,534</u>
CASH AT END OF YEAR	<u>\$ (50,657)</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF INNOVATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2009

Cash Flows From Operating Activities	
Change in net assets	\$ 124,316
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	319,879
(Increase) decrease in accounts receivable	268,978
(Increase) decrease in intercompany receivable	(82,193)
(Increase) decrease in other assets	620,473
Increase (decrease) in accounts payable	(19,004)
Increase (decrease) in intercompany payable	463,824
Increase (decrease) in payroll taxes	813
Increase ( decrease ) in interest payable	<u>19,372</u>
Net Cash Provided (Used) by Operating Activities	<u>1,717,458</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(17,033,855)
Net Cash Provided (Used) by Investing Activities	<u>(17,033,855)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	12,097,925
Repayment of long-term debt	(86,294)
Net Cash Provided (Used) by Financing Activities	<u>12,011,631</u>
NET INCREASE ( DECREASE ) IN CASH	<u>(3,304,766)</u>
CASH AT BEGINNING OF YEAR	<u>8,964,860</u>
CASH AT END OF YEAR	<u>\$ 5,660,094</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	\$ 508,057

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
SAN ANTONIO CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2009

Cash Flows From Operating Activities	
Change in net assets	\$ 526,271
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	227,036
(Increase) decrease in accounts receivable	(38,373)
(Increase) decrease in intercompany receivable	(172,116)
(Increase) decrease in other receivables	(2,331)
(Increase) decrease in other assets	291,388
Increase (decrease) in accounts payable	(295,515)
Increase (decrease) in wages payable	43,212
Increase (decrease) in intercompany payable	(30,861)
Increase (decrease) in accrued liabilities	(48)
Increase ( decrease ) in interest payable	(1,941)
Net Cash Provided (Used) by Operating Activities	<u>546,922</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(976,708)
Net Cash Provided (Used) by Investing Activities	<u>(976,708)</u>
Cash Flows From Financing Activities	
Repayment of long-term debt	(207,412)
Net Cash Provided (Used) by Financing Activities	<u>(207,412)</u>
NET INCREASE (DECREASE) IN CASH	(637,198)
CASH AT BEGINNING OF YEAR	1,581,766
CASH AT END OF YEAR	<u>\$ 944,568</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	\$ 518,022

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
EL PASO CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2009

Cash Flows From Operating Activities	
Change in net assets	\$ 432,169
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	42,141
(Increase) decrease in accounts receivable	(11,545)
(Increase) decrease in intercompany receivable	277,488
(Increase) decrease in other receivables	15,021
(Increase) decrease in other assets	34,304
Increase (decrease) in accounts payable	53,612
Increase (decrease) in wages payable	60,791
Increase (decrease) in accrued liabilities	24,192
Increase ( decrease ) in interest payable	3,176
Net Cash Provided (Used) by Operating Activities	<u>931,349</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(1,066,565)
Net Cash Provided (Used) by Investing Activities	<u>(1,066,565)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	1,093,278
Repayment of long-term debt	(1,084,679)
Net Cash Provided (Used) by Financing Activities	<u>8,599</u>
NET INCREASE (DECREASE) IN CASH	(126,617)
CASH AT BEGINNING OF YEAR	1,393,648
CASH AT END OF YEAR	<u>\$ 1,267,031</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	\$ 4,884

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
FORT WORTH CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2009

Cash Flows From Operating Activities	
Change in net assets	\$ 377,195
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	241,550
(Increase) decrease in accounts receivable	(190,988)
(Increase) decrease in intercompany receivable	509,864
(Increase) decrease in other receivables	459,649
(Increase) decrease in other assets	(642,207)
Increase (decrease) in accounts payable	3,335
Increase (decrease) in wages payable	143,442
Increase (decrease) in intercompany payable	449,721
Increase (decrease) in accrued liabilities	23,141
Increase ( decrease ) in interest payable	3,529
Net Cash Provided (Used) by Operating Activities	<u>1,378,231</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	<u>(7,962,547)</u>
Net Cash Provided (Used) by Investing Activities	<u>(7,962,547)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	3,988,834
Repayment of Long-Term Debt	<u>(7,049)</u>
Net Cash Provided (Used) by Financing Activities	<u>3,981,785</u>
NET INCREASE ( DECREASE ) IN CASH	<u>(2,602,531)</u>
CASH AT BEGINNING OF YEAR	<u>8,439,693</u>
CASH AT END OF YEAR	<u>\$ 5,837,162</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	\$ 44,687

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF SCIENCE AUSTIN

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2009

Cash Flows From Operating Activities	
Change in net assets	\$ (12,421)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	123,725
(Increase) decrease in accounts receivable	30,549
(Increase) decrease in other receivable	82,346
(Increase) decrease in intercompany receivables	11,178
(Increase) decrease in other assets	(18,612)
Increase (decrease) in accounts payable	(156,809)
Increase (decrease) in intercompany payable	(25,912)
Increase (decrease) in wages payable	11,002
Increase (decrease) in accrued liabilities	14,437
Net Cash Provided (Used) by Operating Activities	<u>59,483</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	<u>(9,553)</u>
Net Cash Provided (Used) by Investing Activities	<u>(9,553)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	14,263
Repayment of Long-Term Debt	<u>(12,417)</u>
Net Cash Provided (Used) by Financing Activities	<u>1,846</u>
NET INCREASE ( DECREASE ) IN CASH	<u>51,776</u>
CASH AT BEGINNING OF YEAR	<u>144,561</u>
CASH AT END OF YEAR	<u>\$ 196,337</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	\$ 19,773

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
HOUSTON EXCELLENCE CAMPUS  
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2009

Cash Flows From Operating Activities	
Change in net assets	\$ 449,218
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	158,432
(Increase) decrease in accounts receivable	(141,118)
(Increase) decrease in other receivables	29,998
(Increase) decrease in other assets	9,856
Increase (decrease) in accounts payable	89,964
Increase (decrease) in intercompany payable	(57,414)
Increase ( decrease ) in interest payable	(17,462)
Net Cash Provided (Used) by Operating Activities	<u>521,474</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(3,514,756)
Net Cash Provided (Used) by Investing Activities	<u>(3,514,756)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	1,422,685
Repayment of Long-Term Debt	(4,852,984)
Net Cash Provided (Used) by Financing Activities	<u>(3,430,299)</u>
NET INCREASE ( DECREASE ) IN CASH	(6,423,581)
CASH AT BEGINNING OF YEAR	7,322,073
CASH AT END OF YEAR	<u>\$ 898,492</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	<u>\$ 47,617</u>

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
LUBBOCK CAMPUS  
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2009

Cash Flows From Operating Activities	
Change in net assets	\$ 422,338
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	108,579
(Increase) decrease in accounts receivable	16,770
(Increase) decrease in other assets	(156,107)
Increase (decrease) in accounts payable	77,398
Increase (decrease) in intercompany payable	(198,566)
Increase ( decrease ) in interest payable	(1,733)
Net Cash Provided (Used) by Operating Activities	<u>268,679</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(715,894)
Net Cash Provided (Used) by Investing Activities	<u>(715,894)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	565,241
Repayment of Long-Term Debt	(13,923)
Net Cash Provided (Used) by Financing Activities	<u>551,318</u>
NET INCREASE ( DECREASE ) IN CASH	104,103
CASH AT THE BEGINNING OF THE YEAR	67,791
CASH AT END OF YEAR	<u>\$ 171,894</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	<u>\$ 114,181</u>

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
BEAUMONT CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2009

Cash Flows From Operating Activities	
Change in net assets	\$ 461,961
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	265,470
(Increase) decrease in accounts receivable	11,147
(Increase) decrease in other receivables	(143,217)
(Increase) decrease in intercompany receivables	(100,000)
(Increase) decrease in other assets	(31,045)
Increase (decrease) in accounts payable	(18,857)
Increase (decrease) in wages payable	17,128
Increase (decrease) in intercompany payable	(227,684)
Increase (decrease) in accrued liabilities	7,531
Increase ( decrease ) in interest payable	(42)
Net Cash Provided (Used) by Operating Activities	<u>242,392</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(21,240)
Net Cash Provided (Used) by Investing Activities	<u>(21,240)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	25,382
Repayment of Long-Term Debt	(14,621)
Net Cash Provided (Used) by Financing Activities	<u>10,761</u>
NET INCREASE (DECREASE) IN CASH	231,913
CASH AT THE BEGINNING OF THE YEAR	50,744
CASH AT END OF YEAR	<u>\$ 282,657</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	<u>\$ 72,896</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
COLLEGE STATION CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2009

Cash Flows From Operating Activities	
Change in net assets	\$ (183,909)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	127,544
(Increase) decrease in accounts receivable	68,270
(Increase) decrease in other receivables	(570)
(Increase) decrease in other assets	(113,372)
(Increase) decrease in intercompany receivable	44,640
Increase (decrease) in accounts payable	19,227
Increase (decrease) in wages payable	1,460
Increase (decrease) in intercompany payable	14,505
Increase (decrease) in accrued liabilities	393
Increase ( decrease ) in interest payable	(106)
Net Cash Provided (Used) by Operating Activities	<u>(26,918)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	114,800
Repayment of Long-Term Debt	(19,603)
Net Cash Provided (Used) by Financing Activities	<u>95,197</u>
NET INCREASE ( DECREASE ) IN CASH	68,279
CASH AT THE BEGINNING OF YEAR	158,217
CASH AT END OF YEAR	<u>\$ 226,496</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	<u>\$ 158,825</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
WACO CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2009

Cash Flows From Operating Activities	
Change in net assets	\$ 643,341
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	307,446
(Increase) decrease in accounts receivable	38,709
(Increase) decrease in other receivables	(142,480)
(Increase) decrease in intercompany receivables	(520,334)
(Increase) decrease in other assets	(19,845)
Increase (decrease) in accounts payable	126,520
Increase (decrease) in wages payable	27,233
Increase (decrease) in intercompany payable	(64,076)
Increase (decrease) in accrued liabilities	7,883
Increase ( decrease ) in interest payable	(53)
Net Cash Provided (Used) by Operating Activities	<u>404,344</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(413,038)
Net Cash Provided (Used) by Investing Activities	<u>(413,038)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	21,660
Net Cash Provided (Used) by Financing Activities	<u>21,660</u>
NET INCREASE (DECREASE) IN CASH	12,966
CASH AT THE BEGINNING OF THE YEAR	302,042
CASH AT END OF YEAR	<u>\$ 315,008</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	<u>\$ 84,265</u>

See accompanying notes to financial statements. -56-

COSMOS FOUNDATION, INC.  
BROWNSVILLE CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2009

Cash Flows From Operating Activities	
Change in net assets	\$ 519,704
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	4,194
(Increase) decrease in accounts receivable	51,716
(Increase) decrease in other receivables	(233,892)
Increase (decrease) in accounts payable	59,154
Increase (decrease) in wages payable	19,880
Increase (decrease) in intercompany payable	275,940
Increase (decrease) in accrued liabilities	<u>10,938</u>
Net Cash Provided (Used) by Operating Activities	<u>707,634</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(185,630)
Net Cash Provided (Used) by Investing Activities	<u>(185,630)</u>
NET INCREASE ( DECREASE ) IN CASH	522,004
CASH AT THE BEGINNING OF YEAR	(120,713)
CASH AT END OF YEAR	<u>\$ 401,291</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	<u>\$ 8,883</u>

See accompanying notes to financial statements. -57-

COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF SCIENCE HOUSTON

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2009

Cash Flows From Operating Activities	
Change in net assets	\$ 111,182
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	216,099
(Increase) decrease in accounts receivable	(17,036)
(Increase) decrease in other receivable	(21,384)
(Increase) decrease in other assets	(15,730)
Increase (decrease) in accounts payable	(188,800)
Increase (decrease) in wages payable	42,029
Increase (decrease) in intercompany payable	(125,583)
Increase (decrease) in other liabilities	16,149
Increase ( decrease ) in interest payable	2,470
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>19,296</b>
Cash Flows From Investing Activities	
Purchase of fixed assets	(884,424)
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>(884,424)</b>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	845,164
<b>Net Cash Provided (Used) by Financing Activities</b>	<b>845,164</b>
<b>NET INCREASE ( DECREASE ) IN CASH</b>	<b>(19,864)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>114,238</b>
<b>CASH AT END OF YEAR</b>	<b>\$ 94,374</b>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	\$ 70,347

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
LAREDO CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2009

Cash Flows From Operating Activities	
Change in net assets	\$ 836,876
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	16,480
(Increase) decrease in accounts receivable	28,802
(Increase) decrease in intercompany receivable	(160,000)
(Increase) decrease in other receivable	(250,098)
Increase (decrease) in accounts payable	56,851
Increase (decrease) in wages payable	32,426
Increase (decrease) in intercompany payable	(106,000)
Increase (decrease) in other liabilities	25,728
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>481,065</b>
Cash Flows From Investing Activities	
Purchase of fixed assets	(22,705)
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>(22,705)</b>
Cash Flows From Financing Activities	
Repayment of long-term debt	(14,136)
<b>Net Cash Provided (Used) by Financing Activities</b>	<b>(14,136)</b>
<b>NET INCREASE ( DECREASE ) IN CASH</b>	<b>444,224</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>(107,242)</b>
<b>CASH AT END OF YEAR</b>	<b>\$ 336,982</b>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	\$ 7,644

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
HOUSTON CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2009

<b>Expenses</b>	
6100 Payroll Costs	\$ 6,525,290
6200 Professional and Contracted Services	3,688,316
6300 Supplies and Materials	769,756
6400 Other Operating Costs	810,172
6500 Debt	311,860
<b>Total Expenses</b>	<b>\$ 12,105,394</b>

COSMOS FOUNDATION, INC.  
AUSTIN CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2009

<b>Expenses</b>	
6100 Payroll Costs	\$ 2,131,928
6200 Professional and Contracted Services	1,541,790
6300 Supplies and Materials	381,885
6400 Other Operating Costs	148,884
<b>Total Expenses</b>	<b>\$ 4,204,487</b>

See accompanying notes to financial statements.

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See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF INNOVATION  
SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2009

<b>Expenses</b>	
6100 Payroll Costs	\$ 5,604,229
6200 Professional and Contracted Services	1,741,564
6300 Supplies and Materials	710,498
6400 Other Operating Costs	2,053,698
6500 Debt	592,574
Total Expenses	<u>\$ 10,702,562</u>

COSMOS FOUNDATION, INC.  
SAN ANTONIO CAMPUS  
SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2009

<b>Expenses</b>	
6100 Payroll Costs	\$ 2,206,952
6200 Professional and Contracted Services	975,582
6300 Supplies and Materials	488,590
6400 Other Operating Costs	352,283
6500 Debt	590,958
Total Expenses	<u>\$ 4,614,365</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
EL PASO CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2009

<b>Expenses</b>	
6100 Payroll Costs	\$ 2,114,686
6200 Professional and Contracted Services	2,148,290
6300 Supplies and Materials	509,235
6400 Other Operating Costs	303,473
6500 Debt	4,884
Total Expenses	<u>\$ 5,080,567</u>

COSMOS FOUNDATION, INC.  
FORT WORTH CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2009

<b>Expenses</b>	
6100 Payroll Costs	\$ 3,738,839
6200 Professional and Contracted Services	2,426,596
6300 Supplies and Materials	747,791
6400 Other Operating Costs	670,629
6500 Debt	107,754
Total Expenses	<u>\$ 7,691,609</u>

See accompanying notes to financial statements.  
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See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF SCIENCE AUSTIN

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2009

<b>Expenses</b>	
6100 Payroll Costs	\$ 1,722,064
6200 Professional and Contracted Services	1,098,898
6300 Supplies and Materials	242,971
6400 Other Operating Costs	232,171
6500 Debt	22,750
Total Expenses	<u>\$ 3,318,854</u>

COSMOS FOUNDATION, INC.  
HOUSTON EXCELLENCE CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2009

<b>Expenses</b>	
6100 Payroll Costs	\$ 2,262,155
6200 Professional and Contracted Services	1,772,632
6300 Supplies and Materials	317,989
6400 Other Operating Costs	326,684
6500 Debt	115,625
Total Expenses	<u>\$ 4,795,085</u>

See accompanying notes to financial statements.  
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See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
LUBBOCK CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2009

<b>Expenses</b>	
6100 Payroll Costs	\$ 1,280,826
6200 Professional and Contracted Services	508,309
6300 Supplies and Materials	237,012
6400 Other Operating Costs	224,665
6500 Debt	<u>133,045</u>
Total Expenses	<u>\$ 2,383,856</u>

COSMOS FOUNDATION, INC.  
BEAUMONT CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2009

<b>Expenses</b>	
6100 Payroll Costs	\$ 1,331,475
6200 Professional and Contracted Services	804,593
6300 Supplies and Materials	148,234
6400 Other Operating Costs	323,742
6500 Debt	<u>84,817</u>
Total Expenses	<u>\$ 2,692,861</u>

See accompanying notes to financial statements.

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See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
COLLEGE STATION CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2009

<b>Expenses</b>	
6100 Payroll Costs	\$ 1,198,103
6200 Professional and Contracted Services	393,976
6300 Supplies and Materials	134,516
6400 Other Operating Costs	238,795
6500 Debt	197,071
Total Expenses	<u>\$ 2,162,460</u>

COSMOS FOUNDATION, INC.  
WACO CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2009

<b>Expenses</b>	
6100 Payroll Costs	\$ 1,254,009
6200 Professional and Contracted Services	1,095,538
6300 Supplies and Materials	251,686
6400 Other Operating Costs	434,257
6500 Debt	93,702
Total Expenses	<u>\$ 3,129,192</u>

See accompanying notes to financial statements.  
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See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
BROWNSVILLE CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2009

<b>Expenses</b>	
6100 Payroll Costs	\$ 1,154,225
6200 Professional and Contracted Services	734,121
6300 Supplies and Materials	277,237
6400 Other Operating Costs	117,533
6500 Debt	<u>8,883</u>
Total Expenses	\$ <u>2,291,999</u>

COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF SCIENCE HOUSTON

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2009

<b>Expenses</b>	
6100 Payroll Costs	\$ 1,419,061
6200 Professional and Contracted Services	1,074,527
6300 Supplies and Materials	450,543
6400 Other Operating Costs	277,670
6500 Debt	<u>80,931</u>
Total Expenses	\$ <u>3,302,731</u>

See accompanying notes to financial statements.  
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See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
LAREDO CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2009

<b>Expenses</b>	
6100 Payroll Costs	\$ 1,171,982
6200 Professional and Contracted Services	1,099,799
6300 Supplies and Materials	325,866
6400 Other Operating Costs	119,860
6500 Debt	7,644
Total Expenses	<u>\$ 2,725,152</u>

COSMOS FOUNDATION, INC.  
HOUSTON CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2009

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 419,090	\$ 0
1510 Land and Improvements	0	860,000	0
1520 Buildings and Improvements	0	5,318,006	0
1539 Furniture and Equipment	0	616,093	0
Total Property and Equipment	<u>\$ 0</u>	<u>\$ 7,213,189</u>	<u>\$ 0</u>

See accompanying notes to financial statements.  
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See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
AUSTIN CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2009

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ (50,657)	\$ 0
1520 Buildings and Improvements:	0	522,586	0
1539 Furniture and Equipment	0	490,242	7,133
Total Property and Equipment	\$ 0	\$ 962,171	\$ 7,133

COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF INNOVATION

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2009

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 5,660,094	\$ 0
1510 Land and Improvements	0	2,359,397	0
1520 Buildings and Improvements:	0	16,037,064	0
1539 Furniture and Equipment	0	371,493	2,000
Total Property and Equipment	\$ 0	\$ 24,428,049	\$ 2,000

See accompanying notes to financial statements.  
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See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
SAN ANTONIO CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2009

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 944,569	\$ 0
1510 Land and Improvements	0	1,718,271	0
1520 Buildings and Improvements	0	7,778,520	0
1539 Furniture and Equipment	0	218,753	7,086
Total Property and Equipment	<u>0</u>	<u>\$10,660,113</u>	<u>\$ 7,086</u>

COSMOS FOUNDATION, INC.  
EL PASO CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2009

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 1,267,031	\$ 0
1520 Buildings and Improvements:	0	1,043,079	37,650
1539 Furniture and Equipment	0	192,335	23,837
Total Property and Equipment	<u>0</u>	<u>\$ 2,502,445</u>	<u>\$ 61,487</u>

See accompanying notes to financial statements.  
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See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
FORT WORTH CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2009

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 5,837,162	\$ 0
1510 Land and Improvements:	0	1,542,339	0
1520 Buildings and Improvements	0	8,934,188	0
1539 Furniture and Equipment	0	831,134	6,661
<b>Total Property and Equipment</b>	<b>0</b>	<b>\$17,144,822</b>	<b>\$ 6,661</b>

COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF SCIENCE AUSTIN

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2009

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 196,337	\$ 0
1520 Buildings and Improvements	0	536,205	0
1539 Furniture and Equipment	0	72,459	6,945
<b>Total Property and Equipment</b>	<b>0</b>	<b>\$ 805,001</b>	<b>\$ 6,945</b>

See accompanying notes to financial statements.  
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See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
HOUSTON EXCELLENCE CAMPUS  
SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2009

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 898,492	\$ 0
1510 Land	0	3,085,000	0
1520 Buildings and Improvements	0	3,871,757	0
1539 Furniture and Equipment	0	590,236	11,652
Total Property and Equipment	<u>\$ 0</u>	<u>\$ 8,445,474</u>	<u>\$ 11,652</u>

COSMOS FOUNDATION, INC.  
LUBBOCK CAMPUS  
SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2009

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 171,894	\$ 0
1510 Land	0	60,893	0
1520 Buildings and Improvements	0	2,640,361	0
1539 Furniture and Equipment	0	68,828	0
Total Property and Equipment	<u>\$ 0</u>	<u>\$ 2,941,977</u>	<u>\$ 0</u>

See accompanying notes to financial statements.  
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See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
BEAUMONT CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2009

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 282,657	\$ 0
1520 Buildings and Improvements	0	1,240,980	0
1539 Furniture and Equipment	0	74,299	0
Total Property and Equipment	<u>0</u>	<u>\$ 1,597,936</u>	<u>\$ 0</u>

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
COLLEGE STATION CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2009

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 226,497	\$ 0
1510 Land	0	645,330	0
1520 Buildings and Improvements	0	2,040,287	0
1539 Furniture and Equipment	0	85,748	14,349
Total Property and Equipment	<u>0</u>	<u>\$ 2,997,861</u>	<u>\$ 14,349</u>

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
WACO CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2009

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 315,008	\$ 0
1520 Buildings and Improvements	0	1,809,065	0
1539 Furniture and Equipment	0	76,875	16,729
Total Property and Equipment	<u>0</u>	<u>\$ 2,200,948</u>	<u>\$ 16,729</u>

COSMOS FOUNDATION, INC.  
BROWNSVILLE CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2009

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 401,291	\$ 0
1520 Buildings and Improvements	0	185,630	0
Total Property and Equipment	<u>0</u>	<u>\$ 586,921</u>	<u>\$ 0</u>

See accompanying notes to financial statements.  
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See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF SCIENCE HOUSTON

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2009

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 94,374	\$ 0
1520 Buildings and Improvements	0	2,046,035	0
1539 Furniture and Equipment	0	13,439	0
Total Property and Equipment	<u>0</u>	<u>\$ 2,153,848</u>	<u>\$ 0</u>

COSMOS FOUNDATION, INC.  
LAREDO CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2009

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 336,982	\$ 0
1520 Buildings and Improvements	0	22,705	0
1539 Furniture and Equipment	0	44,716	0
Total Property and Equipment	<u>0</u>	<u>\$ 404,403</u>	<u>\$ 0</u>

See accompanying notes to financial statements.  
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See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
HOUSTON CAMPUS

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2009

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 200,000	\$ 503,000	\$ 780,434	\$ 277,434
5750 Food Service Sales	152,500	299,000	293,640	(5,360)
Total Local Support	352,500	802,000	1,074,074	272,074
State Program Revenues:				
5810 Foundation School Program Act Revenues	11,080,931	11,526,517	10,751,483	(775,034)
5820 State Program Revenues Distributed by				
Texas Education Agency	43,285	64,343	63,581	(762)
Total State Program Revenues	11,124,216	11,590,860	10,815,064	(775,796)
Federal Program Revenues:				
5920 Federal Revenues Distributed by				
Texas Education Agency	934,547	1,022,047	962,685	(59,362)
Total Federal Program Revenues	934,547	1,022,047	962,685	(59,362)
Total Revenues	12,411,263	13,414,907	12,851,823	(563,084)
<b>EXPENSES</b>				
11 Instruction	6,506,510	6,538,061	6,195,121	342,940
12 Instructional Resources and Media Services	69,404	50,904	50,079	825
13 Curriculum Development and Instructional Staff Development	91,242	77,742	72,609	5,133
23 School Leadership	1,086,319	1,043,319	1,023,122	20,197
31 Guidance, Counseling, and Evaluation Services	103,788	104,788	96,750	8,038
33 Health Services	117,983	59,351	55,146	4,205
34 Student (Pupil) Transportation	45,000	57,500	52,700	4,800
35 Food Service	442,500	442,500	423,978	18,522
36 Co-curricular/Extracurricular Activities		183,000	246,110	(63,110)
41 General Administration	1,583,094	1,761,594	1,673,034	88,560
51 Plant Maintenance and Operations	1,766,348	2,216,348	2,184,757	31,591
52 Security and Monitoring Services	7,626	34,626	31,989	2,637
Total Expenses	11,819,814	12,569,733	12,105,394	464,339
Change in Net Assets	591,449	845,174	746,429	(98,745)
Net Assets, Beginning of Year as Restated	755,536	755,536	755,536	
Net Assets, End of Year	\$ 1,346,985	\$ 1,600,710	\$ 1,501,965	\$ (98,745)

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
AUSTIN CAMPUS

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2009

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 25,000	\$ 547,000	\$ 526,639	\$ (20,361)
5750 Food Service Sales	35,000	117,000	87,844	(29,156)
Total Local Support	60,000	664,000	614,483	(49,517)
State Program Revenues:				
5810 Foundation School Program Act Revenues	2,989,356	3,355,906	3,175,852	(180,054)
5820 State Program Revenues Distributed by				
Texas Education Agency	11,780	14,730	15,135	405
5830 State Revenues From State of Texas				
Total State Program Revenues	3,001,136	3,370,636	3,190,987	(179,649)
Federal Program Revenues:				
5920 Federal Revenues Distributed by				
Texas Education Agency	144,574	204,356	201,069	(3,287)
Total Federal Program Revenues	144,574	204,356	201,069	(3,287)
Total Revenues	3,205,710	4,238,992	4,006,539	(232,453)
<b>EXPENSES</b>				
11 Instruction	1,895,843	2,158,936	2,006,335	152,601
12 Instructional Resources and Media Services	8,500	11,500	10,556	944
13 Curriculum Development and Instructional Staff Development	26,500	19,000	18,096	904
23 School Leadership	394,436	452,434	430,619	21,815
33 Health Services	42,408	38,404	35,914	2,490
35 Food Service	83,000	130,000	120,493	9,507
36 Co-curricular/Extracurricular Activities		76,500	103,370	(26,870)
41 General Administration	339,149	445,649	418,710	26,939
51 Plant Maintenance and Operations	651,592	845,092	1,051,268	(206,176)
52 Security and Monitoring Services	9,763	9,563	8,953	610
53 Data Processing Services	2,000	190	173	17
Total Expenses	3,453,191	4,187,268	4,204,487	(17,219)
Change in Net Assets	(247,480)	51,725	(197,947)	(249,672)
Net Assets, Beginning of Year as Restated	353,360	353,360	353,360	
Net Assets, End of Year	\$ 105,880	\$ 405,085	\$ 155,412	\$ (249,672)

See accompanying notes to financial statements.



COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF INNOVATION  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2009

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 6,230,500	\$ 6,463,500	\$ 6,437,041	\$ (26,459)
5750 Food Service Sales	47,500	141,000	139,764	(1,236)
Total Local Support	6,278,000	6,604,500	6,576,805	(27,695)
State Program Revenues:				
5810 Foundation School Program Act Revenues	3,532,062	4,132,062	3,835,147	(296,915)
5820 State Program Revenues Distributed by Texas Education Agency	19,168	19,168	19,246	78
Total State Program Revenues	3,551,230	4,151,230	3,854,393	(296,837)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	360,886	409,886	396,680	(4,206)
Total Federal Program Revenues	360,886	409,886	396,680	(4,206)
Total Revenues	10,190,116	11,156,616	10,827,878	(328,738)
<b>EXPENSES</b>				
11 Instruction	2,531,401	2,701,770	2,608,829	92,941
12 Instructional Resources and Media Services	63,480	115,280	110,290	4,990
13 Curriculum Development and Instructional Staff Development	21,465	41,465	40,718	747
21 Instructional Leadership	812,881	952,750	908,578	44,172
23 School Leadership	243,734	368,734	345,224	23,510
31 Guidance, Counseling, and Evaluation	44,230	869	805	64
33 Health Services	205,000	205,000	188,979	16,021
35 Food Service		44,000	87,552	(43,552)
36 Cocurricular/Extracurricular Activities	4,313,508	5,411,565	5,302,785	108,780
41 General Administration	1,070,000	1,061,000	852,671	208,329
51 Plant Maintenance and Operations	25,706	10,206	10,043	163
52 Security and Monitoring Services	323,251	263,500	246,088	17,412
53 Data Processing Services	9,654,656	11,176,139	10,702,562	473,577
Total Expenses	535,460	(19,523)	125,316	144,839
Change in Net Assets	1,303,182	1,303,182	1,303,182	
Net Assets, Beginning of Year as Restated	1,858,642	1,283,659	1,428,498	\$ 144,839
Net Assets, End of Year				

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
SAN ANTONIO CAMPUS  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2009

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 23,500	\$ 46,289	\$ 39,595	\$ (6,694)
5750 Revenue from Curricular	32,500	95,996	100,312	4,316
Total Local Support	56,000	142,285	139,907	(2,378)
State Program Revenues:				
5810 Foundation School Program Act Revenues	4,490,916	4,840,491	4,755,243	(85,248)
5820 State Program Revenues Distributed by Texas Education Agency	19,895	20,939	20,939	
Total State Program Revenues	4,510,811	4,861,430	4,776,182	(85,248)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	230,570	226,878	224,547	(2,331)
Total Federal Program Revenues	230,570	226,878	224,547	(2,331)
Total Revenues	4,797,381	5,230,593	5,140,636	(89,957)
<b>EXPENSES</b>				
11 Instruction	2,798,964	3,203,964	2,854,689	349,275
12 Instructional Resources and Media Services	15,000			
13 Curriculum Development and Instructional Staff Development	43,122	40,000	36,347	3,653
23 School Leadership	309,143	299,043	280,478	18,565
31 Guidance, Counseling, and Evaluation		12,000	10,858	1,142
33 Health Services	39,182	45,000	41,826	3,174
35 Food Service	132,500	132,500	122,510	9,990
36 Cocurricular/Extracurricular Activities	60,000	60,000	83,341	(23,341)
41 General Administration	563,173	700,000	638,590	61,410
51 Plant Maintenance and Operations	325,998	560,000	535,802	24,198
52 Security and Monitoring Services	6,023	11,000	9,924	1,076
Total Expenses	4,233,105	5,063,507	4,614,365	449,142
Change in Net Assets	564,276	167,086	526,271	359,185
Net Assets, Beginning of Year as Restated	1,022,494	1,022,494	1,022,494	
Net Assets, End of Year	1,586,770	1,189,580	1,548,765	\$ 359,185

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
EL PASO CAMPUS

BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2009

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 29,051	\$ 9,800	\$ 25,540	\$ 15,740
5750 Food Service Sales	43,000	137,500	110,170	(27,330)
Total Local Support	72,051	147,300	135,711	(11,589)
State Program Revenues:				
5810 Foundation School Program Act Revenues	4,312,455	4,591,382	4,913,990	322,608
5820 State Program Revenues Distributed by				
Texas Education Agency	16,448	31,985	30,649	(1,336)
Total State Program Revenues	4,328,903	4,623,367	4,944,639	321,272
Federal Program Revenues:				
5920 Federal Revenues Distributed by				
Texas Education Agency	417,514	447,514	432,386	(15,128)
Total Federal Program Revenues	417,514	447,514	432,386	(15,128)
Total Revenues	4,818,468	5,218,181	5,512,735	294,554
<b>EXPENSES</b>				
11 Instruction	2,358,779	2,532,547	2,353,177	179,370
12 Instructional Resources and Media Services	11,500	31,000	28,717	2,283
13 Curriculum Development and Instructional Staff Development	75,665	57,165	53,849	3,316
21 Instructional Leadership	39,500	39,500	36,187	3,313
23 School Leadership	361,152	308,152	307,874	278
33 Health Services	145,738	43,160	39,043	4,117
35 Food Service	280,810	168,455	152,705	15,750
36 Cocurricular/Extracurricular Activities	72,500	72,500	108,932	(36,432)
41 General Administration	470,426	690,426	639,570	50,856
51 Plant Maintenance and Operations	1,539,000	1,464,500	1,346,279	118,221
52 Security and Monitoring Services	5,400	15,000	14,234	766
Total Expenses	5,248,470	5,422,405	5,080,567	341,838
Change in Net Assets	(430,002)	(204,224)	432,169	636,393
Net Asset, Beginning of Year as Restated	1,414,323	1,414,323	1,414,323	
Net Assets, End of Year	\$ 984,321	\$ 1,210,099	\$ 1,846,492	\$ 636,393

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
FORT WORTH CAMPUS

BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2009

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 62,500	\$ 449,500	\$ 433,168	\$ (16,332)
5750 Revenue from Curricular	47,500	191,500	190,269	(1,231)
Total Local Support	110,000	641,000	623,437	(17,563)
State Program Revenues:				
5810 Foundation School Program Act Revenues	6,846,164	7,146,046	7,112,228	(33,818)
5820 State Program Revenues Distributed by				
Texas Education Agency	25,680	40,680	41,568	888
Total State Program Revenues	6,871,844	7,186,726	7,153,796	(32,930)
Federal Program Revenues:				
5920 Federal Revenues Distributed by				
Texas Education Agency	322,095	304,632	291,571	(13,061)
Total Federal Program Revenues	322,095	304,632	291,571	(13,061)
Total Revenues	7,303,939	8,132,358	8,068,804	(63,554)
<b>EXPENSES</b>				
11 Instruction	3,609,753	4,716,846	3,912,293	804,553
12 Instructional Resources and Media Services	96,540	89,040	89,841	(801)
13 Curriculum Development and Instructional Staff Development	58,500	37,000	35,410	1,590
23 School Leadership	705,238	542,238	546,240	(4,002)
33 Health Services	23,752	20,752	20,304	448
35 Food Service	215,000	200,000	199,361	639
36 Cocurricular/Extracurricular Activities	96,000	96,000	146,958	(50,958)
41 General Administration	683,093	1,089,093	1,122,899	(33,806)
51 Plant Maintenance and Operations	411,581	1,572,858	1,587,658	(14,800)
52 Security and Monitoring Services	0	30,725	30,523	202
53 Data Processing Services	7,500	300	122	7,378
Total Expenses	5,810,957	8,394,852	7,691,609	703,243
Change in Net Assets	1,492,982	(262,494)	377,195	639,689
Net Asset, Beginning of Year as Restated	1,228,749	1,228,749	1,228,749	
Net Assets, End of Year	\$ 2,721,731	\$ 966,255	\$ 1,605,944	\$ 639,689

COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF SCIENCE AUSTIN  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2009

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 13,250	\$ 79,250	\$ 77,310	\$ (1,940)
5750 Revenues from Curricular	50,000	125,000	114,012	(10,988)
Total Local Support	63,250	204,250	191,322	(12,928)
State Program Revenues:				
5810 Foundation School Program Act Revenues	2,810,066	3,160,066	2,966,257	(193,809)
5820 State Program Revenues Distributed by Texas Education Agency	11,931	20,931	20,442	(489)
Total State Program Revenues	2,821,997	3,180,997	2,986,699	(194,298)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	115,632	131,157	128,412	(2,745)
Total Federal Program Revenues	115,632	131,157	128,412	(2,745)
Total Revenues	3,000,879	3,516,404	3,306,433	(209,971)
<b>EXPENSES</b>				
11 Instruction	299,702	1,628,638	1,601,284	27,354
12 Instructional Resources and Media Services	35,321	48,239	45,240	2,999
13 Curriculum Development and Instructional Staff Development	21,000	16,000	14,723	1,277
23 School Leadership	189,546	223,592	220,494	3,098
33 Health Services	33,018	23,397	21,153	2,244
35 Food Service	96,000	111,500	107,209	4,291
36 Curricular/Extracurricular Activities	384,669	75,000	90,896	(15,896)
41 General Administration	454,098	545,428	483,046	62,382
51 Plant Maintenance and Operations	5,627	758,038	731,498	26,540
52 Security and Monitoring Services		3,602	3,312	290
Total Expenses	1,509,981	3,433,434	3,318,854	114,580
Change in Net Assets	1,490,898	82,970	(12,421)	(95,391)
Net Assets, Beginning of Year as Restated	113,389	113,389	113,389	
Net Assets, End of Year	\$ 1,604,287	\$ 196,359	\$ 100,969	\$ (95,391)

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
HOUSTON EXCELLENCE CAMPUS  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2009

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 55,300	\$ 160,300	\$ 146,317	\$ (13,983)
5750 Revenues from Curricular	78,750	163,750	147,620	(16,130)
Total Local Support	134,050	324,050	293,936	(30,114)
State Program Revenues:				
5810 Foundation School Program Act Revenues	4,294,508	4,964,508	4,790,675	(173,833)
5820 State Program Revenues Distributed by Texas Education Agency	21,925	27,925	27,368	(557)
Total State Program Revenues	4,316,433	4,992,433	4,818,043	(174,390)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	125,498	140,498	132,324	(8,174)
Total Federal Program Revenues	125,498	140,498	132,324	(8,174)
Total Revenues	4,575,981	5,456,981	5,244,303	(212,678)
<b>EXPENSES</b>				
11 Instruction	2,328,065	3,328,281	2,356,076	972,205
12 Instructional Resources and Media Services	5,000	26,500	24,004	2,496
13 Curriculum Development and Instructional Staff Development	0	51,000	47,409	3,591
23 School Leadership	278,289	275,289	270,942	4,347
33 Health Services	5,000	45,000	41,727	3,273
35 Food Service	110,250	100,250	93,256	6,994
36 Curricular/Extracurricular Activities	394,661	76,000	94,829	(18,829)
41 General Administration	989,499	611,161	613,329	(2,168)
51 Plant Maintenance and Operations	3,750	1,281,999	1,249,027	32,972
52 Security and Monitoring Services		4,850	4,486	364
Total Expenses	4,114,514	5,800,330	4,793,085	1,005,245
Change in Net Assets	461,467	(343,349)	449,218	792,567
Net Assets, Beginning of Year as Restated	400,017	400,017	400,017	
Net Assets, End of Year	\$ 861,484	\$ 56,668	\$ 849,235	\$ 792,567

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
LUBBOCK CAMPUS

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2009

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 27,110	\$ 307,110	\$ 442,503	\$ 135,393
5750 Revenue from Curricular	16,000	28,000	25,235	(2,765)
Total Local Support	43,110	335,110	467,738	132,628
State Program Revenues:				
5810 Foundation School Program Act Revenues	2,236,356	2,236,356	2,081,164	(155,192)
5820 State Program Revenues Distributed by Texas Education Agency	7,727	19,227	19,270	43
Total State Program Revenues	2,244,083	2,255,583	2,100,434	(155,149)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	186,072	246,072	238,022	(8,050)
Total Federal Program Revenues	186,072	246,072	238,022	(8,050)
Total Revenues	2,473,265	2,836,765	2,806,194	(30,571)

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>EXPENSES</b>				
11 Instruction	1,412,100	1,523,150	1,389,197	133,953
12 Instructional Resources and Media Services	8,500	1,500	1,300	200
13 Curriculum Development and Instructional Staff Development	17,500	34,250	31,794	2,456
23 School Leadership	189,988	224,988	218,855	6,133
33 Health Services	24,500	36,500	33,264	3,236
35 Food Service	82,500	132,500	122,673	9,827
36 Cocurricular/Extracurricular Activities	2,100	2,100	21,692	(19,592)
41 General Administration	216,408	329,408	314,469	14,939
51 Plant Maintenance and Operations	134,000	272,500	249,192	23,308
52 Security and Monitoring Services	15,500	1,500	1,420	80
Total Expenses	2,100,996	2,558,396	2,383,856	174,540
Change in Net Assets	372,269	278,369	422,338	143,969
Net Assets, Beginning of Year as Restated	218,749	218,749	218,749	
Net Assets, End of Year	\$ 591,018	\$ 497,118	\$ 641,086	\$ 143,969

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
BEAUMONT CAMPUS

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2009

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 22,300	\$ 306,800	\$ 446,472	\$ 139,672
5750 Revenue from Curricular	37,000	110,500	104,691	(5,809)
Total Local Support	59,300	417,300	551,163	133,863
State Program Revenues:				
5810 Foundation School Program Act Revenues	2,601,688	2,590,143	2,474,921	(115,222)
5820 State Program Revenues Distributed by Texas Education Agency	9,857	9,857	9,269	(588)
Total State Program Revenues	2,611,545	2,600,000	2,484,190	(115,810)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	114,478	120,478	119,470	(1,008)
Total Federal Program Revenues	114,478	120,478	119,470	(1,008)
Total Revenues	2,785,323	3,137,778	3,154,822	17,044

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>EXPENSES</b>				
11 Instruction	1,362,106	1,415,245	1,352,824	62,421
12 Resource & Media	4,500	200	185	15
13 Curriculum Development and Instructional Staff Development	22,500	30,311	27,348	2,963
23 School Leadership	287,205	200,705	181,116	19,589
33 Health Services	3,000	650	621	29
35 Food Service	76,400	76,400	78,622	(2,222)
36 Cocurricular/Extracurricular Activities	295,635	34,000	40,960	(6,960)
41 General Administration	421,500	333,500	305,830	27,670
51 Plant Maintenance and Operations	16,770	764,000	703,390	60,610
52 Security and Monitoring Services	2,489,616	2,857,011	2,692,861	164,150
Total Expenses	2,95,707	280,767	461,961	181,194
Change in Net Assets	(530,288)	(530,288)	(530,288)	
Net Assets, Beginning of Year as Restated	\$ (234,581)	\$ (249,521)	\$ (68,327)	\$ 181,194

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
COLLEGE STATION CAMPUS

BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2009

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 10,500	\$ 32,800	\$ 131,515	\$ 98,715
5750 Revenues from Curricular	41,600	85,500	77,393	(8,107)
Total Local Support	52,100	118,300	208,909	90,609
5810 Foundation School Program Act Revenues	1,850,000	1,762,296	1,659,294	(103,002)
5820 State Program Revenues Distributed by Texas Education Agency	6,534	17,323	16,798	(525)
Total State Program Revenues	1,856,534	1,779,619	1,676,092	(103,527)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	111,919	91,852	88,551	(3,301)
Total Federal Program Revenues	111,919	91,852	88,551	(3,301)
Total Revenues	2,020,553	1,989,771	1,973,551	(16,220)
<b>EXPENSES</b>				
11 Instruction	1,184,691	1,194,865	1,166,445	28,420
12 Instructional Resources and Media Services	10,000	2,000	(1,855)	3,855
13 Curriculum Development and Instructional Staff Development	22,500	23,400	21,041	2,359
23 School Leadership	292,141	279,141	278,329	812
33 Health Services	40,043	20,343	19,182	1,161
35 Food Service	119,000	96,200	94,501	1,699
36 Cocurricular/ Extracurricular Activities	34,850	43,156	43,156	(8,306)
41 General Administration	225,000	306,268	299,731	6,537
51 Plant Maintenance and Operations	123,000	254,650	239,913	14,737
52 Security and Monitoring Services	7,100	2,250	2,019	231
53 Data Processing Services	1,000			
Total Expenses	2,024,475	2,213,967	2,162,460	51,507
Change in Net Assets	(3,922)	(224,196)	(188,909)	35,287
Net Assets, Beginning of Year as Restated	(274,177)	(274,177)	(274,177)	
Net Assets, End of Year	\$ (278,099)	\$ (498,373)	\$ (463,086)	\$ 35,287

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
WACO CAMPUS

BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2009

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 24,500	\$ 301,000	\$ 430,804	\$ 129,804
5750 Revenue from Curricular	14,000	80,500	73,745	6,755
Total Local Support	38,500	381,500	504,549	123,049
State Program Revenues:				
5810 Foundation School Program Act Revenues	2,691,454	3,241,454	2,974,905	(266,549)
5820 State Program Revenues Distributed by Texas Education Agency	10,148	19,847	19,944	97
Total State Program Revenues	2,701,602	3,261,301	2,994,850	(266,451)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	242,555	281,055	273,134	(7,921)
Total Federal Program Revenues	242,555	281,055	273,134	(7,921)
Total Revenues	2,982,657	3,923,856	3,772,533	(151,323)
<b>EXPENSES</b>				
11 Instruction	1,269,281	1,467,291	1,363,873	103,418
12 Instructional Resources and Media Services	6,500	300	275	25
13 Curriculum Development and Instructional Staff Development	17,000	12,000	11,984	16
23 School Leadership	274,924	259,924	240,143	19,781
33 Health Services	34,135	2,885	2,767	118
35 Food Service	107,500	214,000	197,613	16,387
36 Cocurricular/ Extracurricular Activities	34,000	34,000	42,979	(8,979)
41 General Administration	292,816	387,816	365,207	22,609
51 Plant Maintenance and Operations	534,500	929,000	901,305	27,695
52 Security and Monitoring Services	9,700	3,450	3,046	404
53 Data Processing Services	2,500		0	
Total Expenses	2,548,856	3,310,666	3,129,192	181,474
Change in Net Assets	433,801	613,190	643,341	30,151
Net Assets, Beginning of Year as Restated	(29,405)	(29,405)	(29,405)	0
Net Assets, End of Year	\$ 404,396	\$ 583,785	\$ 613,937	\$ 30,151

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
BROWNSVILLE CAMPUS

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2009

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 189,000	\$ 280,000	\$ 275,872	\$ (4,128)
5750 Revenue from Curricular	9,000	82,000	81,391	(609)
Total Local Support	198,000	362,000	357,263	(4,737)
State Program Revenues:				
5810 Foundation School Program Act Revenues	1,890,765	2,074,891	1,937,919	(136,972)
5820 State Program Revenues Distributed by Texas Education Agency	7,443	9,718	9,165	(553)
Total State Program Revenues	1,898,208	2,084,609	1,947,084	(137,525)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	369,642	509,642	507,356	(2,286)
Total Federal Program Revenues	369,642	509,642	507,356	(2,286)
Total Revenues	2,465,850	2,956,251	2,811,703	(144,548)

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>EXPENSES</b>				
11 Instruction	974,677	1,117,177	1,109,586	7,591
12 Instructional Resources and Media Services	17,000	11,000	10,024	976
13 Curriculum Development and Instructional Staff Development	15,500	36,500	35,594	906
23 School Leadership	228,899	255,399	252,147	3,252
33 Health Services	3,000	3,000	3,008	(8)
35 Food Service	79,000	79,000	81,447	(2,447)
36 Cocurricular / Extracurricular Activities	303,016	390,746	77,467	(16,467)
41 General Administration	378,000	333,000	386,681	4,065
51 Plant Maintenance and Operations	11,000	3,500	332,691	309
52 Security and Monitoring Services	2,010,092	2,290,322	3,354	146
Total Expenses	455,758	665,929	2,291,999	(1,677)
Change in Net Assets			519,704	(146,225)
Net Assets, Beginning of Year			(78,961)	(78,961)
Net Assets, End of Year	\$ 455,758	\$ 586,968	\$ 440,743	\$ (225,186)

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF SCIENCE HOUSTON

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2009

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 195,750	\$ 333,750	\$ 331,659	\$ (2,091)
5750 Revenue from Curricular	40,000	119,500	118,896	(604)
Total Local Support	235,750	453,250	450,555	(2,695)
State Program Revenues:				
5810 Foundation School Program Act Revenues	2,349,944	2,583,657	2,520,406	(63,251)
5820 State Program Revenues Distributed by Texas Education Agency	9,659	11,159	10,849	(310)
Total State Program Revenues	2,359,603	2,594,816	2,531,255	(63,561)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	293,911	443,911	432,103	(11,808)
Total Federal Program Revenues	293,911	443,911	432,103	(11,808)
Total Revenues	2,889,264	3,491,977	3,413,913	(78,064)

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>EXPENSES</b>				
11 Instruction	1,441,237	1,696,047	1,596,078	99,969
12 Instructional Resources and Media Services		11,000	10,446	554
13 Curriculum Development and Instructional Staff Development	18,621	33,621	31,268	2,353
23 School Leadership	252,320	302,320	283,358	18,962
33 Health Services	27,305	3,005	2,976	29
35 Food Service	91,500	116,750	110,540	6,210
36 Cocurricular / Extracurricular Activities		70,000	94,567	(24,567)
41 General Administration	275,996	414,465	392,986	21,479
51 Plant Maintenance and Operations	481,691	789,303	775,104	14,199
52 Security and Monitoring Services	7,000	5,500	5,409	91
Total Expenses	2,595,670	3,442,011	3,302,731	139,280
Change in Net Assets			111,182	61,216
Net Assets, Beginning of Year as Restated			(8,330)	0
Net Assets, End of Year	\$ 285,264	\$ 41,636	\$ 102,852	\$ 61,216

See accompanying notes to financial statements.

**GOMEZ & COMPANY**

CERTIFIED PUBLIC ACCOUNTANTS  
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COSMOS FOUNDATION, INC.  
LAREDO CAMPUS

BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2009

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 188,500	\$ 289,500	\$ 291,434	\$ 1,934
5750 Revenue from Curricular	24,000	180,000	177,947	(2,053)
Total Local Support	212,500	469,500	469,380	(120)
State Program Revenues:				
5810 Foundation School Program Act Revenues	2,372,147	2,415,134	2,636,231	221,097
Texas Education Agency	9,602	10,602	10,748	146
Total State Program Revenues	2,381,749	2,425,736	2,646,979	221,243
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	301,660	436,660	445,668	9,008
Total Federal Program Revenues	301,660	436,660	445,668	9,008
Total Revenues	2,895,909	3,331,896	3,562,028	230,132
<b>EXPENSES</b>				
11 Instruction:	1,135,501	1,266,240	1,252,131	14,110
12 Instructional Resources and Media Services	7,500	10,000	9,974	26
13 Curriculum Development and Instructional Staff Development	6,098	16,000	15,946	54
23 School Leadership	225,777	266,998	255,756	11,242
33 Health Services	6,000	2,500	2,319	181
35 Food Service	74,000	139,000	132,545	6,455
36 Curricular/ Extracurricular Activities		74,000	106,876	(32,876)
41 General Administration	268,251	349,251	334,035	15,216
51 Plant Maintenance and Operations	522,560	592,360	584,459	7,901
52 Security and Monitoring Services	8,500	1,400	1,373	27
81 Fund Raising		30,000	29,740	261
Total Expenses	2,254,187	2,747,749	2,725,152	22,597
Change in Net Assets	641,722	584,147	836,876	252,729
Net Assets, Beginning of Year	(66,912)	(66,912)	(66,912)	0
Net Assets, End of Year	\$ 574,810	\$ 517,236	\$ 769,965	\$ 252,730

**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 Directors of  
Cosmos Foundation, Inc.  
Houston, Texas

We have audited the financial statements of Cosmos Foundation, Inc. (HSA) as of and for the year ended August 31, 2009, and have issued our report thereon dated November 23, 2009. 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 HSA'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 the HSA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization'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 organization's internal control.

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 HSA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items I.

See accompanying notes to financial statements.

**GOMEZ & COMPANY**

CERTIFIED PUBLIC ACCOUNTANTS  
6750 W. LOOP SOUTH, SUITE 530  
HOUSTON, TEXAS 77401  
TEL: (713) 666-9900  
FAX: (713) 666-1049  
<http://www.gomezandton.com>

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To The Board of Directors of  
Cosmos Foundation, Inc.  
Houston, Texas

**Compliance**

We have audited the compliance of Cosmos Foundation, Inc. (HSA) with the types of compliance requirements described in the U.S. 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. HSA's major federal programs are identified in the summary of auditor's 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 HSA's management. Our responsibility is to express an opinion on HSA'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 Non-Profit 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 HSA'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 of HSA's compliance with those requirements.

In our opinion, HSA 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.

**Internal Control Over Compliance**

The management of HSA 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 HSA 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 on HSA internal control over compliance.

We noted certain matters that we reported to management of Cosmos Foundation, Inc. in a separate letter dated November 23, 2009.

The organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and the 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.



November 23, 2009



COSMOS FOUNDATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2009

Summary of Audit Results

1. Unqualified opinion issued on the financial statements.
2. No significant deficiencies or material weaknesses on internal control over financial statements.
3. Instances of noncompliance, which is not material to the financial statements, item 1.
4. No significant deficiencies or material weaknesses on internal control over major federal award programs.
5. Unqualified opinion issued on compliance with major federal award programs.
6. The audit did not disclose any audit findings which are required to be reported under section .510 (a) of OMB A-133.
7. Major programs:

U.S. Department of Agriculture  
Passed - Through Texas Education Agency  
Federal Food Service Reimbursement  
Breakfast - Cluster 10,553  
Lunch-Cluster 10,355

8. A \$300,000.00 threshold was used to distinguish between Type A and Type B programs as described in section .520 (b) of OMB A-133.
9. Agency qualifies as a low-risk auditee.

Questioned  
Costs

Current Year Findings

I. Inter-Company Transactions

**Condition:**

During the audit we noted that HSA had transferred State Foundation Funds from one HSA District to another HSA District. These transfers were tracked through inter-company transfer accounts.

**Criteria:**

The agency is in violation of TEA's FASRG guidelines.

**Effect:**

The transfer of funds between districts is an un-allowed transaction and could result in sanctions by TEA.

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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 the 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, the Board of Directors, others within the entity, and the 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.

November 23, 2009

COSMOS FOUNDATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2009

**Recommendation:**

We recommend that agency repay all funds to the appropriate district and implement procedures and controls to prevent the transfer of funds between different districts. These recommendations have been discussed with the agency's management and action will be taken to insure that the recommendations are implemented.

