THE DELIVERY OF THE SERIES 2009A BONDS IS SUBJECT TO THE OPINION OF VINSON & ELKINS L.L.P., BOND COUNSEL, TO THE EFFECT THAT INTEREST ON THE SERIES 2009A BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW AND IS NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX IMPOSED ON INDIVIDUALS. INTEREST ON THE SERIES 2009B BONDS IS NOT EXEMPT FROM FEDERAL INCOME TAX. SEE “TAX MATTERS” HEREIN FOR A DISCUSSION OF BOND COUNSEL’S OPINION, INCLUDING A DESCRIPTION OF ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS AND OTHER FEDERAL TAX CONSEQUENCES.

NEW ISSUES - Book-Entry-Only

RATING: Standard and Poor's Rating Group: “BBB-”

See “RATING” herein.

THE BORROWER HAS DESIGNATED THE BONDS AS QUALIFIED TAX-EXEMPT OBLIGATIONS. SEE “TAX MATTERS – QUALIFIED TAX-EXEMPT OBLIGATIONS.”

$25,200,000 CLIFTON HIGHER EDUCATION FINANCE CORPORATION
(Tejano Center for Community Concerns, Inc. - Raul Yzaguirre School for Success Project)
$24,480,000 Education Revenue and Refunding Bonds, Series 2009A

and

$720,000 Taxable Education Revenue Bonds, Series 2009B

Interest Accrues From February 15, 2009

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

Interest on the $24,480,000 Clifton Higher Education Finance Corporation Education Revenue and Refunding Bonds (Tejano Center for Community Concerns, Inc. - Raul Yzaguirre School for Success Project, Series 2009A (the “Series 2009A Bonds”), and $720,000 Clifton Higher Education Finance Corporation Taxable Education Charter School Revenue Bonds (Tejano Center for Community Concerns, Inc. - Raul Yzaguirre School for Success Project, Series 2009B (the “Series 2009B Bonds”) (together, the “Bonds”) accrues from February 15, 2009 (the “Dated Date”), and is payable August 15, 2009, and each February 15 and August 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 Wells Fargo Bank, National Association, Houston, Texas (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 2009A Bonds are subject to optional and mandatory redemption prior to maturity, as described herein. The 2009B Bonds are subject to mandatory, but not optional, redemption prior to maturity, as described herein. See “THE BONDS – Redemption Provisions.”

The Bonds are being issued by, and are special and limited obligations of, the Clifton Higher Education Finance Corporation (the “Issuer”), and the proceeds thereof will be loaned to the Tejano Center for Community Concerns, Inc. (the “Borrower”), which operates an open enrollment charter school under the laws of the State of Texas (the “State”) known as the Raul Yzaguirre School for Success (the “School”). The proceeds of the Bonds are being loaned to the Borrower for the purposes of (i) financing and refinancing the costs of land acquisition and acquiring, constructing, equipping, and renovating certain “educational facilities” (as that term is defined in Chapter 53, Texas Education Code, as amended) and facilities incidental, subordinate, or related thereto or appropriate in connection therewith for the Borrower’s campuses located in Houston and Brownsville, Texas (together, the “Campuses”), (ii) funding a debt service reserve fund, (iii) paying capitalized interest, and (iv) paying the costs of issuing the Bonds. Proceeds of the Series 2009A Bonds will also be used to refund certain of the Borrower’s outstanding obligations. See “PLAN OF FINANCING.”

The Bonds are limited obligations of the Issuer, payable solely from revenues received by the Issuer pursuant to a Loan Agreement dated as of February 1, 2009 (the “Loan Agreement”), between the Issuer and the Borrower, as amended from time to time, and taxable and tax-exempt promissory notes (the “Master Notes”) to be issued under the Master Trust Indenture and Security Agreement, dated as of February 1, 2009, as supplemented by the Supplemental Master Trust Indenture No. 1, dated as of February 1, 2009 (together, the “Master Trust Indenture”), both between the Borrower and Wells Fargo Bank, National Association, Houston, Texas, as master trustee (the “Master Trustee”), and delivered to the Issuer pursuant to the Loan Agreement, and, in certain circumstances, out of amounts secured by the exercise of remedies provided in the Master Notes, the Loan Agreement and the Trust Indenture and Security Agreement, dated as of February 1, 2009 (the “Bond Indenture”), between the Issuer and the Trustee. The Borrower will execute a Deed of Trust and Security Agreement, dated as of February 1, 2009, encumbering the Campuses in favor of the Master Trustee for the benefit of the holders of the Master Notes.


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

The Bonds are offered by the Underwriter, subject to prior sale, when, as, and if issued by the Issuer and accepted by the Underwriter, subject, among other things, to the approval of the initial Bonds by the Attorney General of Texas and the approval of certain legal matters by Vinson & Elkins L.L.P., Houston, Texas, Bond Counsel. Certain other matters will be passed upon for the Underwriter by Andrews Kurth LLP, Austin, Texas. Delivery of the Bonds is expected on or about March 17, 2009.

PIPER JAFFRAY & CO.
MATURITY SCHEDULE

$24,480,000 Education Revenue and Refunding Bonds, Series 2009A (a)

$1,695,000 7.750% Term Bonds due February 15, 2018, Yield 8.000% (c) CUSIP 187145 AA5 (d)
$6,470,000 8.750% Term Bonds due February 15, 2028, (a)(b) Yield 9.000% (c) CUSIP 187145 AB3 (d)
$16,315,000 