**Status:**

Also, this year we have opened six new schools. These all new six schools were new campuses, not new districts; that's why, we were not able to receive start-up money from the Texas Education Agency for new schools. Therefore, we had to transfer funds among the districts for this year too. For this year, auditors ascertained that we had transferred the funds among the districts in the amount of \$2,131,052 with the outstanding balance of HAS Bryan/ College Station from last year. As of today, we have returned and reimbursed \$1,260,718.24 of the \$2,131,052. It is our intention to reimburse all intercompany transactions before the fiscal year ends on August 31, 2010.

Our superintendent, Dr. Tamm recently met with Commissioner Robert Scott. In this meeting, we were asked to consolidate some of our districts. Once we accomplish consolidation, we will minimize the intercompany transactions in the future.

Summary Schedule of Prior Year Findings

**I. Inter-Company Transactions**

**Condition:** During the audit we noted that HSA had transferred State Foundation Funds from one HSA District to another HSA District. These transfers were tracked through inter-company transfer accounts.

**Criteria:**

The agency is in violation of TEA's FASRG guidelines.

**Effect:**

The transfer of funds between districts is an un-allowed transaction and could result in sanctions by TEA.

**Recommendation:**

We recommend that agency repay all funds to the appropriate district and implement procedures and controls to prevent the transfer of funds between different districts. These recommendations have been discussed with the agency's management and action will be taken to insure that the recommendations are implemented.

**Status:**

Last year, we had transferred the funds among the districts to defray the remodeling and renovation projects' expenses for new campuses. We had transferred the fund in the amount of \$1,577,398 among the Harmony Schools' districts; and at the end of the year, except the fund in the amount of \$209,942.76 for HSA Bryan/College Station from HSA San Antonio, we reimbursed and returned all the transferred funds to the original districts.

COSMOS FOUNDATION, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2009

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Passed - Through Texas Education Agency:			
IDEA-B Formula	84-027A	096600010158236600	\$ 54,194.00
IDEA-B Formula	84-027A	096600010218946600	\$ 35,127.00
IDEA-B Formula	84-027A	096600010318936600	\$ 9,515.00
IDEA-B Formula	84-027A	096600010718966600	\$ 62,520.00
IDEA-B Formula	84-027A	09660001018466600	\$ 152,736.00
IDEA-B Formula	84-027A	09660001018576600	\$ 73,120.00
IDEA-B Formula	84-027A	09660001018586600	\$ 55,862.00
IDEA-B Formula	84-027A	09660001123866600	\$ 11,630.00
IDEA-B Formula	84-027A	096600011528056600	\$ 31,224.00
IDEA-B Formula	84-027A	096600011618976600	\$ 33,196.00
IDEA-B Formula	84-027A	096600012208136600	\$ 43,936.00
IDEA-B Formula	84-027A	096600012278166600	\$ 71,160.00
IDEA-B Formula	84-027A	096600012278226600	\$ 42,621.00
IDEA-B Formula	84-027A	096600012408046600	\$ 33,957.00
PCS-CHARTER SCHOOL STARTUP CYCLE 11 CONTINUATION GTS	84-282A	0859000571100210	\$ 9,127.00
PCS-CHARTER SCHOOL STARTUP CYCLE 11 CONTINUATION GTS	84-282A	0859000571100211	\$ 6,837.90
PCS-CHARTER SCHOOL STARTUP CYCLE 11 CONTINUATION GTS	84-282A	085900057110022	\$ 68,372.90
PCS-CHARTER SCHOOL STARTUP CYCLE 11 CONTINUATION GTS	84-282A	085900057110023	\$ 26,152.90
PCS-CHARTER SCHOOL STARTUP CYCLE 11 CONTINUATION GTS	84-282A	085900057110024	\$ 21,527.90
PCS-START UP CYCLE 12 CONTINUATION GTS	84-282A	085900067110013	\$ 56,495.90
PCS-START UP CYCLE 12 CONTINUATION GTS	84-282A	085900067110014	\$ 61,240.00
PCS-START UP CYCLE 12 CONTINUATION GTS	84-282A	085900067110015	\$ 62,165.00
PCS-START UP CYCLE 12 CONTINUATION GTS	84-282A	085900067110016	\$ 68,412.90
PCS-START UP GRANTS CYCLE 13	84-282A	08590007110012	\$ 140,329.00
PCS-START UP GRANTS CYCLE 13	84-282A	08590007110013	\$ 131,456.90
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84-010A	09610101015823	\$ 68,502.90
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84-010A	09610101021894	\$ 30,967.90
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84-010A	09610101031893	\$ 129,654.90
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84-010A	09610101071896	\$ 191,699.00
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84-010A	09610101101846	\$ 469,693.00
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84-010A	09610101101857	\$ 161,692.90
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84-010A	09610101101858	\$ 29,749.90
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84-010A	09610101101862	\$ 47,274.90
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84-010A	09610101123896	\$ 34,928.90
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84-010A	09610101152805	\$ 69,734.90
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84-010A	09610101161897	\$ 106,985.00
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84-010A	09610101220813	\$ 87,853.00
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84-010A	09610101227816	\$ 89,789.90
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84-010A	09610101227822	\$ 28,679.90
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84-367A	096945010249804	\$ 58,464.90
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84-367A	096945010249804	\$ 17,136.90
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84-367A	09694501021804	\$ 10,382.90

COSMOS FOUNDATION, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2009

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Federal Expenditures
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84-367A	09694501031803	\$ 21,208.00
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84-367A	09694501071806	\$ 48,732.00
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84-367A	0969450101846	\$ 74,414.00
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84-367A	0969450101857	\$ 23,722.00
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84-367A	0969450101858	\$ 14,252.00
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84-367A	0969450101862	\$ 12,438.00
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84-367A	0969450102806	\$ 10,963.00
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84-367A	0969450102805	\$ 16,577.00
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84-367A	0969450101807	\$ 23,522.00
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84-367A	09694501220813	\$ 18,793.00
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84-367A	09694501227816	\$ 16,425.00
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84-367A	09694501227822	\$ 9,633.00
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84-367A	09694501240804	\$ 16,333.00
TITLE II, PART D-ENHANCING EDUCATION THROUGH TECHNOLOGY	84-318X	09630001015828	\$ 1,254.00
TITLE II, PART D-ENHANCING EDUCATION THROUGH TECHNOLOGY	84-318X	09630001021804	\$ 342.00
TITLE II, PART D-ENHANCING EDUCATION THROUGH TECHNOLOGY	84-318X	09630001031803	\$ 1,193.00
TITLE II, PART D-ENHANCING EDUCATION THROUGH TECHNOLOGY	84-318X	09630001071806	\$ 1,764.00
TITLE II, PART D-ENHANCING EDUCATION THROUGH TECHNOLOGY	84-318X	0963000101857	\$ 1,166.00
TITLE II, PART D-ENHANCING EDUCATION THROUGH TECHNOLOGY	84-318X	0963000101862	\$ 435.00
TITLE II, PART D-ENHANCING EDUCATION THROUGH TECHNOLOGY	84-318X	0963000123806	\$ 321.00
TITLE II, PART D-ENHANCING EDUCATION THROUGH TECHNOLOGY	84-318X	0963000152805	\$ 642.00
TITLE II, PART D-ENHANCING EDUCATION THROUGH TECHNOLOGY	84-318X	09630001161807	\$ 984.00
TITLE II, PART D-ENHANCING EDUCATION THROUGH TECHNOLOGY	84-318X	09630001220813	\$ 1,698.00
TITLE II, PART D-ENHANCING EDUCATION THROUGH TECHNOLOGY	84-318X	09630001227816	\$ 1,278.00
TITLE II, PART D-ENHANCING EDUCATION THROUGH TECHNOLOGY	84-318X	09630001227822	\$ 525.00
TITLE II, PART D-ENHANCING EDUCATION THROUGH TECHNOLOGY	84-318X	09630001240804	\$ 890.00
TITLE III, PART A-LEP	84-365A	0967100101846	\$ 13,387.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84-186A	09691001015828	\$ 817.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84-186A	09691001021804	\$ 668.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84-186A	09691001031803	\$ 1,230.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84-186A	09691001071806	\$ 3,085.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84-186A	0969100101846	\$ 6,870.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84-186A	0969100101857	\$ 1,885.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84-186A	0969100101858	\$ 1,213.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84-186A	0969100101862	\$ 878.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84-186A	0969100123806	\$ 763.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84-186A	0969100152805	\$ 1,034.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84-186A	0969100161807	\$ 1,536.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84-186A	09691001220813	\$ 1,346.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84-186A	09691001227816	\$ 1,226.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84-186A	09691001227822	\$ 737.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84-186A	09691001240804	\$ 1,278.00
Total U.S. Department of Education			\$ 3,561,143.00

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COSMOS FOUNDATION, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2009

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Passed - Through Texas Education Agency	10-553	71400801	\$ 25,072.00
Federal Food Service Reimbursement	10-553	71400901	\$ 139,302.00
Breakfast	10-555	71300801	\$ 102,278.00
Lunch	10-555	71300901	\$ 1,046,184.00
Total U.S. Department of Agriculture			\$ 1,312,836.00
Total Expenditures of Federal Awards			\$ 4,873,979.00

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COSMOS FOUNDATION, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2009

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying schedule of federal, state, and local awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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**COSMOS FOUNDATION, INC.**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED AUGUST 31, 2008**

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**COSMOS FOUNDATION, INC.**


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**CERTIFICATE OF BOARD**

August 31, 2008

We, the undersigned, certify that the attached Annual Financial and Compliance Report of Cosmos Foundation, Inc. was reviewed and ✓ approved ✓ disapproved for the year ended August 31, 2008, at a meeting of the governing body of said charter school on the 27th day of JANUARY, 2009.

  
Signature of Board Secretary

  
Signature of Board President

**COSMOS FOUNDATION, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**AUGUST 31, 2008**

<b>ASSETS</b>		
Assets:		
Cash	\$ 30,761,550	
Receivables	2,651,777	
Other receivables	1,063,892	
Land	7,200,014	
Buildings and improvements	23,760,334	
Furniture and equipment	1,615,136	
Accumulated depreciation	(2,818,574)	
Deposits	370,994	
Other assets	3,312,165	
Total assets	<u>\$ 67,917,288</u>	
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 1,684,338	
Accrued liabilities	777,247	
Wages payable	1,318,896	
Interest payable	157,647	
Payroll taxes payable	2,061	
Capital lease payable	550,036	
Bond payable net of discount	59,969,667	
Total liabilities	<u>64,459,892</u>	
Net Assets:		
Unrestricted	<u>3,457,396</u>	
Total net assets	<u>3,457,396</u>	
Total liabilities and net assets	<u>\$ 67,917,288</u>	

See accompanying notes to financial statements.

**GOMEZ & COMPANY**

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 HOUSTON, TEXAS 77081  
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**INDEPENDENT AUDITOR'S REPORT**

To The Board of Directors of  
 Cosmos Foundation, Inc.  
 Houston, Texas

We have audited the accompanying statement of financial position of Cosmos Foundation, Inc. (HSA) as of August 31, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of HSA management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In accordance with Government Auditing Standards, we have also issued our report dated January 15, 2009 on our consideration of HSA internal control over financial reporting and 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 important for assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of HSA taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Gomez & Company*  
 January 15, 2009

COSMOS FOUNDATION, INC.  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED AUGUST 31, 2008

	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>			
Federal grants	\$ 4,223,718	\$ 4,223,718	\$ 4,223,718
State and local grants	37,347,003	37,347,003	37,347,003
Donations	1,578,704		1,578,704
Interest income	852,299		852,299
Other income	2,468,124		2,468,124
Net assets released from restrictions	41,570,721	(41,570,721)	
Total revenues	46,469,849		46,469,849
<b>EXPENSES</b>			
Program services	46,377,822		46,377,822
Total expenses	46,377,822		46,377,822
Change in net assets	92,027		92,027
Net assets, beginning of year	3,365,369		3,365,369
Net assets, ending of year	\$ 3,457,396	\$	\$ 3,457,396



COSMOS FOUNDATION, INC.  
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2008

Cash Flows From Operating Activities	
Change in net assets	\$ 92,027
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	1,656,015
Loss on disposal	180,806
(Increase) decrease in accounts receivable	550,029
(Increase) decrease in other assets	(1,801,336)
Increase (decrease) in accounts payable	1,159,666
Increase (decrease) in payroll taxes	(4,211)
Increase ( decrease ) in interest payable	157,647
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>1,990,643</b>
Cash Flows From Investing Activities	
Purchase of fixed assets	(17,273,829)
Disposal of fixed assets	(315,794)
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>(17,589,623)</b>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	30,296,196
Repayment of long-term debt	(680,197)
<b>Net Cash Provided (Used) by Financing Activities</b>	<b>29,615,999</b>
<b>NET INCREASE ( DECREASE ) IN CASH</b>	<b>14,017,019</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>16,744,531</b>
<b>CASH AT END OF YEAR</b>	<b>\$ 30,761,550</b>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	\$ 2,411,287

COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008

**A. Organization:**

Cosmos Foundation, Inc. (HSA), a nonprofit organization, provides curricula for students in grades kindergarten through 12. The school was incorporated in the State of Texas in September 1999, under the Texas Non-Profit Corporation Act. The Internal Revenue Service determined that the organization was exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code as an organization described in Section 501(c)(3).

Pursuant to its charter granted by the State Board of Education in accordance with Texas Education Code Section 12, Subchapter D, Open-Enrollment Charter School, the Organization operates as part of the state public school system subject to all federal and state laws and rules governing public schools. The Organization is also subject to all laws and rules pertaining to open-enrollment charter schools in section 12 of the Texas Education Code.

**B. Summary of Significant Accounting Policies:**

**BASIS OF PRESENTATION**

The Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted; temporarily restricted; and permanently restricted. In addition, the Corporation is required to present a statement of cash flows.

**PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements include all of the agencies accounts. All significant intercompany balance and transactions have been eliminated.

**SUPPORT AND REVENUE:**

Support and revenue are recorded based on the accrual method.

**CASH DONATIONS AND DONATED SERVICES**

Cash donations are considered to be available for unrestricted use unless specifically restricted by the donor. No amounts have been reflected in the financial statements for donated services since no objective basis is available to measure the value of such donations. Nevertheless, a substantial number of volunteers have donated their time in connection with the program services and administration of the organization.

**CONTRIBUTIONS**

In accordance with Statement of Financial Accounting Standards (SFAS) No. 116, "Accounting for Contributions Received and Contributions Made," contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008

B. Summary of Significant Accounting Policies: (Continued)

**PROPERTY AND EQUIPMENT**

Property and equipment purchased by HSA are recorded at cost. Donations of property and equipment are recorded at their fair value at the date of the gift. All assets acquired with a value in excess of \$5,000 are recorded as fixed assets. Depreciation is provided on the straight-line method based upon estimated useful lives of ten years for equipment. Gains or losses on retired or on sale of property and equipment are reflected in income for the period. The proceeds from such sales which are not legally required or expected to be reinvested in property and equipment are transferred to unrestricted net assets.

**PLEDGES AND ACCOUNTS RECEIVABLE**

Contributions are recognized when the donor makes a promise to give to HSA which is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

No provision has been made for uncollectible promises to give and accounts receivable as of the statement of financial position date, given that none have been identified.

**FUNCTIONAL EXPENSES**

Expenses are charged to each program based on direct expenditures incurred. Functional expenses which cannot readily be related to a specific program are charged to the various programs based upon hours worked, square footage, number of program staff, or other reasonable methods for allocating the organization's multiple function expenditures.

**INCOME TAXES**

HSA qualifies as a tax-exempt organization under section 501(c) (3) of the Internal Revenue Code and, therefore, has no provision for income taxes.

**CASH AND CASH EQUIVALENTS**

For purpose of the statement of cash flows, cash and cash equivalents are comprised of cash on hand and in banks.

COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008

B. Summary of Significant Accounting Policies: (Continued)  
ESTIMATES

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

C. Pension Plan:

Plan Description

The Academy contributes to the Teacher Retirement System of Texas (the system), a public employee retirement program. It is a cost-sharing, multi-employer defined benefit pension plan with one exception; all risks and costs are not shared by the charter school, but are the liability of the state of Texas. The System provides service retirement, disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government Code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. The System's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas, 78701-2688 or by calling (800) 877-0123.

Funding Policy

Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary, and the State of Texas contributes an amount equal to 6.0% of the charter school's covered payroll. In certain instances, the reporting entity (school district, charter school, college, university, or state agency) is required to make all or a portion of the State's 6.0% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following funding policy: (1) The State constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a State contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize the System's unfunded actuarial liabilities would be increased to a period that exceeds 30 years by one or more years. State contributions to the System made on behalf of Cosmos Foundation, Inc. employees for the year ended August 31, 2008 were \$369,449 for Houston campus, \$82,290 for Austin campus, \$64,288 for San Antonio campus, \$97,715 for Houston Elementary campus, \$104,540 for El Paso campus, \$113,034 for Excellence campus, \$96,923 for Fort Worth campus, \$64,852 for College Station campus, \$65,251 for Beaumont campus, \$64,228 for Lubbock campus, \$59,461.62 for Waco campus, and \$69,502 for Austin Elementary campus.

Budget:

The official school budget is prepared for adoption for required Governmental Fund Types. The annual budget is adopted on a basis consistent with generally accepted accounting principles and is formally adopted by the Board of Directors.

COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008

E. Operating Lease Commitment:

HSA is currently leasing its office equipment and building on a non-cancelable operating lease.

HSA minimum annual lease commitment is as follows:

Year months ending August 31,	Amount
2009	\$ 5,816,541
2010	6,117,762
2011	6,113,443
2012	5,513,306
2013	3,099,641
Total	\$ 26,660,693

Operating lease expense amounted to \$5,206,052 for the year ended August 31, 2008.

G. Capital Leases:

HSA has acquired equipment under the provisions of twenty-one long-term leases. For financial reporting purposes, minimum lease payments to the equipment have been capitalized.

The first lease expires May 2010. The equipment under capital lease as of August 31, 2008 has a cost of \$39,980, accumulated amortization of \$15,239 and a net book value of \$24,741. Amortization of the equipment is included in depreciation expense.

The second lease expires July 2010. The equipment under capital lease as of August 31, 2008 has a cost of \$21,373, accumulated amortization of \$6,980 and a net book value of \$14,393. Amortization of the equipment is included in depreciation expense.

The third lease expires July 2010. The equipment under capital lease as of August 31, 2008 has a cost of \$29,491, accumulated amortization of \$9,631 and a net book value of \$19,860. Amortization of the equipment is included in depreciation expense.

The fourth lease expires July 2010. The equipment under capital lease as of August 31, 2008 has a cost of \$35,710, accumulated amortization of \$11,662 and a net book value of \$24,048. Amortization of the equipment is included in depreciation expense.

The fifth lease expires July 2010. The equipment under capital lease as of August 31, 2008 has a cost of \$66,243, accumulated amortization of \$19,679 and a net book value of \$46,564. Amortization of the equipment is included in depreciation expense.

The sixth lease expires July 2010. The equipment under capital lease as of August 31, 2008 has a cost of \$20,584, accumulated amortization of \$6,125 and a net book value of \$14,456. Amortization of the equipment is included in depreciation expense.

COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008

G. Capital Leases: (Continued)

The seventh lease expires August 2010. The equipment under capital lease as of August 31, 2008 has a cost of \$23,142, accumulated amortization of \$6,916 and a net book value of \$16,226. Amortization of the equipment is included in depreciation expense.

The eighth lease expires August 2010. The equipment under capital lease as of August 31, 2008 has a cost of \$12,560, accumulated amortization of \$3,753 and a net book value of \$8,807. Amortization of the equipment is included in depreciation expense.

The ninth lease expires August 2010. The equipment under capital lease as of August 31, 2008 has a cost of \$12,420, accumulated amortization of \$3,712 and a net book value of \$8,708. Amortization of the equipment is included in depreciation expense.

The tenth lease expires August 2010. The equipment under capital lease as of August 31, 2008 has a cost of \$12,810, accumulated amortization of \$3,828 and a net book value of \$8,982. Amortization of the equipment is included in depreciation expense.

The eleventh lease expires August 2010. The equipment under capital lease as of August 31, 2008 has a cost of \$12,810, accumulated amortization of \$3,828 and a net book value of \$8,982. Amortization of the equipment is included in depreciation expense.

The twelfth lease expires August 2010. The equipment under capital lease as of August 31, 2008 has a cost of \$32,834, accumulated amortization of \$9,865 and a net book value of \$22,969. Amortization of the equipment is included in depreciation expense.

The thirteenth lease expires August 2010. The equipment under capital lease as of August 31, 2008 has a cost of \$22,730, accumulated amortization of \$6,305 and a net book value of \$16,425. Amortization of the equipment is included in depreciation expense.

The fourteenth lease expires August 2010. The equipment under capital lease as of August 31, 2008 has a cost of \$80,109, accumulated amortization of \$20,959 and a net book value of \$59,151. This lease is being paid on the agency's behalf by a charter school in Kansas City which has a support services agreement with Cosmos Foundation, Inc.; therefore a receivable from the charter school was also booked in the amount of \$59,151.

The fifteenth lease expires August 2010. The equipment under capital lease as of August 31, 2008 has a cost of \$84,991, accumulated amortization of \$22,914 and a net book value of \$62,076. This lease is being paid on the agency's behalf by a charter school in Kansas City which has a support services agreement with Cosmos Foundation, Inc.; therefore a receivable from the charter school was also booked in the amount of \$62,076.

COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008

G. Capital Leases: (Continued)

The sixteenth lease expires August 2010. The equipment under capital lease as of August 31, 2008 has a cost of \$27,300, accumulated amortization of \$5,432 and a net book value of \$21,868. Amortization of the equipment is included in depreciation expense.

The seventeenth lease expires January 2013. The equipment under capital lease as of August 31, 2008 has a cost of \$41,600, accumulated amortization of \$4,588 and a net book value of \$37,012. Amortization of the equipment is included in depreciation expense.

The eighteenth lease expires February 2013. The equipment under capital lease as of August 31, 2008 has a cost of \$36,883, accumulated amortization of \$4,067 and a net book value of \$32,816. Amortization of the equipment is included in depreciation expense.

The nineteenth lease expires August 2011. The equipment under capital lease as of August 31, 2008 has a cost of \$20,667, accumulated amortization of \$0 and a net book value of \$20,667. Amortization of the equipment is included in depreciation expense.

The twentieth lease expires August 2011. The equipment under capital lease as of August 31, 2008 has a cost of \$44,716, accumulated amortization of \$0 and a net book value of \$44,716. Amortization of the equipment is included in depreciation expense.

The twenty-first lease expires August 2010. The equipment under capital lease as of August 31, 2008 has a cost of \$61,506, accumulated amortization of \$24,950 and a net book value of \$36,556. Amortization of the equipment is included in depreciation expense.

The future minimum lease payments under capital lease together with their present value as of August 31, 2008 is as follows:

Total minimum lease payments	\$ 550,036
Less amount representing interest	(77,888)
Present value of net minimum lease payments	<u>\$ 472,148</u>

H. Bonds Payable:

HSA has secured bond financing pursuant to Chapter 53 of the Texas Education Code, \$28,860,000 of "Qualified Tax Exempt" Education Revenue Bonds, Series 2007A and \$1,135,000 Taxable Education Revenue Bonds, Series 2007B. The organization also has \$30,075,000 of "Qualified Tax Exempt" Education Revenue Bonds, Series 2008A and \$980,000 Taxable Educational Revenue Bonds, Series 2008B. The bonds are limited obligations of the issuer payable solely from revenues received by the issuer pursuant to a loan agreement between the issuer and the borrower. None of the state, the city, nor any political corporation, subdivision, or agency of the state is pledged to the payment of the principal of premium, or interest on the bonds.

COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008

H. Bonds Payable: (Continued)

Bonds payable at August 31, 2008 consist of the following:

2007A Bonds, 5.35% interest, principle and interest due in semi-annual installments, commencing August 15, 2008; Maturity dates range from 2011 to 2037. \$ 28,860,000

2007B Bonds, 6.75% interest, principle and interest due in semi-annual installments, commencing August 15, 2008; Maturity dates range from 2008 to 2010. 780,000

2008A Bonds, 6.25% interest, principle and interest due in semi-annual installments, commencing February 15, 2007; Maturity dates range from 2013 to 2038. 30,075,000

2008B Bonds, 7.82% interest, principle and interest due in semi-annual installments, commencing February 15, 2007; Maturity dates range from 2010 to 2012. 980,000

Total	\$ 60,695,000
Less unamortized discount	(725,546)
Amount of bond net of discount	<u>\$ 59,969,454</u>

Future maturities of long-term debt at August 31, 2008 are as follows:

Year ending August 31,	Amount
2009	\$ 375,000
2010	705,000
2011	825,000
2012	880,000
2013	985,000
Thereafter	<u>\$ 56,925,000</u>
Less unamortized discount	60,695,000
Amount of bond net of discount	<u>\$ 59,969,454</u>

HSA must maintain a debt service fund which is required to maintain a minimum balance of \$1,562,851. At August 31, 2008, the debt service fund had a balance of \$3,603,835. The debt service fund consist of \$2,603,835 in a debt service fund account and a grant from the Texas Credit Enhancement Program securing the additional debt service fund requirement in the amount of \$1,000,000.

**GOMEZ & COMPANY**

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COSMOS FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2008

I. Commitments and Contingencies:

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

J. Health Care Coverage:

During the year ended August 31, 2008, employees of HSA were covered by a group insurance plan. The school paid premiums up to \$500 for each campus per month per employee (depending upon coverage selected) to the plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer.

K. Subsequent Event:

HSA received a \$1,000,000 grant from Communities Foundation of Texas. This grant will be used for building improvements and expansion of new school campuses.

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To The Board of Directors of  
Cosmos Foundation, Inc.  
Houston, Texas

Our report on our audit of the consolidated financial statement of Cosmos Foundation, Inc. (HSA) for year ended August 31, 2008 appears on page 1. The audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Financial Statements and Schedules for Individual Charter School are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*Gomez & Company*  
January 15, 2009

COSMOS FOUNDATION, INC.  
HOUSTON CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2008

<b>ASSETS</b>	
Assets:	
Cash	\$ 315,339
Receivables	335,344
Intercompany receivables	29,454
Other receivables	51,698
Land	860,000
Buildings and improvements	4,817,656
Furniture and equipment	508,496
Accumulated depreciation	(774,270)
Other assets	125,260
<b>Total assets</b>	<b>\$ 6,268,977</b>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Accounts payable	\$ 106,873
Wages payable	319,233
Intercompany liabilities	448,255
Interest payable	11,233
Accrued liabilities	43,236
Payroll taxes payable	(1,184)
Capital leases payable	58,881
Bonds payable net of discount	4,738,580
<b>Total liabilities</b>	<b>5,725,107</b>
<b>Net Assets:</b>	
Unrestricted	543,869
<b>Total net assets</b>	<b>543,869</b>
<b>Total liabilities and net assets</b>	<b>\$ 6,268,977</b>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
AUSTIN CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2008

<b>ASSETS</b>	
Assets:	
Cash	\$ 2,134,534
Receivables	116,824
Intercompany receivables	6,080
Other receivables	10,799
Buildings and improvements	79,125
Furniture and equipment	97,786
Accumulated depreciation	(44,913)
Other assets	155,133
<b>Total assets</b>	<b>\$ 2,555,369</b>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Accounts payable	\$ 30,237
Wages payable	94,203
Interest payable	5,999
Intercompany liabilities	24,438
Accrued liabilities	11,606
Bond payable net of discount	2,065,945
<b>Total liabilities</b>	<b>2,232,428</b>
<b>Net Assets:</b>	
Unrestricted	322,941
<b>Total net assets</b>	<b>322,941</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,555,369</b>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF INNOVATION

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2008

ASSETS	
Assets:	
Cash	\$ 8,964,860
Receivables	128,260
Intercompany receivables	(548)
Other receivables	593,416
Buildings and improvements	1,182,521
Furniture and equipment	143,726
Accumulated depreciation	(281,228)
Other assets	939,266
Total assets	<u>\$ 11,670,272</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 145,674
Wages payable	93,403
Intercompany liabilities	177,806
Interest payable	22,249
Accrued liabilities	436,842
Payroll taxes payable	(813)
Capital leases payable	172,240
Bonds payable net of discount	9,799,876
Total liabilities	<u>10,847,276</u>
Net Assets:	
Unrestricted	822,996
Total net assets	<u>822,996</u>
Total liabilities and net assets	<u>\$ 11,670,272</u>

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
SAN ANTONIO CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2008

ASSETS	
Assets:	
Cash	\$ 1,581,766
Receivables	176,489
Intercompany receivables	497,726
Other receivables	2,621
Land	1,474,232
Buildings and improvements	7,156,495
Furniture and equipment	115,195
Accumulated depreciation	(42,555)
Other Assets	482,048
Total assets	<u>\$ 11,444,016</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 329,083
Wages payable	75,522
Intercompany liabilities	30,861
Interest payable	25,117
Accrued liabilities	50,948
Bonds payable net of discount	10,310,481
Total liabilities	<u>10,822,011</u>
Net Assets:	
Unrestricted	622,004
Total net assets	<u>622,004</u>
Total liabilities and net assets	<u>\$ 11,444,016</u>

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
EL PASO CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2008

<b>ASSETS</b>	
Assets:	
Cash	\$ 1,393,648
Receivables	250,552
Intercompany receivables	731,719
Other receivables	16,517
Buildings and improvements	68,004
Furniture and equipment	123,314
Accumulated depreciation	(50,160)
Other assets	<u>72,158</u>
<b>Total assets</b>	<b>\$ 2,605,751</b>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 29,267
Wages payable	85,334
Interest payable	3,176
Accrued liabilities	9,965
Capital leases	46,564
Bonds payable net of discount	<u>1,062,491</u>
<b>Total liabilities</b>	<b>1,236,798</b>
<b>Net Assets:</b>	<b>1,368,953</b>
Unrestricted	<u>1,368,953</u>
<b>Total net assets</b>	<b>\$ 2,605,751</b>
<b>Total liabilities and net assets</b>	

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
FORT WORTH CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2008

<b>ASSETS</b>	
Assets:	
Cash	\$ 8,439,693
Receivables	260,405
Intercompany receivables	654,864
Other receivables	41,196
Land	1,074,559
Buildings and improvements	1,954,847
Furniture and equipment	67,932
Accumulated depreciation	(377,432)
Other assets	<u>593,648</u>
<b>Total assets</b>	<b>\$ 12,709,714</b>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 331,913
Wages payable	148,525
Interest payable	33,169
Intercompany liabilities	(6,073)
Accrued liabilities	48,770
Payroll taxes payable	3,496
Capital lease payable	20,677
Bonds payable net of discount	<u>11,097,130</u>
<b>Total liabilities</b>	<b>11,677,608</b>
<b>Net Assets:</b>	<b>1,032,106</b>
Unrestricted	<u>1,032,106</u>
<b>Total net assets</b>	<b>\$ 12,709,714</b>
<b>Total liabilities and net assets</b>	

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF SCIENCE AUSTIN

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2008

ASSETS	
Assets:	
Cash	\$ 144,561
Receivables	154,334
Intercompany receivables	11,178
Other receivables	86,053
Buildings and improvements	500,381
Furniture and equipment	55,767
Accumulated depreciation	(78,587)
Other assets	2,804
Total assets	<u>\$ 876,491</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 189,262
Wages payable	81,410
Interest payable	1,588
Intercompany liabilities	25,912
Accrued liabilities	17,752
Payroll taxes payable	(24,741)
Capital leases	472,441
Bonds payable net of discount	
Total liabilities	<u>813,008</u>

Net Assets:

Unrestricted

63,483

Total net assets

63,483

Total liabilities and net assets

\$ 876,491

COSMOS FOUNDATION, INC.  
HOUSTON EXCELLENCE CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2008

ASSETS	
Assets:	
Cash	\$ 7,322,073
Receivables	163,228
Other receivables	39,748
Land	3,083,000
Buildings and improvements	547,571
Furniture and equipment	159,798
Accumulated depreciation	(62,919)
Other assets	559,897
Total assets	<u>\$ 11,814,395</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 37,184
Wages payable	94,980
Interest payable	33,875
Intercompany liabilities	29,630
Accrued liabilities	42,513
Notes payable	23,375
Bond payable net of discount	11,333,239
Total liabilities	<u>11,594,796</u>

Net Assets:

Unrestricted

219,599

Total net assets

219,599

Total liabilities and net assets

\$ 11,814,395

See accompanying notes to financial statements.

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
LUBBOCK CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2008

<b>ASSETS</b>	
Assets:	
Cash	\$ 67,791
Receivables	120,886
Other receivables	2,647
Land	60,893
Buildings and improvements	1,857,619
Furniture and equipment	59,828
Accumulated depreciation	(164,979)
Other assets	101,229
Total assets	<u>\$ 2,105,914</u>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Accounts payable	\$ 58,153
Wages payable	52,714
Intercompany liabilities	198,566
Interest payable	5,511
Accrued liabilities	4,960
Payroll taxes payable	(152)
Capital lease	32,632
Bonds payable net of discount	<u>2,040,836</u>
Total liabilities	2,393,239
Net Assets:	
Unrestricted	<u>(287,325)</u>
Total net assets	<u>(287,325)</u>
Total liabilities and net assets	<u>\$ 2,105,914</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
BEAUMONT CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2008

<b>ASSETS</b>	
Assets:	
Cash	\$ 50,744
Receivables	127,390
Other receivables	1,368
Buildings and improvements	1,162,040
Furniture and equipment	74,299
Accumulated depreciation	(375,801)
Other assets	20,058
Total assets	<u>\$ 1,060,099</u>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Accounts payable	\$ 32,869
Wages payable	53,438
Intercompany liabilities	227,684
Interest payable	2,643
Accrued liabilities	21,289
Capital leases	32,835
Bonds payable net of discount	<u>1,276,612</u>
Total liabilities	1,647,390
Net Assets:	
Unrestricted	<u>(587,290)</u>
Total net assets	<u>(587,290)</u>
Total liabilities and net assets	<u>\$ 1,060,099</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
COLLEGE STATION CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2008

ASSETS	
Assets:	
Cash	\$ 158,217
Receivables	144,019
Intercompany receivables	44,640
Other receivables	408
Land	645,330
Buildings and improvements	1,916,661
Furniture and equipment	100,097
Accumulated depreciation	(170,246)
Other assets	64,353
Total assets	<u>\$ 2,903,479</u>
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	\$ 5,321
Wages payable	44,908
Intercompany liabilities	235,495
Interest payable	6,608
Accrued liabilities	25,012
Capital lease	61,384
Bonds payable net of discount	2,922,553
Total liabilities	<u>3,301,281</u>
Net Assets:	
Unrestricted	<u>(397,802)</u>
Total net assets	<u>(397,802)</u>
Total liabilities and net assets	<u>\$ 2,903,479</u>

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
WACO CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2008

ASSETS	
Assets:	
Cash	\$ 302,042
Receivables	147,851
Buildings and improvements	1,339,399
Furniture and equipment	64,182
Accumulated depreciation	(391,225)
Other Assets	15,879
Total assets	<u>\$ 1,498,128</u>
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	\$ 6,512
Wages payable	41,813
Intercompany liabilities	64,076
Interest payable	3,304
Accrued liabilities	18,025
Payroll taxes payable	780
Capital lease	31,951
Bonds payable net of discount	1,426,568
Total liabilities	<u>1,593,028</u>
Net Assets:	
Unrestricted	<u>(94,900)</u>
Total net assets	<u>(94,900)</u>
Total liabilities and net assets	<u>\$ 1,498,128</u>

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
BROWNSVILLE CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2008

<b>ASSETS</b>	
Assets:	
Cash	\$ (120,713)
Receivables	172,500
Other receivables	217,227
Other assets	<u>24,000</u>
Total assets	<u>\$ 293,015</u>

<b>LIABILITIES AND NET ASSETS</b>	
Liabilities:	
Accounts payable	\$ 46,116
Wages payable	37,388
Intercompany liabilities	274,060
Accrued liabilities	14,380
Payroll taxes payable	<u>31</u>
Total liabilities	<u>371,975</u>

Net Assets:	
Unrestricted	<u>(78,961)</u>
Total net assets	<u>(78,961)</u>
Total liabilities and net assets	<u>\$ 293,015</u>

COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF SCIENCE HOUSTON

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2008

<b>ASSETS</b>	
Assets:	
Cash	\$ 114,238
Receivables	157,402
Other receivables	130
Buildings and improvements	<u>1,158,015</u>
Other assets	<u>143,253</u>
Total assets	<u>\$ 1,573,038</u>

<b>LIABILITIES AND NET ASSETS</b>	
Liabilities:	
Accounts payable	\$ 327,940
Wages payable	49,725
Intercompany liabilities	138,404
Interest payable	3,176
Accrued liabilities	16,666
Bonds payable net of discount	<u>1,062,491</u>
Total liabilities	<u>1,598,402</u>

Net Assets:	
Unrestricted	<u>(25,364)</u>
Total net assets	<u>(25,364)</u>
Total liabilities and net assets	<u>\$ 1,573,038</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
LAREDO CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2008

ASSETS	
Assets:	
Cash	\$ (107,242)
Receivables	196,291
Other receivables	65
Furniture and equipment	44,716
Accumulated depreciation	(4,257)
Other assets	23,750
Total assets	<u>\$ 153,324</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 7,935
Wages payable	46,299
Intercompany liabilities	106,000
Accrued liabilities	15,285
Capital leases	44,716
Total liabilities	<u>220,235</u>
Net Assets:	
Unrestricted	<u>(66,912)</u>
Total net assets	<u>(66,912)</u>
Total liabilities and net assets	<u>\$ 153,324</u>

COSMOS FOUNDATION, INC.  
HOUSTON CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2008

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 275,101	\$	\$ 275,101
5750 Revenue from Curricular	202,193		202,193
Total Local Support	<u>477,295</u>		<u>477,295</u>
State Program Revenues			
5810 Foundation School Program Act Revenues		8,774,090	8,774,090
5820 State Program Revenues Distributed by Texas Education Agency		58,331	58,331
Total State Program Revenues		<u>8,832,421</u>	<u>8,832,421</u>
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		870,037	870,037
Total Federal Program Revenues		<u>870,037</u>	<u>870,037</u>
Net assets released from restrictions:			
Restrictions satisfied by payments	9,702,458	(9,702,458)	
Total Revenues	<u>10,179,753</u>		<u>10,179,753</u>
<b>EXPENSES</b>			
11 Instruction	6,056,975		6,056,975
12 Instructional Resources and Media Services	17,046		17,046
13 Curriculum Development and Instructional Staff Development	36,444		36,444
23 School Leadership	896,929		896,929
31 Guidance, Counseling, and Evaluation			
33 Health Services	104,503		104,503
34 Student (Pupil) Transportation	44,750		44,750
35 Food Service	366,137		366,137
36 Curricular/Extracurricular Activities	102,021		102,021
41 General Administration	1,366,371		1,366,371
51 Plant Maintenance and Operations	1,976,620		1,976,620
52 Security and Monitoring Services	15,529		15,529
53 Data Processing Services	64,416		64,416
Total Expenses	<u>11,047,742</u>		<u>11,047,742</u>
Change in Net Assets	(867,989)		(867,989)
Net Assets, Beginning of Year	1,411,859		1,411,859
Net Assets, End of Year	<u>\$ 543,869</u>		<u>\$ 543,869</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
AUSTIN CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2008

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 30,308	\$	\$ 30,308
5750 Revenue from Curricular	70,558		70,558
Total Local Support	100,866		100,866
State Program Revenues			
5810 Foundation School Program Act Revenues		2,238,474	2,238,474
5820 State Program Revenues Distributed by Texas Education Agency		9,851	9,851
Total State Program Revenues		2,248,325	2,248,325
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		160,626	160,626
Total Federal Program Revenues		160,626	160,626
Net assets released from restrictions: Restrictions satisfied by payments	2,408,951	(2,408,951)	
Total Revenues	2,509,817		2,509,817
<b>EXPENSES</b>			
11 Instruction	1,393,694		1,393,694
12 Instructional Resources and Media Services	550		550
13 Curriculum Development and Instructional Staff Development	17,098		17,098
23 School Leadership	184,807		184,807
31 Guidance, Counseling, and Evaluation			
33 Health Services	31,401		31,401
35 Food Service	59,474		59,474
36 Cocurricular/Extracurricular Activities	17,507		17,507
41 General Administration	392,917		392,917
51 Plant Maintenance and Operations	428,392		428,392
52 Security and Monitoring Services	5,366		5,366
53 Data Processing Services	2,156		2,156
Total Expenses	2,533,362		2,533,362
Change in Net Assets	(23,545)		(23,545)
Net Assets, Beginning of Year	346,486		346,486
Net Assets, End of Year	\$ 322,941	\$	\$ 322,941

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF INNOVATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2008

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 5,588,322	\$	\$ 5,588,322
5750 Revenue from Curricular	99,085		99,085
Total Local Support	5,687,407		5,687,407
State Program Revenues			
5810 Foundation School Program Act Revenues		3,142,458	3,142,458
5820 State Program Revenues Distributed by Texas Education Agency		25,824	25,824
Total State Program Revenues		3,168,282	3,168,282
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		243,209	243,209
Total Federal Program Revenues		243,209	243,209
Net assets released from restrictions: Restrictions satisfied by payments	3,411,491	(3,411,491)	
Total Revenues	9,098,898		9,098,898
<b>EXPENSES</b>			
11 Instruction	2,176,446		2,176,446
12 Instructional Resources and Media Services	77,487		77,487
13 Curriculum Development and Instructional Staff Development	10,668		10,668
21 Instructional Leadership	571,452		571,452
23 School Leadership	206,235		206,235
31 Guidance, Counseling, and Evaluation			
33 Health Services	26,045		26,045
35 Food Service	179,423		179,423
36 Cocurricular/Extracurricular Activities	25,875		25,875
41 General Administration	4,005,961		4,005,961
51 Plant Maintenance and Operations	1,178,601		1,178,601
52 Security and Monitoring Services	6,035		6,035
53 Data Processing Services	178,839		178,839
Total Expenses	8,643,066		8,643,066
Change in Net Assets	455,832		455,832
Net Assets, Beginning of Year	367,164		367,164
Net Assets, End of Year	\$ 822,996	\$	\$ 822,996

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
SAN ANTONIO CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2008

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 199,657	\$	\$ 199,657
5750 Revenue from Curricular	70,681		70,681
Total Local Support	270,338		270,338
State Program Revenues:			
5810 Foundation School Program Act Revenues		3,173,678	3,173,678
5820 State Program Revenues Distributed by Texas Education Agency		10,751	10,751
Total State Program Revenues		3,184,429	3,184,429
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		263,146	263,146
Total Federal Program Revenues		263,146	263,146
Net assets released from restrictions: Restrictions satisfied by payments	3,447,575	(3,447,575)	
Total Revenues	3,717,913		3,717,913
<b>EXPENSES</b>			
11 Instruction	1,964,566		1,964,566
12 Instructional Resources and Media Services	10,752		10,752
13 Curriculum Development and Instructional Staff Development	22,592		22,592
23 School Leadership	216,487		216,487
33 Health Services	4,076		4,076
35 Food Service	76,078		76,078
36 Cocurricular/Extra-curricular Activities	25,095		25,095
41 General Administration	650,443		650,443
51 Plant Maintenance and Operations	505,054		505,054
52 Security and Monitoring Services	14,632		14,632
Total Expenses	3,489,774		3,489,774
Change in Net Assets	228,139		228,139
Net Asset, Beginning of Year	393,866		393,866
Net Assets, End of Year	\$ 622,004	\$	\$ 622,004

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
EL PASO CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2008

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
5740 Other Revenues from Local Sources	\$ 36,575	\$	\$ 36,575
5750 Food Service Sales	83,436		83,436
Total Local Support	120,011		120,011
State Program Revenues:			
5810 Foundation School Program Act Revenues		4,033,590	4,033,590
5820 State Program Revenues Distributed by Texas Education Agency		19,200	19,200
Total State Program Revenues		4,052,790	4,052,790
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		375,797	375,797
Total Federal Program Revenues		375,797	375,797
Net assets released from restrictions: Restrictions satisfied by payments	4,428,587	(4,428,587)	
Total Revenues	4,548,598		4,548,598
<b>EXPENSES</b>			
11 Instruction	2,087,552		2,087,552
12 Instructional Resources and Media Services	21,387		21,387
13 Curriculum Development and Instructional Staff Development	41,200		41,200
23 School Leadership	149,378		149,378
33 Health Services	37,873		37,873
35 Food Service	108,917		108,917
36 Cocurricular/Extra-curricular Activities	4,780		4,780
41 General Administration	508,343		508,343
51 Plant Maintenance and Operations	982,829		982,829
52 Security and Monitoring Services	4,185		4,185
Total Expenses	3,946,443		3,946,443
Change in Net Assets	602,156		602,156
Net Assets, Beginning of Year	766,797		766,797
Net Assets, End of Year	\$ 1,368,953	\$	\$ 1,368,953

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF SCIENCE AUSTIN  
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2008

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 136,897	\$	\$ 136,897
5750 Revenue from Curricular	75,107		75,107
Total Local Support	<u>212,004</u>		<u>212,004</u>
State Program Revenues		1,951,528	1,951,528
5810 Foundation School Program Act Revenues			
5820 State Program Revenues Distributed by Texas Education Agency		12,627	12,627
Total State Program Revenues		<u>1,964,155</u>	<u>1,964,155</u>
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		184,235	184,235
Total Federal Program Revenues		<u>184,235</u>	<u>184,235</u>
Net assets released from restrictions: Restrictions satisfied by payments	2,148,390	(2,148,390)	
Total Revenues	<u>2,360,394</u>		<u>2,360,394</u>

	Unrestricted	Temporarily Restricted	Total
<b>EXPENSES</b>			
11 Instruction	1,084,691		1,084,691
12 Instructional Resources and Media Services	10,732		10,732
13 Curriculum Development and Instructional			
23 Staff Development	2,918		2,918
33 School Leadership	245,992		245,992
33 Health Services	32,303		32,303
34 Student (Pupil) Transportation	33,432		33,432
35 Food Service	87,247		87,247
36 Cocurricular/Extracurricular Activities	32,632		32,632
41 General Administration	255,118		255,118
51 Plant Maintenance and Operations	625,780		625,780
52 Security and Monitoring Services	4,280		4,280
53 Data Processing Services	218		218
Total Expenses	<u>2,415,343</u>		<u>2,415,343</u>
Change in Net Assets		(54,949)	(54,949)
Net Assets, Beginning of Year		118,432	118,432
Net Assets, End of Year		<u>\$ 63,483</u>	<u>\$ 63,483</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
FORT WORTH CAMPUS  
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2008

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 111,029	\$	\$ 111,029
5750 Revenue from Curricular	82,465		82,465
Total Local Support	<u>193,494</u>		<u>193,494</u>
State Program Revenues		3,390,143	3,390,143
5810 Foundation School Program Act Revenues			
5820 State Program Revenues Distributed by Texas Education Agency		24,102	24,102
Total State Program Revenues		<u>3,414,245</u>	<u>3,414,245</u>
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		280,642	280,642
Total Federal Program Revenues		<u>280,642</u>	<u>280,642</u>
Net assets released from restrictions: Restrictions satisfied by payments	3,694,887	(3,694,887)	
Total Revenues	<u>3,888,381</u>		<u>3,888,381</u>

	Unrestricted	Temporarily Restricted	Total
<b>EXPENSES</b>			
11 Instruction	1,885,776		1,885,776
12 Instructional Resources and Media Services	11,584		11,584
13 Curriculum Development and Instructional			
23 Staff Development	17,925		17,925
33 School Leadership	253,412		253,412
33 Health Services	37,522		37,522
35 Food Service	73,588		73,588
36 Cocurricular/Extracurricular Activities	32,373		32,373
41 General Administration	500,891		500,891
51 Plant Maintenance and Operations	781,080		781,080
52 Security and Monitoring Services	15,278		15,278
53 Data Processing Services	359		359
Total Expenses	<u>3,609,789</u>		<u>3,609,789</u>
Change in Net Assets		278,592	278,592
Net Assets, Beginning of Year		753,514	753,514
Net Assets, End of Year		<u>\$ 1,032,106</u>	<u>\$ 1,032,106</u>

See accompanying notes to financial statements.



COSMOS FOUNDATION, INC.  
HOUSTON EXCELLENCE CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2008

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 154,404	\$	\$ 154,404
5750 Revenue from Curricular	149,695		149,695
Total Local Support	304,100		304,100
State Program Revenues:			
5810 Foundation School Program Act Revenues		3,619,290	3,619,290
5820 State Program Revenues Distributed by Texas Education Agency		23,874	23,874
Total State Program Revenues		3,643,164	3,643,164
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		151,158	151,158
Total Federal Program Revenues		151,158	151,158
Net assets released from restrictions: Restrictions satisfied by payments	3,794,323	(3,794,323)	
Total Revenues	4,098,423		4,098,423
<b>EXPENSES</b>			
11 Instruction	2,158,589		2,158,589
12 Instructional Resources and Media Services	34,435		34,435
13 Curriculum Development and Instructional Staff Development	19,127		19,127
23 School Leadership	316,977		316,977
33 Health Services	29,766		29,766
35 Food Service	101,272		101,272
36 Cocurricular/Extracurricular Activities	32,073		32,073
41 General Administration	403,543		403,543
51 Plant Maintenance and Operations	957,642		957,642
52 Security and Monitoring Services	4,363		4,363
53 Data Processing Services	16,259		16,259
Total Expenses	4,074,046		4,074,046
Change in Net Assets	24,376		24,376
Net Assets, Beginning of Year	195,222		195,222
Net Assets, End of Year	\$ 219,599	\$	\$ 219,599

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
LUBBOCK CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2008

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 37,388	\$	\$ 37,388
5750 Revenue from Curricular	34,222		34,222
Total Local Support	71,610		71,610
State Program Revenues:			
5810 Foundation School Program Act Revenues		1,648,678	1,648,678
5820 State Program Revenues Distributed by Texas Education Agency		5,299	5,299
Total State Program Revenues		1,653,977	1,653,977
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		369,349	369,349
Total Federal Program Revenues		369,349	369,349
Net assets released from restrictions: Restrictions satisfied by payments	2,023,326	(2,023,326)	
Total Revenues	2,094,936		2,094,936
<b>EXPENSES</b>			
11 Instruction	1,199,913		1,199,913
12 Instructional Resources and Media Services	12,981		12,981
13 Curriculum Development and Instructional Staff Development	24,637		24,637
23 School Leadership	192,861		192,861
33 Health Services	26,729		26,729
35 Food Service	90,779		90,779
36 Cocurricular/Extracurricular Activities	11,849		11,849
41 General Administration	274,293		274,293
51 Plant Maintenance and Operations	324,442		324,442
52 Security and Monitoring Services	2,467		2,467
53 Data Processing Services	10,017		10,017
Total Expenses	2,170,967		2,170,967
Change in Net Assets	(76,031)		(76,031)
Net Assets, Beginning of Year	(211,294)		(211,294)
Net Assets, End of Year	\$ (287,325)	\$	\$ (287,325)

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
BEAUMONT CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2008

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 29,317	\$	\$ 29,317
5750 Revenue from Curricular	69,464		69,464
Total Local Support	98,780		98,780
State Program Revenues:			
5810 Foundation School Program Act Revenues		1,754,773	1,754,773
5820 State Program Revenues Distributed by Texas Education Agency		6,553	6,553
Total State Program Revenues		1,761,326	1,761,326
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		292,342	292,342
Total Federal Program Revenues		292,342	292,342
Net assets released from restrictions: Restrictions satisfied by payments	2,053,668	(2,053,668)	
Total Revenues	2,152,448		2,152,448
<b>EXPENSES</b>			
11 Instruction	1,206,744		1,206,744
13 Curriculum Development and Instructional Staff Development	20,957		20,957
23 School Leadership	200,634		200,634
33 Health Services	675		675
35 Food Service	47,249		47,249
41 General Administration	304,947		304,947
51 Plant Maintenance and Operations	620,961		620,961
52 Security and Monitoring Services	14,109		14,109
53 Data Processing Services	13,310		13,310
Total Expenses	2,429,586		2,429,586
Change in Net Assets	(277,136)		(277,136)
Net Assets, Beginning of Year	(310,154)		(310,154)
Net Assets, End of Year	\$ (587,290)	\$	\$ (587,290)

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
COLLEGE STATION CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2008

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 295,652	\$	\$ 295,652
5750 Revenue from Curricular	78,841		78,841
Total Local Support	374,493		374,493
State Program Revenues:			
5810 Foundation School Program Act Revenues		1,495,833	1,495,833
5820 State Program Revenues Distributed by Texas Education Agency		5,876	5,876
Total State Program Revenues		1,501,709	1,501,709
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		293,130	293,130
Total Federal Program Revenues		293,130	293,130
Net assets released from restrictions: Restrictions satisfied by payments	1,794,839	(1,794,839)	
Total Revenues	2,169,332		2,169,332
<b>EXPENSES</b>			
11 Instruction	1,231,114		1,231,114
12 Instructional Resources and Media Services	7,988		7,988
13 Curriculum Development and Instructional Staff Development	32,255		32,255
23 School Leadership	220,593		220,593
33 Health Services	24,754		24,754
35 Food Service	102,559		102,559
41 General Administration	415,542		415,542
51 Plant Maintenance and Operations	273,214		273,214
52 Security and Monitoring Services	5,540		5,540
Total Expenses	2,313,561		2,313,561
Change in Net Assets	(144,229)		(144,229)
Net Assets, Beginning of Year	(253,573)		(253,573)
Net Assets, End of Year	\$ (397,802)	\$	\$ (397,802)

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
WACO CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2008

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 289,178	\$	\$ 289,178
5750 Revenue from Curricular	33,795		33,795
Total Local Support	322,972		322,972
State Program Revenues:			
5810 Foundation School Program Act Revenues		1,705,411	1,705,411
5820 State Program Revenues Distributed by Texas Education Agency		6,788	6,788
Total State Program Revenues		1,712,199	1,712,199
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		423,834	423,834
Total Federal Program Revenues		423,834	423,834
Net assets released from restrictions: Restrictions satisfied by payments	2,136,033	(2,136,033)	
Total Revenues	2,459,005		2,459,005
<b>EXPENSES</b>			
11 Instruction	1,101,102		1,101,102
12 Instructional Resources and Media Services	538		538
13 Curriculum Development and Instructional Staff Development	11,191		11,191
23 School Leadership	188,446		188,446
33 Health Services	326		326
35 Food Service	98,993		98,993
41 General Administration	314,980		314,980
51 Plant Maintenance and Operations	606,026		606,026
52 Security and Monitoring Services	10,844		10,844
53 Data Processing Services	8,508		8,508
Total Expenses	2,340,954		2,340,954
Change in Net Assets	118,051		118,051
Net Assets, Beginning of Year	(212,951)		(212,951)
Net Assets, End of Year	\$ (94,900)	\$	\$ (94,900)

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
BROWNSVILLE CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2008

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 220,761	\$	\$ 220,761
5750 Revenue from Curricular	8,642		8,642
Total Local Support	229,403		229,403
State Program Revenues:			
5810 Foundation School Program Act Revenues		66,077	66,077
Total State Program Revenues		66,077	66,077
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		106,423	106,423
Total Federal Program Revenues		106,423	106,423
Net assets released from restrictions: Restrictions satisfied by payments	172,500	(172,500)	
Total Revenues	401,904		401,904
<b>EXPENSES</b>			
11 Instruction	95,734		95,734
13 Curriculum Development and Instructional Staff Development	12,478		12,478
23 School Leadership	29,724		29,724
33 Health Services	166		166
35 Food Service	2,784		2,784
41 General Administration	39,792		39,792
51 Plant Maintenance and Operations	298,621		298,621
52 Security and Monitoring Services	1,566		1,566
Total Expenses	480,865		480,865
Change in Net Assets	(78,961)		(78,961)
Net Assets, Beginning of Year	0		0
Net Assets, End of Year	\$ (78,961)	\$	\$ (78,961)

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF SCIENCE HOUSTON

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2008

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 19,340	\$	\$ 19,340
5750 Revenue from Curricular	15,972		15,972
Total Local Support	35,312		35,312
State Program Revenues:			
5810 Foundation School Program Act Revenues		75,500	75,500
Total State Program Revenues		75,500	75,500
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		81,902	81,902
Total Federal Program Revenues		81,902	81,902
Net assets released from restrictions: Restrictions satisfied by payments	157,402	(157,402)	
Total Revenues	192,714		192,714
<b>EXPENSES</b>			
11 Instruction	128,792		128,792
12 Instructional Resources and Media Services	894		894
13 Curriculum Development and Instructional Staff Development	4,249		4,249
23 School Leadership	31,852		31,852
33 Health Services	236		236
35 Food Service	3,544		3,544
41 General Administration	33,770		33,770
51 Plant Maintenance and Operations	14,381		14,381
52 Security and Monitoring Services	360		360
Total Expenses	218,078		218,078
Change in Net Assets	(25,364)		(25,364)
Net Assets, Beginning of Year	0		0
Net Assets, End of Year	\$ (25,364)	\$	\$ (25,364)

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
LAREDO CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2008

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 2,133	\$	\$ 2,133
5750 Revenue from Curricular	20		20
Total Local Support	2,153		2,153
State Program Revenues:			
5810 Foundation School Program Act Revenues		68,404	68,404
Total State Program Revenues		68,404	68,404
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		127,887	127,887
Total Federal Program Revenues		127,887	127,887
Net assets released from restrictions: Restrictions satisfied by payments	196,291	(196,291)	
Total Revenues	198,444		198,444
<b>EXPENSES</b>			
11 Instruction	103,365		103,365
13 Curriculum Development and Instructional Staff Development	3,029		3,029
23 School Leadership	30,911		30,911
35 Food Service	2,414		2,414
41 General Administration	59,144		59,144
51 Plant Maintenance and Operations	64,492		64,492
52 Security and Monitoring Services	2,091		2,091
Total Expenses	265,356		265,356
Change in Net Assets	(66,912)		(66,912)
Net Assets, Beginning of Year	0		0
Net Assets, End of Year	\$ (66,912)	\$	\$ (66,912)

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
HOUSTON CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2008

Cash Flows From Operating Activities	
Change in net assets	\$ (867,989)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	378,731
(Increase) decrease in accounts receivable	545,220
(Increase) decrease in intercompany receivable	354,574
(Increase) decrease in other assets	191,412
Increase (decrease) in accounts payable	(345,949)
Increase (decrease) in intercompany payable	362,860
Increase ( decrease ) in interest payable	53
Net Cash Provided (Used) by Operating Activities	<u>618,912</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(565,010)
Net Cash Provided (Used) by Investing Activities	<u>(565,010)</u>
Cash Flows From Financing Activities	
Proceeds from loans	58,881
Repayment of long-term debt	(207,863)
Net Cash Provided (Used) by Financing Activities	<u>(148,982)</u>
NET INCREASE ( DECREASE ) IN CASH	(95,080)
CASH AT BEGINNING OF YEAR	410,419
CASH AT END OF YEAR	<u>\$ 315,339</u>
Supplemental Disclosures:	
Cash Paid During the Year for:	
Interest	<u>\$ (272,941)</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
AUSTIN CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2008

Cash Flows From Operating Activities	
Change in net assets	\$ (23,545)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	28,375
(Increase) decrease in accounts receivable	(79,222)
(Increase) decrease in intercompany receivable	150,986
(Increase) decrease in other assets	(155,133)
Increase (decrease) in accounts payable	58,569
Increase (decrease) in intercompany payable	40,498
Increase (decrease) in payroll taxes	15
Increase ( decrease ) in interest payable	5,999
Net Cash Provided (Used) by Operating Activities	<u>26,542</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	(42,752)
Net Cash Provided (Used) by Investing Activities	<u>(42,752)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	2,065,945
Net Cash Provided (Used) by Financing Activities	<u>2,065,945</u>
NET INCREASE ( DECREASE ) IN CASH	2,049,732
CASH AT BEGINNING OF YEAR	84,802
CASH AT END OF YEAR	<u>\$ 2,134,534</u>
Supplemental Disclosures:	
Cash Paid During the Year for:	
Interest	<u>\$ 47,589</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF INNOVATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2008

Cash Flows From Operating Activities	
Change in net assets	\$ 455,832
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	86,390
(Increase) decrease in accounts receivable	(420,201)
(Increase) decrease in intercompany receivable	460,103
(Increase) decrease in other assets	(325,033)
Increase (decrease) in accounts payable	485,736
Increase (decrease) in intercompany payable	(171,447)
Increase (decrease) in payroll taxes	(9,678)
Increase ( decrease ) in interest payable	1,191
Net Cash Provided (Used) by Operating Activities	<u>562,893</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(485,331)
Net Cash Provided (Used) by Investing Activities	<u>(485,331)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	482,158
Repayment of long-term debt	(61,147)
Net Cash Provided (Used) by Financing Activities	<u>421,011</u>
NET INCREASE ( DECREASE ) IN CASH	498,573
CASH AT BEGINNING OF YEAR	8,466,289
CASH AT END OF YEAR	<u>\$ 8,964,862</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	\$ 520,601

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
SAN ANTONIO CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2008

Cash Flows From Operating Activities	
Change in net assets	\$ 228,139
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	96,408
Loss on disposal	180,806
(Increase) decrease in accounts receivable	136,960
(Increase) decrease in intercompany receivable	(497,726)
(Increase) decrease in other assets	(20,148)
Increase (decrease) in accounts payable	293,009
Increase (decrease) in intercompany payable	(110,786)
Increase ( decrease ) in interest payable	8,218
Net Cash Provided (Used) by Operating Activities	<u>314,880</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(6,853,754)
Disposal of fixed assets	(315,794)
Net Cash Provided (Used) by Investing Activities	<u>(7,169,548)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	2,833,300
Net Cash Provided (Used) by Financing Activities	<u>2,833,300</u>
NET INCREASE ( DECREASE ) IN CASH	(4,021,368)
CASH AT BEGINNING OF YEAR	5,603,134
CASH AT END OF YEAR	<u>\$ 1,581,766</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	\$ 515,896

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
EL PASO CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2008

Cash Flows From Operating Activities	
Change in net assets	\$ 602,156
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	32,327
(Increase) decrease in accounts receivable	265,820
(Increase) decrease in intercompany receivable	(542,022)
(Increase) decrease in other assets	(49,223)
Increase (decrease) in accounts payable	52,865
Increase (decrease) in intercompany payable	(88,259)
Increase ( decrease ) in interest payable	3,175
	<u>276,839</u>
Net Cash Provided (Used) by Operating Activities	
Cash Flows From Investing Activities	
Purchase of fixed assets	(40,929)
Net Cash Provided (Used) by Investing Activities	<u>(40,929)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	1,062,491
Repayment of long-term debt	(18,076)
Net Cash Provided (Used) by Financing Activities	<u>1,044,415</u>
NET INCREASE ( DECREASE ) IN CASH	1,280,325
CASH AT BEGINNING OF YEAR	113,323
CASH AT END OF YEAR	<u>\$ 1,393,648</u>
Supplemental Disclosures:	
Cash Paid During the Year for:	
Interest	\$ 27,991

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
FORT WORTH CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2008

Cash Flows From Operating Activities	
Change in net assets	\$ 278,592
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	197,303
(Increase) decrease in accounts receivable	81,818
(Increase) decrease in intercompany receivable	(374,864)
(Increase) decrease in other assets	(580,106)
Increase (decrease) in accounts payable	414,020
Increase (decrease) in intercompany payable	(48,472)
Increase ( decrease ) in payroll taxes	5,145
Increase ( decrease ) in interest payable	33,169
	<u>6,605</u>
Net Cash Provided (Used) by Operating Activities	
Cash Flows From Investing Activities	
Purchase of fixed assets	(2,182,963)
Net Cash Provided (Used) by Investing Activities	<u>(2,182,963)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	11,117,807
Repayment of Long-Term Debt	(680,197)
Net Cash Provided (Used) by Financing Activities	<u>10,437,610</u>
NET INCREASE ( DECREASE ) IN CASH	8,261,252
CASH AT BEGINNING OF YEAR	178,441
CASH AT END OF YEAR	<u>\$ 8,439,693</u>
Supplemental Disclosures:	
Cash Paid During the Year for:	
Interest	\$ 306,138

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF SCIENCE AUSTIN  
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2008

Cash Flows From Operating Activities	\$	(54,949)
Change in net assets		
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	49,061	
(Increase) decrease in accounts receivable	(23,433)	
(Increase) decrease in other assets	(2,804)	
Increase (decrease) in accounts payable	203,588	
Increase (decrease) in intercompany payable	(189,695)	
Increase (decrease) in payroll taxes	(99)	
Increase ( decrease ) in interest payable	1,588	
Net Cash Provided (Used) by Operating Activities	<u>(16,743)</u>	
Cash Flows From Investing Activities		
Purchase of fixed assets	(414,456)	
Net Cash Provided (Used) by Investing Activities	<u>(414,456)</u>	
Cash Flows From Financing Activities		
Proceeds from bonds and loans	472,441	
Repayment of Long-Term Debt	(11,323)	
Net Cash Provided (Used) by Financing Activities	<u>461,118</u>	
NET INCREASE ( DECREASE ) IN CASH	29,919	
CASH AT BEGINNING OF YEAR	114,642	
CASH AT END OF YEAR	<u>\$ 144,561</u>	
Supplemental Disclosures:		
Cash Paid During the Year for:		
Interest	<u>\$ 16,587</u>	

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
HOUSTON EXCELLENCE CAMPUS  
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2008

Cash Flows From Operating Activities	\$	24,376
Change in net assets		
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	45,520	
(Increase) decrease in accounts receivable	709,767	
(Increase) decrease in other assets	(543,340)	
Increase (decrease) in accounts payable	(526,249)	
Increase (decrease) in intercompany payable	(85,622)	
Increase ( decrease ) in interest payable	33,876	
Net Cash Provided (Used) by Operating Activities	<u>(341,672)</u>	
Cash Flows From Investing Activities		
Purchase of fixed assets	(3,637,721)	
Net Cash Provided (Used) by Investing Activities	<u>(3,637,721)</u>	
Cash Flows From Financing Activities		
Proceeds from bonds and loans	11,333,239	
Repayment of Long-Term Debt	(9,459)	
Net Cash Provided (Used) by Financing Activities	<u>11,323,780</u>	
NET INCREASE ( DECREASE ) IN CASH	7,344,387	
CASH AT BEGINNING OF YEAR	(22,314)	
CASH AT END OF YEAR	<u>\$ 7,322,073</u>	
Supplemental Disclosures:		
Cash Paid During the Year for:		
Interest	<u>\$ 271,943</u>	

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
LUBBOCK CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2008

Cash Flows From Operating Activities	
Change in net assets	\$ (76,031)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	76,386
(Increase) decrease in accounts receivable	44,744
(Increase) decrease in other assets	(32,622)
Increase (decrease) in accounts payable	39,311
(Increase) decrease in intercompany payable	65,848
Increase (decrease) in payroll taxes	(1,54)
Increase ( decrease ) in interest payable	3,171
Net Cash Provided (Used) by Operating Activities	<u>120,653</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	<u>(1,122,990)</u>
Net Cash Provided (Used) by Investing Activities	<u>(1,122,990)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	992,874
Net Cash Provided (Used) by Financing Activities	<u>992,874</u>
NET INCREASE (DECREASE) IN CASH	(9,463)
CASH AT THE BEGINNING OF THE YEAR	77,254
CASH AT END OF YEAR	<u>\$ 67,791</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	\$ 80,331

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
BEAUMONT CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2008

Cash Flows From Operating Activities	
Change in net assets	\$ (277,136)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	250,534
(Increase) decrease in accounts receivable	51,132
(Increase) decrease in other assets	53,957
Increase (decrease) in accounts payable	13,627
Increase (decrease) in intercompany payable	44,351
Increase ( decrease ) in interest payable	(479)
Net Cash Provided (Used) by Operating Activities	<u>135,986</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	<u>(15,850)</u>
Net Cash Provided (Used) by Investing Activities	<u>(15,850)</u>
Cash Flows From Financing Activities	
Repayment of Long-Term Debt	(118,577)
Net Cash Provided (Used) by Financing Activities	<u>(118,577)</u>
NET INCREASE (DECREASE) IN CASH	1,559
CASH AT THE BEGINNING OF THE YEAR	49,185
CASH AT END OF YEAR	<u>\$ 50,744</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	\$ 81,030

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
COLLEGE STATION CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2008

Cash Flows From Operating Activities	
Change in net assets	\$ (144,229)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	119,921
(Increase) decrease in accounts receivable	(17,011)
(Increase) decrease in other assets	171,381
(Increase) decrease in intercompany receivable	(44,640)
Increase (decrease) in accounts payable	24,318
Increase (decrease) in intercompany payable	113,516
Increase (decrease) in payroll taxes	522
Increase ( decrease ) in interest payable	(3,402)
Net Cash Provided (Used) by Operating Activities	<u>220,376</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(246,125)
Net Cash Provided (Used) by Investing Activities	<u>(246,125)</u>
Cash Flows From Financing Activities	
Repayment of Long-Term Debt	(1,485,032)
Net Cash Provided (Used) by Financing Activities	<u>(1,485,032)</u>
NET INCREASE ( DECREASE ) IN CASH	(1,510,781)
CASH AT THE BEGINNING OF YEAR	1,668,998
CASH AT END OF YEAR	<u>\$ 158,217</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	<u>\$ 158,735</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
WACO CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2008

Cash Flows From Operating Activities	
Change in net assets	\$ 118,051
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	290,802
(Increase) decrease in accounts receivable	(21,946)
(Increase) decrease in other assets	39,762
Increase (decrease) in intercompany payable	28,195
Increase (decrease) in intercompany payable	(25,924)
Increase ( decrease ) in interest payable	834
Net Cash Provided (Used) by Operating Activities	<u>429,774</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(450,987)
Net Cash Provided (Used) by Investing Activities	<u>(450,987)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	322,892
Net Cash Provided (Used) by Financing Activities	<u>322,892</u>
NET INCREASE ( DECREASE ) IN CASH	301,679
CASH AT THE BEGINNING OF THE YEAR	363
CASH AT END OF YEAR	<u>\$ 302,042</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	<u>\$ 86,310</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
BROWNSVILLE CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2008

Cash Flows From Operating Activities	
Change in net assets	\$ (78,961)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
(Increase) decrease in accounts receivable	(172,500)
(Increase) decrease in other assets	(241,227)
Increase (decrease) in accounts payable	97,884
Increase (decrease) in intercompany payable	274,060
Increase (decrease) in payroll taxes	31
	<u>31</u>
Net Cash Provided (Used) by Operating Activities	<u>(120,713)</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(120,713)
	<u>(120,713)</u>
NET INCREASE ( DECREASE ) IN CASH	
CASH AT THE BEGINNING OF YEAR	
CASH AT END OF YEAR	

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF SCIENCE HOUSTON

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2008

Cash Flows From Operating Activities	
Change in net assets	\$ (25,364)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
(Increase) decrease in accounts receivable	(157,532)
(Increase) decrease in other assets	(143,253)
Increase (decrease) in intercompany payable	138,404
Increase (decrease) in accounts payable	394,331
Increase ( decrease ) in interest payable	3,176
	<u>3,176</u>
Net Cash Provided (Used) by Operating Activities	<u>209,762</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(1,158,015)
	<u>(1,158,015)</u>
NET INCREASE ( DECREASE ) IN CASH	
CASH AT THE BEGINNING OF YEAR	
CASH AT END OF YEAR	
	<u>\$ 114,238</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	\$ 25,194

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
LAREDO CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2008

Cash Flows From Operating Activities	
Change in net assets	\$ (66,912)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	4,257
(Increase) decrease in accounts receivable	(196,356)
(Increase) decrease in other assets	(23,750)
Increase (decrease) in accounts payable	69,519
Increase (decrease) in Intercampany Payable	106,000
Net Cash Provided (Used) by Operating Activities	<u>(107,242)</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(44,716)
Net Cash Provided (Used) by Investing Activities	<u>(44,716)</u>
Cash Flows From Financing Activities	
Proceeds from loans	44,716
Net Cash Provided (Used) by Financing Activities	<u>44,716</u>
NET INCREASE ( DECREASE ) IN CASH	(107,242)
CASH AT THE BEGINNING OF YEAR	<u>\$ (107,242)</u>
CASH AT END OF YEAR	

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
HOUSTON CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2008

Expenses	
6100 Payroll Costs	\$ 6,157,490
6200 Professional and Contracted Services	3,235,434
6300 Supplies and Materials	578,952
6400 Other Operating Costs	762,496
6500 Debt	313,370
Total Expenses	<u>\$ 11,047,742</u>

COSMOS FOUNDATION, INC.  
AUSTIN CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2008

<b>Expenses</b>	
6100 Payroll Costs	\$ 1,371,499
6200 Professional and Contracted Services	761,733
6300 Supplies and Materials	178,366
6400 Other Operating Costs	171,083
6500 Debt	<u>50,682</u>
Total Expenses	<u>\$ 2,533,362</u>

COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF INNOVATION

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2008

<b>Expenses</b>	
6100 Payroll Costs	\$ 3,812,012
6200 Professional and Contracted Services	1,998,916
6300 Supplies and Materials	665,271
6400 Other Operating Costs	1,562,604
6500 Debt	<u>604,262</u>
Total Expenses	<u>\$ 8,643,066</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
SAN ANTONIO CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2008

<b>Expenses</b>	
6100 Payroll Costs	\$ 1,404,795
6200 Professional and Contracted Services	896,022
6300 Supplies and Materials	219,708
6400 Other Operating Costs	386,053
6500 Debt	583,195
<b>Total Expenses</b>	<b>\$ 3,489,774</b>

COSMOS FOUNDATION, INC.  
EL PASO CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2008

<b>Expenses</b>	
6100 Payroll Costs	\$ 1,742,329
6200 Professional and Contracted Services	1,583,518
6300 Supplies and Materials	371,713
6400 Other Operating Costs	219,255
6500 Debt	29,628
<b>Total Expenses</b>	<b>\$ 3,946,443</b>

See accompanying notes to financial statements.

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See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
FORT WORTH CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2008

<b>Expenses</b>	
6100 Payroll Costs	\$ 1,615,390
6200 Professional and Contracted Services	946,994
6300 Supplies and Materials	324,979
6400 Other Operating Costs	399,188
6500 Debt	323,239
Total Expenses	<u>\$ 3,609,789</u>

COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF SCIENCE AUSTIN

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2008

<b>Expenses</b>	
6100 Payroll Costs	\$ 1,158,363
6200 Professional and Contracted Services	954,957
6300 Supplies and Materials	159,935
6400 Other Operating Costs	124,682
6500 Debt	17,405
Total Expenses	<u>\$ 2,415,343</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
HOUSTON EXCELLENCE CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2008

<b>Expenses</b>	
6100 Payroll Costs	\$ 1,883,896
6200 Professional and Contracted Services	1,409,455
6300 Supplies and Materials	325,368
6400 Other Operating Costs	165,920
6500 Debt	289,407
Total Expenses	<u>\$ 4,074,046</u>

COSMOS FOUNDATION, INC.  
LUBBOCK CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2008

<b>Expenses</b>	
6100 Payroll Costs	\$ 1,070,468
6200 Professional and Contracted Services	522,981
6300 Supplies and Materials	242,348
6400 Other Operating Costs	244,081
6500 Debt	91,091
Total Expenses	<u>\$ 2,170,967</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.



COSMOS FOUNDATION, INC.  
BEAUMONT CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2008

<b>Expenses</b>	
6100 Payroll Costs	\$ 1,087,522
6200 Professional and Contracted Services	673,781
6300 Supplies and Materials	238,308
6400 Other Operating Costs	337,024
6500 Debt	92,951
<b>Total Expenses</b>	<b>\$ 2,429,586</b>

COSMOS FOUNDATION, INC.  
COLLEGE STATION CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2008

<b>Expenses</b>	
6100 Payroll Costs	\$ 1,080,870
6200 Professional and Contracted Services	485,379
6300 Supplies and Materials	298,295
6400 Other Operating Costs	252,037
6500 Debt	196,980
<b>Total Expenses</b>	<b>\$ 2,313,561</b>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
WACO CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2008

<b>Expenses</b>	
6100 Payroll Costs	\$ 998,240
6200 Professional and Contracted Services	653,142
6300 Supplies and Materials	199,480
6400 Other Operating Costs	394,345
6500 Debt	95,748
Total Expenses	<u>\$ 2,340,954</u>

COSMOS FOUNDATION, INC.  
BROWNSVILLE CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2008

<b>Expenses</b>	
6100 Payroll Costs	\$ 74,525
6200 Professional and Contracted Services	294,959
6300 Supplies and Materials	65,047
6400 Other Operating Costs	46,334
Total Expenses	<u>\$ 480,865</u>

See accompanying notes to financial statements.  
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See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF SCIENCE HOUSTON

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2008

<b>Expenses</b>	
6100 Payroll Costs	\$ 89,970
6200 Professional and Contracted Services	18,048
6300 Supplies and Materials	54,771
6400 Other Operating Costs	28,457
6500 Debt	<u>26,832</u>
<b>Total Expenses</b>	<b>\$ <u>218,078</u></b>

COSMOS FOUNDATION, INC.  
LAREDO CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2008

<b>Expenses</b>	
6100 Payroll Costs	\$ 77,686
6200 Professional and Contracted Services	77,146
6300 Supplies and Materials	65,519
6400 Other Operating Costs	<u>45,005</u>
<b>Total Expenses</b>	<b>\$ <u>265,356</u></b>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
HOUSTON CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2008

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 315,339	\$ 0
1510 Land and Improvements	0	860,000	0
1520 Buildings and Improvements	0	4,817,656	0
1539 Furniture and Equipment	0	508,496	0
Total Property and Equipment	\$ 0	\$ 6,501,491	\$ 0

COSMOS FOUNDATION, INC.  
AUSTIN CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2008

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 2,134,534	\$ 0
1520 Buildings and Improvements	0	79,125	0
1539 Furniture and Equipment	0	90,653	7,133
Total Property and Equipment	\$ 0	\$ 2,304,312	\$ 7,133

See accompanying notes to financial statements.

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF INNOVATION

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2008

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 8,964,860	\$ 0
1520 Buildings and Improvements:	0	1,182,521	0
1539 Furniture and Equipment	0	141,726	2,000
Total Property and Equipment	\$ 0	\$10,289,107	\$ 2,000

COSMOS FOUNDATION, INC.  
SAN ANTONIO CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2008

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 1,581,766	\$ 0
1510 Land and Improvements	0	1,474,232	0
1520 Buildings and Improvements	0	7,156,495	0
1539 Furniture and Equipment	0	108,109	7,086
Total Property and Equipment	\$ 0	\$10,320,602	\$ 7,086

See accompanying notes to financial statements.

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
EL PASO CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2008

	Ownership Interest		
	Local	State	Federal
1110 Cash	0	\$ 1,393,648	\$ 0
1520 Buildings and Improvements:	0	30,354	37,650
1539 Furniture and Equipment	0	99,476	23,837
Total Property and Equipment	<u>0</u>	<u>\$ 1,523,479</u>	<u>\$ 61,487</u>

COSMOS FOUNDATION, INC.  
FORT WORTH CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2008

	Ownership Interest		
	Local	State	Federal
1110 Cash	0	\$ 8,439,693	\$ 0
1510 Land and Improvements:	0	1,074,539	0
1520 Buildings and Improvements	0	1,954,847	0
1539 Furniture and Equipment	0	61,271	6,661
Total Property and Equipment	<u>0</u>	<u>\$ 11,530,370</u>	<u>\$ 6,661</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
 HARMONY SCHOOL OF SCIENCE AUSTIN  
 SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2008

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 144,561	\$ 0
1520 Buildings and Improvements	0	500,381	0
1539 Furniture and Equipment	0	48,822	6,945
Total Property and Equipment	<u>0</u>	<u>693,764</u>	<u>6,945</u>

COSMOS FOUNDATION, INC.  
 HOUSTON EXCELLENCE CAMPUS  
 SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2008

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 7,322,073	\$ 0
1510 Land	0	3,085,000	0
1520 Buildings and Improvements	0	547,571	0
1539 Furniture and Equipment	0	148,146	11,652
Total Property and Equipment	<u>0</u>	<u>\$ 11,102,790</u>	<u>\$ 11,652</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
LUSBOCK CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2008

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 67,791	\$ 0
1510 Land	0	60,893	0
1520 Buildings and Improvements	0	1,857,619	0
1539 Furniture and Equipment	0	59,828	0
Total Property and Equipment	<u>\$ 0</u>	<u>\$ 2,046,131</u>	<u>\$ 0</u>

COSMOS FOUNDATION, INC.  
BEAUMONT CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2008

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 50,744	\$ 0
1520 Buildings and Improvements	0	1,162,040	0
1539 Furniture and Equipment	0	74,299	0
Total Property and Equipment	<u>\$ 0</u>	<u>\$ 1,287,083</u>	<u>\$ 0</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.



COSMOS FOUNDATION, INC.  
COLLEGE STATION CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2008

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 158,217	\$ 0
1510 Land	0	645,330	0
1520 Buildings and Improvements	0	1,916,661	0
1539 Furniture and Equipment	0	85,748	14,349
Total Property and Equipment	<u>\$ 0</u>	<u>\$ 2,805,957</u>	<u>\$ 14,349</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
WACO CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2008

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 302,042	\$ 0
1520 Buildings and Improvements	0	1,359,399	0
1539 Furniture and Equipment	0	47,453	16,729
Total Property and Equipment	<u>\$ 0</u>	<u>\$ 1,708,894</u>	<u>\$ 16,729</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
BROWNSVILLE CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2008

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ (120,713)	\$ 0
Total Property and Equipment	\$ 0	\$ (120,713)	\$ 0

COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF SCIENCE HOUSTON

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2008

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 114,238	\$ 0
1520 Buildings and Improvements	0	1,158,015	0
Total Property and Equipment	\$ 0	\$ 1,272,253	\$ 0

See accompanying notes to financial statements.

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
LAREDO CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2008

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ (107,242)	\$ 0
1539 Furniture and Equipment	0	44,716	0
Total Property and Equipment	<u>0</u>	<u>\$(62,525)</u>	<u>0</u>

COSMOS FOUNDATION, INC.  
HOUSTON CAMPUS

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2008

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 182,664	\$ 276,908	\$ 275,101	\$ (1,807)
5750 Food Service Sales	49,500	206,350	202,193	(4,157)
Total Local Support	<u>232,164</u>	<u>483,258</u>	<u>477,295</u>	<u>(5,963)</u>
State Program Revenues:				
5810 Foundation School Program Act Revenues	8,816,000	8,816,000	8,774,090	(41,910)
5820 State Program Revenues Distributed by Texas Education Agency	36,000	58,331	58,331	
Total State Program Revenues	<u>8,852,000</u>	<u>8,874,331</u>	<u>8,832,421</u>	<u>(41,910)</u>
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	712,933	865,697	870,037	4,340
Total Federal Program Revenues	<u>712,933</u>	<u>865,697</u>	<u>870,037</u>	<u>4,340</u>
Total Revenues	<u>9,797,097</u>	<u>10,223,286</u>	<u>10,179,753</u>	<u>(43,533)</u>
<b>EXPENSES</b>				
11 Instruction	5,559,620	6,346,165	6,056,975	289,190
12 Instructional Resources and Media Services	14,250	17,400	17,046	354
13 Curriculum Development and Instructional Staff Development	64,250	36,655	36,444	211
23 School Leadership	900,581	927,931	896,929	31,002
31 Guidance, Counseling, and Evaluation	106,475	112,725	104,503	8,223
33 Health Services	45,000	46,000	44,750	1,250
34 Student (Pupil) Transportation	352,000	371,345	366,137	5,208
35 Food Service		103,250	102,021	1,229
36 Co-curricular/Extracurricular Activities	1,082,280	1,390,030	1,366,371	23,659
41 General Administration	1,485,626	2,010,754	1,976,620	34,134
51 Plant Maintenance and Operations	26,269	16,320	15,529	791
52 Security and Monitoring Services	54,258	68,508	64,416	4,092
53 Data Processing Services	9,690,609	11,447,083	11,047,742	399,341
Total Expenses	<u>106,488</u>	<u>(1,223,797)</u>	<u>(867,989)</u>	<u>355,808</u>
Change in Net Assets	1,411,859	1,411,859	1,411,859	
Net Assets, Beginning of Year	<u>\$ 1,518,347</u>	<u>\$ 188,062</u>	<u>\$ 543,869</u>	<u>\$ 1,767,666</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
AUSTIN CAMPUS

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2008

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 6,500	\$ 32,150	\$ 30,308	\$ (1,842)
5750 Food Service Sales	17,000	73,250	70,558	(2,692)
Total Local Support	23,500	105,400	100,866	(4,534)
State Program Revenues:				
5810 Foundation School Program Act Revenues	2,040,000	2,280,000	2,238,474	(41,526)
5820 State Program Revenues Distributed by Texas Education Agency	8,367	10,017	9,851	(166)
Total State Program Revenues	2,048,367	2,290,017	2,248,325	(41,692)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	156,343	160,571	160,626	55
Total Federal Program Revenues	156,343	160,571	160,626	55
Total Revenues	2,228,210	2,555,988	2,519,817	(46,171)
<b>EXPENSES</b>				
11 Instruction	1,269,497	1,464,509	1,393,694	70,815
12 Instructional Resources and Media Services	12,500	575	550	26
13 Curriculum Development and Instructional Staff Development	13,500	17,467	17,098	369
23 School Leadership	214,674	192,380	184,807	7,573
33 Health Services	9,250	33,750	31,401	2,349
35 Food Service	65,000	61,100	59,474	1,626
36 Curricular/Extracurricular Activities	221,880	18,750	17,507	1,243
41 General Administration	360,500	469,900	392,917	16,983
51 Plant Maintenance and Operations	3,850	462,900	428,392	34,508
52 Security and Monitoring Services	5,000	5,700	5,366	334
53 Data Processing Services	2,175,651	2,200	2,156	44
Total Expenses	2,175,651	2,669,231	2,533,362	135,869
Change in Net Assets	52,559	(113,243)	(23,545)	89,698
Net Assets, Beginning of Year	298,637	298,637	346,486	
Net Assets, End of Year	\$ 351,196	\$ 185,394	\$ 322,941	\$ 89,698

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF INNOVATION

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2008

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 3,791,865	\$ 5,688,000	\$ 5,588,322	\$ (99,678)
5750 Food Service Sales	45,000	102,000	99,085	(2,915)
Total Local Support	3,836,865	5,790,000	5,687,407	(102,593)
State Program Revenues:				
5810 Foundation School Program Act Revenues	3,234,000	3,234,000	3,142,458	(91,542)
5820 State Program Revenues Distributed by Texas Education Agency	14,307	25,669	25,824	155
Total State Program Revenues	3,248,307	3,259,669	3,168,282	(91,387)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	231,488	254,266	243,209	(11,057)
Total Federal Program Revenues	231,488	254,266	243,209	(11,057)
Total Revenues	7,316,660	9,303,935	9,098,898	(205,037)
<b>EXPENSES</b>				
11 Instruction	1,906,450	2,336,123	2,176,446	179,677
12 Instructional Resources and Media Services	83,942	84,311	77,487	6,824
13 Curriculum Development and Instructional Staff Development	11,000	14,685	10,668	4,017
21 Instructional Leadership	812,881	590,000	571,452	18,548
23 School Leadership	264,968	218,808	206,235	12,573
31 Guidance, Counseling, and Evaluation				
33 Health Services	33,814	28,314	26,045	2,269
34 Student (Pupil) Transportation	17,500			
35 Food Service	159,500	182,500	179,423	3,077
36 Curricular/Extracurricular Activities		26,800	25,875	926
41 General Administration	3,456,407	4,087,726	4,005,961	81,765
51 Plant Maintenance and Operations	1,300,751	1,280,500	1,178,601	101,899
52 Security and Monitoring Services	15,398	6,419	6,035	384
53 Data Processing Services	204,876	190,000	178,839	11,161
Total Expenses	8,267,487	9,066,186	8,643,066	423,120
Change in Net Assets	(950,827)	237,749	455,832	218,083
Net Assets, Beginning of Year	367,164	367,164	367,164	
Net Assets, End of Year	\$ (583,663)	\$ 604,913	\$ 822,996	\$ 218,083

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
SAN ANTONIO CAMPUS

BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2008

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 36,000	\$ 203,550	\$ 199,657	\$ (3,893)
5750 Revenue from Curricular	17,838	77,540	70,681	(6,859)
Total Local Support	53,838	281,090	270,338	(10,752)
State Program Revenues:				
5810 Foundation School Program Act Revenues	3,720,000	3,206,475	3,173,678	(32,797)
5820 State Program Revenue Distributed by Texas Education Agency	12,550	9,994	10,751	757
Total State Program Revenues	3,732,550	3,216,469	3,184,429	(32,040)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	249,172	263,903	263,146	(757)
Total Federal Program Revenues	249,172	263,903	263,146	(757)
Total Revenues	4,035,560	3,761,462	3,717,913	(43,549)
<b>EXPENSES</b>				
11 Instruction	2,081,454	2,034,261	1,964,566	69,695
12 Instructional Resources and Media Services	3,500	11,350	10,752	598
13 Curriculum Development and Instructional Staff Development	13,250	23,398	22,592	806
23 School Leadership	260,558	229,021	216,487	12,534
33 Health Services	39,579	4,326	4,076	250
35 Food Service	88,338	76,078	76,078	0
36 Co-curricular/Extracurricular Activities	26,100	26,095	25,095	1,005
41 General Administration	407,100	675,186	650,443	24,743
51 Plant Maintenance and Operations	585,675	521,803	505,054	16,749
52 Security and Monitoring Services	12,782	16,386	14,632	1,754
53 Data Processing Services	1,800			
Total Expenses	3,494,036	3,617,909	3,489,774	128,135
Change in Net Assets	541,524	143,553	228,139	84,586
Net Assets, Beginning of Year	393,866	393,866	393,866	0
Net Assets, End of Year	<u>\$ 935,390</u>	<u>\$ 537,419</u>	<u>\$ 622,004</u>	<u>\$ 84,586</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
EL PASO CAMPUS

BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2008

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 4,000	\$ 38,150	\$ 36,575	\$ (1,575)
5750 Food Service Sales	22,000	88,000	83,436	(4,564)
Total Local Support	26,000	126,150	120,011	(6,139)
State Program Revenues:				
5810 Foundation School Program Act Revenues	3,998,959	4,045,959	4,033,590	(12,369)
5820 State Program Revenues Distributed by Texas Education Agency	13,700	20,577	19,200	(1,377)
Total State Program Revenues	4,012,659	4,066,536	4,052,790	(13,746)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	303,320	379,229	375,797	(3,432)
Total Federal Program Revenues	303,320	379,229	375,797	(3,432)
Total Revenues	4,341,979	4,571,915	4,548,598	(23,317)
<b>EXPENSES</b>				
11 Instruction	1,996,763	2,289,658	2,087,552	202,106
12 Instructional Resources and Media Services	17,500	21,500	21,387	113
13 Curriculum Development and Instructional Staff Development	38,550	43,936	41,200	2,736
23 School Leadership	129,963	164,463	149,378	15,085
33 Health Services	39,935	42,060	37,873	4,187
35 Food Service	82,000	111,500	108,917	2,583
36 Co-curricular/Extracurricular Activities	404,300	520,475	4,780	(4,780)
41 General Administration	812,500	1,004,192	508,343	12,132
51 Plant Maintenance and Operations	20,000	4,500	982,829	21,363
52 Security and Monitoring Services	5,000		4,185	316
53 Data Processing Services				
Total Expenses	3,546,511	4,202,284	3,946,443	255,841
Change in Net Assets	795,468	369,631	602,156	232,525
Net Asset, Beginning of Year	60,831	60,831	766,797	0
Net Assets, End of Year	<u>\$ 856,299</u>	<u>\$ 430,462</u>	<u>\$ 1,368,953</u>	<u>\$ 232,525</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF SCIENCE AUSTIN  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2008

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 10,500	\$ 52,400	\$ 136,897	\$ 84,497
5750 Revenues from Curricular	17,000	76,500	75,107	(1,393)
Total Local Support	27,500	128,900	212,004	83,104
State Program Revenues:				
5810 Foundation School Program Act Revenues	2,011,000	2,011,000	1,951,528	(59,472)
5820 State Program Revenues Distributed by Texas Education Agency	7,500	8,150	12,627	4,477
Total State Program Revenues	2,018,500	2,019,150	1,964,155	(54,995)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	177,543	185,063	184,235	(828)
Total Federal Program Revenues	177,543	185,063	184,235	(828)
Total Revenues	2,223,543	2,333,113	2,360,394	27,281

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 10,500	\$ 52,400	\$ 136,897	\$ 84,497
5750 Revenues from Curricular	17,000	76,500	75,107	(1,393)
Total Local Support	27,500	128,900	212,004	83,104
State Program Revenues:				
5810 Foundation School Program Act Revenues	2,011,000	2,011,000	1,951,528	(59,472)
5820 State Program Revenues Distributed by Texas Education Agency	7,500	8,150	12,627	4,477
Total State Program Revenues	2,018,500	2,019,150	1,964,155	(54,995)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	177,543	185,063	184,235	(828)
Total Federal Program Revenues	177,543	185,063	184,235	(828)
Total Revenues	2,223,543	2,333,113	2,360,394	27,281

COSMOS FOUNDATION, INC.  
FORT WORTH CAMPUS  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2008

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 3,500	\$ 113,451	\$ 111,029	\$ (2,422)
5750 Revenue from Curricular	14,500	86,491	82,465	(4,026)
Total Local Support	18,000	199,942	193,494	(6,448)
State Program Revenues:				
5810 Foundation School Program Act Revenues	3,398,023	3,415,823	3,390,143	(25,680)
5820 State Program Revenues Distributed by Texas Education Agency	11,870	24,345	24,102	(243)
Total State Program Revenues	3,409,893	3,440,168	3,414,245	(25,923)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	270,685	287,092	280,642	(6,450)
Total Federal Program Revenues	270,685	287,092	280,642	(6,450)
Total Revenues	3,698,578	3,927,202	3,888,381	(38,821)

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 3,500	\$ 113,451	\$ 111,029	\$ (2,422)
5750 Revenue from Curricular	14,500	86,491	82,465	(4,026)
Total Local Support	18,000	199,942	193,494	(6,448)
State Program Revenues:				
5810 Foundation School Program Act Revenues	3,398,023	3,415,823	3,390,143	(25,680)
5820 State Program Revenues Distributed by Texas Education Agency	11,870	24,345	24,102	(243)
Total State Program Revenues	3,409,893	3,440,168	3,414,245	(25,923)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	270,685	287,092	280,642	(6,450)
Total Federal Program Revenues	270,685	287,092	280,642	(6,450)
Total Revenues	3,698,578	3,927,202	3,888,381	(38,821)

COSMOS FOUNDATION, INC.  
FORT WORTH CAMPUS  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2008

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 3,500	\$ 113,451	\$ 111,029	\$ (2,422)
5750 Revenue from Curricular	14,500	86,491	82,465	(4,026)
Total Local Support	18,000	199,942	193,494	(6,448)
State Program Revenues:				
5810 Foundation School Program Act Revenues	3,398,023	3,415,823	3,390,143	(25,680)
5820 State Program Revenues Distributed by Texas Education Agency	11,870	24,345	24,102	(243)
Total State Program Revenues	3,409,893	3,440,168	3,414,245	(25,923)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	270,685	287,092	280,642	(6,450)
Total Federal Program Revenues	270,685	287,092	280,642	(6,450)
Total Revenues	3,698,578	3,927,202	3,888,381	(38,821)

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>EXPENSES</b>				
11 Instruction	1,668,779	1,910,133	1,885,776	24,357
12 Instructional Resources and Media Services	17,500	11,946	11,584	362
13 Curriculum Development and Instructional Staff Development	41,800	17,997	17,925	72
23 School Leadership	212,117	254,665	253,412	1,253
33 Health Services	39,617	38,060	37,522	538
35 Food Service	68,500	78,393	73,588	4,805
36 Curricular/Extracurricular Activities	376,500	512,781	32,373	(32,373)
41 General Administration	411,581	806,544	500,891	11,890
51 Plant Maintenance and Operations	19,405	16,855	781,080	25,464
52 Security and Monitoring Services	5,000	380	15,278	1,577
53 Data Processing Services	2,860,799	3,647,754	359	21
Total Expenses	837,779	279,448	3,609,789	37,965
Change in Net Assets	753,514	753,514	278,592	(856)
Net Assets, Beginning of Year	\$ 1,591,293	\$ 1,032,967	\$ 1,032,106	\$ (856)
Net Assets, End of Year				

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
HOUSTON EXCELLENCE CAMPUS  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2008

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 401,500	\$ 157,000	\$ 154,404	\$ (2,596)
5750 Revenues from Curricular	90,000	148,500	149,695	1,195
Total Local Support	491,500	305,500	304,099	(1,401)
State Program Revenues:				
5810 Foundation School Program Act Revenues	3,707,500	3,707,500	3,619,290	(88,210)
5820 State Program Revenues Distributed by Texas Education Agency	14,000	22,615	23,874	1,259
Total State Program Revenues	3,721,500	3,730,115	3,643,164	(86,951)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	151,853	159,080	151,158	(7,922)
Total Federal Program Revenues	151,853	159,080	151,158	(7,922)
Total Revenues	4,364,853	4,194,695	4,098,423	(96,272)
<b>EXPENSES</b>				
11 Instruction	1,918,045	2,228,114	2,158,589	69,525
12 Instructional Resources and Media Services	53,293	36,500	34,435	2,065
13 Curriculum Development and Instructional Staff Development	28,000	21,150	19,127	2,023
23 School Leadership	311,443	330,743	316,977	13,766
33 Health Services	40,091	31,591	29,766	1,825
35 Food Service	96,500	104,250	101,272	2,978
36 Cocurricular/Extracurricular Activities		34,000	32,073	1,927
41 General Administration	353,541	423,591	403,543	20,048
51 Plant Maintenance and Operations	1,325,500	962,250	957,642	4,608
52 Security and Monitoring Services	4,850	4,501	4,363	138
53 Data Processing Services		17,170	16,259	911
Total Expenses	4,131,263	4,193,860	4,074,046	119,814
Change in Net Assets	233,590	835	24,376	23,541
Net Assets, Beginning of Year	195,222	195,222	195,222	
Net Assets, End of Year	\$ 428,812	\$ 196,057	\$ 219,599	\$ 23,541

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
LUBBOCK CAMPUS  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2008

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 18,000	\$ 37,000	\$ 37,388	\$ 388
5750 Revenue from Curricular	17,500	37,000	34,222	(2,778)
Total Local Support	35,500	74,000	71,610	(2,390)
State Program Revenues:				
5810 Foundation School Program Act Revenues	1,780,000	1,750,000	1,648,678	(101,322)
5820 State Program Revenues Distributed by Texas Education Agency	5,593	5,593	5,299	(294)
Total State Program Revenues	1,785,593	1,755,593	1,653,977	(101,616)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	342,476	371,474	369,349	(2,125)
Total Federal Program Revenues	342,476	371,474	369,349	(2,125)
Total Revenues	2,163,569	2,201,067	2,094,935	(106,132)
<b>EXPENSES</b>				
11 Instruction	1,201,922	1,225,322	1,199,913	25,409
12 Instructional Resources and Media Services	3,500	13,331	12,981	350
13 Curriculum Development and Instructional Staff Development	24,750	26,799	24,637	2,162
23 School Leadership	232,071	209,717	192,861	16,856
33 Health Services	36,823	28,398	26,729	1,669
35 Food Service	79,000	94,862	90,779	4,083
36 Cocurricular/Extracurricular Activities		12,500	11,849	651
41 General Administration	174,063	280,688	274,293	6,395
51 Plant Maintenance and Operations	337,300	325,000	324,442	558
52 Security and Monitoring Services	7,400	2,500	2,467	33
53 Data Processing Services		10,300	10,017	283
Total Expenses	2,096,829	2,229,417	2,170,967	58,450
Change in Net Assets	66,740	(28,350)	(76,031)	(47,681)
Net Assets, Beginning of Year	(211,294)	(211,294)	(211,294)	
Net Assets, End of Year	\$ (144,554)	\$ (239,644)	\$ (287,325)	\$ (47,681)

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
BEAUMONT CAMPUS

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2008

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 18,000	\$ 30,250	\$ 29,317	\$ (933)
5750 Revenue from Curricular	17,000	71,500	69,464	2,036
Total Local Support	35,000	101,750	98,780	(2,970)
State Program Revenues:				
5810 Foundation School Program Act Revenues	1,900,000	1,900,000	1,754,773	(145,227)
5820 State Program Revenues Distributed by Texas Education Agency	7,000	6,536	6,553	17
Total State Program Revenues	1,907,000	1,906,536	1,761,326	(145,210)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	323,800	280,230	292,342	12,112
Total Federal Program Revenues	323,800	280,230	292,342	12,112
Total Revenues	2,265,800	2,288,516	2,152,448	(136,068)
<b>EXPENSES</b>				
11 Instruction	1,162,079	1,334,159	1,206,744	127,415
12 Resource & Media	3,500			
13 Curriculum Development and Instructional Staff Development	17,250	22,600	20,957	1,643
23 School Leadership	179,311	222,029	200,634	21,395
33 Health Services	33,812	700	675	25
35 Food Service	85,324	47,961	47,249	712
41 General Administration	224,100	324,100	304,947	19,153
51 Plant Maintenance and Operations	410,000	668,000	620,961	47,039
52 Security and Monitoring Services	7,400	20,325	14,109	6,216
53 Data Processing Services		13,370	13,310	60
Total Expenses	2,122,776	2,653,244	2,429,586	223,658
Change in Net Assets	143,024	(364,728)	(277,136)	87,592
Net Assets, Beginning of Year		3,365,369	(310,154)	(310,154)
Net Assets, End of Year	\$ 1,43,024	\$ 3,000,641	\$ (387,290)	\$ (222,562)

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
COLLEGE STATION CAMPUS

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2008

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 18,000	\$ 304,639	\$ 295,652	\$ (8,987)
5750 Revenues from Curricular	2,500	80,773	78,841	1,932
Total Local Support	20,500	385,412	374,493	(10,919)
5810 Foundation School Program Act Revenues	1,780,000	1,683,530	1,495,833	(187,697)
5820 State Program Revenues Distributed by Texas Education Agency	6,159	5,876	5,876	
Total State Program Revenues	1,786,159	1,689,406	1,501,709	(187,697)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	321,555	294,130	293,130	(1,000)
Total Federal Program Revenues	321,555	294,130	293,130	(1,000)
Total Revenues	2,128,214	2,368,948	2,169,332	(199,616)
<b>EXPENSES</b>				
11 Instruction	1,167,394	1,232,639	1,231,114	1,525
12 Instructional Resources and Media Services	4,250	8,150	7,988	162
13 Curriculum Development and Instructional Staff Development	30,500	32,670	32,255	415
23 School Leadership	264,838	223,735	220,593	3,142
33 Health Services	34,823	26,973	24,754	2,219
35 Food Service	86,000	108,793	102,559	6,234
41 General Administration	223,682	421,416	415,542	5,874
51 Plant Maintenance and Operations	190,000	276,066	273,214	2,852
52 Security and Monitoring Services	8,500	10,980	5,540	5,440
Total Expenses	2,009,987	2,341,422	2,313,561	27,861
Change in Net Assets	118,227	27,526	(144,229)	(171,755)
Net Assets, Beginning of Year		(253,573)	(253,573)	
Net Assets, End of Year	\$ 118,227	\$ (226,047)	\$ (397,802)	\$ (171,755)

See accompanying notes to financial statements.



COSMOS FOUNDATION, INC.  
WACO CAMPUS

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2008

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 18,500	\$ 290,017	\$ 289,178	\$ (839)
5750 Revenue from Curricular	19,500	34,809	33,795	1,014
Total Local Support	38,000	324,826	322,972	(1,854)
State Program Revenues:				
5810 Foundation School Program: Act Revenues	2,090,000	1,790,000	1,705,411	(84,589)
5820 State Program Revenues Distributed by Texas Education Agency	7,920	6,788	6,788	
Total State Program Revenues	2,097,920	1,796,788	1,712,199	(84,589)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	349,737	439,787	423,834	(15,953)
Total Federal Program Revenues	349,737	439,787	423,834	(15,953)
Total Revenues	2,485,657	2,561,401	2,459,005	(102,396)
<b>EXPENSES</b>				
11 Instruction	1,307,475	1,112,333	1,101,102	11,231
12 Instructional Resources and Media Services	3,500	538	538	
13 Curriculum Development and Instructional Staff Development	24,250	11,350	11,191	159
23 School Leadership	181,458	191,491	188,446	3,045
33 Health Services	36,823	326	326	
35 Food Service	88,761	104,268	98,993	5,275
41 General Administration	223,932	318,598	314,980	3,618
51 Plant Maintenance and Operations	386,000	623,270	606,026	17,244
52 Security and Monitoring Services	12,400	16,206	10,844	5,362
53 Data Processing Services		8,508	8,508	
71 Debt Services	82,405	405		405
Total Expenses	2,347,004	2,387,293	2,340,954	46,339
Change in Net Assets	138,653	174,108	118,051	(56,057)
Net Assets, Beginning of Year		(212,951)	(212,951)	
Net Assets, End of Year	\$ 138,653	\$ (38,843)	\$ (94,900)	\$ (769,008)

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
BROWNSVILLE CAMPUS

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2008

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$	\$	\$ 220,761	\$ 220,761
5750 Revenue from Curricular			8,642	(8,642)
Total Local Support			229,403	229,403
State Program Revenues:				
5810 Foundation School Program: Act Revenues			66,077	66,077
5820 State Program Revenues Distributed by Texas Education Agency			66,077	66,077
Total State Program Revenues			132,154	132,154
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency		246,178	106,423	(139,755)
Total Federal Program Revenues		246,178	106,423	(139,755)
Total Revenues		246,178	401,904	155,726
<b>EXPENSES</b>				
11 Instruction		33,000	95,734	(62,734)
13 Curriculum Development and Instructional Staff Development		4,000	12,478	(8,478)
23 School Leadership		38,000	29,724	8,276
33 Health Services			166	(166)
35 Food Service			2,784	(2,784)
41 General Administration			39,792	(39,792)
51 Plant Maintenance and Operations		90,778	298,621	(207,843)
52 Security and Monitoring Services			1,566	(1,566)
Total Expenses		165,778	480,865	(315,087)
Change in Net Assets		80,400	(78,961)	(159,361)
Net Assets, Beginning of Year				
Net Assets, End of Year		\$ 80,400	\$ (78,961)	\$ (159,361)

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
HARMONY SCHOOL OF SCIENCE HOUSTON

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2008

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$	\$	\$ 19,340	\$ 19,340
5750 Revenue from Curricular			15,972	(15,972)
Total Local Support			35,312	35,312
State Program Revenues:				
5810 Foundation School Program Act Revenues			75,500	75,500
5820 State Program Revenues Distributed by				
Total State Program Revenues			75,500	75,500
Federal Program Revenues:				
5920 Federal Revenues Distributed by				
Texas Education Agency	246,178		81,902	(164,276)
Total Federal Program Revenues	246,178		81,902	(164,276)
Total Revenues	246,178		192,714	(53,464)
<b>EXPENSES</b>				
11 Instruction			128,792	(95,792)
12 Instructional Resources and Media Services	33,000		894	(894)
13 Curriculum Development and Instructional			4,249	(249)
Staff Development	4,000		31,852	6,148
23 School Leadership	38,000		236	(236)
33 Health Services			3,544	(3,544)
35 Food Service			33,770	(33,770)
41 General Administration			14,381	76,397
51 Plant Maintenance and Operations	90,778		360	(360)
52 Security and Monitoring Services			218,078	(52,300)
Total Expenses	165,778		218,078	(52,300)
Change in Net Assets			80,400	(105,764)
Net Assets, Beginning of Year			\$ 80,400	\$ (25,364)
Net Assets, End of Year			\$ 80,400	\$ (105,764)

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
LAREDO CAMPUS

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2008

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$	\$	\$ 2,133	\$ 2,133
5750 Revenue from Curricular			20	(20)
Total Local Support			2,153	2,153
State Program Revenues:				
5810 Foundation School Program Act Revenues			68,404	68,404
Total State Program Revenues			68,404	68,404
Federal Program Revenues:				
5920 Federal Revenues Distributed by				
Texas Education Agency	246,178		127,887	(118,291)
Total Federal Program Revenues	246,178		127,887	(118,291)
Total Revenues	246,178		198,444	(47,734)
<b>EXPENSES</b>				
11 Instruction			103,365	(70,365)
13 Curriculum Development and Instructional	33,000		4,000	3,029
Staff Development	4,000		30,911	7,089
23 School Leadership	38,000		2,414	(2,414)
35 Food Service			59,144	(59,144)
41 General Administration			64,492	26,286
51 Plant Maintenance and Operations	90,778		2,001	(2,001)
52 Security and Monitoring Services			265,356	(99,578)
Total Expenses	165,778		265,356	(99,578)
Change in Net Assets			80,400	(147,312)
Net Assets, Beginning of Year			\$ 80,400	\$ (66,912)
Net Assets, End of Year			\$ 80,400	\$ (147,312)

See accompanying notes to financial statements.

## GOMEZ & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS  
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### 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 Directors of  
Cosmos Foundation, Inc.  
Houston, Texas

We have audited the financial statements of Cosmos Foundation, Inc. (HSA) as of and for the year ended August 31, 2008, and have issued our report thereon dated January 15, 2009. 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 HSA'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 the HSA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization'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 organization's internal control.

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.

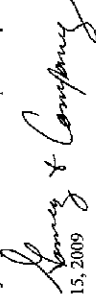
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether HSA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items I.

We noted certain matters that we reported to management of Cosmos Foundation, Inc. in a separate letter dated January 15, 2009.

The organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and the 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.

  
January 15, 2009

## GOMEZ & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS  
8790 W. LOOP SOUTH, SUITE 520  
HOUSTON, TEXAS 77061  
TEL: (713) 666-5900  
FAX: (713) 666-1049  
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### REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To The Board of Directors of  
Cosmos Foundation, Inc.  
Houston, Texas

#### Compliance

We have audited the compliance of Cosmos Foundation, Inc. (HSA) with the types of compliance requirements described in the U.S. 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, 2008. HSA's major federal programs are identified in the summary of auditor's 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 HSA's management. Our responsibility is to express an opinion on HSA'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 Non-Profit 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 HSA'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 of HSA's compliance with those requirements.

In our opinion, HSA 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, 2008.

#### Internal Control Over Compliance

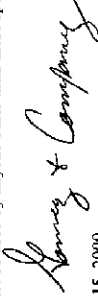
The management of HSA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered HSA internal control over compliance with 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 on HSA 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 the 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, the Board of Directors, others within the entity, and the 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.



January 15, 2009

COSMOS FOUNDATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2008

Summary of Audit Results

1. **Unqualified opinion issued on the financial statements.**
2. No significant deficiencies or material weaknesses on internal control over financial statements.
3. Instances of noncompliance, which is not material to the financial statements, item I.
4. No significant deficiencies or material weaknesses on internal control over major federal award programs.
5. **Unqualified opinion issued on compliance with major federal award programs.**
6. The audit did not disclose any audit findings which are required to be reported under section .510 (a) of OMB A-133.
7. **Major programs:**

U.S. Department of Education	
Passed – Through Texas Education Agency	84,010
Title I, Part A – School Improvement	84,282
PCS Start-Up Grant	
8. A \$300,000.00 threshold was used to distinguish between Type A and Type B programs as described in section .520 (b) of OMB A-133.
9. Agency qualifies as a low-risk auditee.

Questioned  
Costs

**I. Inter-Company Transactions**

**Condition:**  
During the audit, we noted that HSA had transferred State Foundation Funds from one HSA District to another HSA District. These transfers were tracked through inter-company transfer accounts.

**Criteria:**  
The agency is in violation of TEA's FASRG guidelines.

**Effect:**  
The transfer of funds between districts is an un-allowed transaction and could result in sanctions by TEA.

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COSMOS FOUNDATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2008

**Recommendation:**

We recommend that agency repay all funds to the appropriate district and implement procedures and controls to prevent the transfer of funds between different Districts. These recommendations have been discussed with the agency's management and action will be taken to ensure that the recommendations are implemented.

**Status:**

We have discussed the finding and recommendation with our auditor. We were not aware the transfer of funds between different HSA districts was a problem. All funds transferred between district were utilized in the expansion and improvement of the campuses. We track all transfers through our general ledger system and it is our intention to replace the funds. The fund transfers have been return to the campuses, from which they originated. We have implemented procedures to ensure that no such transfer between HSA school districts will occur in the future.

**Summary Schedule of Prior Year Findings**

No audit findings were noted as per Section .300 (f) of OMB A-133 for the year ended August 31, 2007.

\$1,577,398

\$-0-

COSMOS FOUNDATION, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2008

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Passed - Through Texas Education Agency			
CARL D. PERKINS BASIC GRANT FORMULA FOR CATE	84.048A	08420006101846	\$ 13,563.00
CARL D. PERKINS BASIC GRANT FORMULA FOR CATE	84.048A	08420006101833	\$ 1,592.00
CARL D. PERKINS BASIC GRANT FORMULA FOR CATE	84.048A	08420006227816	\$ 2,515.00
IDEA-B Formula	84.027A	086600010158286600	\$ 40,955.00
IDEA-B Formula	84.027A	086600010218046600	\$ 19,695.00
IDEA-B Formula	84.027A	086600010718066600	\$ 36,716.00
IDEA-B Formula	84.027A	086600011018466600	\$ 159,685.00
IDEA-B Formula	84.027A	086600011018576600	\$ 35,000.00
IDEA-B Formula	84.027A	086600011018586600	\$ 35,497.00
IDEA-B Formula	84.027A	086600011238066600	\$ 23,296.00
IDEA-B Formula	84.027A	086600011528056600	\$ 12,730.00
IDEA-B Formula	84.027A	086600011618076600	\$ 18,654.00
IDEA-B Formula	84.027A	086600012208136600	\$ 51,520.00
IDEA-B Formula	84.027A	086600012278166600	\$ 41,008.00
IDEA-B Formula	84.027A	086600012278266600	\$ 41,281.00
PCS-CHARTER SCHOOL STARTUP CYCLE I1 CONTINUATION GTS	84.282A	085900057110020	\$ 69,761.00
PCS-CHARTER SCHOOL STARTUP CYCLE I1 CONTINUATION GTS	84.282A	085900057110021	\$ 70,702.00
PCS-CHARTER SCHOOL STARTUP CYCLE I1 CONTINUATION GTS	84.282A	085900057110022	\$ 78,714.00
PCS-CHARTER SCHOOL STARTUP CYCLE I1 CONTINUATION GTS	84.282A	085900057110023	\$ 69,704.00
PCS-CHARTER SCHOOL STARTUP CYCLE I1 CONTINUATION GTS	84.282A	085900057110024	\$ 69,789.00
PCS-START UP CYCLE 12 CONTINUATION GRTS	84.282A	085900067110013	\$ 184,055.00
PCS-START UP CYCLE 12 CONTINUATION GRTS	84.282A	085900067110014	\$ 186,925.00
PCS-START UP CYCLE 12 CONTINUATION GRTS	84.282A	085900067110015	\$ 187,401.00
PCS-START UP CYCLE 12 CONTINUATION GRTS	84.282A	085900067110016	\$ 184,055.00
PCS-START UP GRANTS CYCLE 13	84.282A	08590007110013	\$ 80,390.00
PCS-START UP GRANTS CYCLE 13	84.282A	08590007110014	\$ 105,306.00
PCS-START UP GRANTS CYCLE 13	84.282A	08590007110015	\$ 126,770.00
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84.010A	08610101015828	\$ 61,104.00
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84.010A	08610101021804	\$ 31,816.00
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84.010A	08610101071806	\$ 103,052.00
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84.010A	08610101101846	\$ 408,541.00
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84.010A	08610101101857	\$ 59,232.00
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84.010A	08610101101858	\$ 8,876.00
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84.010A	08610101123806	\$ 35,036.00
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84.010A	0861010152805	\$ 67,945.00
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84.010A	08610101161807	\$ 107,299.00
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84.010A	08610101220813	\$ 88,631.00
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84.010A	08610101227816	\$ 67,445.00
TITLE I, PART A-IMPROVING BASIC PROGRAMS	84.010A	08610101227822	\$ 25,915.00

COSMOS FOUNDATION, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2008

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Federal Expenditures
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84.367A	08694501015828	\$ 14,261.00
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84.367A	08694501021804	\$ 9,697.00
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84.367A	08694501071806	\$ 22,235.00
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84.367A	08694501101846	\$ 74,102.00
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84.367A	08694501101857	\$ 17,245.00
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84.367A	08694501101858	\$ 7,440.00
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84.367A	08694501123806	\$ 10,082.00
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84.367A	08694501152805	\$ 15,081.00
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84.367A	08694501161807	\$ 22,070.00
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84.367A	08694501220813	\$ 19,821.00
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84.367A	08694501227816	\$ 14,694.00
TITLE II, PART A-TEACHER & PRINCIPAL TRAINING & RECRUITING	84.367A	08694501227822	\$ 89,036.00
TITLE II, PART D-ENHANCING EDUCATION THROUGH TECHNOLOGY	84.318X	08630001015828	\$ 1,964.00
TITLE II, PART D-ENHANCING EDUCATION THROUGH TECHNOLOGY	84.318X	08630001021804	\$ 320.00
TITLE II, PART D-ENHANCING EDUCATION THROUGH TECHNOLOGY	84.318X	08630001071806	\$ 1,037.00
TITLE II, PART D-ENHANCING EDUCATION THROUGH TECHNOLOGY	84.318X	08630001101857	\$ 1,904.00
TITLE II, PART D-ENHANCING EDUCATION THROUGH TECHNOLOGY	84.318X	08630001101858	\$ 235.00
TITLE II, PART D-ENHANCING EDUCATION THROUGH TECHNOLOGY	84.318X	08630001123806	\$ 352.00
TITLE II, PART D-ENHANCING EDUCATION THROUGH TECHNOLOGY	84.318X	08630001152805	\$ 684.00
TITLE II, PART D-ENHANCING EDUCATION THROUGH TECHNOLOGY	84.318X	08630001161807	\$ 1,079.00
TITLE II, PART D-ENHANCING EDUCATION THROUGH TECHNOLOGY	84.318X	08630001220813	\$ 892.00
TITLE II, PART D-ENHANCING EDUCATION THROUGH TECHNOLOGY	84.318X	08630001227816	\$ 1,936.00
TITLE II, PART D-ENHANCING EDUCATION THROUGH TECHNOLOGY	84.318X	08630001227822	\$ 833.00
TITLE III, PART A-LEP	84.365A	08671001101846	\$ 17,816.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84.186A	08691001015828	\$ 1,186.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84.186A	08691001021804	\$ 740.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84.186A	08691001071806	\$ 1,701.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84.186A	08691001101846	\$ 6,195.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84.186A	08691001101857	\$ 1,519.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84.186A	08691001101858	\$ 679.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84.186A	08691001123806	\$ 248.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84.186A	08691001152805	\$ 1,128.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84.186A	08691001161807	\$ 1,637.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84.186A	08691001220813	\$ 1,598.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84.186A	08691001227816	\$ 1,189.00
TITLE IV, PART A-SAFE & DRUG-FREE SCHOOLS & COMMUNITIES	84.186A	08691001227822	\$ 736.00
TITLE V, PART A-INNOVATIVE PROGRAMS	84.298A	08685001015828	\$ 598.00
TITLE V, PART A-INNOVATIVE PROGRAMS	84.298A	08685001021804	\$ 219.00
TITLE V, PART A-INNOVATIVE PROGRAMS	84.298A	08685001071806	\$ 769.00
TITLE V, PART A-INNOVATIVE PROGRAMS	84.298A	08685001101846	\$ 2,506.00
TITLE V, PART A-INNOVATIVE PROGRAMS	84.298A	08685001101857	\$ 485.00

COSMOS FOUNDATION, INC.  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED AUGUST 31, 2008

COSMOS FOUNDATION, INC.  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED AUGUST 31, 2008

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Federal Expenditures
TITLE V, PART A-INNOVATIVE PROGRAMS	84.298A	08685001101858	\$ 431.00
TITLE V, PART A-INNOVATIVE PROGRAMS	84.298A	08685001125806	\$ 837.00
TITLE V, PART A-INNOVATIVE PROGRAMS	84.298A	08685001152805	\$ 331.00
TITLE V, PART A-INNOVATIVE PROGRAMS	84.298A	08685001161807	\$ 435.00
TITLE V, PART A-INNOVATIVE PROGRAMS	84.298A	08685001220813	\$ 504.00
TITLE V, PART A-INNOVATIVE PROGRAMS	84.298A	08685001227816	\$ 580.00
TITLE V, PART A-INNOVATIVE PROGRAMS	84.298A	08685001227822	\$ 340.00
<b>Total U.S. Department of Education</b>			<b>3,383,652</b>
<b>U.S. Department of Agriculture</b>			
Passed - Through Texas Education Agency			
Federal Food Service Reimbursement	10.553	71400701	109,680
Breakfast	10.555	71300701	730,386
Lunch			840,066
<b>Total U.S. Department of Agriculture</b>			<b>1,680,132</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 4,223,718</b>

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

The accompanying schedule of federal, state, and local awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

COSMOS FOUNDATION, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2008

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying schedule of federal, state, and local awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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**COSMOS FOUNDATION, INC.**

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**FOR THE YEAR ENDED AUGUST 31, 2007**

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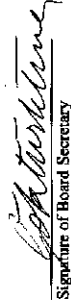
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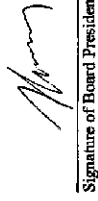
**COSMOS FOUNDATION, INC.**

071-806  
101-858  
220-813  
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227-822  
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**CERTIFICATE OF BOARD**  
August 31, 2007

We, the undersigned, certify that the attached Annual Financial and Compliance Report of Cosmos Foundation, Inc. was reviewed and § approved -0- disapproved for the year ended August 31, 2007, at a meeting of the governing body of said charter school on the 23 day of June, 2008.

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

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

# GOMEZ & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS  
6750 W LOOP SOUTH, SUITE 520  
HOUSTON, TEXAS 77401  
TEL: (713) 666-5900  
FAX: (713) 666-3049  
<http://www.gomezandco.com>

## INDEPENDENT AUDITOR'S REPORT

To The Board of Directors of  
Cosmos Foundation, Inc.  
Houston, Texas

We have audited the accompanying statement of financial position of Cosmos Foundation, Inc. (HSA) as of August 31, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of HSA management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HSA as of August 31, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 18, 2007 on our consideration of HSA internal control over financial reporting and 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 is important for assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of HSA taken as a whole. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
December 18, 2007

## COSMOS FOUNDATION, INC. STATEMENT OF FINANCIAL POSITION AUGUST 31, 2007

ASSETS	
ASSETS:	
Cash	\$ 16,744,531
Receivables	2,946,794
Other receivables	1,318,904
Land	2,979,562
Buildings and improvements	11,160,866
Furniture and equipment	1,161,227
Accumulated depreciation	(1,297,547)
Deposits	202,102
Other Assets	1,679,721
Total assets	\$ 36,896,160

## LIABILITIES AND NET ASSETS

LIABILITIES:	
Accounts payable	\$ 1,666,697
Accrued liabilities	954,118
Payroll taxes payable	6,273
Notes payable	680,197
Capital lease payable	544,849
Bond payable net of discount	29,678,658
Total liabilities	33,530,791
Net Assets:	
Unrestricted	3,365,369
Total net assets	3,365,369
Total liabilities and net assets	\$ 36,896,160

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2007

	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>			
Federal grants	\$ 4,296,637	\$ 4,296,637	\$ 4,296,637
State and local grants	23,206,660	23,206,660	23,206,660
Donations	1,294,514	1,294,514	1,294,514
Interest income	276,580	276,580	276,580
Other income	1,397,250	1,397,250	1,397,250
Net assets released from restrictions	27,503,297	(27,503,297)	-
Total revenues	<u>30,471,640</u>	<u>30,471,640</u>	<u>30,471,640</u>
<b>EXPENSES</b>			
Program services	28,409,223	28,409,223	28,409,223
Total expenses	<u>28,409,223</u>	<u>28,409,223</u>	<u>28,409,223</u>
Change in net assets	2,062,417	2,062,417	2,062,417
Net assets, beginning of year as restated	1,302,952	1,302,952	1,302,952
Net assets, ending of year	<u>\$ 3,365,369</u>	<u>\$ 3,365,369</u>	<u>\$ 3,365,369</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2007

Cash Flows From Operating Activities	\$ 2,062,417
Change in net assets	
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	1,025,692
(Increase) decrease in accounts receivable	(2,491,979)
(Increase) decrease in other assets	(1,729,772)
Increase (decrease) in accounts payable	1,102,813
Increase (decrease) in payroll taxes	(8,918)
Net Cash Provided (Used) by Operating Activities	<u>(39,747)</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(13,718,633)
Net Cash Provided (Used) by Investing Activities	<u>(13,718,633)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	30,223,507
Repayment of long-term debt	(33,789)
Net Cash Provided (Used) by Financing Activities	<u>30,189,718</u>
NET INCREASE ( DECREASE ) IN CASH	16,431,338
CASH AT BEGINNING OF YEAR	313,193
CASH AT END OF YEAR	<u>\$ 16,744,531</u>
<b>Supplemental Disclosures:</b>	
Cash Paid During the Year for:	
Interest	<u>\$ 639,942</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2007

A. Organization:

Cosmos Foundation, Inc. (HSA), a nonprofit organization, provides curricula for students in grades kindergarten through 12. The school was incorporated in the State of Texas in September 1999, under the Texas Non-Profit Corporation Act. The Internal Revenue Service determined that the organization was exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code as an organization described in Section 501(c)(3).

Pursuant to its charter granted by the State Board of Education in accordance with Texas Education Code Section 12, Subchapter D, Open-Enrollment Charter School, the Organization operates as part of the state public school system subject to all federal and state laws and rules governing public schools. The Organization is also subject to all laws and rules pertaining to open-enrollment charter schools in section 12 of the Texas Education Code.

B. Summary of Significant Accounting Policies:

**BASIS OF PRESENTATION**

The Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, the Corporation is required to present a statement of cash flows.

**PRINCIPALS OF CONSOLIDATION**

The consolidated financial statements include all of the agencies accounts. All significant intercompany balance and transactions have been eliminated.

**SUPPORT AND REVENUE**

Support and revenue are recorded based on the accrual method.

**CASH DONATIONS AND DONATED SERVICES**

Cash donations are considered to be available for unrestricted use unless specifically restricted by the donor. No amounts have been reflected in the financial statements for donated services since no objective basis is available to measure the value of such donations. Nevertheless, a substantial number of volunteers have donated their time in connection with the program service and administration of the organization.

**CONTRIBUTIONS**

In accordance with Statement of Financial Accounting Standards (SFAS) No. 116, "Accounting for Contributions Received and Contributions Made," contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2007

B. Summary of Significant Accounting Policies: (Continued)

**PROPERTY AND EQUIPMENT**

Property and equipment purchased by HSA are recorded at cost. Donations of property and equipment are recorded at their fair value at the date of the gift. All assets acquired with a value in excess of \$1,000 are recorded as fixed assets. Depreciation is provided on the straight-line method based upon estimated useful lives of ten years for equipment. Gains or losses on retired or on sale of property and equipment are reflected in income for the period. The proceeds from such sales which are not legally required or expected to be reinvested in property and equipment are transferred to unrestricted net assets.

**PLEDGES AND ACCOUNTS RECEIVABLE**

Contributions are recognized when the donor makes a promise to give to HSA which is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

No provision has been made for uncollectible promises to give and accounts receivable as of the statement of financial position date, given that none have been identified.

**FUNCTIONAL EXPENSES**

Expenses are charged to each program based on direct expenditures incurred. Functional expenses which cannot readily be related to a specific program are charged to the various programs based upon hours worked, square footage, number of program staff, or other reasonable methods for allocating the organization's multiple function expenditures.

**INCOME TAXES**

HSA qualifies as a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for income taxes.

**CASH AND CASH EQUIVALENTS**

For purpose of the statement of cash flows, cash and cash equivalents are comprised of cash on hand and in banks.

COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2007

B. Summary of Significant Accounting Policies: (Continued)

ESTIMATES

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

Pension Plan:

Plan Description

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

Funding Policy

Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary, and the State of Texas contributes an amount equal to 6.0% of the charter school's covered payroll. In certain instances, the reporting entity (school district, charter school, college, university, or state agency) is required to make all or a portion of the State's 6.0% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following funding policy: (1) The State constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a State contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize the System's unfunded actuarial liabilities would be increased to a period that exceeds 30 years by one or more years. State contributions to the System made on behalf of Cosmos Foundation, Inc. employees for the year ended August 31, 2007 were \$214,195 for Houston campus, \$63,795 for Austin campus, \$57,365 for San Antonio campus, \$148,448 for Houston Elementary campus, \$54,404 for El Paso campus, \$65,345 for Excellence campus, \$57,344 for Fort Worth campus, and \$50,444 for Austin Elementary campus.

Budget:

The official school budget is prepared for adoption for required Governmental Fund Types. The annual budget is adopted on a basis consistent with generally accepted accounting principles and is formally adopted by the Board of Directors.

COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2007

E. Operating Lease Commitment:

HSA is currently leasing its office equipment and building on a non-cancelable operating lease.

HSA minimum annual lease commitment is as follows:

Year months ending August 31,	Amount
2008	\$ 3,005,365
2009	2,952,852
2010	2,618,245
2011	2,528,513
2012	2,336,649
Total	<u>\$ 13,441,624</u>

Operating lease expense amounted to \$3,846,917 for the year ended August 31, 2007.

F. Notes Payable:

The Organization's obligations under notes payable consists of the following:

Note payable to bank, due within one to five years or on demand, secured by agency assets.	\$ 680,197
Total notes payable	<u>\$ 680,197</u>

Maturities of notes payable over the next five years are as follows:

Year ending August 31,	Amount
2008	\$ 195,444
2009	195,444
2010	195,444
2011	93,865
Total	<u>\$ 680,197</u>

COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2007

G. Capital Leases

HSA has acquired equipment under the provisions of fourteen long-term leases. For financial reporting purposes, minimum lease payments to the equipment have been capitalized.

The first lease expires May 2010. The equipment under capital lease as of August 31, 2007 has a cost of \$39,980, accumulated amortization of \$3,916 and a net book value of \$36,064. Amortization of the equipment is included in depreciation expense.

The second lease expires July 2010. The equipment under capital lease as of August 31, 2007 has a cost of \$21,373, accumulated amortization of \$1,039 and a net book value of \$20,334. Amortization of the equipment is included in depreciation expense.

The third lease expires July 2010. The equipment under capital lease as of August 31, 2007 has a cost of \$29,491, accumulated amortization of \$1,433 and a net book value of \$28,058. Amortization of the equipment is included in depreciation expense.

The fourth lease expires July 2010. The equipment under capital lease as of August 31, 2007 has a cost of \$35,710, accumulated amortization of \$864 and a net book value of \$34,846. Amortization of the equipment is included in depreciation expense.

The fifth lease expires July 2010. The equipment under capital lease as of August 31, 2007 has a cost of \$66,243, accumulated amortization of \$1,604 and a net book value of \$64,639. Amortization of the equipment is included in depreciation expense.

The sixth lease expires July 2010. The equipment under capital lease as of August 31, 2007 has a cost of \$20,584, accumulated amortization of \$498 and a net book value of \$20,086. Amortization of the equipment is included in depreciation expense.

The seventh lease expires August 2010. The equipment under capital lease as of August 31, 2007 has a cost of \$23,142, accumulated amortization of \$560 and a net book value of \$22,582. Amortization of the equipment is included in depreciation expense.

The eighth lease expires August 2010. The equipment under capital lease as of August 31, 2007 has a cost of \$12,560, accumulated amortization of \$304 and a net book value of \$12,256. Amortization of the equipment is included in depreciation expense.

The ninth lease expires August 2010. The equipment under capital lease as of August 31, 2007 has a cost of \$12,420, accumulated amortization of \$301 and a net book value of \$12,119. Amortization of the equipment is included in depreciation expense.

The tenth lease expires August 2010. The equipment under capital lease as of August 31, 2007 has a cost of \$12,810, accumulated amortization of \$310 and a net book value of \$12,500. Amortization of the equipment is included in depreciation expense.

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COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2007

G. Capital Leases: (Continued)

The eleventh lease expires August 2010. The equipment under capital lease as of August 31, 2007 has a cost of \$12,810, accumulated amortization of \$310 and a net book value of \$12,500. Amortization of the equipment is included in depreciation expense.

The twelfth lease expires August 2010. The equipment under capital lease as of August 31, 2007 has a cost of \$32,834, accumulated amortization of \$0 and a net book value of \$32,834. Amortization of the equipment is included in depreciation expense.

The thirteenth lease expires August 2010. The equipment under capital lease as of August 31, 2007 has a cost of \$22,730, accumulated amortization of \$0 and a net book value of \$22,730. Amortization of the equipment is included in depreciation expense.

The fourteenth lease expires August 2010. The equipment under capital lease as of August 31, 2007 has a cost of \$80,109, accumulated amortization of \$0 and a net book value of \$80,109. This lease is being paid on the agency's behalf by a charter school in Kansas City which has a support services agreement with Cosmos Foundation, Inc.; therefore a receivable from the charter school was also booked in the amount of \$80,109.

The fifteenth lease expires August 2010. The equipment under capital lease as of August 31, 2007 has a cost of \$84,991, accumulated amortization of \$0 and a net book value of \$84,991. This lease is being paid on the agency's behalf by a charter school in Kansas City which has a support services agreement with Cosmos Foundation, Inc.; therefore a receivable from the charter school was also booked in the amount of \$84,991.

The future minimum lease payments under capital lease together with their present value as of August 31, 2007 is as follows:

Total minimum lease payments	\$ 641,571
Less amount representing interest	<u>(96,722)</u>
Present value of net minimum lease payments	<u>\$ 544,849</u>

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COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2007

H. Bonds Payable:

HSA has secured bond financing pursuant to Chapter 53 of the Texas Education Code, \$28,860,000 of "Qualified Tax Exempt" Education Revenue Bonds, Series 2007A and \$1,135,000 Taxable Education Revenue Bonds, Series 2007B. The bonds are limited obligations of the issuer payable solely from revenues received by the issuer pursuant to a loan agreement between the issuer and the borrower. None of the state, the city, nor any political corporation, subdivision, or agency of the state is pledged to the payment of the principal of premium, or interest on the bonds.

Bonds payable at August 31, 2007 consist of the following:

2007A Bonds, 5.35% interest; principle and interest due in semi-annual installments, commencing August 15, 2007; Maturity dates range from 2011 to 2037.	\$ 28,860,000
2007B Bonds, 6.75% interest; principle and interest due in semi-annual installments, commencing August 15, 2007; Maturity dates range from 2008 to 2010.	<u>1,135,000</u>
Total	\$ 29,995,000
Less unamortized discount	<u>(316,342)</u>
Amount of bond net of discount	<u>\$ 29,678,658</u>

Future maturities of long-term debt at August 31, 2007 are as follows:

<u>Year ending, August 31,</u>	<u>Amount</u>
2008	\$ 355,000
2009	375,000
2010	405,000
2011	500,000
2012	525,000
Thereafter	29,995,000
Less unamortized discount	<u>(316,342)</u>
Amount of bond net of discount	<u>\$ 29,678,658</u>

HSA must maintain a debt service fund which is required to maintain a minimum balance of \$1,023,338. At August 31, 2007, the debt service fund had a balance of \$1,031,359.

COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2007

I. Commitments and Contingencies:

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

J. Health Care Coverage:

During the year ended August 31, 2007, employees of HSA were covered by a group insurance plan. The school paid premiums up to \$150 for each campus per month per employee (depending upon coverage selected) to the plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer.

K. Prior Year Adjustment:

During the year ended August 31, 2007, one change was made to HSA's net assets. This adjustment increased net assets by \$2,755. The purpose of the adjustment was to void outstanding checks written from the Houston campus bank account that was closed in the current fiscal year.

L. Subsequent Event:

HSA received a \$2,000,000 grant from Communities Foundation of Texas. This grant will be used for building improvements and expansion of new school campuses.



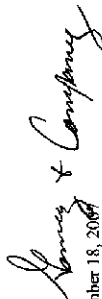
**GOMEZ & COMPANY**

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To The Board of Directors of  
Cosmos Foundation, Inc.  
Houston, Texas

Our report on our audit of the consolidated financial statement of Cosmos Foundation, Inc. (HSA) for year ended August 31, 2007 appears on page 1. The audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Financial Statements and Schedules for Individual Charter School are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

  
December 18, 2007

COSMOS FOUNDATION, INC.  
HOUSTON CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2007

ASSETS	
Assets:	
Cash	\$ 410,419
Receivables	294,733
Intercompany receivables	384,028
Other receivables	637,529
Land	860,000
Buildings and improvements	4,444,199
Furniture and equipment	316,943
Accumulated depreciation	(395,539)
Other assets	316,672
Total assets	<u>\$ 7,268,983</u>

LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	\$ 534,344
Intercompany liabilities	85,395
Interest payable	11,180
Accrued liabilities	280,948
Payroll taxes payable	(1,184)
Bonds payable net of discount	4,946,443
Total liabilities	<u>5,857,125</u>
Net Assets:	
Unrestricted	<u>1,411,858</u>
Total net assets	<u>1,411,858</u>
Total liabilities and net assets	<u>\$ 7,268,983</u>

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
AUSTIN CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2007

<b>ASSETS</b>	
Assets:	
Cash	\$ 84,802
Receivables	57,744
Intercompany receivables	187,066
Other receivables	10,657
Buildings and improvements	79,125
Furniture and equipment	55,031
Accumulated depreciation	(16,539)
Total assets	<u>\$ 457,887</u>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Accounts payable	\$ 26,449
Intercompany liabilities	33,940
Accrued liabilities	51,026
Payroll taxes payable	(15)
Total liabilities	<u>111,400</u>
Net Assets:	
Unrestricted	<u>346,486</u>
Total net assets	<u>346,486</u>
Total liabilities and net assets	<u>\$ 457,887</u>

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
HOUSTON ELEMENTARY CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2007

<b>ASSETS</b>	
Assets:	
Cash	\$ 8,466,289
Receivables	119,568
Intercompany receivables	459,555
Other receivables	181,907
Buildings and improvements	717,560
Furniture and equipment	123,356
Accumulated depreciation	(194,838)
Other Assets	614,233
Total assets	<u>\$ 10,487,629</u>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Accounts payable	\$ 85,245
Intercompany liabilities	349,253
Interest payable	21,059
Accrued liabilities	104,938
Payroll taxes payable	8,865
Capital leases payable	233,387
Bonds payable net of discount	9,317,718
Total liabilities	<u>10,120,464</u>
Net Assets:	
Unrestricted	<u>367,164</u>
Total net assets	<u>367,164</u>
Total liabilities and net assets	<u>\$ 10,487,629</u>

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
SAN ANTONIO CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2007

<b>ASSETS</b>	
Assets:	
Cash	\$ 5,603,134
Receivables	314,554
Other receivables	1,516
Land	1,474,232
Buildings and improvements	328,019
Furniture and equipment	77,692
Accumulated depreciation	(81,136)
Other Assets	461,900
<b>Total assets</b>	<b>\$ 8,179,910</b>

<b>LIABILITIES AND NET ASSETS</b>	
Liabilities:	
Accounts payable	\$ 52,117
Intercompany liabilities	141,647
Interest payable	16,899
Accrued liabilities	98,200
Bonds payable net of discount	7,477,181
<b>Total liabilities</b>	<b>7,786,045</b>
<b>Net Assets:</b>	
Unrestricted	393,866
<b>Total net assets</b>	<b>393,866</b>
<b>Total liabilities and net assets</b>	<b>\$ 8,179,910</b>

COSMOS FOUNDATION, INC.  
EL PASO CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2007

<b>ASSETS</b>	
Assets:	
Cash	\$ 113,323
Receivables	516,577
Intercompany receivables	189,697
Other receivables	16,312
Buildings and improvements	37,650
Furniture and equipment	112,739
Accumulated depreciation	(17,833)
Deposits	22,935
<b>Total assets</b>	<b>\$ 991,397</b>

<b>LIABILITIES AND NET ASSETS</b>	
Liabilities:	
Accounts payable	\$ 71,700
Accrued liabilities	88,259
Capital leases	64,640
<b>Total liabilities</b>	<b>224,599</b>
<b>Net Assets:</b>	
Unrestricted	766,798
<b>Total net assets</b>	<b>766,798</b>
<b>Total liabilities and net assets</b>	<b>\$ 991,397</b>

See accompanying notes to financial statements.  
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See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
FORT WORTH CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2007

ASSETS	
Assets:	
Cash	\$ 178,441
Receivables	366,727
Intercompany receivables	280,000
Other receivables	16,692
Buildings and improvements	875,895
Furniture and equipment	38,480
Accumulated depreciation	(180,129)
Deposits	13,542
Total assets	<u>\$ 1,589,648</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 45,557
Intercompany liabilities	42,399
Accrued liabilities	69,631
Payroll taxes payable	(1,650)
Notes payable	680,197
Total liabilities	<u>836,134</u>
Net Assets:	
Unrestricted	<u>753,514</u>
Total net assets	<u>753,514</u>
Total liabilities and net assets	<u>\$ 1,589,648</u>

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
AUSTIN ELEMENTARY CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2007

ASSETS	
Assets:	
Cash	\$ 114,642
Receivables	214,521
Intercompany receivables	11,178
Other receivables	2,433
Buildings and improvements	85,925
Furniture and equipment	55,767
Accumulated depreciation	(29,526)
Total assets	<u>\$ 454,939</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 33,251
Intercompany liabilities	215,607
Accrued liabilities	51,585
Capital leases	36,064
Total liabilities	<u>336,507</u>
Net Assets:	
Unrestricted	<u>118,432</u>
Total net assets	<u>118,432</u>
Total liabilities and net assets	<u>\$ 454,939</u>

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
HOUSTON EXCELLENCE CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2007

<b>ASSETS</b>	
Assets:	
Cash	\$ (22,314)
Receivables	460,984
Other receivables	451,759
Furniture and equipment	154,648
Accumulated depreciation:	(17,399)
Deposits	16,557
Total assets	<u>\$ 1,044,236</u>
<b>LIABILITIES AND NET ASSETS</b>	
Liabilities:	
Accounts payable	\$ 610,412
Intercompany liabilities	115,252
Accrued liabilities	90,514
Notes payable	32,834
Total liabilities	<u>849,012</u>
Net Assets:	
Unrestricted	195,223
Total net assets	<u>195,223</u>
Total liabilities and net assets	<u>\$ 1,044,236</u>

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
LUBBOCK CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2007

<b>ASSETS</b>	
Assets:	
Cash	\$ 77,254
Receivables	168,277
Buildings and improvements	809,478
Furniture and equipment	45,872
Accumulated depreciation	(88,593)
Other assets	68,607
Total assets	<u>\$ 1,080,895</u>
<b>LIABILITIES AND NET ASSETS</b>	
Liabilities:	
Accounts payable	\$ 32,969
Intercompany liabilities	132,718
Interest payable	2,340
Accrued liabilities	43,547
Capital lease	45,312
Bonds payable net of discount	1,035,302
Total liabilities	<u>1,292,188</u>
Net Assets:	
Unrestricted	(211,294)
Total net assets	<u>(211,294)</u>
Total liabilities and net assets	<u>\$ 1,080,895</u>

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
BEAUMONT CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2007

<b>ASSETS</b>	
Assets:	
Cash	\$ 49,185
Receivables	179,790
Other receivables	100
Buildings and improvements	1,162,040
Furniture and equipment	58,449
Accumulated depreciation	(125,267)
Other assets	<u>74,015</u>
Total assets	<u>\$1,398,311</u>

<b>LIABILITIES AND NET ASSETS</b>	
Liabilities:	
Accounts payable	\$ 42,497
Intercompany liabilities	183,333
Interest payable	3,120
Accrued liabilities	51,472
Capital leases	47,102
Bonds payable net of discount	<u>1,380,942</u>
Total liabilities	<u>1,708,465</u>

Net Assets:	
Unrestricted	<u>(310,154)</u>
Total net assets	<u>(310,154)</u>
Total liabilities and net assets	<u>\$1,398,311</u>

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
COLLEGE STATION CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2007

<b>ASSETS</b>	
Assets:	
Cash	\$ 1,668,998
Receivables	127,416
Land	645,330
Buildings and improvements	1,712,564
Furniture and equipment	58,069
Accumulated depreciation	(50,323)
Other assets	<u>235,734</u>
Total assets	<u>\$4,397,785</u>

<b>LIABILITIES AND NET ASSETS</b>	
Liabilities:	
Accounts payable	\$ 41,694
Intercompany liabilities	121,979
Interest payable	10,010
Accrued liabilities	9,229
Payroll taxes payable	(523)
Capital lease	40,177
Bonds payable net of discount	<u>4,428,792</u>
Total liabilities	<u>4,651,357</u>

Net Assets:	
Unrestricted	<u>(253,573)</u>
Total net assets	<u>(253,573)</u>
Total liabilities and net assets	<u>\$4,397,785</u>

See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
WACO CAMPUS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2007

<b>ASSETS</b>	
Assets:	
Cash	\$ 363
Receivables	125,905
Buildings and improvements	908,412
Furniture and equipment	64,182
Accumulated depreciation	(100,423)
Other Assets	<u>55,642</u>
Total assets	<u>\$1,054,082</u>
<b>LIABILITIES AND NET ASSETS</b>	
Liabilities:	
Accounts payable	\$ 23,388
Intercompany liabilities	90,000
Interest payable	2,470
Accrued liabilities	14,767
Payroll taxes payable	780
Capital lease	45,334
Bonds payable net of discount	<u>1,090,293</u>
Total liabilities	<u>1,267,032</u>
Net Assets:	
Unrestricted	<u>(212,951)</u>
Total net assets	<u>(212,951)</u>
Total liabilities and net assets	<u>\$1,054,082</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
HOUSTON CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2007

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 675,140		\$ 675,140
5750 Revenue from Curricular	123,641		123,641
Total Local Support	<u>798,782</u>		<u>798,782</u>
State Program Revenues			
5810 Foundation School Program Act Revenues		7,219,621	7,219,621
5820 State Program Revenues Distributed by Texas Education Agency		31,791	31,791
5830 State Revenues From State of Texas (Other Than Texas Education Agency)		8,452	8,452
Total State Program Revenues		<u>7,259,864</u>	<u>7,259,864</u>
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		648,888	648,888
Total Federal Program Revenues		<u>648,888</u>	<u>648,888</u>
Net assets released from restrictions: Restrictions satisfied by payments	7,908,752	(7,908,752)	
Total Revenues	<u>8,707,534</u>	<u>(7,908,752)</u>	<u>8,707,534</u>
<b>EXPENSES</b>			
11 Instruction	4,285,042		4,285,042
13 Curriculum Development and Instructional Staff Development	26,450		26,450
23 School Leadership	519,148		519,148
31 Guidance, Counseling, and Evaluation		66,307	66,307
33 Health Services		45,250	45,250
34 Student (Pupil) Transportation		281,238	281,238
35 Food Service		103,829	103,829
36 Curricular/Extracurricular Activities		1,189,431	1,189,431
41 General Administration		1,572,098	1,572,098
51 Plant Maintenance and Operations		8,583	8,583
52 Security and Monitoring Services		42,939	42,939
53 Data Processing Services		17,500	17,500
81 Fund Raising			
Total Expenses	<u>8,157,813</u>		<u>8,157,813</u>
Change in Net Assets	549,721		549,721
Net Assets, Beginning of Year As Restated	862,137		862,137
Net Assets, End of Year	<u>\$1,411,858</u>		<u>\$1,411,858</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
AUSTIN CAMPUS  
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2007

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 7,416	\$	\$ 7,416
5750 Revenue from Curricular	54,064		54,064
Total Local Support	61,479		61,479
State Program Revenues		1,842,730	1,842,730
5810 Foundation School Program Act Revenues			
5820 State Program Revenues Distributed by Texas Education Agency		6,957	6,957
Total State Program Revenues		1,849,687	1,849,687
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		161,218	161,218
Total Federal Program Revenues		161,218	161,218
Net assets released from restrictions: Restrictions satisfied by payments	2,010,905	(2,010,905)	
Total Revenues	2,072,384		2,072,384
<b>EXPENSES</b>			
11 Instruction	1,138,216		1,138,216
12 Instructional Resources and Media Services	859		859
13 Curriculum Development and Instructional Staff Development	6,223		6,223
23 School Leadership	145,313		145,313
31 Guidance, Counseling, and Evaluation	3,760		3,760
33 Health Services	8,800		8,800
34 Student (Pupils) Transportation	43,801		43,801
35 Food Service	48,561		48,561
36 Cocurricular/Extracurricular Activities	260,014		260,014
41 General Administration	353,279		353,279
51 Plant Maintenance and Operations	2,107		2,107
52 Security and Monitoring Services	13,603		13,603
53 Data Processing Services	2,024,536		2,024,536
Total Expenses	47,849		47,849
Change in Net Assets	298,637		298,637
Net Assets, Beginning of Year	\$ 346,486	\$	\$ 346,486
Net Assets, End of Year			

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
HOUSTON ELEMENTARY CAMPUS  
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2007

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$2,460,169		\$ 2,460,169
5750 Revenue from Curricular	42,988		42,988
Total Local Support	2,503,157		2,503,157
State Program Revenues		2,563,662	2,563,662
5810 Foundation School Program Act Revenues			
5820 State Program Revenues Distributed by Texas Education Agency		11,860	11,860
5830 State Revenues From State of Texas		2,575,522	2,575,522
Total State Program Revenues		2,587,382	2,587,382
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		332,760	332,760
Total Federal Program Revenues		332,760	332,760
Net assets released from restrictions: Restrictions satisfied by payments	2,908,282	(2,908,282)	
Total Revenues	5,411,439		5,411,439
<b>EXPENSES</b>			
11 Instruction	1,660,046		1,660,046
12 Instructional Resources and Media Services	16,253		16,253
13 Curriculum Development and Instructional Staff Development	40,053		40,053
21 Instructional Leadership	179,132		179,132
23 School Leadership	166,983		166,983
31 Guidance, Counseling, and Evaluation	36,119		36,119
33 Health Services	133,213		133,213
35 Food Service	19,039		19,039
36 Cocurricular/Extracurricular Activities	1,907,748		1,907,748
41 General Administration	834,713		834,713
51 Plant Maintenance and Operations	7,912		7,912
52 Security and Monitoring Services	167,118		167,118
53 Data Processing Services	5,168,328		5,168,328
Total Expenses	243,111		243,111
Change in Net Assets	124,053		124,053
Net Assets, Beginning of Year	\$ 367,164	\$	\$ 367,164
Net Assets, End of Year			

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
SAN ANTONIO CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2007

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 156,722	\$	\$ 156,722
5750 Revenue from Curricular	47,138		47,138
Total Local Support	<u>203,861</u>		<u>203,861</u>
State Program Revenues:			
5810 Foundation School Program Act Revenues		2,259,750	2,259,750
5820 State Program Revenues Distributed by Texas Education Agency		7,987	7,987
Total State Program Revenues		<u>2,267,737</u>	<u>2,267,737</u>
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		431,653	431,653
Total Federal Program Revenues		<u>431,653</u>	<u>431,653</u>
Net assets released from restrictions: Restrictions satisfied by payments	2,699,391	(2,699,391)	
Total Revenues	<u>2,903,252</u>		<u>2,903,252</u>
<b>EXPENSES</b>			
11 Instruction	1,276,178		1,276,178
12 Instructional Resources and Media Services	1,442		1,442
13 Curriculum Development and Instructional Staff Development	11,782		11,782
23 School Leadership	139,310		139,310
33 Health Services	28,910		28,910
35 Food Service	79,394		79,394
36 Cocurricular/Extracurricular Activities	21,760		21,760
41 General Administration	366,184		366,184
51 Plant Maintenance and Operations	538,017		538,017
52 Security and Monitoring Services	2,254		2,254
53 Data Processing Services	3,817		3,817
Total Expenses	<u>2,469,047</u>		<u>2,469,047</u>
Change in Net Assets	434,205		434,205
Net Asset, Beginning of Year	(40,339)		(40,339)
Net Assets, End of Year	<u>\$ 393,866</u>		<u>\$ 393,866</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
EL PASO CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2007

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
5740 Other Revenues from Local Sources	\$ 6,779		\$ 6,779
5750 Food Service Sales	85,054		85,054
Total Local Support	<u>91,833</u>		<u>91,833</u>
State Program Revenues:			
5810 Foundation School Program Act Revenues		2,444,774	2,444,774
5820 State Program Revenues Distributed by Texas Education Agency		9,164	9,164
Total State Program Revenues		<u>2,453,938</u>	<u>2,453,938</u>
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		535,184	535,184
Total Federal Program Revenues		<u>535,184</u>	<u>535,184</u>
Net assets released from restrictions: Restrictions satisfied by payments	2,989,122	(2,989,122)	
Total Revenues	<u>3,080,955</u>		<u>3,080,955</u>
<b>EXPENSES</b>			
11 Instruction	1,258,581		1,258,581
12 Instructional Resources and Media Services	6,563		6,563
13 Curriculum Development and Instructional Staff Development	15,064		15,064
23 School Leadership	162,244		162,244
33 Health Services	24,427		24,427
35 Food Service	69,954		69,954
36 Cocurricular/Extracurricular Activities	35,419		35,419
41 General Administration	323,698		323,698
51 Plant Maintenance and Operations	474,500		474,500
52 Security and Monitoring Services	1,690		1,690
53 Data Processing Services	2,849		2,849
Total Expenses	<u>2,374,988</u>		<u>2,374,988</u>
Change in Net Assets	705,967		705,967
Net Assets, Beginning of Year	60,831		60,831
Net Assets, End of Year	<u>\$ 766,798</u>		<u>\$ 766,798</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
FORT WORTH CAMPUS  
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2007

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 57,505	\$	\$ 57,505
5750 Revenue from Curricular	65,066		65,066
Total Local Support	<u>122,571</u>		<u>122,571</u>
State Program Revenues			
5810 Foundation School Program Act Revenues		2,836,622	2,836,622
5820 State Program Revenues Distributed by Texas Education Agency		9,325	9,325
Total State Program Revenues		<u>2,845,947</u>	<u>2,845,947</u>
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		528,801	528,801
Total Federal Program Revenues		<u>528,801</u>	<u>528,801</u>
Net assets released from restrictions: Restrictions satisfied by payments	3,374,749	(3,374,749)	
Total Revenues	<u>3,497,320</u>		<u>3,497,320</u>
<b>EXPENSES</b>			
11 Instruction	1,256,156		1,256,156
13 Curriculum Development and Instructional Staff Development	17,249		17,249
23 School Leadership	147,228		147,228
33 Health Services	36,628		36,628
35 Food Service	80,063		80,063
36 Curricular/Extracurricular Activities	29,295		29,295
41 General Administration	415,388		415,388
51 Plant Maintenance and Operations	706,613		706,613
52 Security and Monitoring Services	520		520
53 Data Processing Services	10,837		10,837
Total Expenses	<u>2,699,978</u>		<u>2,699,978</u>
Change in Net Assets	797,342		797,342
Net Assets, Beginning of Year	(43,828)		(43,828)
Net Assets, End of Year	<u>\$ 753,514</u>		<u>\$ 753,514</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
AUSTIN ELEMENTARY CAMPUS  
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2007

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 56,224	\$	\$ 56,224
5750 Revenue from Curricular	38,824		38,824
Total Local Support	<u>95,049</u>		<u>95,049</u>
State Program Revenues			
5810 Foundation School Program Act Revenues		1,532,951	1,532,951
5820 State Program Revenues Distributed by Texas Education Agency		6,512	6,512
Total State Program Revenues		<u>1,539,463</u>	<u>1,539,463</u>
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		373,080	373,080
Total Federal Program Revenues		<u>373,080</u>	<u>373,080</u>
Net assets released from restrictions: Restrictions satisfied by payments	1,912,543	(1,912,543)	
Total Revenues	<u>2,007,592</u>		<u>2,007,592</u>
<b>EXPENSES</b>			
11 Instruction	903,243		903,243
12 Instructional Resources and Media Services	1,606		1,606
13 Curriculum Development and Instructional Staff Development	8,589		8,589
23 School Leadership	186,739		186,739
33 Health Services	28,178		28,178
34 Student (Pupil) Transportation	17,536		17,536
35 Food Service	71,507		71,507
36 Curricular/Extracurricular Activities	2,576		2,576
41 General Administration	257,549		257,549
51 Plant Maintenance and Operations	424,614		424,614
52 Security and Monitoring Services	1,594		1,594
53 Data Processing Services	25		25
Total Expenses	<u>1,903,757</u>		<u>1,903,757</u>
Change in Net Assets	103,835		103,835
Net Assets, Beginning of Year	14,597		14,597
Net Assets, End of Year	<u>\$ 118,432</u>		<u>\$ 118,432</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
HOUSTON EXCELLENCE CAMPUS  
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2007

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 1,031,191	\$	\$ 1,031,191
5750 Revenue from Curricular	101,465		101,465
Total Local Support	1,132,656		1,132,656
State Program Revenues:			
5810 Foundation School Program Act Revenues		2,315,273	2,315,273
5820 State Program Revenues Distributed by Texas Education Agency		6,923	6,923
Total State Program Revenues		2,322,196	2,322,196
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		337,926	337,926
Total Federal Program Revenues		337,926	337,926
Net assets released from restrictions: Restrictions satisfied by payments	2,660,122	(2,660,122)	(0)
Total Revenues	3,792,778		3,792,778
<b>EXPENSES</b>			
11 Instruction	1,445,271		1,445,271
13 Curriculum Development and Instructional Staff Development	16,988		16,988
23 School Leadership	186,781		186,781
33 Health Services	20,530		20,530
34 Student (Pupil) Transportation	3,240		3,240
35 Food Service	82,741		82,741
36 Occurricular/Extracurricular Activities	45,378		45,378
41 General Administration	318,455		318,455
51 Plant Maintenance and Operations	1,496,536		1,496,536
52 Security and Monitoring Services	2,143		2,143
53 Data Processing Services	6,358		6,358
Total Expenses	3,624,420		3,624,420
Change in Net Assets	168,358		168,358
Net Assets, Beginning of Year	26,864		26,864
Net Assets, End of Year	\$ 195,223	\$	\$ 195,223

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
LUBBOCK CAMPUS  
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2007

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 12,305	\$	\$ 12,305
Total Local Support	12,305		12,305
State Program Revenues:			
5810 Foundation School Program Act Revenues		43,038	43,038
Total State Program Revenues		43,038	43,038
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		233,049	233,049
Total Federal Program Revenues		233,049	233,049
Net assets released from restrictions: Restrictions satisfied by payments	276,087	(276,087)	
Total Revenues	288,391		288,391
<b>EXPENSES</b>			
11 Instruction	289,681		289,681
13 Curriculum Development and Instructional Staff Development	4,275		4,275
23 School Leadership	6,410		6,410
35 Food Service	2,320		2,320
41 General Administration	73,163		73,163
51 Plant Maintenance and Operations	122,169		122,169
52 Security and Monitoring Services	1,667		1,667
Total Expenses	499,685		499,685
Change in Net Assets	(211,294)		(211,294)
Net Assets, Beginning of Year			
Net Assets, End of Year	\$ (211,294)	\$	\$ (211,294)

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
BEAUMONT CAMPUS  
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2007

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 11,245	\$	\$ 11,245
Total Local Support	<u>11,245</u>		<u>11,245</u>
State Program Revenues:			
5810 Foundation School Program Act Revenues		49,267	49,267
Total State Program Revenues		<u>49,267</u>	<u>49,267</u>
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		237,701	237,701
Total Federal Program Revenues		<u>237,701</u>	<u>237,701</u>
Net assets released from restrictions: Restrictions satisfied by payments		(286,968)	(286,968)
Total Revenues	<u>286,968</u>	<u>(286,968)</u>	<u>298,212</u>
<b>EXPENSES</b>			
11 Instruction	348,875		348,875
13 Curriculum Development and Instructional Staff Development	3,761		3,761
23 School Leadership	11,827		11,827
35 Food Service	1,913		1,913
41 General Administration	49,580		49,580
51 Plant Maintenance and Operations	191,921		191,921
52 Security and Monitoring Services	490		490
Total Expenses	<u>608,367</u>		<u>608,367</u>
Change in Net Assets			
Net Assets, Beginning of Year	(310,154)		(310,154)
Net Assets, End of Year	<u>\$ (310,154)</u>	<u>\$</u>	<u>\$ (310,154)</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
COLLEGE STATION CAMPUS  
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2007

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 54,673	\$	\$ 54,673
Total Local Support	<u>54,673</u>		<u>54,673</u>
State Program Revenues:			
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		238,683	238,683
Total Federal Program Revenues		<u>238,683</u>	<u>238,683</u>
Net assets released from restrictions: Restrictions satisfied by payments		(238,683)	(0)
Total Revenues	<u>238,683</u>	<u>(238,683)</u>	<u>293,356</u>
<b>EXPENSES</b>			
11 Instruction	349,240		349,240
13 Curriculum Development and Instructional Staff Development	1,496		1,496
23 School Leadership	6,320		6,320
41 General Administration	107,058		107,058
51 Plant Maintenance and Operations	82,414		82,414
52 Security and Monitoring Services	400		400
Total Expenses	<u>546,928</u>		<u>546,928</u>
Change in Net Assets			
Net Assets, Beginning of Year	(253,573)		(253,573)
Net Assets, End of Year	<u>\$ (253,573)</u>	<u>\$</u>	<u>\$ (253,573)</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
WACO CAMPUS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 10,002	\$	\$ 10,002
Total Local Support	<u>10,002</u>		<u>10,002</u>
State Program Revenues:			
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		237,694	237,694
Total Federal Program Revenues		<u>237,694</u>	<u>237,694</u>
Net assets released from restrictions: Restrictions satisfied by payments	237,694	(237,694)	
Total Revenues	<u>247,696</u>		<u>247,696</u>
<b>EXPENSES</b>			
11 Instruction	269,376		269,376
13 Curriculum Development and Instructional Staff Development	4,455		4,455
23 School Leadership	6,872		6,872
41 General Administration	48,021		48,021
51 Plant Maintenance and Operations	131,845		131,845
52 Security and Monitoring Services	78		78
Total Expenses	<u>460,647</u>		<u>460,647</u>
Change in Net Assets	(212,951)		(212,951)
Net Assets, Beginning of Year			
Net Assets, End of Year	<u>\$ (212,951)</u>		<u>\$ (212,951)</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
HOUSTON CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2007

Cash Flows From Operating Activities	\$ 549,721
Change in net assets	
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	214,205
(Increase) decrease in accounts receivable	(349,812)
(Increase) decrease in other assets	(299,838)
Increase (decrease) in accounts payable	342,986
Increase (decrease) in payroll taxes	10,649
Increase ( decrease ) in interest payable	11,180
Net Cash Provided (Used) by Operating Activities	<u>479,091</u>
Cash Flows From Investing Activities	(5,293,396)
Purchase of fixed assets	<u>(5,293,396)</u>
Net Cash Provided (Used) by Investing Activities	<u>(5,293,396)</u>
Cash Flows From Financing Activities	5,131,629
Proceeds from bonds and loans	(54,000)
Repayment of long-term debt	<u>5,077,629</u>
Net Cash Provided (Used) by Financing Activities	<u>5,077,629</u>
NET INCREASE (DECREASE) IN CASH	263,324
CASH AT BEGINNING OF YEAR	147,095
CASH AT END OF YEAR	<u>\$ 410,419</u>
Supplemental Disclosures:	
Cash Paid During the Year for:	
Interest	<u>\$ (91,680)</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
AUSTIN CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2007

Cash Flows From Operating Activities	
Change in net assets	\$ 47,849
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	14,409
(Increase) decrease in accounts receivable	94,579
Increase (decrease) in accounts payable	(29,061)
Increase (decrease) in payroll taxes	(1,186)
Net Cash Provided (Used) by Operating Activities	<u>126,590</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	(124,226)
Net Cash Provided (Used) by Investing Activities	<u>(124,226)</u>
Cash Flows From Financing Activities	
Repayment of long-term debt	(20,000)
Net Cash Provided (Used) by Financing Activities	<u>(20,000)</u>
NET INCREASE ( DECREASE ) IN CASH	(17,636)
CASH AT BEGINNING OF YEAR	102,438
CASH AT END OF YEAR	<u>\$ 84,802</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	<u>\$ 176</u>

COSMOS FOUNDATION, INC.  
HOUSTON ELEMENTARY CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2007

Cash Flows From Operating Activities	
Change in net assets	\$ 243,111
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	120,892
(Increase) decrease in accounts receivable	(514,003)
(Increase) decrease in other assets	(595,959)
Increase (decrease) in accounts payable	262,253
Increase (decrease) in payroll taxes	8,010
Increase ( decrease ) in interest payable	<u>21,059</u>
Net Cash Provided (Used) by Operating Activities	<u>(454,637)</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(497,533)
Net Cash Provided (Used) by Investing Activities	<u>(497,533)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	9,551,105
Repayment of long-term debt	(161,861)
Net Cash Provided (Used) by Financing Activities	<u>9,389,244</u>
NET INCREASE ( DECREASE ) IN CASH	8,437,074
CASH AT BEGINNING OF YEAR	29,215
CASH AT END OF YEAR	<u>\$ 8,466,289</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	<u>\$ 188,207</u>

See accompanying notes to financial statements.

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See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
SAN ANTONIO CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2007

Cash Flows From Operating Activities	
Change in net assets	\$ 434,205
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	72,089
(Increase) decrease in accounts receivable	(146,489)
(Increase) decrease in other assets	(397,992)
Increase (decrease) in accounts payable	(18,395)
Increase (decrease) in payroll taxes	(9,454)
Increase ( decrease ) in interest payable	16,899
Net Cash Provided (Used) by Operating Activities	<u>(49,137)</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	<u>(1,555,763)</u>
Net Cash Provided (Used) by Investing Activities	<u>(1,555,763)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	7,477,181
Repayment of long-term debt	<u>(235,000)</u>
Net Cash Provided (Used) by Financing Activities	<u>7,242,181</u>
NET INCREASE ( DECREASE ) IN CASH	5,637,281
CASH AT BEGINNING OF YEAR	<u>(34,147)</u>
CASH AT END OF YEAR	<u>\$ 5,603,134</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	<u>\$ 144,816</u>

COSMOS FOUNDATION, INC.  
EL PASO CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2007

Cash Flows From Operating Activities	
Change in net assets	\$ 705,967
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	17,217
(Increase) decrease in accounts receivable	(504,460)
Increase (decrease) in accounts payable	(40,565)
Increase (decrease) in payroll taxes	<u>(273)</u>
Net Cash Provided (Used) by Operating Activities	<u>177,886</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	<u>(136,327)</u>
Net Cash Provided (Used) by Investing Activities	<u>(136,327)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	64,640
Net Cash Provided (Used) by Financing Activities	<u>64,640</u>
NET INCREASE ( DECREASE ) IN CASH	106,199
CASH AT BEGINNING OF YEAR	7,124
CASH AT END OF YEAR	<u>\$ 113,323</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	<u>\$ 511</u>

See accompanying notes to financial statements.

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See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
FORT WORTH CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2007

Cash Flows From Operating Activities	
Change in net assets	\$ 797,342
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	179,316
(Increase) decrease in accounts receivable	(615,056)
Increase (decrease) in accounts payable	19,184
Increase (decrease) in payroll taxes	(6,609)
Net Cash Provided (Used) by Operating Activities	<u>374,177</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(640,312)
Net Cash Provided (Used) by Investing Activities	<u>(640,312)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	437,072
Net Cash Provided (Used) by Financing Activities	<u>437,072</u>
NET INCREASE ( DECREASE ) IN CASH	170,937
CASH AT BEGINNING OF YEAR	7,504
CASH AT END OF YEAR	<u>\$ 178,441</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	<u>\$ 69,429</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
AUSTIN ELEMENTARY CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2007

Cash Flows From Operating Activities	
Change in net assets	\$ 103,835
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	26,327
(Increase) decrease in accounts receivable	(49,028)
Increase (decrease) in accounts payable	35,243
Increase (decrease) in payroll taxes	(1,325)
Net Cash Provided (Used) by Operating Activities	<u>115,042</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(48,822)
Net Cash Provided (Used) by Investing Activities	<u>(48,822)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	36,064
Net Cash Provided (Used) by Financing Activities	<u>36,064</u>
NET INCREASE ( DECREASE ) IN CASH	102,284
CASH AT BEGINNING OF YEAR	12,358
CASH AT END OF YEAR	<u>\$ 114,642</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	<u>\$ 1,188</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
HOUSTON EXCELLENCE CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2007

Cash Flows From Operating Activities	
Change in net assets	\$ 168,358
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	16,630
(Increase) decrease in accounts receivable	(740,693)
Increase (decrease) in accounts payable	610,974
Increase (decrease) in payroll taxes	(9,029)
Net Cash Provided (Used) by Operating Activities	<u>46,240</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(142,996)
Net Cash Provided (Used) by Investing Activities	<u>(142,996)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	32,834
Net Cash Provided (Used) by Financing Activities	<u>32,834</u>
NET INCREASE ( DECREASE ) IN CASH	(63,922)
CASH AT BEGINNING OF YEAR	41,608
CASH AT END OF YEAR	<u>\$ (22,314)</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	<u>\$ 424</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
LUBBOCK CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2007

Cash Flows From Operating Activities	
Change in net assets	\$ (211,294)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	88,593
(Increase) decrease in accounts receivable	(168,277)
Increase (decrease) in other assets	(68,606)
Increase (decrease) in accounts payable	209,234
Increase ( decrease ) in interest payable	<u>2,340</u>
Net Cash Provided (Used) by Operating Activities	<u>(148,010)</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(835,350)
Net Cash Provided (Used) by Investing Activities	<u>(835,350)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	1,080,614
Net Cash Provided (Used) by Financing Activities	<u>1,080,614</u>
NET INCREASE ( DECREASE ) IN CASH	77,254
CASH AT THE BEGINNING OF YEAR	
CASH AT END OF YEAR	<u>\$ 77,254</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	<u>\$ 18,742</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
BEAUMONT CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2007

Cash Flows From Operating Activities	
Change in net assets	\$ (310,154)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	125,267
(Increase) decrease in accounts receivable	(179,890)
(Increase) decrease in other assets	(74,015)
Increase (decrease) in accounts payable	277,302
Increase ( decrease ) in interest payable	3,120
Net Cash Provided (Used) by Operating Activities	<u>(158,370)</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	<u>(1,220,489)</u>
Net Cash Provided (Used) by Investing Activities	<u>(1,220,489)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	<u>1,428,044</u>
Net Cash Provided (Used) by Financing Activities	<u>1,428,044</u>
NET INCREASE ( DECREASE ) IN CASH	49,185
CASH AT THE BEGINNING OF YEAR	<u>\$ 49,185</u>
CASH AT END OF YEAR	
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	<u>\$ 25,123</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
COLLEGE STATION CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2007

Cash Flows From Operating Activities	
Change in net assets	\$ (253,573)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	50,325
(Increase) decrease in accounts receivable	(127,416)
(Increase) decrease in other assets	(235,734)
Increase (decrease) in accounts payable	172,903
Increase (decrease) in payroll taxes	(523)
Increase ( decrease ) in interest payable	<u>10,010</u>
Net Cash Provided (Used) by Operating Activities	<u>(384,008)</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	<u>(2,415,963)</u>
Net Cash Provided (Used) by Investing Activities	<u>(2,415,963)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	<u>4,468,969</u>
Net Cash Provided (Used) by Financing Activities	<u>4,468,969</u>
NET INCREASE ( DECREASE ) IN CASH	1,668,998
CASH AT THE BEGINNING OF YEAR	<u>\$ 1,668,998</u>
CASH AT END OF YEAR	
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	<u>\$ 79,954</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.  
WACO CAMPUS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2007

Cash Flows From Operating Activities	
Change in net assets	\$ (212,951)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	100,423
(Increase) decrease in accounts receivable	(125,905)
(Increase) decrease in other assets	(55,643)
Increase (decrease) in accounts payable	128,156
Increase (decrease) in payroll taxes	780
Increase ( decrease ) in interest payable	2,470
Net Cash Provided (Used) by Operating Activities	<u>(162,670)</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(972,594)
Net Cash Provided (Used) by Investing Activities	<u>(972,594)</u>
Cash Flows From Financing Activities	
Proceeds from bonds and loans	1,135,627
Net Cash Provided (Used) by Financing Activities	<u>1,135,627</u>
NET INCREASE ( DECREASE ) IN CASH	363
CASH AT THE BEGINNING OF YEAR	<u>363</u>
CASH AT END OF YEAR	<u>\$ 19,693</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	<u>\$ 19,693</u>

COSMOS FOUNDATION, INC.  
HOUSTON CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2007

Expenses	
6100 Payroll Costs	\$ 3,977,693
6200 Professional and Contracted Services	2,735,101
6300 Supplies and Materials	679,725
6400 Other Operating Costs	663,094
6500 Debt	<u>102,200</u>
Total Expenses	<u>\$ 8,157,813</u>

COSMOS FOUNDATION, INC.  
AUSTIN CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2007

<b>Expenses</b>	
6100 Payroll Costs	\$ 1,109,753
6200 Professional and Contracted Services	619,192
6300 Supplies and Materials	163,507
6400 Other Operating Costs	131,908
6500 Debt	176
Total Expenses	<u>\$ 2,024,536</u>

COSMOS FOUNDATION, INC.  
HOUSTON ELEMENTARY CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2007

<b>Expenses</b>	
6100 Payroll Costs	\$ 2,679,916
6200 Professional and Contracted Services	1,407,593
6300 Supplies and Materials	485,294
6400 Other Operating Costs	387,043
6500 Debt	208,481
Total Expenses	<u>\$ 5,168,328</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
SAN ANTONIO CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2007

<b>Expenses</b>	
6100 Payroll Costs	\$ 1,086,648
6200 Professional and Contracted Services	857,687
6300 Supplies and Materials	181,311
6400 Other Operating Costs	182,443
6500 Debt	160,958
Total Expenses	<u>\$ 2,469,047</u>

COSMOS FOUNDATION, INC.  
EL PASO CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2007

<b>Expenses</b>	
6100 Payroll Costs	\$ 995,271
6200 Professional and Contracted Services	911,774
6300 Supplies and Materials	312,063
6400 Other Operating Costs	155,370
6500 Debt	511
Total Expenses	<u>\$ 2,374,988</u>

See accompanying notes to financial statements.  
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See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
FORT WORTH CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2007

<b>Expenses</b>	
6100 Payroll Costs	\$ 1,092,205
6200 Professional and Contracted Services	1,004,328
6300 Supplies and Materials	216,442
6400 Other Operating Costs	317,574
6500 Debt	<u>69,429</u>
Total Expenses	<u>\$ 2,699,978</u>

COSMOS FOUNDATION, INC.  
AUSTIN ELEMENTARY CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2007

<b>Expenses</b>	
6100 Payroll Costs	\$ 883,243
6200 Professional and Contracted Services	759,127
6300 Supplies and Materials	157,200
6400 Other Operating Costs	102,999
6500 Debt	<u>1,188</u>
Total Expenses	<u>\$ 1,903,757</u>

See accompanying notes to financial statements.  
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See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
HOUSTON EXCELLENCE CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2007

<b>Expenses</b>	
6100 Payroll Costs	\$ 1,197,541
6200 Professional and Contracted Services	1,914,943
6300 Supplies and Materials	369,902
6400 Other Operating Costs	141,609
6500 Debt	424
Total Expenses	<u>\$ 3,624,420</u>

COSMOS FOUNDATION, INC.  
LUBBOCK CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2007

<b>Expenses</b>	
6100 Payroll Costs	\$ 53,249
6200 Professional and Contracted Services	60,603
6300 Supplies and Materials	243,531
6400 Other Operating Costs	121,326
6500 Debt	<u>20,977</u>
Total Expenses	<u>\$ 499,686</u>

See accompanying notes to financial statements.  
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See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
BEAUMONT CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2007

<b>Expenses</b>	
6100 Payroll Costs	\$ 55,408
6200 Professional and Contracted Services	80,104
6300 Supplies and Materials	290,323
6400 Other Operating Costs	154,428
6500 Debt	<u>28,103</u>
Total Expenses	<u>\$ 608,367</u>

COSMOS FOUNDATION, INC.  
COLLEGE STATION CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2007

<b>Expenses</b>	
6100 Payroll Costs	\$ 8,953
6200 Professional and Contracted Services	41,444
6300 Supplies and Materials	281,441
6400 Other Operating Costs	126,119
6500 Debt	<u>88,971</u>
Total Expenses	<u>\$ 546,928</u>

See accompanying notes to financial statements.  
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See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
WACO CAMPUS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2007

Expenses	
6100 Payroll Costs	\$ 3,832
6200 Professional and Contracted Services	43,909
6300 Supplies and Materials	262,895
6400 Other Operating Costs	127,957
6500 Debt	22,053
Total Expenses	<u>\$ 460,647</u>

COSMOS FOUNDATION, INC.  
HOUSTON CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2007

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 410,419	\$ 0
1510 Land and Improvements	0	860,000	0
1520 Buildings and Improvements	0	4,444,199	0
1539 Furniture and Equipment	0	283,368	33,575
Total Property and Equipment	<u>\$ 0</u>	<u>\$ 5,997,986</u>	<u>\$ 33,575</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
HOUSTON ELEMENTARY CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2007

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 8,466,289	\$ 0
1520 Buildings and Improvements:	0	717,560	0
1539 Furniture and Equipment	0	123,356	0
Total Property and Equipment	<u>0</u>	<u>\$ 9,307,204</u>	<u>0</u>

COSMOS FOUNDATION, INC.  
AUSTIN CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2007

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 84,802	\$ 0
1520 Buildings and Improvements:	0	79,125	0
1539 Furniture and Equipment	0	47,898	7,133
Total Property and Equipment	<u>0</u>	<u>\$ 211,825</u>	<u>\$ 7,133</u>

See accompanying notes to financial statements. -64-

See accompanying notes to financial statements. -63-

COSMOS FOUNDATION, INC.  
SAN ANTONIO CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2007

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 5,603,134	\$ 0
1510 Land and Improvements	0	1,474,232	0
1520 Buildings and Improvements	0	328,019	0
1539 Furniture and Equipment	0	70,606	7,086
Total Property and Equipment	<u>\$ 0</u>	<u>\$ 7,475,991</u>	<u>\$ 7,086</u>

COSMOS FOUNDATION, INC.  
EL PASO CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2007

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 113,323	\$ 0
1520 Buildings and Improvements:	0	37,650	0
1539 Furniture and Equipment	0	98,677	14,062
Total Property and Equipment	<u>\$ 0</u>	<u>\$ 249,650</u>	<u>\$ 14,062</u>

See accompanying notes to financial statements.  
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See accompanying notes to financial statements.  
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COSMOS FOUNDATION, INC.  
FORT WORTH CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2007

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 178,441	\$ 0
1520 Buildings and Improvements	0	875,895	0
1539 Furniture and Equipment	0	38,480	0
Total Property and Equipment	<u>\$ 0</u>	<u>\$ 1,092,816</u>	<u>\$ 0</u>

COSMOS FOUNDATION, INC.  
AUSTIN ELEMENTARY CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2007

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 114,642	\$ 0
1520 Buildings and Improvements	0	85,925	0
1539 Furniture and Equipment	0	48,822	6,945
Total Property and Equipment	<u>\$ 0</u>	<u>\$ 249,388</u>	<u>\$ 6,945</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.

HOUSTON EXCELLENCE CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2007

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ (22,314)	\$ 0
1539 Furniture and Equipment	0	142,996	11,652
Total Property and Equipment	\$ 0	\$ 120,682	\$ 11,652

COSMOS FOUNDATION, INC.  
LUBBOCK CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2007

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 77,254	\$ 0
1520 Buildings and Improvements	0	809,478	0
1539 Furniture and Equipment	0	45,872	0
Total Property and Equipment	\$ 0	\$ 932,604	\$ 0

See accompanying notes to financial statements.

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
BEAUMONT CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2007

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 49,185	\$ 0
1520 Buildings and Improvements	0	1,162,040	0
1539 Furniture and Equipment	0	58,449	0
Total Property and Equipment	<u>0</u>	<u>\$ 1,269,673</u>	<u>\$ 0</u>

COSMOS FOUNDATION, INC.  
COLLEGE STATION CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2007

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 1,668,998	\$ 0
1510 Land and Improvements:	0	645,330	0
1520 Buildings and Improvements	0	1,712,564	0
1539 Furniture and Equipment	0	58,069	0
Total Property and Equipment	<u>0</u>	<u>\$ 4,084,961</u>	<u>\$ 0</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
WACO CAMPUS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2007

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 0	\$ 363	\$ 0
1520 Buildings and Improvements	0	908,412	0
1539 Furniture and Equipment	0	47,454	16,728
<b>Total Property and Equipment</b>	<b>\$ 0</b>	<b>\$ 956,229</b>	<b>\$ 16,728</b>

COSMOS FOUNDATION, INC.  
HOUSTON CAMPUS

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2007

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 62,000	\$ 605,800	\$ 675,140	\$ 69,340
5750 Food Service Sales	94,039	130,039	123,641	(6,398)
Total Local Support	156,039	735,839	798,782	62,943
Slate Program Revenues:				
5810 Foundation School Program Act Revenues	7,034,205	7,234,205	7,219,621	(14,584)
5820 State Program Revenues Distributed by Texas Education Agency	34,042	33,542	31,791	(1,751)
5830 State Revenues From State of Texas (Other Than Texas Education Agency)		9,000	8,452	(548)
Total State Program Revenues	7,068,247	7,276,747	7,259,864	(16,883)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	610,023	646,683	648,888	2,205
Total Federal Program Revenues	610,023	646,683	648,888	2,205
Total Revenues	7,834,309	8,659,269	8,707,534	48,265
<b>EXPENSES</b>				
11 Instruction	4,157,976	4,425,727	4,285,042	140,685
12 Instructional Resources and Media Services	110,000			
13 Curriculum Development and Instructional Staff Development	75,200	29,400	26,450	2,950
23 School Leadership	456,473	535,395	519,148	16,247
31 Guidance, Counseling, and Evaluation				
33 Health Services	81,166	65,316	66,307	(991)
34 Student (Pupil) Transportation				
35 Food Service	248,588	299,838	281,238	18,600
36 Co-curricular/Extracurricular Activities		107,100	103,829	3,271
41 General Administration	748,893	1,268,863	1,189,431	79,432
51 Plant Maintenance and Operations	1,306,750	1,600,000	1,572,098	27,902
52 Security and Monitoring Services	17,500	9,240	8,583	657
53 Data Processing Services	90,754	42,863	42,939	(76)
81 Fund Raising		18,500	17,500	1,000
Total Expenses	7,293,300	8,449,742	8,157,813	291,929
Change in Net Assets	541,009	209,527	549,721	340,194
Net Assets, Beginning of Year As Restated	862,137	862,137	862,137	
Net Assets, End of Year	\$ 1,403,146	\$ 1,071,664	\$ 1,411,858	\$ 340,194

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
AUSTIN CAMPUS

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2007

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 21,000	\$ 5,350	\$ 7,416	\$ 2,066
5750 Food Service Sales	32,000	58,350	54,064	(4,286)
Total Local Support	53,000	63,700	61,479	(2,221)
Slate Program Revenues:				
5810 Foundation School Program Act Revenues	2,048,000	1,845,072	1,842,730	(2,342)
5820 State Program Revenues Distributed by Texas Education Agency	7,500	6,957	6,957	
5830 State Revenues From State of Texas	2,055,500	1,852,029	1,849,687	(2,342)
Total State Program Revenues	4,110,500	3,704,058	3,691,374	(1,426)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	168,880	162,818	161,218	(1,600)
Total Federal Program Revenues	168,880	162,818	161,218	(1,600)
Total Revenues	4,277,380	3,729,535	3,694,070	(32,510)
<b>EXPENSES</b>				
11 Instruction	1,074,849	1,165,844	1,138,216	27,628
12 Instructional Resources and Media Services	20,000	1,000	859	141
13 Curriculum Development and Instructional Staff Development	14,000	6,735	6,223	512
23 School Leadership	202,852	148,700	145,313	3,387
33 Health Services	9,250	3,826	3,760	66
34 Student (Pupil) Transportation	8,800	8,800	8,800	
35 Food Service	65,000	48,050	43,801	4,249
36 Cocurricular/Extracurricular Activities	48,570	48,561	48,561	9
41 General Administration	228,513	240,893	260,014	(19,121)
51 Plant Maintenance and Operations	338,500	439,022	353,279	85,743
52 Security and Monitoring Services	4,300	2,130	2,107	23
53 Data Processing Services	34,011	14,296	13,603	693
Total Expenses	1,991,275	2,127,866	2,024,536	103,330
Change in Net Assets	286,105	(49,319)	47,849	97,167
Net Assets, Beginning of Year	298,637	298,637	298,637	
Net Assets, End of Year	\$ 584,742	\$ 249,318	\$ 346,486	\$ 97,167

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
HOUSTON ELEMENTARY CAMPUS

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2007

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 1,178,500	\$ 2,425,668	\$ 2,460,169	\$ 34,501
5750 Food Service Sales	49,800	47,992	42,988	(5,004)
Total Local Support	1,228,300	2,473,660	2,503,157	29,497
Slate Program Revenues:				
5810 Foundation School Program Act Revenues	2,608,000	2,573,000	2,563,662	(9,338)
5820 State Program Revenues Distributed by Texas Education Agency	11,640	11,860	11,860	
5830 State Revenues From State of Texas	2,619,640	2,584,860	2,575,522	(9,338)
Total State Program Revenues	5,239,640	5,168,860	5,149,044	(19,800)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	406,230	332,760	332,760	
Total Federal Program Revenues	406,230	332,760	332,760	
Total Revenues	4,254,170	5,391,280	5,411,439	20,159
<b>EXPENSES</b>				
11 Instruction	1,198,003	1,679,017	1,660,046	18,971
12 Instructional Resources and Media Services	25,000	16,972	16,253	719
13 Curriculum Development and Instructional Staff Development	37,800	37,800	40,053	(2,253)
23 School Leadership	184,750	184,750	179,132	5,618
31 Guidance, Counseling, and Evaluation	109,607	175,056	166,983	8,083
33 Health Services	39,116	37,116	36,119	997
34 Student (Pupil) Transportation	55,000	170,330	133,213	3,025
35 Food Service	170,330	136,238	19,039	19,039
36 Cocurricular/Extracurricular Activities	1,255,745	2,089,950	1,907,748	182,212
41 General Administration	701,399	839,441	834,713	4,728
51 Plant Maintenance and Operations	5,500	7,912	8,648	736
52 Security and Monitoring Services	229,182	172,000	167,118	4,882
53 Data Processing Services	3,788,882	5,396,047	5,168,328	227,719
Total Expenses	6,481,284	8,008,632	7,488,487	(520,145)
Change in Net Assets	465,288	(4,767)	243,111	247,878
Net Assets, Beginning of Year	124,053	124,053	124,053	
Net Assets, End of Year	\$ 589,341	\$ 119,286	\$ 367,164	\$ 247,878

See accompanying notes to financial statements.



COSMOS FOUNDATION, INC.  
SAN ANTONIO CAMPUS

BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2007

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 23,500	\$ 107,000	\$ 156,722	\$ 49,722
5750 Revenue from Curricular	32,138	51,350	47,138	(4,212)
Total Local Support	55,638	158,350	203,861	45,511
State Program Revenues:				
5810 Foundation School Program Act Revenues	2,434,000	2,353,000	2,259,750	(93,250)
5820 State Program Revenue Distributed by Texas Education Agency	11,520	8,070	7,987	(83)
Total State Program Revenues	2,445,520	2,361,070	2,267,737	(93,333)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	309,421	446,795	431,653	(15,142)
Total Federal Program Revenues	309,421	446,795	431,653	(15,142)
Total Revenues	2,810,579	2,966,215	2,903,252	(62,963)
<b>EXPENSES</b>				
11 Instruction	1,228,481	1,318,085	1,276,178	41,907
12 Instructional Resources and Media Services	39,000	1,500	1,442	58
13 Curriculum Development and Instructional Staff Development	16,750	12,800	11,782	1,018
23 School Leadership	230,110	150,585	139,310	11,275
33 Health Services	25,175	31,575	28,910	2,665
35 Food Service	85,138	79,750	79,394	356
36 Co-curricular/Extracurricular Activities	250,017	25,000	21,760	3,240
41 General Administration	373,667	373,667	366,184	7,483
51 Plant Maintenance and Operations	543,000	550,405	538,017	12,388
52 Security and Monitoring Services	5,250	2,412	2,254	158
53 Data Processing Services	28,939	4,489	3,817	672
Total Expenses	2,451,860	2,550,268	2,469,047	81,221
Change in Net Assets	358,719	415,947	434,205	18,258
Net Assets, Beginning of Year	(40,339)	(40,339)	(40,339)	
Net Assets, End of Year	\$ 318,380	\$ 375,608	\$ 393,866	\$ 18,258

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
EL PASO CAMPUS

BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2007

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 23,500	\$ 5,500	\$ 6,779	\$ 1,279
5750 Food Service Sales	32,138	87,200	85,054	(2,146)
Total Local Support	55,638	92,700	91,833	(867)
State Program Revenues:				
5810 Foundation School Program Act Revenues	2,389,000	2,450,000	2,444,774	(5,226)
5820 State Program Revenues Distributed by Texas Education Agency	10,185	9,164	9,164	
Total State Program Revenues	2,399,185	2,459,164	2,453,938	(5,226)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	286,421	498,436	535,184	36,748
Total Federal Program Revenues	286,421	498,436	535,184	36,748
Total Revenues	2,741,244	3,050,300	3,080,955	30,655
<b>EXPENSES</b>				
11 Instruction	1,195,901	1,325,298	1,238,581	66,717
12 Instructional Resources and Media Services	38,500	6,750	6,563	187
13 Curriculum Development and Instructional Staff Development	16,750	15,080	15,064	16
23 School Leadership	207,544	164,420	162,244	2,176
33 Health Services	36,282	25,950	24,427	1,523
35 Food Service	62,138	70,112	69,954	158
36 Co-curricular/Extracurricular Activities	35,600	35,600	35,419	181
41 General Administration	230,270	336,421	323,698	12,723
51 Plant Maintenance and Operations	532,800	492,806	474,500	18,306
52 Security and Monitoring Services	4,550	4,150	1,690	2,460
53 Data Processing Services	28,939	2,900	2,849	51
71 Debt Services	26,000			
Total Expenses	2,379,674	2,479,487	2,374,988	104,469
Change in Net Assets	361,570	570,813	705,967	135,154
Net Asset, Beginning of Year	60,831	60,831	60,831	
Net Assets, End of Year	\$ 422,401	\$ 631,644	\$ 766,798	\$ 135,154

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
AUSTIN ELEMENTARY CAMPUS

BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2007

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 21,000	\$ 49,461	\$ 56,224	\$ 6,763
5750 Revenues from Curricular	32,000	42,070	38,824	(3,246)
Total Local Support	53,000	91,531	95,049	3,518
State Program Revenues:				
5810 Foundation School Program Act Revenues	1,750,000	1,535,000	1,532,951	(2,049)
5820 State Program Revenues Distributed by Texas Education Agency	7,500	6,512	6,512	
Total State Program Revenues	1,757,500	1,541,512	1,539,463	(2,049)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	294,421	238,089	373,080	134,991
Total Federal Program Revenues	294,421	238,089	373,080	134,991
Total Revenues	2,104,921	1,871,132	2,007,592	136,460

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>EXPENSES</b>				
11 Instruction	964,029	916,365	903,243	13,122
12 Instructional Resources and Media Services	12,500	1,800	1,606	194
13 Curriculum Development and Instructional Staff Development	14,250	8,594	8,589	5
23 School Leadership	245,656	195,891	186,739	9,152
33 Health Services	30,455	29,110	28,178	932
34 Student (Pupil) Transportation		18,056	17,536	520
35 Food Service	65,000	71,600	71,507	93
36 Co-curricular/Extracurricular Activities		2,600	2,576	24
41 General Administration	252,461	260,667	257,549	3,118
51 Plant Maintenance and Operations	401,000	412,091	424,614	(12,523)
52 Security and Monitoring Services	4,250	1,764	1,594	170
53 Data Processing Services	28,939	26	25	1
71 Debt Services	65,000			
Total Expenses	2,083,540	1,918,564	1,903,757	14,807
Change in Net Assets	21,381	(47,432)	103,835	151,267
Net Assets, Beginning of Year	14,597	14,597	14,597	
Net Assets, End of Year	\$ 35,978	\$ (32,835)	\$ 118,432	\$ 151,267

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
FORT WORTH CAMPUS

BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2007

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 23,500	\$ 59,000	\$ 57,505	\$ (1,495)
5750 Revenue from Curricular	32,138	65,565	65,066	(499)
Total Local Support	55,638	124,565	122,571	(1,994)
State Program Revenues:				
5810 Foundation School Program Act Revenues	2,434,000	2,841,000	2,836,622	(4,378)
5820 State Program Revenues Distributed by Texas Education Agency	11,520	9,364	9,325	(39)
Total State Program Revenues	2,445,520	2,850,364	2,845,947	(4,417)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	309,421	543,824	528,801	(15,023)
Total Federal Program Revenues	309,421	543,824	528,801	(15,023)
Total Revenues	2,810,579	3,518,753	3,497,320	(21,433)

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>EXPENSES</b>				
11 Instruction	1,228,481	1,321,732	1,256,156	65,576
12 Instructional Resources and Media Services	39,000			
13 Curriculum Development and Instructional Staff Development	16,750	19,253	17,249	2,004
23 School Leadership	194,273	166,725	147,228	19,497
33 Health Services	25,175	39,100	36,628	2,472
35 Food Service	85,138	81,100	80,063	1,037
36 Co-curricular/Extracurricular Activities		29,315	29,295	20
41 General Administration	254,975	434,303	415,388	18,915
51 Plant Maintenance and Operations	521,000	717,883	706,613	11,270
52 Security and Monitoring Services	5,250	711	520	191
53 Data Processing Services	28,939	12,618	10,837	1,781
Total Expenses	2,398,981	2,822,740	2,699,978	122,762
Change in Net Assets	411,598	696,013	797,342	101,329
Net Assets, Beginning of Year	(43,828)	(43,828)	(43,828)	
Net Assets, End of Year	\$ 367,770	\$ 652,185	\$ 753,514	\$ 101,329

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
HOUSTON EXCELLENCE CAMPUS

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2007

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 23,500	\$ 1,090,000	\$ 1,031,191	\$ (58,809)
5750 Revenues from Curricular	42,138	111,197	101,463	(9,732)
Total Local Support	65,638	1,201,197	1,132,656	(68,541)
State Program Revenues:				
5810 Foundation School Program Act Revenues	2,443,923	2,351,700	2,315,273	(36,427)
5820 State Program Revenues Distributed by Texas Education Agency	9,650	6,960	6,923	(37)
Total State Program Revenues	2,453,573	2,358,660	2,322,196	(36,464)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	309,421	358,606	337,926	(20,680)
Total Federal Program Revenues	309,421	358,606	337,926	(20,680)
Total Revenues	2,828,632	3,918,463	3,792,778	(125,685)
<b>EXPENSES</b>				
11 Instruction	1,456,344	1,446,342	1,445,271	1,071
12 Instructional Resources and Media Services	24,000			
13 Curriculum Development and Instructional Staff Development	16,750	18,750	16,988	1,762
23 School Leadership	182,027	200,851	186,781	14,070
33 Health Services	38,941	22,388	20,530	1,858
34 Student (Pupil) Transportation		3,500	3,240	260
35 Food Service	85,138	87,200	82,741	4,460
36 Co-curricular/Extracurricular Activities		46,810	45,378	1,432
41 General Administration	251,763	316,649	318,455	(1,806)
51 Plant Maintenance and Operations	543,000	1,532,148	1,496,536	35,612
52 Security and Monitoring Services	5,250	2,266	2,143	123
53 Data Processing Services	43,477	7,085	6,358	727
Total Expenses	2,646,690	3,683,989	3,624,420	59,569
Change in Net Assets	181,942	234,474	168,358	(66,115)
Net Assets, Beginning of Year	26,864	26,864	26,864	
Net Assets, End of Year	\$ 208,806	\$ 251,338	\$ 195,223	\$ (66,115)

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
LUBBOCK CAMPUS

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2007

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$	\$	\$ 12,305	\$ 12,305
Total Local Support			12,305	12,305
State Program Revenues:				
5810 Foundation School Program Act Revenues			43,038	43,038
Total State Program Revenues			43,038	43,038
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	250,000	250,000	233,049	(16,951)
Total Federal Program Revenues	250,000	250,000	233,049	(16,951)
Total Revenues	250,000	250,000	288,391	38,391
<b>EXPENSES</b>				
11 Instruction	225,500		289,681	(64,181)
13 Curriculum Development and Instructional Staff Development			4,275	(4,275)
23 School Leadership	16,000		6,410	9,590
35 Food Service			2,320	(2,320)
36 Co-curricular/Extracurricular Activities	8,500		8,500	
41 General Administration			73,163	(73,163)
51 Plant Maintenance and Operations			122,169	(122,169)
52 Security and Monitoring Services			1,667	(1,667)
Total Expenses	250,000	250,000	499,685	(249,685)
Change in Net Assets			(211,294)	(211,294)
Net Assets, Beginning of Year				
Net Assets, End of Year	\$	\$	\$ (211,294)	\$ (211,294)

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
BEAUMONT CAMPUS

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2007

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$	\$	\$ 11,245	\$ 11,245
Total Local Support			11,245	11,245
State Program Revenues:				
5810 Foundation School Program Act Revenues			49,267	49,267
Total State Program Revenues			49,267	49,267
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	250,000	237,701	237,701	(12,299)
Total Federal Program Revenues	250,000	237,701	237,701	(12,299)
Total Revenues	250,000	237,701	298,212	48,212
<b>EXPENSES</b>				
11 Instruction	226,100	348,875	348,875	(122,775)
13 Curriculum Development and Instructional Staff Development		3,761	3,761	(3,761)
23 School Leadership	16,000	11,827	4,173	4,173
35 Food Service		1,913	1,913	(1,913)
41 General Administration	7,900	49,580	49,580	(41,680)
51 Plant Maintenance and Operations		191,921	191,921	(191,921)
52 Security and Monitoring Services		490	490	(490)
Total Expenses	250,000	608,367	608,367	(358,367)
Change in Net Assets			(310,154)	(310,154)
Net Assets, Beginning of Year				
Net Assets, End of Year			\$ (310,154)	\$ (310,154)

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.  
COLLEGE STATION CAMPUS

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2007

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$	\$	\$ 54,673	\$ 54,673
Total Local Support			54,673	54,673
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	250,000	238,683	238,683	(11,317)
Total Federal Program Revenues	250,000	238,683	238,683	(11,317)
Total Revenues	250,000	238,683	293,355	43,355
<b>EXPENSES</b>				
11 Instruction	220,200	349,240	349,240	(129,040)
13 Curriculum Development and Instructional Staff Development		1,496	1,496	(1,496)
23 School Leadership	29,800	6,320	6,320	23,480
41 General Administration		107,058	107,058	(107,058)
51 Plant Maintenance and Operations		82,414	82,414	(82,414)
52 Security and Monitoring Services		400	400	(400)
Total Expenses	250,000	546,928	546,928	(296,928)
Change in Net Assets			(253,573)	(253,573)
Net Assets, Beginning of Year				
Net Assets, End of Year			\$ (253,573)	\$ (253,573)

See accompanying notes to financial statements.

**GOMEZ & COMPANY**

CERTIFIED PUBLIC ACCOUNTANTS  
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**COSMOS FOUNDATION, INC.  
WACO CAMPUS**

**BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$	\$	\$ 10,002	\$ 10,002
Total Local Support			10,002	10,002
State Program Revenues:				
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	250,000	237,694	237,694	(12,306)
Total Federal Program Revenues	250,000	237,694	237,694	(12,306)
Total Revenues	250,000	247,695	247,695	(2,305)
<b>EXPENSES</b>				
11 Instruction			269,376	(43,876)
13 Curriculum Development and Instructional Staff Development	225,500		4,455	(4,455)
23 School Leadership	24,500		6,872	17,628
41 General Administration			48,021	(48,021)
51 Plant Maintenance and Operations			131,845	(131,845)
52 Security and Monitoring Services			78	(78)
Total Expenses	250,000		460,647	(210,647)
Change in Net Assets			(212,951)	(212,951)
Net Assets, Beginning of Year			\$ (212,951)	\$ (212,951)
Net Assets, End of Year			\$	\$

See accompanying notes to financial statements.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To The Board of Directors of  
Cosmos Foundation, Inc.  
Houston, Texas

We have audited the financial statements of Cosmos Foundation, Inc. (HSA) as of and for the year ended August 31, 2007, and have issued our report thereon dated December 18, 2007. 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 HSA'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 the HSA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization'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 organization's internal control.

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 HSA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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.

**GOMEZ & COMPANY**

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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To The Board of Directors of  
Cosmos Foundation, Inc.  
Houston, Texas

**Compliance**

We have audited the compliance of Cosmos Foundation, Inc. (HSA) with the types of compliance requirements described in the U.S. 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, 2007. HSA's major federal programs are identified in the summary of auditor's 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 HSA's management. Our responsibility is to express an opinion on HSA'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 Non-Profit 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 HSA'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 of HSA's compliance with those requirements.

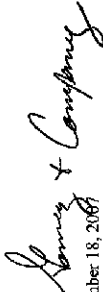
In our opinion, HSA complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2007.

**Internal Control Over Compliance**

The management of HSA 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 HSA 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 on HSA internal control over compliance.

We noted certain matters that we reported to management of Cosmos Foundation, Inc. in a separate letter dated December 18, 2007.

This report is intended solely for the information and use of management, the Board of Directors, the audit committee, and the 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.

  
December 18, 2007

COSMOS FOUNDATION, INC.  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED AUGUST 31, 2007

Summary of Audit Results

1. Unqualified opinion issued on the financial statements.
2. No significant deficiencies or material weaknesses on internal control over financial statements.
3. No instances of noncompliance, which is material to the financial statements.
4. No significant deficiencies or material weaknesses on internal control over major federal award programs.
5. Unqualified opinion issued on compliance with major federal award programs.
6. The audit did not disclose any audit findings which are required to be reported under section .510 (a) of OMB A-133.

7. Major programs:

U.S. Department of Education Passed — Through Texas Education Agency IDEA-B Formula Title II-Part A-Teacher & Principal	CFDA Number 84.027A CFDA Number 84.367A
U.S. Department of Agriculture Passed — Through Texas Education Agency National School Lunch Program School Breakfast Program	CFDA Number 10.555 CFDA Number 10.553

8. A \$300,000.00 threshold was used to distinguish between Type A and Type B programs as described in section .520 (b) of OMB A-133.

9. Agency qualifies as a low-risk auditee.

<u>Current Year Findings</u>	<u>Questioned Costs</u>
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No audit findings were noted as per governmental auditing standards and Section 510 (a) of OMB A-133

\$ -0-

Summary Schedule of Prior Year Findings

No audit findings were noted as per Section .300 (f) of OMB A-133 for the year ended August 31, 2006.

\$ -0-

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 the 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 the audit committee, management, Board of Directors, and the 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.

*Ernst & Company*  
 December 18, 2007

COSMOS FOUNDATION, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2007

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Education</u>			
Passed - Through Texas Education Agency:			
ESEA, Title I, Part A - Improving Basic Skills	84-010A	7610101071806	\$ 104,339
ESEA, Title I, Part A - Improving Basic Skills	84-010A	7610101227822	26,403
ESEA, Title I, Part A - Improving Basic Skills	84-010A	7610101227816	74,330
ESEA, Title I, Part A - Improving Basic Skills	84-010A	7610101220813	89,738
ESEA, Title I, Part A - Improving Basic Skills	84-010A	7610101101857	59,469
ESEA, Title I, Part A - Improving Basic Skills	84-010A	7610101101846	251,924
ESEA, Title I, Part A - Improving Basic Skills	84-010A	7610101015828	45,030
ESEA, Title I, Part A - Improving Basic Skills	84-010A	7610101101858	9,043
IDEA - B, Formula	84-027A	76600012278226600	20,428
IDEA - B, Formula	84-027A	76600012208136600	37,902
IDEA - B, Formula	84-027A	76600011018586600	31,257
IDEA - B, Formula	84-027A	76600010718066600	26,346
IDEA - B, Formula	84-027A	76600010158286600	36,130
IDEA - B, Formula	84-027A	76600011018466600	106,191
IDEA - B, Formula	84-027A	76600012278166600	39,117
IDEA - B, Formula	84-027A	76600011018576600	26,398
Carl D. Perkins Basic Grant	84-048A	742000610184604	9,060
Carl D. Perkins Basic Grant	84-048A	742000622781613	3,299
ESEA, Title IV, Part A - Safe & Drug-Free Schools	84-186A	7691001101857	1,348
ESEA, Title IV, Part A - Safe & Drug-Free Schools	84-186A	7691001227822	707
ESEA, Title IV, Part A - Safe & Drug-Free Schools	84-186A	7691001227816	1,713
ESEA, Title IV, Part A - Safe & Drug-Free Schools	84-186A	7691001220813	1,472
ESEA, Title IV, Part A - Safe & Drug-Free Schools	84-186A	7691001101858	676
ESEA, Title IV, Part A - Safe & Drug-Free Schools	84-186A	7691001101846	4,973
ESEA, Title IV, Part A - Safe & Drug-Free Schools	84-186A	7691001071806	1,807
ESEA, Title IV, Part A - Safe & Drug-Free Schools	84-186A	7691001015828	1,231
Public Charter Schools Grant	84-282A	65900067110056	150,000
Public Charter Schools Grant	84-282A	55900057110014	299,319
Public Charter Schools Grant	84-282A	75900017110018	237,694
Public Charter Schools Grant	84-282A	75900017110017	237,701
Public Charter Schools Grant	84-282A	75900017110015	238,683
Public Charter Schools Grant	84-282A	75900017110014	233,049
Public Charter Schools Grant	84-282A	55900057110013	273,101
Public Charter Schools Grant	84-282A	55900057110015	308,628
Public Charter Schools Grant	84-282A	55900057110011	227,209
Public Charter Schools Grant	84-282A	55900057110016	298,910
ESEA, Title V, Part A - Innovative Programs	84-298A	7685001227822	242
ESEA, Title V, Part A - Innovative Programs	84-298A	7685001227816	731
ESEA, Title V, Part A - Innovative Programs	84-298A	7685001220813	350

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COSMOS FOUNDATION, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2007

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Education</u>			
ESEA, Title V, Part A - Innovative Programs	84-298A	7685001101858	310
ESEA, Title V, Part A - Innovative Programs	84-298A	7685001101857	806
ESEA, Title V, Part A - Innovative Programs	84-298A	7685001101846	2,890
ESEA, Title V, Part A - Innovative Programs	84-298A	7685001071806	564
ESEA, Title V, Part A - Innovative Programs	84-298A	7685001015828	298
ESEA, Title II, Part D - Enhancing Education	84-318X	7630001101857	3,144
ESEA, Title II, Part D - Enhancing Education	84-318X	7630001227822	270
ESEA, Title II, Part D - Enhancing Education	84-318X	7630001227816	3,223
ESEA, Title II, Part D - Enhancing Education	84-318X	7630001220813	916
ESEA, Title II, Part D - Enhancing Education	84-318X	7630001101846	2,011
ESEA, Title II, Part D - Enhancing Education	84-318X	7630001071806	1,065
ESEA, Title II, Part D - Enhancing Education	84-318X	7630001015828	632
ESEA, Title II, Part D - Enhancing Education	84-318X	7630001101858	92
ESEA, Title II, Part A - Teacher & Principal	84-367A	7694501227822	8,339
ESEA, Title II, Part A - Teacher & Principal	84-367A	7694501227816	18,414
ESEA, Title II, Part A - Teacher & Principal	84-367A	7694501220813	19,241
ESEA, Title II, Part A - Teacher & Principal	84-367A	7694501101857	12,549
ESEA, Title II, Part A - Teacher & Principal	84-367A	7694501101846	48,620
ESEA, Title II, Part A - Teacher & Principal	84-367A	7694501071806	21,615
ESEA, Title II, Part A - Teacher & Principal	84-367A	7694501015828	13,687
ESEA, Title II, Part A - Teacher & Principal	84-367A	7694501101858	6,977
Total U.S. Department of Education			3,681,602
<u>U.S. Department of Agriculture</u>			
Passed - Through Texas Education Agency			
Federal Food Service Reimbursement			
Breakfast	10,553	71400701	73,405
Breakfast	10,553	71400601	14,032
Lunch	10,555	71400701	1,379
Lunch	10,555	71300701	472,030
Lunch	10,555	71300601	99,183
Total U.S. Department of Agriculture			660,029
Total Expenditures of Federal Awards			\$ 4,341,631

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COSMOS FOUNDATION, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2007

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying schedule of federal, state, and local awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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**APPENDIX B**  
**PROFORMA FORECAST**

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**Cosmos Foundation**  
**(Harmony School System)**  
**Proforma Forecast\***  
**Statement of Revenue & Expenditures**

	<b>Audited</b>	<b>Audited</b>	<b>Projected*</b>	<b>Projected*</b>	<b>Projected*</b>	<b>Projected*</b>	<b>Projected*</b>
	<b>2007-2008</b>	<b>2008-2009</b>	<b>2009-2010</b>	<b>2010-2011</b>	<b>2011-2012</b>	<b>2012-2013</b>	<b>2013-2014</b>
Grade Levels	<b>K-12</b>	<b>K-12</b>	<b>K-12</b>	<b>K-12</b>	<b>K-12</b>	<b>K-12</b>	<b>K-12</b>
Enrollment	4,654	7,827	12,342	14,825	16,245	17,235	17,445
Average Daily Attendance	4,514	7,592	11,972	14,380	15,758	16,718	16,922
<b>Revenue</b>							
Local (Interest Inc., Grants, Gifts, Other)*	\$ 4,899,127	\$ 10,665,180	\$ 4,354,550	\$ 4,744,000	\$ 5,198,400	\$ 5,515,200	\$ 5,582,400
State Funding	37,347,003	55,925,837	87,333,843	103,537,800	113,455,080	120,369,240	121,835,880
Federal Funding*	4,223,718	4,873,979	9,075,250	8,148,875	8,525,000	9,000,000	9,700,000
<b>Sub Total Revenue</b>				<b>116,430,675</b>	<b>127,178,480</b>	<b>134,884,440</b>	<b>137,118,280</b>
Anticipated Direct Subsidy	NA	NA	NA	2,983,273	2,386,618	2,386,618	2,386,618
<b>TOTAL REVENUE</b>	<b>\$ 46,469,848</b>	<b>\$ 71,464,996</b>	<b>\$ 100,763,643</b>	<b>\$ 119,413,948</b>	<b>\$ 129,565,098</b>	<b>\$ 137,271,058</b>	<b>\$ 139,504,898</b>

<b>Expenditures</b>							
Payroll Costs	\$ 23,625,055	\$ 32,090,898	\$ 45,598,700	\$ 49,950,000	\$ 52,600,000	\$ 55,800,000	\$ 56,850,000
Buildings' Leases	4,211,360	6,209,085	8,342,018	8,985,018	9,034,018	9,058,018	9,060,018
Supplies & Materials	3,988,060	5,493,809	6,848,915	7,750,000	7,745,000	7,645,000	7,645,000
Other Operating Costs	10,253,934	17,103,885	19,800,000	25,421,919	26,291,919	26,185,786	26,235,786
Debt Service	2,394,081	2,352,498	4,900,839	14,278,778	13,684,706	13,735,068	13,729,037
Depreciation and Amortization	1,905,333	2,962,173	3,691,500	4,165,500	4,185,000	4,170,000	4,170,000
Less Depreciation	(1,601,829)	(2,539,948)	(3,266,500)	(3,953,000)	(4,035,000)	(4,080,000)	(4,080,000)
<b>TOTAL EXPENSES</b>	<b>\$ 44,775,994</b>	<b>\$ 63,672,400</b>	<b>\$ 85,915,472</b>	<b>\$ 106,598,215</b>	<b>\$ 109,505,643</b>	<b>\$ 112,513,872</b>	<b>\$ 113,609,841</b>

<b>Net Revenues without Anticipated Direct Subsidy</b>	\$ 1,693,854	\$ 7,792,596	\$ 14,848,171	\$ 9,832,460	\$ 17,672,837	\$ 22,370,568	\$ 23,508,439
<b>Net Revenues with Anticipated Direct Subsidy</b>	NA	NA	NA	\$ 12,815,733	\$ 20,059,455	\$ 24,757,186	\$ 25,895,057
<b>Revenue Available for Debt Service without Anticipated Direct Subsidy</b>	\$ 4,087,935	\$ 10,145,094	\$ 19,749,010	\$ 24,111,238	\$ 31,357,543	\$ 36,105,636	\$ 37,237,476
<b>Revenue Available for Debt Service with Anticipated Direct Subsidy</b>	NA	NA	NA	\$ 27,094,511	\$ 33,744,161	\$ 38,492,254	\$ 39,624,094

Max Annual Debt Service*	\$ 4,562,850	\$ 4,562,850	\$ 14,278,778	\$ 14,278,778	\$ 13,735,068	\$ 13,735,068	\$ 13,729,037
Debt Coverage without Anticipated Direct Subsidy	0.896	2.223	1.383	1.689	2.283	2.629	2.712
Debt Coverage with Anticipated Direct Subsidy	NA	NA	NA	1.898	2.457	2.802	2.886

\* Preliminary, Subject to Change

This information has been prepared by Cosmos Foundation.

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**APPENDIX C**  
**FORM OF OPINION OF BOND COUNSEL**

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May 6, 2010

\$50,090,000  
TEXAS PUBLIC FINANCE AUTHORITY CHARTER SCHOOL FINANCE  
CORPORATION EDUCATION REVENUE BONDS  
(COSMOS FOUNDATION, INC.)  
SERIES 2010A

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

Regions Bank, as Trustee  
1717 St. James Place, 5<sup>th</sup> Floor  
Houston, Texas 77056

Ladies and Gentlemen:

We have been engaged by Cosmos Foundation, Inc. (the “**Company**”) to serve as bond counsel in connection with the issuance by the Texas Public Finance Authority Charter School Finance Corporation (the “**Issuer**”) of its Education Revenue Bonds (Cosmos Foundation, Inc.) Series 2010A (the “**Bonds**”). The Bonds are issued pursuant to a Trust Indenture and Security Agreement, dated as of May 1, 2010 (the “**Bond Indenture**”), between the Issuer and Regions Bank as successor in trust to Amegy 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 May 1, 2010, between the Issuer and the Company, which loan will be evidenced by a promissory note (the “**Series 2010A Note**”), issued pursuant to the Master Trust Indenture and Security Agreement, dated as of May 1, 2007 (as amended and supplemented as set forth herein, the “**Master Indenture**”), between the Company and Regions Bank as successor in trust to Amegy Bank, National Association, as master trustee (the “**Master Trustee**”), as amended and supplemented by Supplemental Master Trust Indenture No. 1 dated May 1, 2007 between the Company and the Master Trustee, Supplemental Master Trust Indenture No. 2 dated May 1, 2007 between the Company and the Master Trustee, Supplemental Master Trust Indenture No. 3 dated May 1, 2008 between the Company and the Master Trustee, Supplemental Master Trust Indenture No. 4 dated May 1, 2008, Supplemental

**Vinson & Elkins LLP Attorneys at Law**  
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Master Trust Indenture No. 5 dated December 23, 2009 between the Company and the Master Trustee, Supplemental Master Trust Indenture No. 6 dated February 16, 2010 between the Company and the Master Trustee, Supplemental Master Trust Indenture No. 7 dated May 1, 2010 between the Company and the Master Trustee and Supplemental Master Trust Indenture No. 8 dated May 1, 2010 between the Company and the Master Trustee, and as further amended or supplemented from time to time in accordance with its terms. 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 2010A Note 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 (i) the legality and validity of the Bonds under the Constitution and laws of the State of Texas and (ii) the exclusion of interest on the 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 Issuer or the Company or the disclosure thereof in connection with the offer and sale of the Bonds.

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 Boards of Directors of the Company and the Issuer, and certain certificates and other documents of representatives of the Issuer, the Trustee, the Company, and of others. We have also examined such portions of the Constitution and statutes of the State of Texas, and such applicable provisions of the Internal Revenue Code of 1986, as amended (the “**Code**”), court decisions, regulations and published rulings of the Internal Revenue Service (the “**Service**”), as we have deemed necessary for the purposes of this opinion.

As to questions of fact material to our opinion, we have relied, with your permission, upon representations of the Issuer and the Company contained in the Bond Indenture and the Loan Agreement, the certified proceedings and other certifications of public officials

furnished to us, and certifications, documents, and other information furnished to us by or on behalf of the Company, the Issuer, Morgan Keegan & Company, Inc., as representative of the Underwriters (the “**Underwriter**”), and others, without undertaking to verify the same by independent investigation.

We have assumed, with your permission, and without independent verification (i) the genuineness of certificates, records and other documents and the accuracy and completeness of the statements contained therein; (ii) the due authorization, execution and delivery of the Bond Indenture by the Trustee, and the validity and binding effect of the Bond Indenture on the Trustee; (iii) that all documents and certificates submitted to us as originals are accurate and complete; (iv) that all documents and certificates submitted to us as copies are true and correct copies of the originals thereof; and (v) that all information submitted to us was accurate and complete. No information has come to our attention that is inconsistent with the material facts that have been certified by the Issuer, the Company and others, and upon which we have relied in our opinions.

Based on the foregoing, and subject to the matters set forth herein, we are of the opinion that under existing law:

1. The Bond Indenture has been duly authorized, executed and delivered by the Issuer and is a valid and binding obligation of the Issuer enforceable against the Issuer in accordance with its terms. The Issuer has assigned its rights, title, and interest in and to the Series 2010A Note, the Loan Agreement (except for certain rights of the Issuer to indemnification and payment of its fees and expenses) and all Adjusted Revenues derived by the Issuer from the Loan Agreement and the Series 2010A Note (including Loan Payments) and 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 and all amounts held therein (other than the Rebate Fund) and has granted a valid security interest therein, to the Trustee pursuant to the Bond Indenture as security for the Bonds. The Bond Indenture validly and effectively creates the security interest that it purports to create and no additional instrument of conveyance, assignment, or transfer is necessary to create such security interest. No filing or recording of any document not filed or recorded is required as of this date to perfect or maintain the security interest created by the Bond Indenture.

2. The Bonds have been duly authorized, executed and delivered by the Issuer, and are valid and binding special obligations of the Issuer entitled to the benefits and security of the Bond Indenture. The Bonds are limited obligations of the Issuer payable solely from the Trust Estate under the Bond Indenture and the revenues derived therefrom. The Bonds

are not obligations of the State of Texas nor of any political corporation, subdivision or agency of the State of Texas.

3. Interest on the Bonds is excludable from gross income of the holders of the Bonds for federal income tax purposes under existing law.

4. The Bonds are “qualified 501(c)(3) bonds” within the meaning of section 145 of the Code, and interest on the Bonds is not (i) a specific preference item subject to the alternative minimum tax on individuals or corporations or (ii) included in a corporation’s adjusted current earnings for purposes of the alternative minimum tax.

The opinions expressed herein are limited to the extent that (i) the performance and enforceability of the Bond Indenture, the Bonds and the Loan Agreement may be subject to applicable bankruptcy, reorganization, moratorium or other similar laws affecting generally the enforcement of creditors’ rights; (ii) general equitable principles may limit the availability of equitable remedies, including, but not limited to, the remedy of specific performance; and (iii) the enforceability of provisions relating to indemnification may be limited by public policy or applicable securities law.

In rendering these opinions, we have relied, with your permission, on, among other things, certificates signed by officers of the Issuer, the Company and 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, and which we have not independently verified. In addition, in rendering the opinions set forth in paragraphs 3 and 4, 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 Bonds for federal income tax purposes. If the certificates upon which we have relied are determined to be inaccurate or incomplete, or the Issuer or the Company fails to comply with such covenants, interest on the 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 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 tax credit. In addition, certain foreign corporations doing business in the United States of America may be subject to the “branch profits tax” on their effectively connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

The opinions expressed herein 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 as to whether or not the Service will commence an audit of the 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 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 Bonds as includable in gross income for federal income tax purposes.

This opinion speaks only as of its date and only in connection with the Bonds and may not be applied to any other transaction. We do not undertake to advise you of matters which may come to our attention subsequent to the date hereof that may affect our legal opinion and conclusions expressed herein. Further, this opinion is specifically limited to the laws of the State of Texas and, to the extent applicable, the federal laws of the United States of America.

Very truly yours,

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**APPENDIX D**  
**FINAL FORM OF THE MASTER INDENTURE AND SUBSTANTIALLY FINAL FORM OF**  
**SUPPLEMENTAL MASTER TRUST INDENTURE NO. 7**

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MASTER TRUST INDENTURE AND SECURITY AGREEMENT

between

COSMOS FOUNDATION, INC.

and

AMEGY BANK NATIONAL ASSOCIATION,  
as Master Trustee

Dated as of  
May 1, 2007

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**MASTER TRUST INDENTURE AND SECURITY AGREEMENT**

**THIS MASTER TRUST INDENTURE AND SECURITY AGREEMENT** (this "Master Indenture"), dated as of May 1, 2007, is between COSMOS FOUNDATION, INC., a Texas non-profit corporation (the "Company"), and AMEGY BANK NATIONAL ASSOCIATION, a national banking association with a corporate trust office in Houston, Texas, not in its individual capacity but solely as the Master Trustee (the "Master Trustee").

**WITNESSETH:**

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

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

**NOW, THEREFORE, THIS MASTER INDENTURE WITNESSETH:**

**GRANTING CLAUSES**

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

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

hereof, any such excepted property, whereupon the same shall cease to be excepted property;

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

- (c) 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);

- (f) the lien of the Leasehold Mortgage (as hereinafter defined); and

- (g) 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 equal and proportionate benefit, security, and protection of all Holders of the Notes issued under and secured by this Master Indenture without privilege, priority or distinction as to the lien or otherwise of any of the Notes over any other; provided, however, that if the Company shall pay, or cause to be paid, the principal of the Notes or the obligations secured thereby and the redemption or prepayment premium, if any, and the interest and any other amounts due or to become due thereon in full at the times and in the manner mentioned in the Notes according to the true intent and meaning thereof, and the Company shall keep, perform and observe all the covenants and conditions pursuant to the terms of this Master Indenture to be kept, performed and observed by it, and shall pay or cause to be paid to the Master Trustee all sums of money due or to become due to it in accordance with the terms and

provisions hereof, then upon such final payment this Master Indenture and the rights hereby granted and the restrictions hereby incurred shall cease, determine and be void; otherwise this Master Indenture shall be and remain in full force and effect. Notwithstanding anything in this Master Indenture to the contrary, when all of the Notes are no longer Outstanding, the Master Trustee may execute a release of the lien of this Master Indenture on the Deed of Trust and any property of the Company encumbered thereby.

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

#### 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 this "Master Indenture" means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof.
- (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 Participating Campus will be used in accordance with Section 12.107(a) of the Texas Education Code, as amended.

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

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

(b) **Pro Forma Refunding** - in the case of Balloon Debt, if the Person obligated thereon shall deliver to the Master Trustee a certificate of a nationally recognized firm of investment bankers or financial consultants dated within 90 days prior to the date of delivery of such certificate to the Master Trustee stating that financing at a stated interest rate (which shall not be less than the Bond Buyer Revenue Bond Index or, if the Bond Buyer Revenue Bond Index is unavailable, a

comparable index acceptable to any Bond Insurer of a majority of Related Bonds Outstanding) with a Stated Maturity not greater than 30 years is reasonably attainable (and such opinion is reasonably acceptable to any Bond Insurer of a majority of Related Bonds Outstanding) on the date of such certificate to refund any of such Balloon Debt, then for the purpose of calculating what future annual debt service requirements will be, any installment of principal of (and premium, if any) and interest and other debt service charges on such Balloon Debt that could so be refunded shall be excluded from such calculation and the principal plus interest of the refunding debt shall be evenly allocated over the life of the refunding debt with equal principal payments plus interest deemed due each year but solely for the purpose of spreading the principal requirements for calculation of coverage;

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

(d) Variable Rate Debt - as to any Debt that bears interest at a variable interest rate which cannot be ascertained at the time of calculation, an interest rate equal to the 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 ACA) and the weighted average rate of interest born by such Debt (or other indebtedness of comparable credit quality, maturity and purchase terms in the event that such Debt was not outstanding) during the preceding Fiscal Year (or any period of comparable length ending within 180 days) prior to the date of calculation shall be presumed to apply for all future dates and the principal shall be evenly allocated over the life of the Bond issue with an equal amount of principal deemed due each year but solely for the purpose of spreading the principal requirements for calculation of coverage;

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

other obligation in any future Fiscal Year shall be included in any computation of the estimated Annual Debt Service Requirements for such Fiscal Year; and

(f) Financial Products - in the event there shall have been issued or entered into in respect of all or a portion of any Debt a Financial Products Agreement with respect to Long Term Debt, interest on such Long Term Debt shall be included in the calculation of Annual Debt Service Requirements by including for such period an amount equal to the amount payable on such Long Term Debt in such period at the rate or rates stated in such Long Term Debt plus any payments payable by such Person in respect of such Financial Products Agreement minus any payments receivable by such Person in respect of such Financial Products Agreement, 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 Assistant Superintendent of Operations 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 and any Bond Insurer containing the specimen signature of such person or persons and signed on behalf of the Company by an authorized officer of the Company. The Master Trustee and any Bond Insurer may rely on such written certificate until it is given written notice to the contrary.

"Available Revenues" means, for any period of determination thereof, the amount of excess (deficit) of Adjusted Revenues over Expenses for such period, plus 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.

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

"Bond Trustee" means Amegy Bank National Association, as trustee (the "Bond Trustee") pursuant to that certain Trust Indenture and Security Agreement, dated as of May 1, 2007, among the Texas Public Finance Authority Charter School Finance Corporation and the Bond Trustee.

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

"Company" means Cosmos Foundation, Inc., a Texas non-profit corporation, its permitted successors and assigns, and any resulting, surviving or transferee Person permitted hereunder.

"Consent," "Order," and "Request" means a written consent, order or request signed in the name of the Company and delivered to the Master Trustee by the Chairman of the Governing Body, the President, an Executive or Senior Vice President, the Chief Financial Officer or any other Person designated by the Company to execute any such instrument on behalf of the Company as evidenced by an Officer's Certificate.

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

"Debt" means all:

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

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

(iii) all indebtedness (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or the acquisition, construction or improvement of property or capitalized lease obligations guaranteed, directly or indirectly, in any manner by the Company, or in effect guaranteed, directly or indirectly, by the Company through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other

manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise; and

(iv) all indebtedness (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.

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

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

"Deposit Account Control Agreement" means the Deposit Account Control Agreement, dated May 1, 2007, entered into among the Company, the Master Trustee and the Depository Bank, and any other deposit account control agreement entered into by the Company, the Master Trustee and a Depository Bank from time to time.

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

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

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

ordinary course of business or any reappraisal, revaluation or write-down of assets, and any other extraordinary losses or expenses.

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

"Fiscal Year" means any twelve-month period beginning on September 1 of any calendar year and ending on August 31 of the following year or such other twelve-month period selected by the Company as the fiscal year for the Company; provided that, if any Bond Insurer is providing bond insurance for any series of Related Bonds Outstanding, such Bond Insurer shall pre-approve in writing any change to such Fiscal Year and Company shall give written notice of any such change to the Master Trustee.

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

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

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

"Insurance Consultant" means a firm of Independent professional insurance consultants approved by each Bond Insurer knowledgeable in the operations of educational facilities and having a favorable reputation for skill and

experience in the field of educational facilities insurance consultation and which may include a broker or agent with whom the Company transacts business.

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

"Leasehold Mortgage" means that certain Leasehold Mortgage, Assignment of Rents and Leases, Security Agreement and Fixture Filing dated as of even date herewith from the Company to the Master Trustee, as such Leasehold Mortgage 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.

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

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

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

"Master Trustee" means Amegy Bank National Association, a national banking association with a corporate trust office in Houston, Texas, serving as trustee pursuant to this Master Indenture, and its successors and assigns.

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

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

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

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

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

"Officer's Certificate" means a certificate of the Company signed by the chairman of the Governing Body, superintendent, president, an executive or senior vice president, chief financial officer, 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.

"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 theretofore 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 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.

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

"Revenue Fund" has the meaning specified in Section 406 hereof.

"Series 2007 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 (Cosmos Foundation) Series 2007A and the Texas Public Finance Authority Charter School Finance Corporation Education Taxable Education Revenue Bonds (Cosmos Foundation) Series 2007B.

"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.

"Supplemental Master Indenture" means an indenture amending or supplementing this Master Indenture entered into pursuant to Article VII 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 May 1, 2007 between the Company and the Texas Public Finance Authority Charter School Finance Corporation.

"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) The ownership of Related Bonds may be proved by the registration books for such Related Bonds maintained pursuant to the Related Bond Indenture.

(f) In determining whether the Holders of the requisite aggregate principal amount of Notes have concurred in any demand, direction, request, notice, consent, waiver or other action under this Master Indenture, or for any other purpose of this Master Indenture, Notes or Related Bonds that are owned by the Company shall be disregarded and deemed not to be Outstanding or outstanding under the Related Bond Indenture, as the case may be, for the purpose of any such determination, provided that for the purposes of determining whether the Master Trustee shall be protected in relying on any such direction, consent or waiver, only such Notes or Related Bonds which the Master Trustee has actual notice or knowledge are so owned shall be so disregarded and deemed not to be Outstanding Notes or Related Bonds Outstanding. Notes or Related Bonds so owned that have been pledged in good faith may be regarded as outstanding or outstanding under the Related Bond Indenture, as the case may be, for purposes of this Section, if the pledgee

shall establish to the satisfaction of the Master Trustee the pledgee's right to vote such Notes or Related Bonds. In case of a dispute as to such right, any decision by the Master Trustee taken upon the advice of counsel shall be full protection to the Master Trustee. In the event that a Note secures the obligation of a Person under an agreement or instrument that provides for the making of advances to or on behalf of such Person, such Note shall only be counted to be Outstanding in a principal amount equal to the amount so advanced or otherwise due and owing under the terms of such agreement (and only if such amount remains outstanding or unpaid) to or on behalf of such Person. In the event that a Note secures a Financial Products Agreement, such Note shall only be deemed to be Outstanding in a principal amount equal to any amount with which the Company is in default with respect to the payment thereof. In no event however, shall the amount owed to a holder be counted twice because there are the same amounts due and owing under two Notes relating to the same obligations (e.g., the principal amount reimbursable to the provider of a liquidity facility as the holder of bonds purchased by such liquidity provider as well as the principal amount of such purchased bonds by such liquidity provider as holder of the purchased bonds).

(g) At any time prior to (but not after) the time the Master Trustee takes action in reliance upon evidence, as provided in this Section 103, of the taking of any action by the Holders of the percentage in aggregate principal amount of Notes specified herein in connection with such action, any Holder of such Note or Related Bond that is shown by such evidence to be included in Notes the Holders of which have consented to such action may, by filing written notice with the Master Trustee and upon proof of holding as provided in this Section 103, revoke such action so far as concerns such Note or Related Bond. Except upon such revocation or such action taken by the Holder of a Note or Related Bond in any direction, demand, request, waiver, consent, vote or other action of the Holder of such Note or Related Bond which by any provision hereof is required or permitted to be given shall be conclusive and binding upon such Holder and upon all future Holders and owners of such Note or Related Bond, and of any Note or Related Bond issued in lieu thereof, whether or not any notation in regard thereto is made upon such Note or Related Bond. Any action taken by the Holders of the percentage in aggregate principal amount of Notes specified herein in connection with such action shall be conclusively binding upon the Company, the Master Trustee and the Holders of all of such Notes or Related Bonds.

**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 Amegy Bank National Association, 1221 McKinney Street, Suite P-1, Houston, Texas 77010, Attention: Mary Jane Henson, Corporate Trust Administrator, or at any other address subsequently furnished in writing to the Company and the Holders by the Master Trustee;

(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 5435 South Braeswood Blvd., Houston, Texas 77096, Attention: Chairman,

or at any other address subsequently furnished in writing to the Master Trustee by the Company, or

(3) The Bond Insurer shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid, to the Bond Insurer at the address specified in the Related Bond Documents.

**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 this 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 MR-1 upwards (with such prefix as may be designated in the Supplemental Master Indenture authorizing any series). The aggregate principal amount of Notes of each series that may be created under this Master Indenture is not limited, except by the additional Long Term Debt limitations provided in this Master Indenture. A series of Notes may consist of a single Note or more than one Note.

(b) Notes may be issued hereunder to evidence (i) any type of Debt, including without limitation any Debt in a form other than a promissory note (such as commercial paper, bonds, or similar debt instruments), (ii) any obligation to make payments pursuant to a Financial Products Agreement, or (iii) debt consisting of an obligation to reimburse payments made under a letter of credit, surety bond, bond insurance policy, standby bond purchase agreement or similar credit or liquidity support obtained to secure payment of other Debt. The Supplemental Master Indenture pursuant to which any Notes are issued may provide for such supplements or amendments to the provisions hereof, including without limitation Article II hereof, as are necessary to permit the issuance of such Notes hereunder. Any Note evidencing obligations under a Financial Products Agreement shall be equally and ratably secured hereunder with all other Notes issued hereunder, except as otherwise expressly provided herein; provided, however, that (i) to be secured hereunder, the Master Trustee must receive, at the time of execution and delivery of such Financial Products Agreement, an Officer's Certificate stating that such Financial Products Agreement was entered into by the Company with a Qualified Provider, as provided hereunder, and is entitled to the benefits of the Master Indenture and (ii) such Note, with respect to such Financial Products Agreement, shall be deemed to be Outstanding hereunder solely for the purpose of receiving payment hereunder and the Qualified Provider shall not be entitled to exercise any rights of a Holder hereunder unless amounts payable by the Company are due and unpaid.

**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) Other than in connection with the Series 2006 Notes, an Opinion of Counsel to the effect that (1) the conditions to issuance of any particular Note or series of Notes set forth in this Section 202 and in Sections 212 and 407 of this Master Indenture have been satisfied, (2) upon the execution of such Note or series of Notes by the Company and the authentication thereof by the Master Trustee, such Notes will be the valid and binding obligations of the Company enforceable in accordance with its (their) terms, subject to the customary bankruptcy, insolvency and equitable principles exceptions and such other exceptions as may be acceptable to the initial payee thereof, (3) registration of such Note or series of Notes under the Securities Act of 1933, as amended, is not required, or, if such registration is required, that the Company has complied with all applicable provisions of said Act and (4) qualification of the Master Indenture and any Supplemental Master Trust Indenture providing for the issuance of such Note or series of Notes under the Trust Indenture Act of 1939 is not required, or if such qualification is required, that the Company has complied with all applicable provisions of such Act.

(d) The title insurance policy, or endorsement thereof, required by Section 212 or 408, if necessary.

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

#### 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, 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: \_\_\_\_\_

AMEGY BANK NATIONAL ASSOCIATION,  
as Master Trustee, or its agent

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

**Section 204. Form and Terms of Notes.** The Notes of each series of Notes shall contain such terms, and be in substantially the form set forth in the Supplemental Master Indenture creating such series, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Master Indenture and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any regulatory body, or as may, consistently herewith, be determined by the officers executing such Notes, as evidenced by their signing of the Notes. The Notes of any series or the relevant Supplemental Master Indenture may contain additional (or different) representations, warranties, covenants, defaults and remedies and other provisions which do not contradict the terms of this Master Indenture, to the extent provided in the related Supplemental Master Indenture, and such additional terms shall supplement and be in addition to the terms of this Master Indenture. Unless the Notes of a series have been registered under the Securities Act of 1933, as amended, each Note of such series shall be endorsed with a legend which shall read substantially as follows: "This Note has not been registered under the Securities Act of 1933, as amended."

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

(a) The Company shall cause to be kept at the corporate trust office of the Master Trustee in Houston, Texas, or the payment office of the Master Trustee in Houston, 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 pursuant to the terms of a Supplemental Master Indenture. In such case, the Note Register may consist of one or more

records of ownership of the various series of Notes and any part of such register may be maintained by the agent of the Master Trustee relating to such series.

(b) Upon surrender for transfer of any Note at the office or agency of the Company in a Place of Payment, the Company shall execute, and the Master Trustee or its designated agent shall authenticate and deliver, in the name of the designated transferee, one or more new Notes of any Authorized Denominations, of a like aggregate principal amount, series, Stated Maturity and interest rate.

(c) At the option of the Holder, Notes may be exchanged for Notes of any Authorized Denomination, of a like aggregate principal amount, series, Stated Maturity and interest rate, upon the surrender of the Notes to be exchanged at such office or agency. Whenever any Notes are so surrendered for exchange, the Master Trustee or its designated agent shall authenticate and deliver the Notes which the Note Holder making the exchange is entitled to receive.

(d) All Notes issued upon any transfer or exchange of Notes shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Master Indenture as the Notes surrendered upon such transfer or exchange.

(e) Every Note presented or surrendered for transfer or exchange shall (if so required by the Company or the Master Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Master Trustee or its designated agent duly executed by the Holder thereof or his attorney duly authorized in writing.

(f) No charge shall be made for any transfer or exchange of Notes, and any transfer or exchange of Notes shall be made without expense or without charge to Holders.

**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 Houston, 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.

(a) All Notes issued and Outstanding under this Master Indenture are equally and ratably secured by the pledge and assignment of a security interest in the Trust Estate pursuant to the Granting Clauses of this Master Indenture. Any one or more series of Notes 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. Except as otherwise expressly provided herein or in any Supplemental Master Indenture pursuant to which such Note or obligation is issued, all Notes issued hereunder shall be equally and ratably secured by any lien created pursuant to or constituting a part of the Trust Estate under this Master Indenture.

(b) To the extent that any Debt which is permitted to be issued pursuant to this Master Indenture is not issued directly in the form of a Note, a Note may be issued hereunder and pledged as security for the payment of such Debt in lieu of directly issuing such Debt as a Note hereunder.

#### 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, be perfected and be valid and binding from and after delivery of the Notes and the execution of the Deposit Account Control Agreement, without any physical delivery thereof or further act.

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

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

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

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

#### Section 212. Additional Debt.

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

(1) **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) Sufficient funds must be evidenced as follows:

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

(B) Projected Coverage for Additional Debt. An Independent Management Consultant selected by the Company and approved by each Bond Insurer provides a written report setting forth projections which indicate that the estimated Available Revenues are equal to at least 1.00 times Maximum Annual Debt Service for all Debt then Outstanding, including the proposed additional Debt, in the Fiscal Year immediately following the completion of the Project being financed. The report of the Independent consultant shall take into account (i) the audited results of operations and verified enrollment of the Project for the most recently completed Fiscal Year and (ii) the projected enrollment for the Fiscal Year immediately following the completion of the new Project, and shall assume that the proposed additional Debt shall have been outstanding for the entire year;

(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) [RESERVED];

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

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

(8) 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 (8) above shall be evidenced to the Master Trustee. The Master Trustee may rely on an Opinion of Counsel that items (1) through (8) were completed.

(b) Refunding. If additional Debt is being issued for the purpose of refunding any Outstanding Debt, the report required by Sections 212(a)(3) and (4) to be delivered shall not apply so long as both the total and Maximum Annual Debt Service Requirements on all Outstanding Debt after issuance of the additional Debt will not exceed both the total and the Maximum Annual Debt Service Requirements on all Outstanding Debt prior to the issuance of such additional Debt.

(c) 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) Compliance with Insurer Requirements. Notwithstanding the foregoing, if any Bond Insurer is providing bond insurance for any series of Related Bonds Outstanding, such conditions and requirements as are set forth in the Related Bond Indenture and Related Loan Documents related to such series of Related Bonds shall be met prior to the issuance of additional Debt, as evidenced by the written approval or appropriate waiver of such Bond Insurer delivered to the Master Trustee.

(f) Exemption. The TCEP Note, the Series 2007 Notes and related Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds, Series 2007A and Taxable Education Revenue Bonds, Series 2007B (Cosmos Foundation) shall not be considered additional Debt and are not subject to the provisions of this Section 212.

(g) Except for the parity additional Debt and any subordinate Debt authorized by this Section 212, no other additional Debt shall be issued by the Company, whether or not issued under this Master Trust Indenture, without the prior written consent of each Bond Insurer.

Section 213. 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 to be \$16,700,000 on the Closing Date of the Series 2007 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) as mutually acceptable to the Company and each Bond Insurer, or by an insurance fund established by the United States or State or an agency or instrumentality thereof unless such insurance is not otherwise available on commercially reasonable terms from an insurer rated at least "A" by S&P or "Excellent (A or A-)" by Best, (ii) shall be in such form and with such provisions (including, without limitation and where applicable, loss payable clauses payable to the Master Trustee, waiver of subrogation clauses, provisions relieving the insurer of liability to the extent of minor claims and the designation of the named insureds) as are generally considered standard provisions for the type of insurance involved, (iii) shall prohibit cancellation or substantial modification by the insurer without at least thirty days' prior written notice to the Master Trustee, each Bond Insurer and the Company and (iv) shall name the Master Trustee and the Bond Insurer as additional insured. Without limiting the generality of the foregoing, all insurance policies carried pursuant to clause (a)(1) of this Section 213 contain a standard NY Mortgagee clause in favor of the Master Trustee and the Bond Insurer (as mortgagee/loss payee) shall name the Master Trustee, the Bond Insurer and the Company as parties insured thereunder as the respective interest of each of such parties may appear, and less thereunder shall be made payable and shall be applied as provided in the Related Loan Documents. The Company shall deliver to each Bond Insurer and the Trustee, no later than the date on which it is required to obtain an insurance policy pursuant to Section 213(a), proof of each such insurance policy.

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

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

### 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.** On or prior to any redemption or prepayment date, the Company shall deposit with the Master Trustee or its designated agent an amount of money sufficient to pay the redemption or prepayment price of all the Notes which are to be redeemed or prepaid on such date.

**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. Rating.** The Company covenants that it will not knowingly take any action that would likely result in the reduction of the then current municipal ratings of the Notes (or any other indebtedness secured by the Notes) by Fitch, Inc., Moody's Investors Services, Inc., or Standard & Poor's Ratings Services, Inc.

**Section 403. Money for Note Payments to be Held in Trust; Appointment of Paying Agent.**

(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 \$30,000,000, 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, may publish notice in an Authorized Newspaper at the expense of the Company that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company; provided further, notwithstanding the foregoing, the Master Trustee shall be entitled to deliver any such funds to any escheatment authority in accordance with the Master Trustee's customary procedures. The Master Trustee shall hold any such funds in trust uninvested (without liability for interest accrued after the date of deposit or other compensation) for the benefit of holders entitled thereto.

**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. Revenue Fund.**

(a) There is hereby created by the Company and established with the Master Trustee the special fund of the Company designated the "Cosmos 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, including without limitation amounts subject to the Deposit Account Control Agreement for which a Notice of Exclusive Control has been delivered, (except to the extent otherwise provided by or inconsistent with any permitted instrument creating any mortgage, lien, charge, encumbrance, pledge or other security interest granted, created, assumed, incurred or existing) as well as any insurance and condemnation proceeds, 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 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 Note;
- (3) a transfer to the Interest Account of an amount necessary to accumulate in equal monthly installments the interest on the Notes due and payable on the next Interest Payment Date, provided, however, that to the extent available, each transfer made on the fifth Business Day before the end of each month immediately preceding each Interest Payment Date shall be in an amount to provide, together with amounts then on deposit in the Interest Account, the balance of the interest due on the Notes on the next succeeding Interest Payment Date. There shall be paid from the Interest Account equally and ratably

to the Holder of each instrument evidencing a Note the amount of interest on each Note as such interest becomes due;

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

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

(6) 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(g) 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 subject to a Deposit Account Control Agreement, 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 407. 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 "Cosmos Education Insurance and Condemnation Proceeds Fund" (herein referred to as the "Insurance and Condemnation Fund"). The Master Trustee is hereby authorized to create any accounts within such Insurance and Condemnation Fund as the Master Trustee finds necessary or desirable, provided, the Master Trustee shall have no duty to establish the Insurance and Condemnation Fund prior to the first

occurring receipt of proceeds under an insurance policy held pursuant to Section 213 hereof or a condemnation of all or a portion of any Related Project. The money deposited to the Insurance and Condemnation Fund, together with all investments thereof and investment income therefrom, shall be held in trust and applied solely as provided in this Section.

(b) Immediately upon receipt of any payments to the Master Trustee for deposit into the Insurance and Condemnation Fund, the Master Trustee shall transfer such amounts to the Related Bond Trustee in accordance with the Related Indenture to which such insurance or condemnation proceeds relate for use pursuant to such Related Indenture and the Related Loan Documents for such Related Project.

**Section 408. Title Insurance.** The Company shall obtain and deliver to the Master Trustee on or prior to the closing date of any Debt a standard ALTA owner's policy of title insurance and a standard ALTA mortgage loan policy of title insurance issued by a title insurance company acceptable to the Master Trustee, showing the Master Trustee and any Bond Insurer as insured parties, as their interests may appear, with respect to the Mortgaged Property, together with such endorsements as may be required by the Master Trustee and any Bond Insurer, in an aggregate amount not less than the principal amount of the Debt outstanding (including the Debt to be issued) secured by the Mortgaged Property (as defined in the Deed of Trust). The policies shall insure that the Company has fee title in the Mortgaged Property and the Master Trustee has a valid first lien on the Company's interest in the Mortgaged Property described in the Deed of Trust; subject to Permitted Encumbrances and subject to the Master Trustee's protection in Section 703(g) hereof. There shall be deleted in such policies to the satisfaction of any Bond Insurer the standard exceptions for discrepancies, encroachments, overlaps, conflicts in boundary lines, servitudes or such other matters that would be disclosed by an accurate survey and inspection of the Mortgaged Property, for mechanics' and materialmen's liens, or for rights or claims of parties in possession and easements and claims of easements not shown on the public records.

**Section 409. Waiver of Certain Covenants.** The Company may omit in any particular instance to comply with any covenant or condition set forth in Sections 402 through 407 hereof if before or after the time for such compliance the Holders of the same percentage in principal amount of all Notes then Outstanding the consent of which would be required to amend the provisions hereof to permit such noncompliance and each Bond Insurer shall either waive such compliance in such instance or generally waive compliance with such covenant or condition, but no such waiver shall extend to or affect such covenant or condition except to the extent so expressly waived and, until such waiver shall become effective, the obligations of the Company and the duties of the Master Trustee in respect of any such covenant or condition shall remain in full force and effect.

### 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;
  - (3) the Company shall have delivered to the Master Trustee and Related Bond Trustee an Officer's Certificate and Opinion of Counsel, each stating that such consolidation, merger, conveyance, or transfer and such supplemental instrument comply with this Article and that all conditions precedent relating to such transaction provided for herein have been complied with, and a Favorable Opinion of Bond Counsel; and
  - (4) the consent of each Bond Insurer shall have been obtained.

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

**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: (i) the Holders of not less than 25% in principal amount of the Notes Outstanding with the consent of the Majority Insurers (or, in the case of any Event of Default described in clause (e) above resulting in the loss of any exclusion from gross income of interest on, or the invalidity of, any Debt secured by a pledge of Notes, the Holders of not less than 25% in principal amount of the Notes Outstanding of the affected series) or (ii) any Bond Insurer, 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, at the direction of each Bond Insurer, 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.

**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 item of this Indenture, except any thereof subject to which such sale shall have been made), whether made under any power of sale herein

granted or pursuant to judicial proceedings, together with, in the case of an entry or sale as otherwise provided herein, any other sums then held by the Master Trustee as part of the Trust Estate, shall be deposited in the Revenue Fund created by this Master Indenture, shall be applied in the order specified in Section 406, at the date or dates fixed by the Master Trustee and, in case of the distribution of such money on account of principal (or premium, if any), upon presentation of the Notes and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid.

**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, or to enforce any right under this Master Indenture, except in the manner herein provided and for the equal and ratable benefit of all the Holders of Notes.

**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, or 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 whenever 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.

**Section 617. Third Party Beneficiary.** The parties hereto expressly recognize that each Bond Insurer is a third party beneficiary of this Master Indenture, entitled, but not obligated, to enforce any right, remedy, or claim conferred, given or granted hereunder. Each of the parties hereto expressly acknowledges and agrees that, irrespective of any action taken or omitted to be taken by each Bond Insurer under or in connection with this Master Indenture or otherwise in connection with any Related Bonds, the sole liability and obligation of each Bond Insurer in connection with any Related Bonds and this Master Indenture shall be those obligations which are expressly undertaken by each Bond Insurer in its municipal bond insurance policy issued in connection with any Related Bonds.

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

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

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

- (1) 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 and each Bond Insurer 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.

(c) Whenever in the administration of this Master Indenture the Master Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Master Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officer's Certificate.

(d) The Master Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(e) The Master Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Master Indenture at the request or direction of any of the Holders of the Notes pursuant to the provisions of this Master Indenture, unless such Holders shall have offered to the Master Trustee reasonable security or indemnity satisfactory to it against the costs, expenses and liabilities which might be incurred by it in connection with such request or direction and for the payment of the Master Trustee's fees in connection therewith.

(f) The Master Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document, but the Master Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Master Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney and to take such memoranda from and in regard thereto as may be reasonably desired. The Master Trustee shall have no obligation to perform any of the duties of the Company under this Master Indenture.

(g) The Master Trustee may execute any of the trusts or powers hereunder either directly or by or through agents or attorneys or may act or refrain from acting in reliance upon the opinion or advice of such agents or attorney, but the Master Trustee shall not be held liable for any negligence or misconduct of any such agent or attorney appointed by it with due care. The Master Trustee may act upon the opinion or advice of attorney or agent selected by it in the exercise of reasonable care or, if selected or retained by the Company, approved by the Master Trustee in the exercise of such care. The Master Trustee shall not be responsible for any loss or damage resulting from any action or nonaction based on its good faith reliance upon such opinion or advice. The Master Trustee may in all cases pay reasonable compensation to any attorney or agent retained or employed by it in connection herewith.

(h) The Master Trustee shall not be required to take notice or be deemed to have notice of any Event of Default hereunder unless the Master Trustee shall be specifically notified of such Event of Default in writing by the Company or by the Holder of an Outstanding Note, and in the absence of such notice the Master Trustee may conclusively assume that no Event of Default exists; provided, however, that the Master Trustee shall be required to take and be deemed to have notice of its failure to receive the moneys necessary to make payments when due of principal, premium, if any, or interest on any Note.

(i) The Master Trustee shall not be liable for any error of judgment made in good faith by its officers, unless it shall be proved that the Master Trustee was negligent in ascertaining the pertinent facts.

(j) The Master Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with any direction of the Holders of the Outstanding Notes permitted to be given by them under this Master Indenture.

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

(l) The permissive right of the Master Trustee to do things enumerated in this Master Indenture shall not be construed as a duty and the Master Trustee shall not be answerable for other than its negligence or willful misconduct in accordance with the terms of this Master Indenture.

(m) The Master Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

(n) The Master Trustee shall not be responsible for monitoring the existence of or determining whether any lien or encumbrance or other charge including without limitation any Permitted Encumbrance (as defined in the Deed of Trust) exists against the Project or the Trust Estate.

**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 validity or sufficiency of this Master Indenture or of the Notes. The Master Trustee shall not be accountable for the use or application by the Company of any of the Notes or of the proceeds of such Notes, for the use or application of any money paid over by the Master Trustee in accordance with the provisions of this Master Indenture or for the use and application of money received by any Paying Agent.

**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
  - (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.

- (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 and any Bond Insurer. 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 (i) of the Holders of a majority in principal amount of the Outstanding Notes, with the consent of the Bond Insurers of a majority of the aggregate principal amount of the Related Bonds Outstanding or (ii) the Bond Insurers of a majority of the aggregate principal amount of the Related Bonds Outstanding, 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 therefor 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.

(c) 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 and with the consent of each Bond Insurer, if any, the Master Trustee shall execute and deliver in recordable form any releases of Property encumbered hereby or by the Deed of Trust.

**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, but with the consent of each Bond Insurer, the Company, when authorized by a Board Resolution, and the Master Trustee at any time may enter into or consent to one or more indentures supplemental hereto, subject to Section 803 hereof, for any of the following purposes:

- (a) to cure any ambiguity or to correct or supplement any provision herein or therein which may be inconsistent with any other provision herein or therein, or to make any other provisions with respect to matters or questions arising under this Master Indenture which shall not be inconsistent with this Master Indenture, provided such action shall not adversely affect the interests of the Holder of any Notes;
- (b) to grant to or confer upon the Master Trustee for the benefit of the Holders of the Notes any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Holders of the Notes and the Master Trustee, or either of them, to add to the covenants of the Company for the benefit of the Holders of the Notes or to surrender any right or power conferred hereunder upon the Company;
- (c) to assign and pledge under this Master Indenture additional revenues, properties or collateral;
- (d) to evidence the succession of another corporation to the agreements of the Master Trustee, or a successor thereof hereunder;
- (e) to evidence the succession of another Person to the Company, or successive successions, and the assumption by the successor Person of the covenants, agreements and obligations of the Company as permitted by this Master Indenture;

(f) to modify or supplement this Master Indenture in such manner as may be necessary or appropriate to qualify this Master Indenture under the Trust Indenture Act of 1939 as then amended, or under any similar federal or state statute or regulation, including provisions whereby the Master Trustee accepts such powers, duties, conditions and restrictions hereunder and the Company undertakes such covenants, conditions or restrictions additional to those contained in this Master Indenture as would be necessary or appropriate so to qualify this Master Indenture; provided, however, that nothing herein contained shall be deemed to authorize inclusion in this Master Indenture or in any indenture supplemental hereto, provisions referred to in Section 316(a)(2) of the said Trust Indenture Act or any corresponding provision provided for in any similar statute hereafter in effect;

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

(4) provided that, no such amendment, directly or indirectly, shall (A) change the provisions of this clause (1), (B) make any modification of the type prohibited Section 802 hereof, or (C) make a modification intended to subordinate the right to payment of a Holder of any Note to the right of payment of any Holder of any other Note or any other Debt;

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

(n) to release the Deed of Trust or, pursuant to Section 703(b) hereina, portions of property contained therein from the Master Trust Estate upon receipt and deposit with the Master Trustee sufficient assets, cash, letters of credit or other guarantee and written confirmation from each Rating Service that such change will not result in a withdrawal or reduction in its credit rating assigned to any series of Notes or Related Bonds; and

(o) to modify, eliminate or add to the provisions of this Master Indenture if the Master Trustee shall have received (1) written confirmation from each Rating Service that such change will not result in a withdrawal or reduction of its credit rating assigned to any series of Notes or Related Bonds, as the case may be, and (2) a Board Resolution to the effect that, in the judgment of the Company, such change is necessary to permit the Company to affiliate or merge with one or more other charter 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 each Bond Insurer and with the consent of the Holders of not less than a majority in principal amount of the Outstanding Notes, by Act of said Holders delivered to the Company and the Master Trustee, the Company, when authorized by a Board Resolution, and the Master Trustee may enter into or consent to an indenture or indentures supplemental hereto (subject to Section 803 hereof) for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Master Indenture or of modifying in any manner the rights of the Holders of the Notes under this Master Indenture; provided, however, that no such Supplemental Master Indenture shall, without the consent of the Holder of each Outstanding Note affected thereby:

(1) 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. 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 hereof 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.

COSMOS FOUNDATION, INC.

By:   
\_\_\_\_\_  
President, Board of Directors

AMEGY BANK NATIONAL ASSOCIATION,  
as Master Trustee

By:   
Name: Mary Jay Henson  
Title: Vice President

MASTER INDENTURE

HOUSTON 3117160v.4

MASTER INDENTURE



SUPPLEMENTAL MASTER TRUST INDENTURE NO. 7

Dated as of May 1, 2010

Between

COSMOS FOUNDATION, INC.

and

REGIONS BANK,  
as Master Trustee

Supplemental to:

Master Trust Indenture  
Dated as of May 1, 2007

In connection with the issuance of the  
Series 2010A Note

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Exhibit “A” - Form of Tax-Exempt Master Indenture Note and Assignment; Certificate of Authentication and Registration

SUPPLEMENTAL MASTER TRUST INDENTURE NO. 7

**THIS SUPPLEMENTAL MASTER TRUST INDENTURE NO. 7**, dated as of May 1, 2010 (this “Supplemental Master Indenture”), is between **REGIONS BANK**, an Alabama state banking corporation, having a corporate trust office in Houston, Texas, as master trustee (the “Master Trustee”), and **COSMOS FOUNDATION, 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 May 1, 2007 (being referred to herein as the “Original Master Indenture”), with Amegy National Bank, predecessor in trust to Regions Bank, as Master Trustee, for the purpose of providing for the issuance of Notes thereunder to secure Debt of the Company (as such terms are defined in the Original Master Indenture); and

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

WHEREAS, the Company desires to enter into this Supplemental Master Indenture in order to provide for the issuance of a certain Note, 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 a Tax-Exempt Master Indenture Note (Cosmos Foundation, Inc.) Series 2010A (the “Series 2010A Note”) entitled to the security of the Master Indenture in the original principal amount of \$50,090,000 and to deliver such Series 2010A Note to the Texas Public Finance Authority Charter School Finance Corporation (the “Issuer”) in order to evidence and secure the obligations of the Company under the Loan Agreement (the “Related Loan Agreement”) between the Company and the Issuer, dated as of May 1, 2010, relating to the Issuer’s Education Revenue Bonds (Cosmos Foundation, Inc.) Series 2010A (the “Series 2010A Bonds”) issued pursuant to a Trust Indenture and Security Agreement (the “Related Bond Indenture”), dated as of May 1, 2010, between the Issuer and Regions Bank, as trustee (in such capacity, the “Bond Trustee”); and

WHEREAS, all acts and things necessary to make the Series 2010A Note 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 2010A Note authorized by this Supplemental Master Indenture have in all respects been duly authorized;

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NOW, THEREFORE, in order to declare the terms and conditions upon which the Series 2010A Note authorized hereby is authenticated, issued and delivered, and in consideration of the premises and the acquisition and acceptance of the Series 2010A Note by the Holder 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 Campuses. The Company hereby designates the following schools as “Participating Campuses”:

(i) Harmony School of Arts and Technology, 9185 Kirby Dr., Houston, Texas 77054 (the “Harmony School of Arts and Technology Campus”);

(ii) Harmony School of Innovation—San Antonio, Northwest corner of Montgomery Drive and Glen Mont, approximately 0.50 miles West of Farm-to-Market Road 1976, Bexar County, Texas (the “Harmony School of Innovation San Antonio Campus”);

(iii) Harmony School of Advancement, 3100 North Sam Houston Parkway West, Houston, Texas 77038 (the “Harmony School of Advancement Campus”);

(iv) Harmony School of Innovation, 9317 W. Sam Houston Pkwy., Houston, Texas 77099 (the “Harmony School of Innovation Campus”);

(v) Harmony School of Ingenuity, 10555 Stella Link Road, Houston, Texas 77025 (the “Harmony School of Ingenuity Campus”);

(vi) Harmony School of Political Sciences and Communication, corner of Rural Route 620 and Lake Creek Parkway, Williamson County, Texas (the “Harmony School of Political Sciences and Communication Campus”);

(vii) Harmony School of Science—Houston 2, corner of NE W. Airport Blvd. and Eldridge, Sugar Land, Texas 77478 (the “Harmony School of Science Houston 2 Campus”);

(viii) Harmony Science Academy – Houston, 5435 S. Braeswood Blvd., Houston, Texas 77096 (the “Harmony Science Academy Houston Campus”);

(ix) Harmony School of Excellence – Austin, 2100 E. St. Elmo Rd., Austin, Texas 78744 (the “Harmony School of Excellence Austin Campus”);

(x) Harmony Science Academy – North Austin, 1421 Wells Branch Pkwy, Suite 200, Pflugerville, Texas 78660 (the “Harmony Science Academy North Austin Campus”);

(xi) Harmony School of Innovation – Dallas, 1024 Rosemeade Pkwy, Carrollton, Texas 75007 (the “Harmony School of Innovation Dallas Campus”);

(xii) Harmony School of Innovation – El Paso, 5210 Fairbanks Dr., El Paso, Texas 79924 (the “Harmony School of Innovation El Paso Campus”);

(xiii) Harmony School of Discovery – Houston, 6270 Barker Cypress Road, Houston, Texas 77084 (the “Harmony School of Discovery Houston Campus”); and

(xiv) Harmony Science Academy – Garland, 2302 Firewheel Pkwy., Garland, Texas 75040 (the “Harmony Science Academy Garland Campus”).

The revenues and assets of these Participating Campuses (except for the real property comprising the Harmony School of Discovery Houston Campus and the Harmony School of Ingenuity 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 2010A NOTE

Section 201. Authorization of Series 2010A Note. There is hereby created and authorized to be issued hereunder a Note, described as follows: “Tax-Exempt Master Indenture Note (Cosmos Foundation, Inc.) Series 2010A” in the aggregate original principal amount of \$50,090,000, dated May 1, 2010, issued on behalf of the Company and for the primary benefit of the Issuer. The Series 2010A 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 2010A Note. The Series 2010A Note shall be issued as a single, fully-registered promissory note without coupon, in substantially the form set forth in Exhibit “A” hereto.

Section 203. Payments on Series 2010A Note. The principal of the Series 2010A Note 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 Note at the respective rates, and such note 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 2010A Note.

(a) The Company shall receive a credit against amounts due on the Series 2010A 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) Notwithstanding the provisions of subsection (a) 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 2010A 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 the Series 2010A Note that may have been given as a result of such payment shall be rescinded, and the amount owing on the Series 2010A Note shall be calculated as if such payment shall not have been made.

Section 205. Interest on Overdue Installments. The Series 2010A 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 the Series 2010A Bonds.

Section 206. Registration, Transfer and Exchange. The Series 2010A Note shall be transferred or exchanged pursuant to Section 205 of the Original Master Indenture.

### ARTICLE III

#### REDEMPTION OR REDUCTION OF SERIES 2010A NOTE; SATISFACTION AND RELEASE

Section 301. Redemption. The Series 2010A 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, in accordance with the terms of the Related Bond Indenture. Notice of redemption of the Series 2010A 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 Series 2010A Note, and the same shall, thereby, become due and payable on the redemption date of the Series 2010A 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 Series 2010A Note pursuant to Section 301 hereof, the amount of the principal and interest on such Series 2010A 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 Series 2010A Note correspond to the payments of the principal of and interest on the Outstanding Series 2010A Bonds.

Section 303. Effect of Call for Prepayment or Redemption. On the date designated for prepayment or redemption by notice as herein provided, the Series 2010A 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 Series 2010A 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 Series 2010A Note are held by the Master Trustee or the Related Bond Trustee, (i) interest on such Series 2010A Note or portion thereof so called for prepayment or redemption shall cease to accrue, (ii) such Series 2010A 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 Series 2010A 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 Series 2010A 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, 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 2010A Note, (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 2010A Note 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 the Series 2010A Note remains 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 2010A Note, 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 2010A Note, express or implied, shall give or be construed to give any Person other than the Company, the Master Trustee and the registered Holder of the Series 2010A Note or its 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 Holder of the Series 2010A Note.

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.

**COSMOS FOUNDATION, INC.**

By: \_\_\_\_\_  
Superintendent

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**REGIONS BANK,**  
as Master Trustee

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

EXHIBIT A  
FORM OF TAX-EXEMPT MASTER INDENTURE NOTE

TAX-EXEMPT MASTER INDENTURE NOTE  
(Cosmos Foundation, Inc.)  
Series 2010A

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

Registered UNITED STATES OF AMERICA Registered  
No. MRA-1 STATE OF TEXAS \$50,090,000

Interest Rate: AS SET FORTH HEREIN Maturity Date: \_\_\_\_\_

Issue Date: \_\_\_\_\_, 2010

Registered Holder: TEXAS PUBLIC FINANCE AUTHORITY CHARTER SCHOOL  
FINANCE CORPORATION

Principal Amount: \_\_\_\_\_

Cosmos Foundation, 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. The Company also promises to pay to the Holder hereof the obligations of the Company described in Section 5.8 of the Loan Agreement, hereinafter defined, at the times and the amounts specified therein.

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 (Cosmos Foundation, Inc.) 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 May 1, 2007, between the Company, acting in its own behalf, and Amegy Bank National Association, predecessor in trust to Regions Bank, as trustee (the "Master Trustee"), as supplemented by the Supplemental Master Trust Indenture No. 7, dated as of May 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 May 1, 2010 (the "Loan Agreement"), entered into between the Company and the Texas Public Finance

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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 \$50,090,000, designated Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Cosmos Foundation, Inc.) 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 May 1, 2010 (the "Indenture"), between the Issuer and Regions Bank, as trustee (the "Bond Trustee").

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

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

2. Payment. Interest on this Note which is payable, and is 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 Houston, 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.

COSMOS FOUNDATION, INC.

By: \_\_\_\_\_  
President, Board of Directors

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ASSIGNMENT

For value received, the undersigned hereby assigns to Regions Bank, as Bond Trustee (the "Bond Trustee") under a Trust Indenture and Security Agreement, dated as of May 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:

\_\_\_\_\_

REGIONS BANK,  
as Master Trustee

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

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**APPENDIX E**  
**SUBSTANTIALLY FINAL FORM OF THE INDENTURE**

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TRUST INDENTURE AND SECURITY AGREEMENT

between

TEXAS PUBLIC FINANCE AUTHORITY  
CHARTER SCHOOL FINANCE CORPORATION

and

REGIONS BANK,  
as Trustee

Relating to  
\$50,090,000  
Texas Public Finance Authority Charter School Finance Corporation  
Education Revenue Bonds  
(Cosmos Foundation, Inc.)  
Series 2010A

Dated as of

May 1, 2010

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**TRUST INDENTURE AND SECURITY AGREEMENT**

**THIS TRUST INDENTURE AND SECURITY AGREEMENT** (this “Indenture”), dated as of May 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 **REGIONS BANK**, an Alabama state banking corporation with a corporate trust office in Houston, Texas, not in its individual capacity but solely as Trustee (the “Trustee”).

**WITNESSETH:**

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

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

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

WHEREAS, Cosmos Foundation, 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 (Cosmos Foundation, Inc.) Series 2010A” (the “Series 2010A 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 19 Participating Campuses of the Company; funding a debt service reserve fund and capitalized interest; and to pay certain of the costs of issuing the Bonds;

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

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;

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

WHEREAS, 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 and 5.1 of the Agreement (the "Issuer's Unassigned Rights"); and

#### GRANTING CLAUSE SECOND

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

#### GRANTING CLAUSE THIRD

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

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

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

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

AND IT IS HEREBY COVENANTED AND DECLARED that all Bonds are to be authenticated and delivered and the Trust Estate is to be held and applied by the Trustee, subject to the further covenants, conditions, and trusts hereinafter set forth, and the Issuer does hereby

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covenant and agree to and with the Trustee, for the equal and proportionate benefit of all Holders of the Bonds, except as herein otherwise expressly provided, as follows:

## ARTICLE I

### DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

#### 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, B or C 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 Assistant Superintendent of Operations, 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 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.

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

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

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

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

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

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

“Bonds” means the Series 2010A 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 Cosmos Foundation, 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 System described in Section 211 hereof. DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended.

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

“Debt Service Fund” means the special trust fund created in Section 403 of this Indenture.

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

“Deed of Trust” means collectively, those certain Deeds of Trust and Security Agreements, dated as of June 1, 2007, May 1, 2008 and August 1, 2008 from the Company to the Master Trustee, as supplemented to date and 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, 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 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 Bond” means the initial Series 2010A 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) 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 May 1, 2007, between the Company and the Master Trustee, as amended by the Supplemental Master Trust Indenture No. 1 dated May 1, 2007, Supplemental Master Trust Indenture No. 2 dated May 1, 2007, Supplemental Master Trust Indenture No. 3 dated May 1, 2008, Supplemental Master Trust Indenture No. 4 dated May 1, 2008 and the Supplemental Master Trust Indenture No. 5 dated December 23, 2009, Supplemental Master Trust Indenture No. 6 dated February 16, 2010 and the Supplemental Master Trust Indenture, and as further amended or supplemented from time to time in accordance with its terms.

“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.

“Master Trustee” means Regions Bank, as successor to Amegy Bank National Association, with a corporate trust office in Houston, Texas, serving as master trustee pursuant to the Master Indenture or any successor thereto pursuant to the provisions of the Master Indenture.

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

“Maximum Annual Debt Service” means, as of any date of calculation, the highest principal and interest payment requirements with respect to all Outstanding Bonds for any succeeding Fiscal Year.

“Note” means the Master Note.

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

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

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

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

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

(iv) Bonds alleged to have been destroyed, lost, or stolen which have been paid as provided in Section 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 an amount equal to the lesser of Maximum Annual Debt Service on the Series 2010A Bonds, one hundred twenty-five percent (125%) of the average annual Debt Service on the Series 2010A Bonds, or ten percent (10%) of the initial principal amount of the Series 2010A Bonds; (or sale proceeds in the event that the amount of original issue discount exceeds two percent multiplied by the stated redemption price at maturity of the Series 2010A Bonds); provided, however, that the amount funded by the Series 2010A Bonds shall not exceed ten percent (10%) of the initial principal amount of the Series 2010A Bonds; provided further 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 ten percent (10%) limit.

“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 (Cosmos Foundation, Inc.) Series 2010A, authorized to be issued pursuant to Section 201 of this Indenture.

“Sponsoring Entity” means the Texas Public Finance Authority.

“State” means the State of Texas.

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

“Supplemental Master Trust Indenture” shall mean the Supplemental Master Trust Indenture No. 7, dated as of May 1, 2010, between the Company and the Master Trustee.

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

“Trustee” means Regions Bank, an Alabama state banking corporation, with a corporate trust office in Houston, Texas, serving as Trustee pursuant to this Indenture or any successor thereto pursuant to the provisions of this Indenture.

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

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

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 1717 St. James Place, 5<sup>th</sup> Floor, Houston, Texas 77056, 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 Cosmos Foundation, Inc., 9421 West Sam Houston Parkway South, Houston, Texas, 77099, Attention: 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.

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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 (Cosmos Foundation, Inc.) Series 2010A." The aggregate principal amount of Series 2010A Bonds is \$50,090,000. Each of the Series 2010A Bonds shall be numbered separately from RA-1 upwards. The 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 Bonds shall be substantially in the form set forth in Exhibit A 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 May 1, 2010, shall mature on February 15 in the years and in the amounts set forth below, and shall bear interest at the following rates (the "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>
2030	\$ 8,285,000.00	6.000%
2040	41,805,000.00	6.200%

(b) The Bonds shall be subject to optional and mandatory redemption prior to maturity in the manner provided in the form of Bond set forth in Exhibit A attached hereto.

(c) 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.

(d) 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 Bond 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 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;

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(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 Bond, 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 Houston, 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 Bond. Pending the preparation of definitive Bonds, the Issuer will execute, and the Bond Registrar shall deliver the Initial Bond, which may be printed, lithographed, typewritten, mimeographed or otherwise produced, substantially of the tenor of the definitive Bonds in lieu of which it is issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Initial Bond may determine, as evidenced by their execution of such Initial Bond.

Upon the issuance of the Initial Bond, 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 Bond 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 Bond 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 form of Bond in Exhibit A 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.

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

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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 "Cosmos Foundation Education Revenue Bonds Series 2010A Proceeds Fund" (herein referred to as the "Proceeds Fund"). The proceeds of the sale of the Series 2010A Bonds shall be deposited into the Proceeds Fund and immediately transferred by Trustee to the Debt Service Fund, the Debt Service Reserve Fund and the Construction Fund (all established under this Indenture), all as specified in the Issuer Order to authenticate and deliver the Series 2010A 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 "Cosmos Foundation Education Revenue Bonds Series 2010A Debt Service Fund" (herein referred to as the "Debt Service Fund"). The money deposited to the Debt Service Fund, together with all investments thereof and investment income therefrom, shall be held in trust and applied solely as provided in this Section and Section 706. The Trustee shall create a Capitalized Interest Subaccount within the Debt Service Fund. On the date of issuance of the Bonds, the Trustee shall deposit into the Capitalized Interest Subaccount any capitalized interest, accrued interest and additional proceeds on the Bonds as set forth in the Issuer Order, for the purpose of paying a portion of the interest coming due on the Bonds on the applicable Interest Payment Date.

(b) The Trustee shall deposit to the credit 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 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 first from the Capitalized Interest Subaccount then from the Debt Service Fund in an amount sufficient to pay the Bondholders principal and interest on the Bonds.

Section 404. Debt Service Reserve Fund.

(a) There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated its "Cosmos Foundation Education Revenue Bonds Series 2010A Debt Service Reserve Fund." There shall initially be deposited with the Trustee in the Debt Service Reserve Fund from the proceeds of the Series 2010A 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 Series 2010A 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 Series 2010A Bonds as provided herein and in the Agreement. Except as otherwise provided herein, the Debt Service Reserve Fund at all times shall be maintained at an amount equal to the Reserve Fund Requirement.

(b) If there are insufficient funds in the Debt Service Fund to pay the Debt Service on the Bonds by 12:00 noon (Central Time) four Business Days prior to any Interest Payment Date, the Trustee shall transfer from the Debt Service Reserve Fund to the Debt Service Fund amounts necessary to make such payments from the Debt Service Fund on any Interest Payment Date.

(c) If the amount in the Debt Service Reserve Fund is less than the Reserve Fund Requirement because the Trustee has applied funds in the Debt Service Reserve Fund in accordance with (b) above, the Trustee shall promptly notify the Company in writing that a deficiency in the Debt Service Reserve Fund exists, and the Company shall, as provided in Section 4.6 of the Agreement, (1) within 30 days of receipt of such notice pay to the Trustee the full amount needed to restore the amount in the Debt Service Reserve Fund to the Reserve Fund Requirement or (2) in twelve (12) consecutive equal monthly installments, the first of which shall be made within thirty (30) days from the date of 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 decline, such additional decline shall be restored in equal monthly installments over the remainder of the restoration period for the initial decline. Notwithstanding the foregoing, moneys in the Debt Service Reserve Fund may be applied to pay the final Debt Service payment at maturity.

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 August 14, 2010; 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 Bonds 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 invested as directed in writing by the Company at a yield which is not “materially higher” than the Yield on the Bonds, as provided in Section 148(a) of the Code or invested in obligations the yield of which is in excess of the Yield on the Bonds, provided the Company and the Issuer agree to make yield restriction payments described in Section 1.148-5(c) of the Regulations. The Trustee has no responsibility for determining whether such a condition exists.

(d) 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.

(e) So long as any Bonds are Outstanding, the Company shall have no right, title or interest in or to the funds in the Debt Service Reserve Fund.

Section 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 “Cosmos Foundation 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 “Cosmos Foundation Education Revenue Bonds Series 2010A 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 an Acquisition Account, a Project Account and a Costs of Issuance Account. The Project Account will contain subaccounts for each Participating Campus: (i) Harmony School of Arts and Technology Subaccount, (ii) Harmony School of Innovation San Antonio Subaccount, (iii) Harmony School of Advancement Subaccount, (iv) Harmony School of Innovation Subaccount, (v) Harmony School of Political Sciences and Communication Subaccount, (vi) Harmony School of Science Houston 2 Subaccount, (vii) Harmony Science Academy Houston Subaccount, (viii) Harmony Science Academy Austin Subaccount, (ix) Harmony School of Excellence Austin Subaccount, (x) Harmony Science Academy North Austin Subaccount, (xi) Harmony School of Innovation Dallas Subaccount, (xii) Harmony School of Innovation El Paso Subaccount, (xiii) Harmony Science Academy Dallas Subaccount, (xiv) Harmony School of Discovery Houston Subaccount and (xv) Harmony Science Academy Garland Subaccount (collectively, the “Participating Campus Subaccounts”). 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.

(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) On the Closing Date following receipt of and in accordance with a Requisition Certificate, the Trustee shall disburse amounts in the Acquisition Account of the Construction Fund to pay for the acquisition of the following Participating Campuses:

- (i) Harmony School of Advancement Campus;
- (ii) Harmony School of Political Sciences and Communication Campus;
- (iii) Harmony School of Science Houston 2 Campus;
- (iv) Harmony Science Academy Austin Campus; and
- (v) Harmony Science Academy Garland Campus.

The Trustee may rely fully on any Requisition Certificate, and shall not be required to make any investigation in connection therewith.

(b-2) 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.

(c) The Trustee shall disburse amounts in the Project Account of the Construction Fund to pay or reimburse the Company for 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 deposited in 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 Acquisition Account, 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 Acquisition Account, 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) 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 Regions Trust Money Market Deposit 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(d), all income and profits on investments in the Debt Service Fund, the Debt Service Reserve Fund, the Construction Fund and the Rebate Fund shall be credited to those respective Funds. All losses on investments shall be charged against the fund and account to which such investments are credited. The Trustee may make any investment through its own trust department. As amounts invested are needed for disbursement from any fund or account, the Trustee shall cause a sufficient amount of the investments credited to that fund to be redeemed or sold and converted into cash to the credit of that fund. The Trustee may rely on the written instructions of the Company in investing money in any Fund or account, and shall not be accountable for any depreciation in the value of the investments made in accordance with the provisions of this Article IV or for any losses incurred upon any authorized disposition thereof.

(c) The Company by its execution of the Agreement covenants to restrict the investment of money in the Funds in such manner and to such extent, if any, as may be necessary so that the Bonds will not constitute arbitrage bonds under Section 148 of the Code and the Regulations.

(d) The Issuer and the Company (by its execution of the Agreement) acknowledge that to the extent that regulation of the Comptroller of the Currency or other applicable regulatory agency grant the Issuer or the Company the right to receive brokerage confirmation of security 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 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, may at the expense of the Company cause to be published once, in an Authorized Newspaper, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company; and provided further, notwithstanding the foregoing, the Trustee shall be entitled to deliver any such funds to any escheatment authority in accordance with the Trustee's customary procedures. The Trustee shall hold any such funds in trust uninvested (without liability for interest accrued from the date deposited) for the benefit of Holders entitled thereto.

Any bank or trust company with or into which any Paying Agent may be merged or consolidated, or to which the assets and business of such Paying Agent may be sold, shall be deemed the successor of such Paying Agent for the purposes of this Indenture. 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, on an annual basis, 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.

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 shall 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 shall 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 which 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 508, the Issuer’s compliance shall be based solely on acts or omissions by the Issuer and no acts or omissions of, or directed by, the Company, the Trustee or any other Persons shall be attributed to the Issuer.

All officers, employees and agents of the Issuer are authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the Issuer as of the date of delivery of the Series 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 an Opinion of Counsel, each of which shall state that such consolidation, merger, conveyance, or transfer and such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

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 bankruptcy, or shall consent to the institution of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization or arrangement under the 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) [RESERVED]

(c) At any time after such a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article provided, the Holders of a majority in principal amount of the Bonds Outstanding, by written notice to the Issuer and the Trustee, in the case of any acceleration of maturity of the Bonds may 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;

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(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, 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, but only from and to the extent of Available Money; ratably without preference or priority of any kind, according to the amounts due and payable on such Bonds for interest;

(c) Third: To the payment of the amounts then due and unpaid upon the Bonds, for principal (and premium, if any), in respect of which or for the benefit of which such money has been collected, but only from and to the extent of Available Money; ratably without preference or priority of any kind, according to the amounts due and payable on such Bonds for principal (and premium, if any);

(d) Fourth: To 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;

(d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

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

(b) In case any Event of Default (of which the Trustee has actual knowledge or is deemed to have actual knowledge under Section 803(h) hereof) has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a reasonably prudent man would exercise or use under the circumstances in the conduct of his own affairs.

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

(1) 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 occurrence thereof; and provided that in the case of acceleration pursuant to Section 702, the Trustee shall give immediate notice as provided therein. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default.

The Trustee shall mail, first-class postage prepaid, to each Rating Service then-rating the Bonds notice of any of the following events, whenever:

(a) the Trustee, pursuant to the Indenture, has resigned or been removed and a successor Trustee has been appointed, such notice to be mailed within ten Business Days after the appointment of such successor Trustee;

(b) an amendment or supplement to the Bond Documents executed or consented to by the Trustee or of which the Trustee has received written notice is to be entered into, such notice and a copy of such amendment or supplement to such Rating Service to be mailed at least ten

Business Days prior to the effective date of such amendment or supplement and within three Business Days after the receipt of such written notice by the Trustee;

(c) the Trustee either (1) receives a Company Request pursuant to Section 302 which directs the Trustee to redeem all the Outstanding Bonds or (2) declares the principal of all Outstanding Bonds to be immediately due and payable pursuant to Section 702, such notice to be mailed within ten Business Days after the receipt of such Company Request (and to specify the Redemption Date requested thereby) or after such declaration; or

(d) all Bonds shall be deemed to have been paid or defeased as provided in Article X hereof.

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 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 not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Issuer, personally or by agent

or attorney and to take copies of such memoranda from and in regard thereto as may be reasonably be desired; provided that, the Trustee shall have no obligation to perform any of the duties of the Issuer under this Indenture or of the Company under any of the Bond Documents;

(g) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys, but the Trustee shall not be held liable for any negligence or misconduct of any such agent or attorney appointed with due care;

(h) The Trustee shall not be required to take notice or be deemed to have notice of any default hereunder unless the Trustee shall be specifically notified of such 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 exists; provided, however, that the Trustee shall be required to take and be deemed to have notice of its failure to receive the moneys necessary to make payments when due of debt service;

(i) The Trustee shall not be liable for any error of judgment made in good faith by its officers, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

(j) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with any direction of the Holders of the applicable percentage of the Holders of Outstanding Bonds permitted to be given by them under this Indenture;

(k) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it;

(l) The Trustee may seek the approval of the Holders of the Bonds by any means it deems appropriate and not inconsistent with the terms of this Indenture or the Master Indenture in connection with the giving of any consent or taking of any action in its capacity as Holder of any Note;

(m) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty to take such action;

(n) The Trustee shall not be required to give any bond or surety in respect of the execution of the trusts and powers established by this Indenture; and

(o) The Trustee shall not be responsible for monitoring the existence of or determining whether any lien or encumbrance or other charge including without limitation any Permitted Encumbrance (as defined in the Deed of Trust) exists against the Project or the Trust Estate.

Notwithstanding the aforesaid, the Trustee shall be required to pay the Holders of the Bonds at the times required under this Indenture, and, in its capacity as Paying Agent hereunder, shall be required to draw on the Bond Insurance Policy on the terms described in Section 102 without the requirement of any indemnity therefor.

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 Section 1001), 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) and 5.1(h) of the Agreement. As such security for the performance of the obligations of the Issuer under this Section the Trustee shall have a lien prior to the Bonds upon all property and funds held or collected by the Trustee as such.

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, in each case 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 and (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 or the Supplemental Master Trust Indenture 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, and the Issuer, when authorized by a Board Resolution, and the Trustee may, upon receipt of a Company Consent, enter into or consent to an indenture or indentures supplemental hereto (subject to Section 903 hereof), amendments to the Agreement or the Supplemental Master Trust Indenture for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture, the Agreement and the Supplemental Master Trust Indenture or of modifying in any manner the rights of the Holders of the Bonds under this Indenture, the Agreement, and the Supplemental Master Trust Indenture; provided, however, that no such supplemental indenture or amendment shall, without the consent of the Holder of each Bond affected thereby:

(1) 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. 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 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 Exhibit A 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

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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

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REGIONS BANK,  
as Trustee

EXHIBIT A

FORM OF SERIES 2010A BONDS

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

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").

ACCEPTED AND AGREED TO BY:

1. Form of Definitive Series 2010A Bonds.

REGIONS BANK,  
as Paying Agent and Bond Registrar

NO. RA-\_\_\_

REGISTERED  
\$ \_\_\_\_\_

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

UNITED STATES OF AMERICA  
STATE OF TEXAS  
TEXAS PUBLIC FINANCE AUTHORITY  
CHARTER SCHOOL FINANCE CORPORATION  
EDUCATION REVENUE BOND  
(Cosmos Foundation, Inc.)  
Series 2010A

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Dated Date</u>	<u>CUSIP NO.</u>
%	February 15, ___	May 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 Regions Bank, in Houston, Texas (the "Place of Payment"), the aggregate principal amount of \_\_\_\_\_ (\$\_\_\_\_\_) on the Maturity Date set forth above (or earlier as hereinafter provided) and to pay interest thereon, calculated on the basis of a 360-day year of twelve 30-day months at the per annum rate set forth above, from 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

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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 Regions Bank (the "Trustee," "Paying Agent" and "Bond Registrar" for this series of Bonds) and mailed to the Owner hereof at its address as it appears on the bond registration books of the Issuer, kept by the Bond Registrar (the "Bond Register") on the first day of the calendar month in which such payment date occurs (the "Record Date"). Upon written request of a registered owner of at least \$1,000,000 in principal amount of Bonds or all of the Bonds, all payments of principal, premium and interest on the Bonds shall be paid by wire transfer at the risk and expense of such registered owner in immediately available funds to an account designated by such registered owner upon fifteen (15) days prior written notice to the Trustee.

THE INTEREST on this Bond shall be paid on each August 15 and February 15, commencing February 15, 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 \$50,090,000 for the purpose of financing the cost of certain educational facilities (as that term is defined in the Act) for Cosmos Foundation, 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, dated as of May 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 May 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 May 1, 2007, (the "Master Indenture") as supplemented by Supplemental Master Trust Indenture No. 7, dated as of May 1, 2010 (the "Supplemental Indenture"), between the Company on behalf of itself and Amegy Bank National Association, predecessor in trust to Regions Bank, Master Trustee.

THE TRANSFER of this Bond may be registered by the owner hereof in person or by his attorney or legal representative at the corporate trust office or principal payment office of the Bond Registrar as set forth in the Indenture, but only in the manner and subject to the limitations and conditions provided in the Indenture and upon surrender and cancellation of this Bond and execution of the Assignment hereon. Upon any such surrender for transfer of the Bond at the office or agency of the Trustee in a Place of Payment, the Issuer shall execute, the Trustee shall authenticate, and the Bond Registrar shall register and deliver, in the name of the designated transferee, one or more new Bonds of any Authorized Denomination, of a like aggregate

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

Subject to the limitations set forth in the Master Indenture, the Company may from time to time issue additional notes authorized by and entitled to the security of the Master Indenture for the purposes set forth in the Master Indenture ("Master Notes"), which shall rank equally and on a parity with the Note and all other Master Notes except as set forth in any supplemental master indenture authorizing issuance of any Master Note.

EXCEPT AS hereinafter set forth, the Bonds are not subject to redemption.

The Bonds are subject to mandatory redemption in part prior to maturity with funds from the Debt Service Fund, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption, without premium, on February 15 in each of the years, and in the principal amounts, respectively, as set forth in the following schedule:

**\$8,285,000 Series 2010A Bonds Maturing 2030**

Mandatory Redemption Date (February 15)	Principal Amount to be Mandatorily Redeemed
2028	\$2,595,000
2029	2,760,000
2030*	2,930,000

\* Final Maturity

**\$41,805,000 Series 2010A Bonds Maturing 2040**

Mandatory Redemption Date (February 15)	Principal Amount to be Mandatorily Redeemed
2031	\$3,115,000
2032	3,310,000
2033	3,525,000
2034	3,750,000
2035	3,990,000
2036	4,245,000
2037	4,515,000
2038	4,805,000
2039	5,110,000
2040*	5,440,000

\* Final Maturity

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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 February 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 at least 30 days prior to the date fixed for redemption but not more than 60 days prior to the date of redemption.

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

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

Mandatory Redemption With Excess Proceeds. The Bonds shall be redeemed in whole or in part prior to maturity as a result of a deposit of amounts transferred from the Construction Fund to the Debt Service Fund (all as defined in the Indenture) as excess proceeds upon completion of the Project. Bonds redeemed as described in this paragraph shall be redeemed within sixty (60) days of such deposit at a redemption price equal to the unpaid principal amount of the Bonds being redeemed, without premium, plus accrued interest to the redemption date.

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

IF LESS THAN ALL of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed shall be redeemed by the Trustee in accordance with the written direction of the Company; provided, however, that portions of Bonds shall be redeemed in Authorized Denominations and that no redemption shall result in a Bond being held in less than an Authorized Denomination.

IN CASE PART, but not all, of this Bond shall be selected for redemption, the owner hereof or his attorney or legal representative shall present and surrender this Bond to the Trustee for payment of the redemption price, and the Issuer shall cause to be executed, authenticated and delivered to or upon the order of such owner or his attorney or legal representative, without charge therefor, in exchange for the unredeemed portion of the principal amount of this Bond so surrendered, a Bond of the same maturity and bearing interest at the same rate.

AT LEAST 30 days prior to the date fixed for any redemption of the Bonds but not more than 60 days prior to any redemption date, the Trustee shall cause a written notice of such redemption to be mailed by first class mail, postage prepaid, to each Holder of the Bonds to be redeemed, at the address appearing on the Bond Register on the date such notice is mailed by the Trustee. Any notice mailed as provided herein shall be conclusively presumed to have been given, irrespective of whether received. By the date fixed for any such redemption, due provision shall be made with the Trustee and the Paying Agent for the payment of the appropriate redemption price, premium, if any, and interest accrued hereon. If such written notice of redemption is made, due provision for payment of the redemption price is made and all conditions to the redemption have been fulfilled, all as provided above and in the Indenture, the Bonds which are to be redeemed shall become due and payable at the redemption price and from and after such date shall cease to bear interest. If any Bond shall not be paid upon the surrender thereof for redemption, the principal shall, until paid, bear interest at the rate borne by this Bond.

IF THE DATE for any such payment on this Bond shall be a Saturday, a Sunday or a legal holiday or the equivalent for banking institutions generally (other than a moratorium) at the place where payment thereof is to be made, then such payment may be made on the next succeeding day which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment.

IT IS HEREBY CERTIFIED AND COVENANTED that this Bond has been duly and validly authorized, issued, and delivered; that all acts, conditions, and things required or proper

to be performed, exist, and be done precedent to or in the authorization, issuance, and delivery of this Bond have been performed, exist, and been done in accordance with law; that this Bond is a special limited revenue obligation of the Issuer, and that the principal of, premium, if any, and interest on this Bond are payable from and secured by a lien on and pledge of the payments designated as Loan Payments (the "Loan Payments") to be paid, or caused to be paid, to the Trustee, pursuant to the Master Indenture, the Supplemental Indenture and the Agreement, as evidenced by the Note, and by an assignment by the Issuer to the Trustee of the Note to evidence the Company's obligations to make Loan Payments under the Master Indenture, the Supplemental Indenture and the Agreement to the Trustee. The Company is unconditionally obligated (subject only to the provisions of the Agreement relating to merger, consolidation, and transfer of assets) to the Issuer and the Trustee to pay, or cause to be paid, without set off, recoupment, or counterclaim, to the Trustee each Loan Payment for deposit into the Debt Service Fund created for the benefit of the owners of the Bonds by the Indenture, in aggregate amounts sufficient to pay and redeem, and provide for the payment and redemption of, the principal of, premium, if any, and interest on the Bonds, when due, and to make certain other deposits as required by the Indenture, subject to and as required by the provisions of the Agreement, the Note, and the Indenture.

THE BONDS are secured by the Indenture whereunder the Trustee is custodian of the Debt Service Fund and is obligated to enforce the rights of the owners of the Bonds and to perform other duties in the manner and under the conditions stated in the Indenture. In case an "Event of Default," as defined in the Indenture, shall occur, the principal of the Bonds then Outstanding may be declared to be due and payable immediately upon the conditions and in the manner provided in the Indenture. The Trustee shall, upon written request of the owners of at least a majority in principal amount of the Bonds then Outstanding, 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.

REGIONS BANK,  
as Trustee

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

Date of authentication:

\_\_\_\_\_

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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 headings "INTEREST RATE" and "MATURITY DATE" shall both be completed with the words "As Shown Below" and the word "CUSIP" deleted;

(c) in the first paragraph of the initial Series 2010A Bond, the words "on the Maturity Date set forth above (or earlier as hereinafter provided)" and "at the per annum rate set forth above" shall be deleted and the following shall be inserted at the end of the first sentence "...,

with such principal to be paid in installments on February 15 in each of the years and in the principal amounts identified in the following schedule and with such installments bearing interest at the per annum rates set forth in the following schedule:

[Schedule to be inserted from Section 202]

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)

E-38

EXHIBIT B  
FORM OF REQUISITION CERTIFICATE

Company Request No.: \_\_\_\_\_  
\_\_\_\_\_, 20\_\_

Regions Bank, as Trustee  
1717 St. James Place, 5<sup>th</sup> Floor  
Houston, Texas 77056

Attention: Doug Milner

Re: Disbursement from Construction Fund

Ladies and Gentlemen:

This Request is provided to you pursuant to Section 406 of the Trust Indenture and Security Agreement, dated as of May 1, 2010 (the "Indenture"), between the Texas Public Finance Authority Charter School Finance Corporation (the "Issuer") and you, as Trustee. The capitalized terms used in this Request have the same meanings given such terms in the Indenture or the Loan Agreement, dated as of May 1, 2010 (the "Loan Agreement"), between the Issuer and Cosmos Foundation, Inc. (the "Company").

On behalf of the Company, the undersigned hereby certifies as follows:

(i) There has been expended, or is being expended concurrently with the delivery of this certificate, on account of [Project Costs, 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 Acquisition Account of the Construction Fund in the amounts and to the parties as set forth in the attached schedule.]

[You are hereby directed to pay the amount of \$\_\_\_\_\_ from the Project Account of the Construction Fund in the amounts and to the parties as set forth in the attached schedule.]

[You are hereby directed to pay the amount of \$\_\_\_\_\_ from the Cost of Issuance Account of the Construction Fund in the amounts and to the parties as set forth in the attached schedule. Such amount, in addition to amounts previously paid from the 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.]

COSMOS FOUNDATION, INC.

By: \_\_\_\_\_  
Authorized Representative

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**APPENDIX F**  
**SUBSTANTIALLY FINAL FORM OF THE LOAN AGREEMENT**

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LOAN AGREEMENT

between

TEXAS PUBLIC FINANCE AUTHORITY  
CHARTER SCHOOL FINANCE CORPORATION

and

COSMOS FOUNDATION, INC.

Relating to

\$50,090,000

TEXAS PUBLIC FINANCE AUTHORITY  
CHARTER SCHOOL FINANCE CORPORATION EDUCATION REVENUE BONDS  
(Cosmos Foundation, Inc.)  
SERIES 2010A

Dated as of

May 1, 2010

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## LOAN AGREEMENT

THIS LOAN AGREEMENT (this "Agreement"), dated as of May 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 COSMOS FOUNDATION, 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 \$50,090,000, which will be designated "Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Cosmos Foundation, Inc.) Series 2010A" (the "Series 2010A 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 May 1, 2010, between the Issuer and Regions Bank, as trustee (in such capacity, the "Trustee") for the purposes of effecting the issuance of the Bonds, furthering the public purposes of the Act and securing to the Holders of the Bonds the payment of the Bonds;

WHEREAS, the Company is a party to that certain Master Trust Indenture and Security Agreement (the "Master Indenture") dated as of May 1, 2007, between the Company, on behalf of itself, and Regions Bank, Houston, Texas (as successor in trust to Amegy Bank National Association), as Master Trustee (the "Master Trustee"), as supplemented by the Supplemental Master Trust Indentures No. 1 and 2, each dated as of May 1, 2007, Supplemental Master Trust

Indentures No. 3 and 4, each dated as of May 1, 2008, Supplemental Master Trust Indenture No. 5 dated as of December 23, 2009, Supplemental Master Trust Indenture No. 6 dated as of February 16, 2010, and as further supplemented by Supplemental Master Trust Indenture No. 7 between the Company and the Master Trustee, which secures payment of certain Debt (as defined in the Master Indenture) of the Company including the Series 2010A Note (as hereinafter defined) which evidences the Loan made hereby (the "Loan");

WHEREAS, the Issuer shall issue the Bonds in order to loan the proceeds thereof to the Company and the Company agrees to repay the Loan on the terms set forth herein;

WHEREAS, pursuant to the provisions of this Agreement, the Company is executing and delivering to the Issuer the Series 2010A Note to evidence the loan of the proceeds of the Series 2010A Bonds to the Company and the obligation of the Company under this Agreement to repay the same, which note is a "Master Note" under the Master Indenture;

WHEREAS, pursuant to the provisions of this Agreement, the Issuer is collaterally assigning to the Trustee all of the Issuer's right, title and interest in the Series 2010A Note and the Loan Payments (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.

“Bond Counsel” means an attorney or firm of attorneys nationally recognized as experienced in the field of bonds of governmental issuers appointed by the Issuer and satisfactory to the Trustee.

“Capital Expenditures” means, as of the date of determination thereof, the aggregate of the costs paid (otherwise than by incurring or acquiring Property subject to purchase money obligations) prior to such date by the Company in connection with the construction, acquisition or development of the Project or Additions, as the case may be, and properly chargeable to the property accounts of the owner thereof in accordance with generally accepted accounting principles and so charged, including, without limitation, payments made for labor, salaries, overhead, materials, interest, taxes, engineering, accounting, legal expenses, superintendence, insurance, casualty liabilities, rentals, start-up expenses, financing charges and expenses and all other items (other than operating or maintenance expenses) in connection with such construction, acquisition or development and so properly chargeable and, in the case of capital expenditures for Additions consisting of an acquired facility, including the cost of any franchises, rights or property, other than Additions, acquired as a part of such going business for which no separate or distinct consideration shall have been paid or apportioned.

“Claims” means all claims, investigations, lawsuits, causes of action and other legal actions and proceedings of whatever nature brought against (whether by way of direct action, counter claim, cross action or impleader) or otherwise involving any Indemnified Party, even if groundless, false, or fraudulent, so long as the claim, lawsuit, cause of action or other legal action or proceeding is alleged or determined, directly or indirectly, to arise out of, to result

from, to relate to or to be based upon, in whole or in part: (a) the issuance of the Bonds, (b) the duties, activities, acts or omissions (even if negligent) of any Person in connection with the issuance of the Bonds, the obligations of the various parties arising under the Bond Documents or the administration of any of the Bond Documents, or (c) the duties, activities, acts or omissions (even if negligent) of any Person in connection with the design, construction, installation, operation, use, occupancy, maintenance or ownership of the Project or any part thereof.

“Closing Date” means the date of closing of the issuance of the Bonds.

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

“Construction Consultant” means the respective construction consultant for a Participating Campus.

“Debt” shall have the meaning assigned to such term in the Master Indenture.

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

“Indemnified Party” shall mean one or more of the Issuer, the Governing Body of the Issuer, the Sponsoring Entity and any of their successors, officers, directors or commissioners.

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

“Loan Payments” means the amounts described in Sections 4.1(a) and (b) of this Agreement.

“Losses” means losses, costs, damages, expenses, judgments, and liabilities of whatever nature (including, but not limited to, reasonable attorney’s, accountant’s and other professional’s fees, litigation and court costs and expenses, amounts paid in settlement and amounts paid to discharge judgments and amounts payable by an Indemnified Party to any other Person under any arrangement providing for indemnification of that Person) directly or indirectly resulting from arising out of or relating to one or more Claims.

“MSRB” means the Municipal Securities Rulemaking Board.

“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 3.3(a) hereof.

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

“Plans and Specifications” means the plans and specifications for the Project, as the same may be prepared or amended from time to time as provided in Section 3.1 hereof, on file at the principal business office of the Company and available at all times for inspection by the Issuer.

“Project” means the Project described in Exhibit “A” hereto.

“Project Costs” means costs permitted to be paid out of proceeds of the Bonds by the Act and by the Code including costs related to the Project (excluding the Costs of Issuance).

“Regulated Chemical” means any substance, the presence of which requires investigation, permitting, control or remediation under any federal, state or local statute, regulation, ordinance or order, including without limitation:

- a) any substance defined as “hazardous waste” under the Resource Conservation and Recovery Act, as amended (42 U.S.C. §6901 et seq.);
- b) any substance defined as a “hazardous substance” under the Comprehensive Environmental Response, Compensation and Liability Act, as amended (42 U.S.C. §9601 et seq.);

c) any substance defined as a “hazardous material” under the Hazardous Materials Transportation Act (49 U.S.C. §1800 et seq.);

d) any substance defined under any Texas statute analogous to (a), (b) or (c), to the extent that said statute defines any term more expansively;

e) asbestos;

f) urea formaldehyde;

g) polychlorinated biphenyls;

h) petroleum, or any distillate or fraction thereof;

i) any hazardous or toxic substance designated pursuant to the laws of the State; and

j) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority.

“Series 2010A 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 Bonds.

“Sponsoring Entity” means the State.

“State” means the State of Texas.

(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 3.5, 3.7, 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 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 have been disclosed to the IRS and the Company has received confirmation that such activities or methods of operation do not materially adversely affect the status of the Determination;

(C) The Company has not diverted a substantial part of its corpus or income for a purpose or purposes other than the purpose or purposes (a) for which it is organized or operated or (b) disclosed to the IRS in connection with the Determination;

(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 "foundation manager" within the meaning of Section 4946(b) of the Code with respect to the Company, nor any Person controlled by any such individual or individuals or any of their Affiliates, nor any Person having a personal or private interest in the activities of the Company has acquired or received, directly or indirectly, any income or assets, regardless of form, of the Company during the current fiscal year and the five fiscal years preceding the current fiscal year, other than as reported to the IRS by the Company;

(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 within the meaning of Section 501(c)(3) of the Code;

(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(q) of this Agreement) of the Stated Maturity 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 Project to be financed or refinanced by the Series 2010A Bonds, weighted in proportion to the respective cost of each item comprising the property the cost of which has been or will be financed, directly or indirectly, with the Net Proceeds (as defined in Section 5.3(q) of this Agreement) of the Series 2010A Bonds. For purposes of the preceding sentence, the reasonably expected economic life of property shall be determined as of the later of (A) the Closing Date for the Series 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 property, 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 property;

(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 Reserved.

Section 3.3 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 Fund a portion of the proceeds received from the sale of the Bonds. Subject to Section 406 of the Indenture, the Trustee is authorized and directed to make payments to the Company from the Construction Fund, as requested by the Company and approved in writing by the 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 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 Series 2010A Bonds are outstanding.

(b) Disbursements from the Costs of Issuance Account of the Construction Fund. Subject to Section 406 of the Indenture, the Trustee is authorized and directed to disburse funds on or after the Closing Date for the Costs of Issuance of the Bonds upon receipt of a Requisition Certificate. The Company shall retain copies of all Disbursement Requests until the date that is six years from the first date on which no Bonds are Outstanding.

(c) The Trustee may rely fully on any Disbursement Request delivered pursuant to this Section 3.3 and shall not be required to make any investigation in connection therewith.

Section 3.4 Completion of Project if Bond Proceeds Insufficient. The Company agrees to pay all Project Costs which are not, or cannot be, paid or reimbursed from the proceeds of the Bonds. The Company agrees that if, after exhaustion of the moneys in the Construction Fund established pursuant to the Indenture, the Company should pay any portion of the Project Costs, it shall not be entitled to any reimbursement therefor from the Issuer, the Trustee or from any Bondholder, nor shall it be entitled, as a consequence of such unreimbursed payment, to any abatement, postponement or diminution of the amounts payable under this Agreement.

Section 3.5 Completion. Upon completion of the Project, but not later than the end of the fifth Bond Year, the Company shall deliver to the Trustee an Officer's Certificate in the form of Exhibit "C" hereto.

Section 3.6 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 3.7 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. The Trustee is hereby directed to make payments from such Insurance Proceeds Account of the Construction Fund for such purposes or to reimburse the Company for costs paid by it in connection therewith upon receipt of a requisition signed by an Authorized Representative of the Company and approved by the Construction Consultant, in the same form as Exhibit "B" to the Indenture. Any balance of the insurance or condemnation proceeds remaining after the Project has been repaired, restored or replaced to a state substantially like that prior to the event of damage, destruction or taking, as determined by the Construction Consultant, shall, upon delivery to the Trustee of a certificate executed by the Construction Consultant to such effect, be deposited to the Debt Service Fund and applied to the redemption of the Bonds at the earliest practical date.

(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 special separate 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 the 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 3.8 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 3.9 Maintenance and Operation. The Company undertakes to cause each item of its buildings and other facilities, including the Project, to be maintained and operated so long as the operation of each such item, in the sole judgment of the Company, is economical, lawful, and feasible and in accordance with good operating practice. The Company agrees that during the term of this Agreement it will pay all costs of operating, maintaining, and repairing its buildings and other facilities, including the Project, and that the Issuer shall have no responsibility or liability whatsoever for operating, maintaining, or repairing its buildings and other facilities, including the Project. The Company agrees that it shall not enter into a contract



for the management of the Project by a third party service provider unless it receives a Favorable Opinion of Bond Counsel.

Section 3.10 No Establishment and No Impairment of Religion. The Company and the Issuer intend that the loan to the Company and all other transactions provided for in this Agreement be made in strict compliance with all applicable laws and constitutional provisions of the United States and the State. Accordingly, the Company agrees that to the full extent required from time to time by applicable laws and constitutional provisions of the United States and the State in order for the loan to the Company and all other transactions provided for in this Agreement to be made and effected in compliance with such laws and constitutional provisions: (a) no part of the Project financed in whole or in part with proceeds of the Bonds shall be used for sectarian instruction or as a place of religious worship; (b) notwithstanding the payment in full of the Loan Payments and the Bonds, and notwithstanding the termination of this Agreement, each such part of the Project will continue to be subject to the restrictions set out in clause (a) of this Section for so long as it is owned by the Company, or any voluntary grantee of the Company, provided, the continuance of such restriction is necessary to preserve the exemption from federal income taxation of interest on the Bonds under the Code. Provided, however, that to any extent that a restriction or agreement set out in this Section shall at any time not be required in order for the loan to the Company and all other transactions provided for in this Agreement to be made and effected in compliance with applicable constitutional provisions of the United States and the State, such restriction or agreement shall, to that extent and without necessary action by any party, be without any force or effect; and provided further, that in no event shall such restriction or agreement set out in this Section be more expansive than required by an applicable constitutional provision.

Section 3.11 Issuer Relieved From Responsibility With Respect to Project. The Company and the Issuer hereby expressly acknowledge and agree that the Issuer is under no responsibility to insure, maintain, operate or repair the Project or to pay taxes with respect thereto, and the Company expressly relieves the Issuer from any such responsibility.

Section 3.12 Force Majeure. If by reason of Force Majeure the Company shall be rendered unable wholly or in part to carry out its obligations under this Article (other than its obligations to pay money contained in 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 Bond Obligations and to pay any other payments required to be made by it under this Agreement at the times required. For purposes of this Section, "Force Majeure" means acts of God, strikes, lockouts or other industrial disturbances, acts of the public enemy, acts or orders of any kind of the government of the United States of America, or of any state or locality thereof, or any civil or military authority, terrorist acts, insurrections, riots, epidemics, landslides, lightning,

earthquakes, fires, hurricanes, tornadoes, storms, floods, washouts, droughts, arrests, restraining of government and people, civil disturbances, explosions, nuclear accidents, wars, breakage or accidents to machinery, transmission pipes or canals, partial or entire failure of utilities, shortages of labor, material, supplies or transportation, or any other cause not reasonably within the control of the party claiming such inability.

Section 3.13 Insurance. So long as the Bonds remain Outstanding, the Company shall at all times keep and maintain the insurance required by Section 213 of the Master Indenture.

Section 3.14 Disposition of Project. Subject to Section 5.13 hereof, the Company covenants that the Project will not be sold or otherwise disposed in a transaction resulting in the receipt by the Company of cash or other compensation, unless the Company delivers a Favorable Opinion of Bond Counsel to the Issuer 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 Series 2010A Note, 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, but subject to the limitations of Section 4.5 of this Agreement, shall pay to the Trustee for deposit in the Debt Service Fund the amount of any such deficiency below such sufficient amount.

(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 **Error! Reference source not found.** or limit the application of **Error! Reference source not found.** 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 Series 2010A Note 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 Series 2010A Note 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 Series 2010A Note, 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) perform or cause to be performed from time to time any other act as required by law, and execute or cause to be executed any and all instruments of further assurance that may be necessary for such publication, perfection, continuation and protection, including without limitation the execution of any deposit account control agreement and the delivery of legal opinions as to the perfection of any such security interests. The Company will not change or relocate its place of business (or its chief executive office if it has more than one place of business) unless it has taken all actions, and made all filings necessary to continue the effectiveness and perfection of all security interests created by the Bond Documents to which it is a party. The Trustee shall 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, on an annual basis, 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.

(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 creditor-beneficiary of this Agreement. The Issuer hereby directs the Company to make all payments (other than payments relating to any money or rights not granted to the Trustee as part of the Trust Estate pursuant to the granting clauses in the Indenture) to the Trustee instead of to the Issuer and the Company hereby agrees to do so. All such payments shall be made in lawful money of the United States of America directly to the Trustee, as assigned by the Issuer, at the location specified by the Trustee, and shall be applied as provided in Section 4.1 of this Agreement. The Company and the Issuer further acknowledge that except for the obligation of the Trustee to credit amounts paid or recovered from this Agreement or the

collateral therefor to the Issuer's debt evidenced by the Bonds and except for certain rights not granted to the Trustee as part of the Trust Estate, the Issuer has no further interest in this Agreement and the Trustee shall have the exclusive right (subject to the provisions of the Indenture) to grant consents, extensions, forgiveness, and waivers, make amendments, release collateral and otherwise deal with the Company as the sole owner of this Agreement and the Trustee exclusively may start and prosecute suit hereon or otherwise take action to recover amounts owing under this Agreement without first obtaining the consent of the Issuer or without joining the Issuer as a plaintiff.

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 Bond Obligations as provided in such Bond Documents. The Holders of the Bonds shall be entitled to rely upon the agreements and covenants in this Section regardless of the validity or enforceability of the remainder of this Agreement or any other Bond Document or agreement.

The preceding paragraph shall not be construed to release the Issuer from the performance of any of its agreements contained in this Agreement, or except to the extent provided in this Section and Section 5.1, prevent or restrict the Company from asserting any rights which it may have against the Issuer, the Trustee or any other Person under this Agreement or any of the other Bond Documents to which it is a party or under any provision of law or prevent or restrict the Company, at its own cost and expense, from prosecuting or defending any action or proceeding against or by third parties or taking any other action to secure or protect its rights in connection with the acquisition, construction, improvement, possession and use of the Project and its rights under such Bond Documents.

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.

The Company agrees to pay an amount equal to the “Company’s Portion” of the General Costs (as hereinafter defined) of the Issuer. The “Company’s Portion” shall be that portion of the General Costs obtained by multiplying the total amount of the General Costs by a fraction, the numerator of which is equal to the aggregate principal amount of Bonds issued by the Issuer on behalf of the Company which are outstanding at the time of determination and the denominator of which is equal to the total aggregate principal amount of bonds issued by the Issuer then outstanding. The annual liability of the Company for the General Costs of the Issuer shall not exceed .05% of the largest aggregate principal amount of Bonds issued on behalf of the Company Outstanding on any date during such year. “General Costs” shall mean the costs and expenses of the Issuer which are not otherwise required to be reimbursed to the Issuer pursuant to the agreement of the Company as provided in the preceding paragraph or pursuant to agreements similar to the preceding paragraph by other Persons on whose behalf bonds are issued by the Issuer.

(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 their officers, directors, employees, agents, affiliates (including without limitation, the Trustee as Paying Agent under the Indenture) or successors (collectively, the “Indemnitees”), for, and to defend and hold them harmless against, any loss, liability, claims, proceedings, suits, demands, penalties, costs and expenses, including without limitation, the costs and expenses of outside and in house counsel and experts and their staffs and all expenses of document location, duplication and shipment and of preparation to defend and defending any of the foregoing (“Losses”), that may be imposed on, incurred by or asserted against any Indemnitee in respect of (i) any loss, or damage to any property, or injury to or death of any person, asserted by or on behalf of any Person arising out of, resulting from, or in any way connected with the Project, or the conditions, occupancy, use, possession, conduct or management of, or any work done in or about the Project or from the planning, design, acquisition or construction of any Project facilities or any part thereof, (ii) the issuance of the Bonds or the Issuer’s authority therefore; (iii) the Indenture and any instrument related thereto, (iv) the Trustee’s execution, delivery and performance of the Indenture in respect of any Indemnitee except to the extent such Indemnitee’s negligence or bad faith primarily caused the Loss, and (v) compliance with or attempted compliance with or reliance on any instruction or other direction upon which the Trustee may rely under the Indenture or any instrument related thereto. The Company further agrees to indemnify the Indemnitees against any Losses as a result of (1) any untrue statement or alleged untrue statement of any material fact or the omission or alleged omission to state a material fact necessary to make the statements made 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(q). 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 which 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,

(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).

(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 expend at least 95 percent of the Net Proceeds of the Series 2010A Bonds for Capital Expenditures incurred after August 5, 1997. Accordingly, the Series 2010A Bonds are not subject to the \$150,000,000 limit on nonhospital bonds imposed by section 145(b) of the Code.

(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 [insert date] in the *Texas Register*.

(q) Definitions. The following terms have the meanings assigned to them below whenever they are used in this Agreement:

“Bond Year” means, with respect to the Series 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, within the meaning of Section 148(f)(4)(C)(iv) of the Code, which are to be used for construction expenditures (including expenditures for reconstruction and rehabilitation) with respect to property that is or will be owned by an Exempt Person.

“Costs of Issuance” means issuance costs with respect to the Series 2010A Bonds within the meaning of Section 147(g) of the Code.

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

“Expenditure Date” means, with respect to any portion of the Series 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,” within the meaning of Section 148(f) of the Code, on the Expenditure Date that falls on the six-month anniversary of the Closing Date, (ii) 45 percent of the “available construction proceeds,” within the meaning of Section 148(f) of the Code, on the Expenditure Date that falls on the one-year anniversary of the Closing Date, (iii) 75 percent of the “available construction proceeds,” within the meaning of Section 148(f) of the Code, on the Expenditure Date that falls on the 18-month anniversary of the Closing Date, and (iv) 100 percent of the “available construction proceeds,” within the meaning of Section 148(f) of the Code, on any Expenditure Date that falls on or after the two year anniversary of the Closing Date.



“Sale Proceeds” means, any amounts actually or constructively received from the sale (or other disposition) of any Series 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,” within the meaning of Section 148(f) of the Code, actually expended on and prior to such Expenditure Date; provided, however, that in the case of any Expenditure Date that falls on or after the two year anniversary of the Closing Date, “available construction proceeds,” within the meaning of Section 148(f) of the Code, actually expended shall include a reasonable retainage (not in excess of five percent of “available construction proceeds,” within the meaning of Section 148(f) of the Code) if such retainage is expended prior to the three year anniversary of the Closing Date.

“Yield” means yield as determined in accordance with Section 148(h) of the Code and the Regulations, and generally, is the yield which when used in computing the present worth of all payments of principal and interest to be paid on an obligation produces an amount equal to the Issue Price of such obligation.

To the extent that published rulings of the IRS, or amendments to the Code or the Regulations modify the covenants of the Company which are set forth in this Section 5.3 or which are necessary to preserve the excludability from gross income of interest on the Series 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 Superintendent 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. 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, 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, the Master Indenture and the Indenture.

The Company covenants that it will act and cooperate so that this Agreement, the Master Indenture, the Indenture, any financing statements, and all supplements thereto, and any other instruments as may be required from time to time to be kept, will be recorded and filed in such manner and in such places as may from time to time be required by law in order fully to preserve and protect the security of the Holders and the rights of the Trustee under the Indenture.

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.

#### 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 A and Appendix G and under the headings "THE BORROWER" and "FINANCIAL AND OPERATIONS INFORMATION." The information will include the annual financial statements of the Company. The financial statements so to be provided shall be (1) prepared in accordance with the accounting principles prescribed by the Texas State Board of Education or such other accounting principles as the Company may be required to employ from time to time pursuant to State law or regulation and (2) audited, if the Company commissions an audit and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within such period, then the Company shall provide unaudited financial statements within such six month period to 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 June 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 3.14 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 Debt Service Coverage Ratio. 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 Company as of the end of the first Fiscal Year after the date of issuance of the Bonds and thereafter until the Bonds have been paid in full. The Company's failure to achieve the required debt service coverage ratio does not constitute an Event of Default if the Company timely engages (within thirty (30) days of submittal of the certificate describing such circumstance or, if such certificate is not timely submitted, within thirty (30) days of the date such certificate was required to be submitted) an Independent Management Consultant, such consultant timely prepares (within sixty (45) days of engagement) a report (to be delivered to the Company and the Trustee) with recommendations for meeting the required debt service coverage ratio and the Company, to the extent legally permissible, implements, within thirty (30) days of receipt of such recommendation, the consultant's recommendations. Notwithstanding the preceding sentence, if the debt service coverage ratio falls below 1.0x of the Annual Debt Service Requirements of the Company, it shall constitute a default hereunder.

Section 5.10 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 College Station, Dallas, San Antonio, and Houston 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 5.11 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.

Section 5.12 Operating Reserves. The Company shall maintain an amount equal to 45 days of budgeted Expenses as of the end of each Fiscal Year of the Company, commencing as of the end of the first Fiscal Year after the date of issuance of the Series 2010A Bonds and thereafter, each Fiscal Year until the Series 2010A Bonds have been paid in full, to be tested at the end of each Fiscal Year. The Company's failure to achieve the required operating reserve level does not constitute an Event of Default if the Company timely engages (within thirty (30) days of submittal of the certificate describing such circumstance or, if such certificate is not timely submitted, within thirty (30) days of the date such certificate was required to be

submitted) an Independent Management Consultant which such consultant timely prepares (within forty-five (45) days of engagement) a report (to be delivered to the Company and the Trustee) with recommendations for meeting the required operating reserve level and the Company, to the extent legally permissible, implements, within thirty (30) days of receipt of such recommendation, the consultant's recommendations. The operating reserves shall not be funded with Bond Proceeds.

## 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) 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 payments, 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. (a) 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

[Remainder of page intentionally left blank]

COSMOS FOUNDATION, INC.

By: \_\_\_\_\_  
Superintendent

EXHIBIT A  
TO  
LOAN AGREEMENT

The Project consists of the following “educational facilities” (as defined in the Higher Education Authority Development Act):

- financing certain costs for site improvements, design, construction, renovation, and/or equipment of educational facilities, including the construction of an approximately 14,000 square foot building, all located at Harmony Science Academy—Bryan/College Station, 2031 S. Texas Ave., Bryan, Texas 77802 (Charter No. ;021-804);
- financing certain costs for site improvements, design, construction, renovation and/or equipment of educational facilities, including the construction of an approximately 42,000 square foot building, all located at the Harmony School of Nature, corner of Camp Wisdom Road and Eagle Ford Drive, Dallas, Texas 75249 (Charter No. 220-813);
- financing certain costs for site improvements, design, construction, renovation, and/or equipment of educational facilities, including the construction of an approximately 73,395 square foot building, all located at the Harmony School of Fine Arts, 9185 Kirby Dr., Houston, Texas 77054 (Charter No. 101-846);
- financing certain costs for site improvements, design, construction, renovation and/or equipment of educational facilities, including the construction of an approximately 10,000 square foot building, all located at the Harmony Science Academy—Lubbock, 1516 53<sup>rd</sup> Street, Lubbock, Texas 79412 (Charter No. 152-805);
- financing certain costs for site improvements, design, construction, renovation and/or equipment of educational facilities, including the construction of an approximately 74,700 square foot building, all located at the Harmony School of Excellence—San Antonio, Northwest corner of Montgomery Drive and Glen Mont, approximately 0.50 miles West of Farm-to-Market Road 1976, Bexar County, Texas (Charter No.015-828) ;
- financing certain costs for the acquisition of land and the design, construction, renovation, and/or equipment of educational facilities, including the construction of an approximately 67,352 square foot building, all located at the Harmony School of Science NW, 3100 North Sam Houston Parkway West, Houston, Texas 77038 (Charter No.101-858) ;
- financing certain costs for site improvements, design, construction, renovation and/or equipment of educational facilities, including the construction of an approximately 59,500 square foot building, all located at the Harmony School of Innovation, 9421 W. Sam Houston Pkwy., Houston, Texas 77099 (Charter No.101-857) ;
- financing certain costs for site improvements, design, construction and renovation and/or equipment of educational facilities, including the construction of an approximately 13,000 square foot building, all located at the Harmony School of Ingenuity, 10555 Stella Link Road, Houston, Texas 77025 (Charter No.101-857);

- financing and reimbursing certain costs for the construction, renovation and/or equipment of educational facilities, all located at the Harmony School of Political Sciences and Communication, corner of Rural Route 620 and Lake Creek Parkway, Williamson County, Texas (Charter No. 227-822);
- financing certain costs for site improvements, design, construction, renovation and/or equipment of educational facilities, including the construction of an approximately 65,000 square foot building, all located at the Harmony School of Advancement—Houston, corner of NE W. Airport Blvd. and Eldridge, Sugar Land, Texas 77478 (Charter No. 101-862);
- financing and reimbursing certain costs for the acquisition of an existing building, site improvements, design, construction, renovation, and/or equipment of educational facilities, all located at the Harmony Science Academy – Houston, 5435 S. Braeswood Blvd., Houston, Texas 77096 (Charter No. 101-846);
- financing and reimbursing certain costs for the acquisition of an existing building, site improvements, design, construction, renovation, and/or equipment of educational facilities, all located at the Harmony Science Academy – Austin, 930 E. Rundberg Lane, Austin, Texas 78753 (Charter No. 227-816);
- financing and reimbursing certain costs for the construction, renovation and/or equipment of educational facilities, all located at the Harmony School of Excellence – Austin, 2100 E. St. Elmo Rd., Austin, Texas 78744 (Charter No. 227-816);
- financing and reimbursing certain costs for the construction, renovation and/or equipment of educational facilities, all located at the Harmony Science Academy – North Austin, 1421 Wells Branch Pkwy, Suite 200, Pflugerville, Texas 78660 (Charter No. 227-816);
- financing and reimbursing certain costs for the construction, renovation and/or equipment of educational facilities, all located at the Harmony School of Innovation – Dallas, 1024 Rosemeade Pkwy, Carrollton, Texas 75007 (Charter No. 220-813);
- financing and reimbursing certain costs for the construction, renovation and/or equipment of educational facilities, all located at the Harmony School of Innovation – El Paso, 5210 Fairbanks Dr., El Paso, Texas 79924 (Charter No. 071-806);
- financing and reimbursing certain costs for the construction, renovation, and/or equipment of educational facilities, all located at the Harmony Science Academy – Dallas, 11995 Forestgate Drive, Suite 100, Dallas, Texas 75243 (Charter No. 101-846);
- financing and reimbursing certain costs for the construction, renovation, and/or equipment of educational facilities, all located at the Harmony School of Discovery – Houston (fka Harmony School of Innovation – Barker Cypress), 6270 Barker Cypress Road, Houston, Texas 77084 (a separate campus under Harmony School of Innovation - Houston, Charter No. 101-857);

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- financing certain costs for the acquisition of land and the design, construction, renovation, and/or equipment of educational facilities, including the construction of an approximately 55,000 square foot building, all located at the Harmony Science Academy – Garland, 2302 Firewheel Parkway, Garland, Texas 75040 (a new campus under Harmony Science Academy –Waco, Charter No. 161-807);
- financing and reimbursing certain costs for the construction, renovation and/or equipment of educational facilities, all located at the Harmony Science Academy – Northwest, 16200 Tomball Pkwy., Houston, Texas 77086 (Charter No. 101-846);
- financing and reimbursing certain costs for the construction, renovation and/or equipment of educational facilities, all located at the Harmony School of Excellence, 7340 N. Gessner Dr., Houston, Texas 77040 (Charter No. 101-858);
- financing and reimbursing certain costs for the construction, renovation and/or equipment of educational facilities, all located at the Harmony School of Excellence – Endeavor, 5668 West Little York Road, Houston, Texas 77091 (Charter No. 101-858);
- financing and reimbursing certain costs for the construction, renovation and/or equipment of educational facilities, all located at the Harmony School of Science – Houston, 13415 West Bellfort, Sugar Land, Texas 77478 (Charter No. 101-862);
- financing and reimbursing certain costs for the construction, renovation and/or equipment of educational facilities, all located at the Harmony School of Science – Austin, 11800 Stonehollow Dr., Austin, Texas 78758 (Charter No. 227-822);
- financing and reimbursing certain costs for the construction, renovation and/or equipment of educational facilities, all located at the Harmony Science Academy – Fort Worth, 5651 Westcreek Dr., Fort Worth, Texas 76133 (Charter No. 220-813);
- financing and reimbursing certain costs for the construction, renovation and/or equipment of educational facilities, all located at the Harmony Science Academy – Grand Prairie, 1102 NW 7<sup>th</sup> Street, Grand Prairie, Texas 75050 (Charter No. 220-813);
- financing and reimbursing certain costs for the construction, renovation and/or equipment of educational facilities, all located at the Harmony Science Academy – Euless, 701 S. Industrial Blvd., Euless, Texas 76040 (Charter No. 220-813);
- financing and reimbursing certain costs for the construction, renovation and/or equipment of educational facilities, all located at the Harmony Science Academy – El Paso, 9405 Betel Dr., El Paso, Texas 79907 (Charter No. 071-806);
- financing and reimbursing certain costs for the construction, renovation and/or equipment of educational facilities, all located at the Harmony Science Academy – San Antonio, 8505 Lakeside Parkway, San Antonio, Texas 78245 (Charter No. 015-828);
- financing and reimbursing certain costs for the construction, renovation and/or equipment of educational facilities, all located at the Harmony Science Academy – Beaumont, 4055 Calder Avenue, Beaumont, Texas 77706 (Charter No. 123-806);

- financing and reimbursing certain costs for the construction, renovation and/or equipment of educational facilities, all located at the Harmony Science Academy – Waco, 1900 North Valley Mills Drive, Waco, Texas 76710 (Charter No. 161-807);
- financing and reimbursing certain costs for the construction, renovation and/or equipment of educational facilities, all located at the Harmony Science Academy – Brownsville, 1124 Central Blvd., Brownsville, Texas 78520 (Charter No. 031-803);
- financing and reimbursing certain costs for the construction, renovation and/or equipment of educational facilities, all located at the Harmony Science Academy – Laredo, 4401 San Francisco Ave., Laredo, Texas 78041 (Charter No. 240-804);
- funding a debt service reserve fund or the purchase of a Reserve Fund Surety Policy and capitalized interest; and
- paying the costs of issuance of the Bonds.



EXHIBIT B  
[RESERVED]

EXHIBIT C  
FORM OF COMPLETION CERTIFICATE

\_\_\_\_\_, \_\_\_\_\_  
Regions Bank  
1717 St. James Place, Suite 500  
Houston, Texas 77056  
Attention: Doug Milner

Re: \$50,090,000 TEXAS PUBLIC FINANCE AUTHORITY CHARTER SCHOOL  
FINANCE CORPORATION EDUCATION REVENUE BONDS (Cosmos Foundation,  
Inc.) SERIES 2010A (the "Bonds")

Ladies and Gentlemen:

The undersigned, being the owner of the Project, as defined in that certain Loan Agreement dated as of May 1, 2010 (the "Loan Agreement") by and among the undersigned and the Issuer hereby certifies to Regions Bank, as trustee (the "Trustee") that "Completion" of the Project on the \_\_\_\_\_ Campus 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.

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COSMOS FOUNDATION, INC.

By: \_\_\_\_\_  
Authorized Representative

**APPROVED BY:**

\_\_\_\_\_  
as Construction Consultant for the  
\_\_\_\_\_ Campus

By: \_\_\_\_\_  
Authorized Representative

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**APPENDIX G**  
**CAMPUS DATA**

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**APPENDIX G**  
**CAMPUS DATA**

**TABLE 1 – RESIDENT DISTRICTS WHERE STUDENTS COME FROM BY CAMPUS**

**AUSTIN – HSA**

AUSTIN ISD  
BASTROP ISD  
BURNET CISD  
DEL VALLE ISD  
DRIPPING SPRINGS ISD  
EANES ISD  
ELGIN ISD  
GEORGETOWN ISD  
HAYS CISD  
HUTTO ISD  
LAGO VISTA ISD  
LAKE TRAVIS ISD  
LEANDER ISD  
LOCKHART ISD  
MANOR ISD  
PFLUGERVILLE ISD  
ROUND ROCK ISD  
SAN MARCOS CISD  
UNIVERSITY OF TEXAS AT AUSTIN H S

**AUSTIN – HSS**

AUSTIN ISD  
BASTROP ISD  
BURNET CISD  
DEL VALLE ISD  
DRIPPING SPRINGS ISD  
EANES ISD  
ELGIN ISD  
GEORGETOWN ISD  
HAYS CISD  
HUTTO ISD  
LAGO VISTA ISD  
LAKE TRAVIS ISD  
LEANDER ISD  
LOCKHART ISD  
MANOR ISD  
PFLUGERVILLE ISD  
ROUND ROCK ISD  
SAN MARCOS CISD  
TEXAS SCHOOL FOR THE DEAF  
TEXAS SCHOool FOR THE BLIND & VISUALLY IMPAIRED  
UNIVERSITY OF TEXAS AT AUSTIN H S

**BEAUMONT - HSA**

BEAUMONT ISD  
BRIDGE CITY ISD  
BROOKELAND ISD  
BUNA ISD  
BURKEVILLE ISD  
CHESTER ISD  
COLMESNEIL ISD  
DEWEYVILLE ISD  
EVADALE ISD

HAMSHIRE-FANNETT ISD  
HARDIN-JEFFERSON ISD  
HIGH ISLAND ISD  
JASPER ISD  
KIRBYVILLE CISD  
KOUNTZE ISD  
LITTLE CYPRESS-MAURICEVILLE CISD  
LUMBERTON ISD  
NEDERLAND ISD  
NEWTON ISD  
ORANGEFIELD ISD  
PORT ARTHUR ISD  
PORT NECHES-GROVES ISD  
SABINE PASS ISD  
SILSBEE ISD  
SPURGER ISD  
VIDOR ISD  
WARREN ISD  
WEST HARDIN COUNTY CISD  
WEST ORANGE-COVE CISD  
WOODVILLE ISD

**BROWNSVILLE - HSA**

BEAUMONT ISD  
BRIDGE CITY ISD  
BROOKELAND ISD  
BUNA ISD  
BURKEVILLE ISD  
CHESTER ISD  
COLMESNEIL ISD  
DEWEYVILLE ISD  
EVADALE ISD  
HAMSHIRE-FANNETT ISD  
HARDIN-JEFFERSON ISD  
HIGH ISLAND ISD  
JASPER ISD  
KIRBYVILLE CISD  
KOUNTZE ISD  
LITTLE CYPRESS-MAURICEVILLE CISD  
LUMBERTON ISD  
NEDERLAND ISD  
NEWTON ISD  
ORANGEFIELD ISD  
PORT ARTHUR ISD  
PORT NECHES-GROVES ISD  
SABINE PASS ISD  
SILSBEE ISD  
SPURGER ISD  
VIDOR ISD  
WARREN ISD  
WEST HARDIN COUNTY CISD  
WEST ORANGE-COVE CISD  
WOODVILLE ISD

**BRYAN/COLLEGE STATION - HSA**

ANDERSON-SHIRO CISD  
APPLE SPRINGS ISD  
BELLVILLE ISD  
BIG SANDY ISD  
BRAZOS ISD  
BREMONT ISD  
BRENHAM ISD  
BRYAN ISD

BUCKHOLTS ISD  
BUFFALO ISD  
BURTON ISD  
CALDWELL ISD  
CALVERT ISD  
CAMERON ISD  
CENTERVILLE ISD  
CENTERVILLE ISD  
COLDSRING-OAKHURST CISD  
COLLEGE STATION ISD  
CONROE ISD  
CORRIGAN-CAMDEN ISD  
CROCKETT ISD  
FRANKLIN ISD  
GAUSE ISD  
GOODRICH ISD  
GRAPELAND ISD  
GROVETON ISD  
HEARNE ISD  
HUNTSVILLE ISD  
IOLA ISD  
KENNARD ISD  
LATEXO ISD  
LEGGETT ISD  
LEON ISD  
LIVINGSTON ISD  
LOVELADY ISD  
MADISONVILLE CISD  
MAGNOLIA ISD  
MILANO ISD  
MONTGOMERY ISD  
MUMFORD ISD  
NAVASOTA ISD  
NEW CANEY ISD  
NEW WAVERLY ISD  
NORMANGEE ISD  
NORTH ZULCH ISD  
OAKWOOD ISD  
ONALASKA ISD  
RICHARDS ISD  
ROCKDALE ISD  
SEALY ISD  
SHEPHERD ISD  
SNOOK ISD  
SOMERVILLE ISD  
SPLENDORA ISD  
TRINITY ISD  
WILLIS ISD

**EL PASO - HSA**

CANUTILLO ISD  
CLINT ISD  
EL PASO ISD  
SOCORRO ISD  
YSLETA ISD

**FORT WORTH - HSA**

ARLINGTON ISD  
BIRDEVILLE ISD  
BURLESON ISD  
CARROLL ISD  
CARROLLTON-FARMERS BRANCH ISD  
CEDAR HILL ISD

COPPELL ISD  
CROWLEY ISD  
DALLAS ISD  
DESOTO ISD  
DUNCANVILLE ISD  
EAGLE MT-SAGINAW ISD  
EVERMAN ISD  
FORT WORTH ISD  
GARLAND ISD  
GRAND PRAIRIE ISD  
GRAPEVINE-COLLEYVILLE ISD  
HURST-EULESS-BEDFORD ISD  
IRVING ISD  
JOSHUA ISD  
KELLER ISD  
KENNEDEALE ISD  
LAKE WORTH ISD  
LANCASTER ISD  
LEWISVILLE ISD  
MANSFIELD ISD  
MIDLOTHIAN ISD  
NORTHWEST ISD  
PLANO ISD  
RED OAK ISD  
RICHARDSON ISD  
WHITE SETTLEMENT ISD

**HOUSTON - HSA**

ALDINE ISD  
ALIEF ISD  
ARLINGTON ISD  
ALVIN ISD  
BRAZOS ISD  
CARROLLTON-FARMERS BRANCH ISD  
CHANNELVIEW ISD  
CYPRESS-FAIRBANKS ISD  
DALLAS ISD  
FORT BEND ISD  
FORT WORTH ISD  
GARLAND ISD  
GRAND PRAIRIE ISD  
GRAPEVINE-COLLEYVILLE ISD  
HOUSTON ISD  
HUMBLE ISD  
HURST-EULESS-BEDFORD ISD  
IRVING ISD  
KATY ISD  
KLEIN ISD  
LAMAR CISD  
MESQUITE ISD  
NORTH FOREST ISD  
PASADENA ISD  
PEARLAND ISD  
RICHARDSON ISD  
SHELDON ISD  
SPRING ISD  
SPRING BRANCH ISD  
STAFFORD MSD  
TOMBALL ISD

**HOUSTON - HSE**

ALDINE ISD  
ALIEF ISD



ALVIN ISD  
BRAZOS ISD  
CHANNELVIEW ISD  
CYPRESS FAIRBANKS ISD  
FORT BEND ISD  
HOUSTON ISD  
HUMBLE ISD  
KATY ISD  
KLEIN ISD  
LAMAR CONSOLIDATED  
NORTH FOREST ISD  
PASADENA ISD  
PEARLAND ISD  
ROYAL ISD  
SHELDON ISD  
SPRING BRANCH ISD  
SPRING ISD  
STAFFORD ISD  
TOMBALL ISD  
WALLER ISD ISD

**HOUSTON - HSI**

ALDINE ISD  
ALIEF ISD  
ALVIN ISD  
CLEAR CREEK ISD  
CYPRESS-FAIRBANKS ISD  
FORT BEND ISD  
HOUSTON ISD  
KATY ISD  
LAMAR CISD  
PASADENA ISD  
PEARLAND ISD  
SPRING BRANCH ISD  
SPRING ISD  
STAFFORD MSD

**HOUSTON - HSS**

ALDINE ISD  
ALIEF ISD  
ALVIN ISD  
ANAHUAC ISD  
ANGLETON ISD  
BARBERS HILL ISD  
BRAZOSPORT ISD  
CHANNELVIEW ISD  
CLEAR CREEK ISD  
CLEVELAND ISD  
COLUMBIA-BRAZORIA ISD  
CROSBY ISD  
CYPRESS-FAIRBANKS ISD  
DAMON ISD  
DANBURY ISD  
DAYTON ISD  
DEER PARK ISD  
DEVERS ISD  
DICKINSON ISD  
EAST CHAMBERS ISD  
FORT BEND ISD  
FRIENDSWOOD ISD  
GALENA PARK ISD  
GALVESTON ISD  
GOOSE CREEK CISD

HARDIN ISD  
HEMPSTEAD ISD  
HITCHCOCK ISD  
HOUSTON ISD  
HUFFMAN ISD  
HULL-DAISETTA ISD  
HUMBLE ISD  
KATY ISD  
KENDLETON ISD  
KLEIN ISD  
LA MARQUE ISD  
LA PORTE ISD  
LAMAR CISD  
LIBERTY ISD  
NEEDVILLE ISD  
NORTH FOREST ISD  
PASADENA ISD  
PEARLAND ISD  
ROYAL ISD  
SANTA FE ISD  
SHELDON ISD  
SPRING BRANCH ISD  
SPRING ISD  
SWEENEY ISD  
TARKINGTON ISD  
TEXAS CITY ISD  
TOMBALL ISD  
WALLER ISD

**LAREDO - HSA**

BROOKS ISD  
DONNA ISD  
EDCOUCH – ELSA ISD  
EDINBURG CONS ISD  
HIDALGO ISD  
JIM HOGG COUNTY ISD  
LA JOYA ISD  
LA VILLA ISD  
LAREDO ISD  
LASARA ISD  
LYFORD ISD  
MCALLEN ISD  
MERCEDES ISD  
MISSIONS CONS ISD  
MONTE ALTO ISD  
PHARR SAN JUAN ALAMO ISD  
PROGRESO ISD  
RAYMONDVILLE ISD  
RIO GRANDE CITY ISD  
ROMA ISD  
SAN ISIDRO ISD  
SAN PERLITA ISD  
SHARYLAND ISD  
UNITED ISD  
VALLEY VIEW ISD  
WEBB CISD  
WESLACO ISD  
ZAPATA COUNTY ISD

**LUBBOCK - HSA**

ABERNATHY ISD  
ECTOR COUNTY ISD  
FRENSHIP ISD

IDALOU ISD  
LORENZO ISD  
LUBBOCK -COOPER ISD  
LUBBOCK ISD  
MIDLAND ISD  
NEW DEAL ISD  
ROOSEVELT ISD  
SHALLOWATER ISD  
SLATON ISD  
SOUTHLAND ISD

**SAN ANTONIO - HSA**

BOERNE ISD  
COMAL ISD  
NEW BRAUNFELS ISD  
SCHERTZ-CIBOLO-U CITY ISD

**WACO - HSA**

ALLEN ISD  
ANNA ISD  
ARGYLE ISD  
ARLINGTON ISD  
AUBREY ISD  
AZLE ISD  
BIRDEVILLE ISD  
BLUE RIDGE ISD  
BRUCEVILLE-EDDY ISD  
CARROLL ISD  
CARROLLTON-FARMERS BRANCH ISD  
CASTLEBERRY ISD  
CEDAR HILL ISD  
CELINA ISD  
CHINA SPRING ISD  
COMMUNITY ISD  
COPPELL ISD  
CRAWFORD ISD  
CROWLEY ISD  
DALLAS ISD  
DENTON ISD  
DESOTO ISD  
DUNCANVILLE ISD  
EAGLE MT-SAGINAW ISD  
EVERMAN ISD  
FARMERSVILLE ISD  
FORT WORTH ISD  
FRISCO ISD  
GARLAND ISD  
GRAND PRAIRIE ISD  
GRAPEVINE-COLLEYVILLE ISD  
HIGHLAND PARK ISD  
HURST-EULESS-BEDFORD ISD  
IRVING ISD  
KELLER ISD  
KENNEDEALE ISD  
KRUM ISD  
LAKE DALLAS ISD  
LAKE WORTH ISD  
LANCASTER ISD  
LEWISVILLE ISD  
LITTLE ELM ISD  
LOVEJOY ISD  
MANSFIELD ISD  
MCGREGOR ISD

MCKINNEY ISD  
 MELISSA ISD  
 MESQUITE ISD  
 MOODY ISD  
 NORTHWEST ISD  
 PILOT POINT ISD  
 PLANO ISD  
 PONDER ISD  
 PRINCETON ISD  
 PROSPER ISD  
 RICHARDSON ISD  
 SANGER ISD  
 SUNNYVALE ISD  
 WEST ISD  
 WHITE SETTLEMENT ISD  
 WYLIE ISD

**TABLE 2 – WAITING LIST FOR 2009-2010 BY CAMPUS**

<u>Campus</u>	<u># of Applicants</u>	<u>Opening for 2009-10</u>	<u>Enrollment 2009-2010</u>	<u># Students on the Waiting List</u>
Austin-HSA	379	46	303	333
Austin-HSE*	1,163	410	401	753
Austin-HSS	1,449	104	518	1,345
Austin-North	410	234	380	176
Beaumont-HSA	684	159	494	525
Brownsville-HSA	600	140	380	460
Bryan-HSA	300	78	276	222
Dallas-HSA	929	73	770	856
Dallas-HSI*	940	380	386	560
El Paso-HSA	1,059	116	683	943
El Paso-HSI*	821	418	413	403
Eules-HSA*	1,500	405	388	1,095
Fort Worth-HSA	1,495	37	617	1,458
Grand Prairie-HSA	1,315	144	482	1,171
Houston-END*	1,250	370	365	880
Houston-HSA	800	32	402	768
Houston-HSE	1,805	149	734	1,656
Houston-HSI	1,417	83	592	1,334
Houston-HSS	1,782	272	616	1,510
Houston-ING*	2,400	430	409	1,970
Houston-NW	1,155	161	591	994
Laredo-HSA	907	211	568	696
Lubbock-HSA	470	129	371	341
San Antonio-HSA	1,100	246	771	854
Waco-HSA	595	85	432	510
<b>Total</b>	<b>26,725</b>	<b>4,912</b>	<b>12,342</b>	<b>21,813</b>

\* New Campuses opened  
 2009-10 School Year

**TABLE 3 – AREA COMPETING CHARTER SCHOOLS BY CAMPUS**

**AUSTIN – HSA**

AMERICAN YOUTHWORKS CHARTER SCHOOL  
 AUSTIN CAN ACADEMY CHARTER SCHOOL  
 AUSTIN DISCOVERY SCHOOL  
 CEDARS INTERNATIONAL ACADEMY  
 EDEN PARK ACADEMY  
 FRUIT OF EXCELLENCE  
 HARMONY SCHOOL OF SCIENCE AUSTIN

KIPP AUSTIN PUBLIC SCHOOLS INC  
NYOS CHARTER SCHOOL  
SAILL  
STAR CHARTER SCHOOL  
TEXAS EMPOWERMENT ACADEMY  
TRINITY CHARTER SCHOOL  
UNIVERSITY OF TEXAS UNIVERSITY CHARTER SCHOOL  
UT ELEMENTARY CHARTER SCHOOL

**AUSTIN – HSS**

AMERICAN YOUTHWORKS CHARTER SCHOOL  
AUSTIN CAN ACADEMY CHARTER SCHOOL  
AUSTIN DISCOVERY SCHOOL  
CEDARS INTERNATIONAL ACADEMY  
EDEN PARK ACADEMY  
FRUIT OF EXCELLENCE  
HARMONY SCHOOL OF SCIENCE AUSTIN  
KIPP AUSTIN PUBLIC SCHOOLS INC  
NYOS CHARTER SCHOOL  
SAILL  
STAR CHARTER SCHOOL  
TEXAS EMPOWERMENT ACADEMY  
TRINITY CHARTER SCHOOL  
UNIVERSITY OF TEXAS UNIVERSITY CHARTER SCHOOL  
UT ELEMENTARY CHARTER SCHOOL

**BEAUMONT - HSA**

ACADEMY OF BEAUMONT  
EAGLE ACADEMY OF BEAUMONT  
EHRHART SCHOOL  
RICHARD MILBURN ACADEMY (BEAUMONT)  
TEKOA ACADEMY OF ACCELERATED STUDIES

**BROWNSVILLE - HSA**

IDEA FRONTIER COLLEGE PREPARATORY  
LUCIO MIDDLE SCHOOL  
MID VALLEY ACADEMY HIGH SCHOOL  
ONE STOP MULTISERVICE CHARTER SCHOOL  
PREMIER HIGH SCHOOL OF BROWNSVILLE  
RAUL YZAGUIRRE SCHOOL FOR SUCCESS  
SENTRY TECHNOLOGY PREP CHARTER HIGH SCHOOL  
TECHNOLOGY EDUCATION CHARTER HIGH SCHOOL

**BRYAN/COLLEGE STATION - HSA**

BRAZOS SCHOOL FOR INQUIRY & CREATIVITY  
EAGLE ACADEMY OF BRYAN  
RAVEN SCHOOL  
TEXAS SERENITY ACADEMY

**EL PASO - HSA**

BURNHAM WOOD CHARTER SCHOOL  
EL PASO ACADEMY  
EL PASO SCHOOL OF EXCELLENCE  
LA FE PREPARATORY  
PASO DEL NORTE  
RESPONSIVE EDUCATION SOLUTIONS

**FORT WORTH - HSA**

A+ ACADEMY

ACADEMY OF DALLAS  
AW BROWN-FELLOWSHIP CHARTER SCHOOL  
CHILDREN FIRST ELEMENTARY ACADEMY (THE)  
DALLAS CAN! ACADEMY LIVE OAK  
DALLAS CAN! ACADEMY OAK CLIFF  
DALLAS COUNTY JUVENILE JUSTICE CHARTER SCHOOL  
EAGLE ADVANTAGE CHARTER SCHOOL  
FAITH FAMILY ACADEMY OF OAK CLIFF  
FOCUS LEARNING ACADEMY  
FORT WORTH ACADEMY OF FINE ARTS  
GATEWAY CHARTER ACADEMY  
GOLDEN RULE CHARTER SCHOOL  
INSPIRED VISION ACADEMY I  
KIPP TRUTH ACADEMY  
LA ACADEMIA DE ESTRELLAS ELEMENTARY CS  
LIFE SCHOOL OAK CLIFF  
LINDSLEY PARK COMMUNITY SCHOOL  
NORTH HILLS SCHOOL (THE)  
NOVA ACADEMY  
PEGASUS SCHOOL OF LIBERAL ARTS AND SCIENCES  
SCHOOL OF LIBERAL ARTS AND SCIENCE  
ST ANTHONY ACADEMY  
TRINITY BASIN PREPARATORY  
UNIVERSAL ACADEMY  
WINFREE ACADEMY CHARTER SCHOOLS

**HOUSTON – HSA / HSE / HSI / HSS**

ACADEMY OF ACCELERATED LEARNING , INC.  
ACCELERATED INTERMEDIATE ACADEMY  
ALIEF MONTESSORI COMMUNITY SCHOOL  
ALPHONSO CRUTCH’S-LIFE SUPPORT CENTER  
AMERICAN ACADEMY OF EXCELLENCE CHARTER  
SCHOOL  
AMIGOS POR VIDA-FRIENDS FOR LIFE CHARTER SCHOOL  
BEATRICE MAYES INSTITUTE CHARTER SCHOOL  
BENJI’S SPECIAL EDUCATIONAL ACADEMY CHARTER  
SCHOOL  
CALVIN NELMS CHARTER SCHOOL  
CHILDREN FIRST ACADEMY OF HOUSTON  
CROSSROADS COMMUNITY ED CRT  
DRAW ACADEMY  
GEORGE I. SANCHEZ CHARTER  
GIRLS &BOYS PREP ACADEMY  
GULF SHORES ACADEMY  
HARRIS COUNTY JUVENILE JUSTICE CHARTER SCHOOL  
HEIGHTS CHARTER SCHOOL  
HOUSTON ALTERNATIVE PREPARATORY CHARTER  
SCHOOL  
HOUSTON CAN ACADEMY CHARTER SCHOOL  
HOUSTON GATEWAY ACADEMY, INC.  
HOUSTON HEIGHTS LEARNING ACADEMY INC.  
IMPACT CHARTER  
JAMIE’S HOUSE CHARTER SCHOOL  
JESSE JACKSON ACADEMY  
JUAN B GALAVIZ CHARTER SCHOOL  
KIPP, INC. CHARTER  
LA AMISTAD LOVE & LEARNING ACADEMY  
MEDICAL CENTER CHARTER SCHOOL  
MEYERPARK ELEMENTARY  
NORTH HOUSTON H S FOR BUSINESS  
NORTHWEST MATHEMATICS SCIENCE & LANGUAGE  
ACADEMY  
NORTHWEST PREPARATORY  
RAUL YZAGUIRRE SCHOOL FOR SUCCESS

RICHARD MILBURN ACADEMY (SUBURBAN HOUSTON)  
RIPLEY HOUSE CHARTER SCHOOL  
SER-NINOS CHARTER SCHOOL  
SOUTHWEST SCHOOL  
SHEKINAH RADIANCE ACADEMY  
STEPPING STONES CHARTER EL  
TWO DIMENSIONS PREPARATORY ACADEMY  
TEXAS SERENITY ACADEMY  
UNIVERSITY CHARTER SCHOOL  
UNIVERSITY OF HOUSTON CHARTER SCHOOL  
UNIVERSITY OF TEXAS UNIVERSITY CHARTER SCHOOL  
VARNETT CHARTER SCHOOL  
WA-SET PREPARATORY ACADEMY  
YES COLLEGE PREPARATORY SCHOOL  
ZOE LEARNING ACADEMY

**LAREDO - HSA**

IDEA PUBLIC SCHOOLS  
ONE STOP MULTISERVICE CHARTER SCHOOL  
MID-VALLEY ACADEMY  
SOUTH TEXAS EDUCATIONAL TECHNOLOGIES INC  
VANGUARD ACADEMY

**LUBBOCK - HSA**

MIDLAND ACADEMY CHARTER SCHOOL  
RICHARD MILBURN ACADEMY  
RICHARD MILBURN ACADEMY (MIDLAND)  
RICHARD MILBURN ACADEMY (ODESSA)  
RISE ACADEMY  
SOUTH PLAINS ACADEMY

**SAN ANTONIO - HSA**

BROOKS ACADEMY OF SCIENCE AND ENGINEERING  
CITY CENTER HEALTH CAREERS  
HENRY FORD ACAD ALAMEDA SCHOOL FOR  
ART&DESIGN  
MEADOWLAND CHARTER SCHOOL  
MID-VALLEY ACADEMY  
PASO DEL NORTE  
SCHOOL OF SCIENCE AND TECHNOLOGY  
SCHOOL OF SCIENCE AND TECHNOLOGY DISCOVERY  
SOUTH PLAINS

**WACO - HSA**

A+ ACADEMY  
ACADEMY OF DALLAS  
ADVANTAGE ACADEMY  
ALPHA CHARTER SCHOOL  
ARLINGTON CLASSICS ACADEMY  
AW BROWN-FELLOWSHIP CS  
CHAPEL HILL ACADEMY  
CHILDREN FIRST ACADEMY OF DALLAS  
DALLAS CAN ACADEMY CHARTER  
DALLAS COMMUNITY CS  
E. FORT WORTH MONTESSORI ACADEMY  
EDUCATION CENTER INTERNATIONAL ACAD  
EVOLUTION ACADEMY CS  
FAITH FAMILY ACAD OF OAK CLIFF  
FOCUS LEARNING ACADEMY  
FORT WORTH ACAD OF FINE ARTS  
FORT WORTH CAN ACADEMY

GATEWAY CHARTER ACADEMY  
 GOLDEN RULE CHARTER SCHOOL  
 HAMPTON PREPARATORY  
 HONORS ACADEMY  
 INSPIRED VISION ACADEMY  
 JEAN MASSIEU ACADEMY  
 KIPP TRUTH ACADEMY  
 LA ACADEMIA DE ESTRELLAS  
 LIFE SCHOOL  
 MANARA ACADEMY  
 METRO ACADEMY OF MATH&SCI  
 NORTH HILLS PREPARATORY SCHOOL  
 NOVA ACADEMY  
 NOVA ACADEMY (SOUTHEAST)  
 PEAK PREPARATORY SCHOOL  
 PEGASUS SCHOOL OF LIBERAL ARTS AND SCI.  
 RECONCILIATION ACADEMY  
 RICHARD MILBURN ACADEMY (FORT WORTH)  
 RICHLAND COLLEGIATE HS  
 ST ANTHONY SCHOOL  
 SUMMIT INTERNATIONAL PREPARATORY  
 TEXAS ELEMENTARY SCHOOL OF THE ARTS  
 THE LEGENDS ACADEMY  
 THE SCHOOL OF LIBERAL ARTS AND SCIENCE  
 THERESA B LEE ACADEMY  
 TREETOPS SCHOOL INTERNATIONAL  
 TRINITY BASIN PREPARATORY  
 UNIVERSAL ACADEMY  
 WESTLAKE ACADEMY CHARTER SCHOOL  
 WILLIAMS PREPARATORY  
 WINFREE ACADEMY CHARTER SCHOOLS

**TABLE 4 – FACULTY**

The Borrower currently employs a total of 834 teachers, and a total of 1,144 staff members. Approximately 58% of the current teachers hold their state certification, and on average, have five years of teaching experience. Below are tables showing teacher experience for the fiscal years 2004-2005 through 2009-2010, as available, for the campuses of the Borrower.

	<u>AUSTIN – HSA</u> (opened in 2002)					
	<u>2009-2010</u>	<u>2008-2009</u>	<u>2007-2008</u>	<u>2006-2007</u>	<u>2005-2006</u>	<u>2004-2005</u>
Beginning Teacher	36.67 %	32.00 %	30.90 %	32.14 %	N/A	N/A
1-5 Years Experience	63.33	64.00	64.70	64.29	N/A	N/A
6-10 Years Experience	0	4.00	0	3.57	N/A	N/A
Greater than 10 Years Experience	0	0	4.40	0.00	N/A	N/A

	<u>AUSTIN – HSA N. AUSTIN</u> (opened in 2008)	
	<u>2009-2010</u>	<u>2008-2009</u>
Beginning Teacher	49.86 %	50.00 %
1-5 Years Experience	46.43	43.75
6-10 Years Experience	10.71	6.25
Greater than 10 Years Experience	0	0

	<u>AUSTIN – HSE AUSTIN</u> (opened in 2009)
	<u>2009-2010</u>
Beginning Teacher	65.63 %
1-5 Years Experience	21.88
6-10 Years Experience	9.38
Greater than 10 Years Experience	3.13



**AUSTIN – HSS**

(opened in 2006)

	<u>2009-2010</u>	<u>2008-2009</u>	<u>2007-2008</u>	<u>2006-2007</u>
Beginning Teacher	0.16 %	36.11 %	72.90 %	73.08 %
1-5 Years Experience	0.82	52.77	27.10	26.92
6-10 Years Experience	0.03	8.33	0	0
Greater than 10 Years Experience	0.00	2.77	0	0

**BEAUMONT – HSA**

(opened in 2007)

	<u>2009-2010</u>	<u>2008-2009</u>	<u>2007-2008</u>
Beginning Teacher	0.29 %	35.48 %	64.00 %
1-5 Years Experience	0.62	64.51	36.00
6-10 Years Experience	0.09	0	0
Greater than 10 Years Experience	0	0	0

**BROWNSVILLE – HSA**

(opened in 2009)

	<u>2009-2010</u>
Beginning Teacher	43.33%
1-5 Years Experience	46.67%
6-10 Years Experience	6.67%
Greater than 10 Years Experience	3.33%

**BRYAN/COLLEGE STATION – HSA**

(opened in 2007)

	<u>2009-2010</u>	<u>2008-2009</u>	<u>2007-2008</u>
Beginning Teacher	0.33 %	42.30 %	80.77 %
1-5 Years Experience	0.57	50.00	15.38
6-10 Years Experience	0.05	4.00	0
Greater than 10 Years Experience	0.05	4.00	3.85

**EL PASO – HSA**

(opened in 2006)

	<u>2009-2010</u>	<u>2008-2009</u>	<u>2007-2008</u>	<u>2006-2007</u>
Beginning Teacher	11.76 %	24.30 %	45.00 %	47.62 %
1-5 Years Experience	78.43	97.56	49.50	47.62
6-10 Years Experience	3.92	0	0	0
Greater than 10 Years Experience	5.88	0	5.50	4.76

**EL PASO – HSI EL PASO**

(opened in 2009)

	<u>2009-2010</u>
Beginning Teacher	52.00 %
1-5 Years Experience	36.00
6-10 Years Experience	8.00
Greater than 10 Years Experience	4.00

**FORT WORTH/DALLAS – HSA**

(opened in 2006)

	<u>2009-2010</u>	<u>2008-2009</u>	<u>2007-2008</u>	<u>2006-2007</u>
Beginning Teacher	25.53 %	34.88 %	64.70 %	65.00 %
1-5 Years Experience	65.96	55.81	28.90	30.00
6-10 Years Experience	6.35	4.65	6.40	5.00
Greater than 10 Years Experience	2.13	2.30	0	0

**FORTH WORTH/DALLAS – HSA GRAND PRAIRIE**

(opened in 2008)

	<u>2009-2010</u>	<u>2008-2009</u>
Beginning Teacher	38.89 %	0 %
1-5 Years Experience	61.11	100
6-10 Years Experience	0	0
Greater than 10 Years Experience	0	0

**FORTH WORTH/DALLAS – HSA EULESS**

(opened in 2009)

	<u>2009-2010</u>
Beginning Teacher	42.86 %
1-5 Years Experience	39.29
6-10 Years Experience	10.71
Greater than 10 Years Experience	14.29

**FORTH WORTH/DALLAS – HSI DALLAS**

(opened in 2009)

	<u>2009-2010</u>
Beginning Teacher	34.62 %
1-5 Years Experience	50.00
6-10 Years Experience	15.38
Greater than 10 Years Experience	0

**HOUSTON – HSA**

(opened in 2000)

	<u>2009-2010</u>	<u>2008-2009</u>	<u>2007-2008</u>	<u>2006-2007</u>	<u>2005-2006</u>	<u>2004-2005</u>
Beginning Teacher	21.88 %	16.00 %	46.50 %	55.88 %	36.40 %	36.00 %
1-5 Years Experience	75.00	83.00	43.80	38.12	56.20	54.00
6-10 Years Experience	3.13	0	4.80	3.00	4.00	9.90
Greater than 10 Years Experience	0	0	4.80	3.00	3.50	0

**HOUSTON – HSA DALLAS**

(opened in 2004)

	<u>2009-2010</u>	<u>2008-2009</u>	<u>2007-2008</u>	<u>2006-2007</u>	<u>2005-2006</u>	<u>2004-2005</u>
Beginning Teacher	25.00 %	30.00 %	50.50 %	51.79 %	30.20 %	33.10 %
1-5 Years Experience	60.29	62.00	41.30	41.07	51.60	59.60
6-10 Years Experience	14.71	6.00	6.20	5.36	13.60	7.30
Greater than 10 Years Experience		2.00	2.10	1.79	4.50	0

**HOUSTON – HSA NORTHWEST**

(opened in 2007)

	<u>2009-2010</u>	<u>2008-2009</u>	<u>2007-2008</u>
Beginning Teacher	34.15 %	38.70 %	
1-5 Years Experience	60.98	58.06	
6-10 Years Experience	2.44	6.45	
Greater than 10 Years Experience	2.44	0	

**HOUSTON – HSI**

(opened in 2005)

	<u>2009-2010</u>	<u>2008-2009</u>	<u>2007-2008</u>	<u>2006-2007</u>	<u>2005-2006</u>
Beginning Teacher	21.43 %	58.53 %	60.50 %	50.00 %	0 %
1-5 Years Experience	76.19	36.58	39.50	46.88	100
6-10 Years Experience	2.38	48.78	0	0	0
Greater than 10 Years Experience	0	0	0	3.13	0

**HOUSTON – HSI INGENUITY**

(opened in 2009)

	<u>2009-2010</u>
Beginning Teacher	51.61%
1-5 Years Experience	41.94%
6-10 Years Experience	3.23%
Greater than 10 Years Experience	3.23%

**HOUSTON – HSE**

(opened in 2006)

	<u>2009-2010</u>	<u>2008-2009</u>	<u>2007-2008</u>	<u>2006-2007</u>
Beginning Teacher	24.53 %	34.14 %	31.70 %	40.00 %
1-5 Years Experience	67.92	58.53	59.80	52.00
6-10 Years Experience	8.33	7.30	8.40	8.00
Greater than 10 Years Experience	1.89	3.00	0	0

**HOUSTON – HSE ENDEAVOR**

(opened in 2009)

	<u>2009-2010</u>
Beginning Teacher	43.33%
1-5 Years Experience	46.67%
6-10 Years Experience	6.67%
Greater than 10 Years Experience	3.33%

**HOUSTON – HSS HOUSTON**

(opened in 2008)

	<u>2009-2010</u>	<u>2008-2009</u>
Beginning Teacher	39.53 %	37.03 %
1-5 Years Experience	55.81	55.55
6-10 Years Experience	4.65	7.40
Greater than 10 Years Experience	0	0

**LAREDEO – HSA**

(opened in 2008)

	<u>2009-2010</u>	<u>2008-2009</u>
Beginning Teacher	34.88 %	64.00 %
1-5 Years Experience	58.14	32.00
6-10 Years Experience	2.33	4.00
Greater than 10 Years Experience	4.65	0

**LUBBOCK – HSA**

(opened in 2007)

	<u>2009-2010</u>	<u>2008-2009</u>	<u>2007-2008</u>
Beginning Teacher	15.63 %	30.76 %	62.96 %
1-5 Years Experience	71.88	61.53	25.93
6-10 Years Experience	6.25	3.84	7.41
Greater than 10 Years Experience	6.25	3.84	3.70

**SAN ANTONIO – HSA**

(opened in 2006)

	<u>2009-2010</u>	<u>2008-2009</u>	<u>2007-2008</u>	<u>2006-2007</u>
Beginning Teacher	26.42 %	24.32 %	83.30 %	80.00 %
1-5 Years Experience	60.38	64.86	15.10	12.00
6-10 Years Experience	5.66	8.10	0.60	4.00
Greater than 10 Years Experience	7.55	2.70	0.90	4.00

**WACO – HSA**  
(opened in 2007)

	<u>2009-2010</u>	<u>2008-2009</u>	<u>2007-2008</u>
Beginning Teacher	34.38 %	35.71 %	41.67 %
1-5 Years Experience	59.38	46.42	45.83
6-10 Years Experience	3.13	14.28	8.33
Greater than 10 Years Experience	3.13	3.57	4.17

**TABLE 5 – TOTAL ENROLLMENT (BY GRADE)**

**YEAR – 2009-2010**

<b>Campus</b>	<b>Enrollment</b>	<b>Disadv</b>	<b>PK</b>	<b>KG</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>
Austin-HSA	303	212								64	50	39	61	35	31	23
Austin-HSS	518	97		48	55	47	55	69	65	79	69	31				
Austin-North	380	131						56	56	71	66	46	54	31		
Beaumont	494	198		50	47	51	47	46	55	52	47	49	24	26		
Brownsville	380	252		22	23	27	49	52	49	67	50	29	12			
Bryan	276	155		27	26	27	29	28	31	30	24	29	11	7	7	
Dallas-HSA	770	582		41	52	42	50	48	54	93	103	95	78	52	38	24
El Paso-HSA	683	438		29	35	48	54	58	54	109	81	96	68	32	19	
Fort Worth	617	179		50	26	25	25	52	77	75	101	78	45	41	22	
Grand Prairie	482	278		35	41	67	54	47	47	83	53	33	22			
Houston-HSA	402	316								57	74	70	64	68	31	38
Houston-HSE	734	129		46	46	51	50	73	80	110	91	73	70	23	21	
Houston-HSI	592	378		51	51	42	54	77	74	77	75	69	22			
Houston-HSS	616	264		46	29	54	57	57	78	95	102	57	41			
Houston-NW	591	172		56	58	56	50	55	71	79	55	41	31	39		
Laredo	568	321		42	45	49	53	67	74	95	67	41	35			
Lubbock	371	269		45	38	42	38	37	46	41	35	18	21	10		
San Antonio-HSA	771	400		49	45	47	62	70	76	109	103	84	72	36	18	
Waco	432	289		29	25	46	53	38	59	50	57	41	17	17		
Austin-HSE	401	218		46	51	42	44	51	54	53	40	20				
Carrollton	386	181		50	45	52	48	48	48	48	25	22				
Houston-ING	409	284		50	48	49	54	49	50	57	26	26				
Eules	388	191		53	49	43	47	49	53	46	22	26				
Houston-END	365	266		48	44	41	42	47	47	49	24	23				
El Paso-HSI	<u>413</u>	<u>234</u>	<u>—</u>	<u>26</u>	<u>45</u>	<u>30</u>	<u>47</u>	<u>51</u>	<u>51</u>	<u>78</u>	<u>44</u>	<u>41</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<b>12,342</b>	<b>6,434</b>	<b>0</b>	<b>939</b>	<b>924</b>	<b>978</b>	<b>1,062</b>	<b>1,225</b>	<b>1,349</b>	<b>1,767</b>	<b>1,484</b>	<b>1,177</b>	<b>748</b>	<b>417</b>	<b>187</b>	<b>85</b>

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**YEAR – 2008-2009**

<u>Campus</u>	<u>Enrollment</u>	<u>Disadv</u>	<u>PK</u>	<u>KG</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>
Austin-HSA	263	166								47	37	56	37	40	31	15
Austin-HSS	431	114		51	51	53	49	62	47	65	32	21				
Austin-North	155	45								50	45	35	25			
Beaumont	348	50		25	23	35	34	38	49	44	44	22	34			
Brownsville	276	181		19	26	26	44	40	41	39	24	17				
Bryan	242	94		22	23	22	24	30	27	29	29	18	10	8		
Dallas-HSA	696	462	27	45	40	51	40	49	47	89	96	71	58	40	29	14
El Paso-HSA	617	336		27	50	60	55	52	53	82	104	78	38	18		
Fort Worth	569	120		22	24	23	52	73	65	97	88	55	44	26		
Grand Prairie	359	186		25	46	51	42	47	43	48	32	25				
Houston-HSA	373	233								63	64	68	69	30	42	37
Houston-HSE	612	74		26	47	48	50	76	76	97	81	68	25	18		
Houston-HSI	462	281	16	47	36	45	69	66	56	48	63	16				
Houston-HSS	332	0	18	24	26	25	26	50	47	49	43	24				
Houston-NW	487	19		42	48	56	49	48	55	68	48	37	36			
Laredo	344	0		22	21	43	40	55	43	49	34	37				
Lubbock	295	109		26	36	36	35	40	36	31	27	17	11			
San Antonio-HSA	593	177		26	40	47	47	53	72	99	75	77	40	17		
Waco	<u>373</u>	<u>261</u>	<u>—</u>	<u>20</u>	<u>42</u>	<u>41</u>	<u>47</u>	<u>48</u>	<u>42</u>	<u>53</u>	<u>38</u>	<u>24</u>	<u>18</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<b>7,827</b>	<b>2,908</b>	<b>61</b>	<b>469</b>	<b>579</b>	<b>662</b>	<b>703</b>	<b>827</b>	<b>799</b>	<b>1,147</b>	<b>1,004</b>	<b>766</b>	<b>445</b>	<b>197</b>	<b>102</b>	<b>66</b>

**YEAR – 2007-2008**

<u>Campus</u>	<u>Enrollment</u>	<u>Disadv</u>	<u>PK</u>	<u>KG</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>
Austin-HSA	281									71	66	48	42	31	15	8
Austin-HSS	272			46	49	50	45	43	39							
Austin-North																
Beaumont	209			30	22	20	21	27	19	33	14	23				
Brownsville																
Bryan	195			19	19	26	24	27	23	26	18	13				
Dallas-HSA	670		50	39	44	45	46	39	50	69	89	88	52	44	15	
El Paso-HSA	455			44	48	48	42	45	48	71	61	26	22			
Fort Worth	406			26	24	50	49	26	53	69	50	39	20			
Grand Prairie																
Houston-HSA	330									47	70	63	33	48	39	30
Houston-HSE	445			24	44	43	63	65	46	65	61	20	14			
Houston-HSI	430		40	25	48	57	61	67	69	63						
Houston-HSS																
Houston-NW	223			15	37	38	21	31	22	29	18	12				
Laredo																
Lubbock	164			13	30	30	19	22	18	13	11	8				
San Antonio-HSA	366			19	39	33	43	51	41	55	51	22	12			
Waco	<u>208</u>	<u>—</u>	<u>—</u>	<u>24</u>	<u>27</u>	<u>31</u>	<u>33</u>	<u>30</u>	<u>15</u>	<u>24</u>	<u>16</u>	<u>8</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<b>4,654</b>		<b>90</b>	<b>324</b>	<b>431</b>	<b>471</b>	<b>467</b>	<b>473</b>	<b>443</b>	<b>635</b>	<b>525</b>	<b>370</b>	<b>195</b>	<b>123</b>	<b>69</b>	<b>38</b>

**YEAR – 2006-2007**

<u>Campus</u>	<u>Enrollment</u>	<u>Disadv</u>	<u>PK</u>	<u>KG</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>
Austin-HSA	255									70	68	53	29	14	9	12
Austin-HSS	243			42	43	44	37	40	37							
Austin-North																
Beaumont																
Brownsville																
Bryan																
Dallas-HSA	719		42	44	47	45	36	60	60	66	118	95	71	35		
El Paso-HSA	313			26	40	27	37	38	48	50	23	24				
Fort Worth	357			27	25	48	27	50	67	44	49	20				
Grand Prairie																
Houston-HSA	371									80	72	55	56	46	35	27
Houston-HSE	303			23	25	40	44	38	45	59	17	12				
Houston-HSI	349			40	50	57	71	69	62							
Houston-HSS																
Houston-NW																
Laredo																
Lubbock																
San Antonio-HSA	270			32	22	26	31	35	31	62	21	10				
Waco	—			—	—	—	—	—	—	—	—	—	—	—	—	—
	<b>3,180</b>		<b>42</b>	<b>234</b>	<b>252</b>	<b>287</b>	<b>283</b>	<b>330</b>	<b>350</b>	<b>431</b>	<b>468</b>	<b>269</b>	<b>156</b>	<b>95</b>	<b>44</b>	<b>39</b>

**TABLE 6 –TOTAL STUDENT DEMOGRAPHICS**

**YEAR 2009-2010**

<u>Campus</u>	<u>White</u>	<u>African American</u>	<u>Hispanic</u>	<u>Asian</u>	<u>Native American</u>
Austin-HSA	10.89%	5.61%	75.91%	7.26%	0.00%
Austin-HSS	26.25%	14.48%	30.12%	29.15%	0.00%
Austin-North	31.84%	17.37%	38.68%	12.11%	0.00%
Beaumont	42.11%	27.33%	18.22%	11.54%	0.81%
Brownsville	4.21%	2.11%	87.11%	6.58%	0.00%
Bryan	48.91%	13.04%	35.14%	1.81%	1.09%
Dallas-HSA	12.47%	12.21%	71.82%	3.25%	0.26%
El Paso-HSA	6.59%	2.78%	89.75%	0.44%	0.44%
Fort Worth-HSA	44.57%	13.45%	27.71%	13.13%	0.65%
Grand Prairie	17.43%	18.67%	54.98%	7.26%	1.66%
Houston-HSA	13.68%	30.10%	41.79%	14.43%	0.00%
Houston-HSE	28.61%	8.04%	20.57%	42.37%	0.41%
Houston-HSI	19.93%	15.20%	35.47%	29.22%	0.17%
Houston-HSS	11.69%	15.42%	16.88%	55.03%	0.49%
Houston-NW	21.32%	20.81%	23.52%	33.67%	0.68%
Laredo	5.99%	0.00%	89.79%	4.23%	0.00%
Lubbock	23.18%	18.87%	57.41%	0.54%	0.00%
San Antonio-HSA	19.84%	7.65%	66.67%	5.45%	0.39%
Waco	35.42%	7.64%	53.47%	2.31%	1.16%
Austin-HSE	17.96%	7.23%	71.82%	2.99%	0.00%
Carrollton	15.54%	11.40%	36.79%	35.23%	0.52%
Houston-ING	3.67%	46.21%	45.48%	4.65%	0.00%
Euless	30.15%	24.48%	18.81%	26.29%	0.26%
Houston-END	10.96%	28.22%	51.51%	9.04%	0.27%
El Paso-HSI	14.04%	7.26%	76.27%	1.45%	0.97%

**YEAR 2008-2009**

<u>Campus</u>	<u>White</u>	<u>African American</u>	<u>Hispanic</u>	<u>Asian</u>	<u>Native American</u>
Austin-HSA	14.83%	7.98%	68.06%	7.98%	0.00%
Austin-HSS	21.35%	13.92%	27.61%	15.78%	0.00%
Austin-North	30.97%	16.13%	41.94%	3.87%	0.00%
Beaumont	54.02%	20.40%	16.38%	5.46%	0.00%
Brownsville	7.25%	0.00%	83.33%	4.35%	0.00%
Bryan	58.26%	11.16%	21.90%	3.31%	1.24%
Dallas-HSA	12.93%	10.34%	72.27%	4.17%	0.29%
El Paso-HSA	5.51%	2.59%	79.58%	0.81%	0.16%
Fort Worth-HSA	39.37%	13.36%	27.42%	14.06%	0.70%
Grand Prairie	0.84%	0.00%	0.28%	0.00%	0.00%
Houston-HSA	15.28%	17.69%	34.58%	16.35%	0.27%
Houston-HSE	29.25%	5.88%	19.77%	36.44%	0.49%
Houston-HSI	21.00%	13.20%	27.92%	22.29%	0.22%
Houston-HSS	0.90%	0.00%	0.30%	0.60%	0.00%
Houston-NW	24.23%	12.11%	13.96%	24.44%	0.00%
Laredo	2.33%	0.58%	81.69%	3.49%	0.00%
Lubbock	22.71%	14.24%	52.54%	0.34%	0.00%
San Antonio-HSA	11.64%	3.04%	41.48%	5.06%	0.00%
Waco	39.41%	8.04%	48.79%	1.61%	1.61%

**YEAR 2007-2008**

<u>Campus</u>	<u>White</u>	<u>African American</u>	<u>Hispanic</u>	<u>Asian</u>	<u>Native American</u>
Austin-HSA	22.00%	10.20%	61.40%	6.40%	0.00%
Austin-HSS	30.50%	18.30%	33.30%	17.50%	0.40%
Beaumont	51.20%	29.70%	17.20%	1.90%	0.00%
Bryan	61.50%	9.20%	27.20%	1.50%	0.50%
Dallas-HSA	11.50%	10.90%	73.60%	3.70%	0.30%
El Paso-HSA	6.10%	3.30%	88.10%	2.10%	0.30%
Fort Worth-HSA	36.40%	23.30%	28.70%	11.20%	0.30%
Houston-HSA	20.70%	30.50%	37.40%	11.40%	0.00%
Houston-HSE	36.30%	7.00%	27.10%	28.70%	1.00%
Houston-HSI	20.20%	17.00%	37.70%	24.80%	0.30%
Lubbock	26.80%	14.00%	58.50%	0.06%	0.00%
San Antonio-HSA	17.30%	5.00%	76.10%	1.30%	0.30%
Waco	36.10%	13.50%	47.10%	1.90%	1.40%

**YEAR 2006-2007**

<u>Campus</u>	<u>White</u>	<u>African American</u>	<u>Hispanic</u>	<u>Asian</u>	<u>Native American</u>
Austin-HSA	28.00%	9.00%	60.00%	3.00%	0.00%
Austin-HSS	26.00%	17.00%	36.00%	21.00%	0.00%
Dallas-HSA	11.00%	14.00%	69.00%	5.60%	0.40%
El Paso-HSA	9.00%	4.00%	85.00%	2.00%	0.00%
Fort Worth-HSA	36.00%	21.00%	29.00%	13.70%	0.30%
Houston-HSA	22.00%	31.00%	37.00%	10.00%	0.00%
Houston-HSE	43.00%	8.00%	25.00%	23.00%	1.00%
Houston-HSI	22.00%	18.00%	37.00%	23.00%	0.00%
San Antonio-HSA	10.00%	5.00%	76.00%	8.60%	0.40%

**TABLE 7 – ACCOUNTABILITY RATING OF SCHOOLS**

Rating 2005-2009					
Campus	2005	2006	2007	2008	2009
HSE-HOUSTON	EXEMPLARY	N/A	EXEMPLARY	EXEMPLARY	EXEMPLARY
HSA-HOUSTON	EXEMPLARY	EXEMPLARY	RECOGNIZED	RECOGNIZED	EXEMPLARY
HSA-HOUSTON NW	N/A	N/A	N/A	RECOGNIZED	EXEMPLARY
HSA-SAN ANTONIO	N/A	N/A	EXEMPLARY	EXEMPLARY	RECOGNIZED
HSI-HOUSTON	N/A	ACA. ACCEPTABLE	RECOGNIZED	EXEMPLARY	EXEMPLARY
HSA-COLLEGE STATION	N/A	N/A	N/A	RECOGNIZED	RECOGNIZED
HSS-AUSTIN	N/A	N/A	RECOGNIZED	EXEMPLARY	EXEMPLARY
HSA-FW	N/A	N/A	EXEMPLARY	EXEMPLARY	EXEMPLARY
HSA-WACO	N/A	N/A	N/A	RECOGNIZED	RECOGNIZED
HSA-DALLAS	N/A	EXEMPLARY	ACA. ACCEPTABLE	RECOGNIZED	EXEMPLARY
HSA-LUB	N/A	N/A	N/A	RECOGNIZED	EXEMPLARY
HSA-AUSTIN	RECOGNIZED	RECOGNIZED	RECOGNIZED	EXEMPLARY	RECOGNIZED
HSA-BEAUMONT	N/A	N/A	N/A	RECOGNIZED	ACA. ACCEPTABLE
HSA-EL PASO	N/A	N/A	RECOGNIZED	EXEMPLARY	RECOGNIZED
HSA-BROWNSWILLE	N/A	N/A	N/A	N/A	EXEMPLARY
HSA-GRAND PRAIRIE	N/A	N/A	N/A	N/A	EXEMPLARY
HSA-NORTH AUSTIN	N/A	N/A	N/A	N/A	RECOGNIZED
HSA-LAREDO	N/A	N/A	N/A	N/A	ACA. ACCEPTABLE
HSS-HOUSTON	N/A	N/A	N/A	N/A	EXEMPLARY
HARMONY SCHOOL OF INGENUITY-HOUSTON	N/A	N/A	N/A	N/A	N/A
HARMONY SCHOOL OF ENDEAVOR-HOUSTON	N/A	N/A	N/A	N/A	N/A
HARMONY SCIENCE ACADEMY-EULESS	N/A	N/A	N/A	N/A	N/A
HARMONY SCHOOL OF INNOVATION-DALLAS	N/A	N/A	N/A	N/A	N/A
HARMONY SCHOOL OF INNOVATION-EL PASO	N/A	N/A	N/A	N/A	N/A
HARMONY SCHOOL OF INNOVATION-EL PASO	N/A	N/A	N/A	N/A	N/A



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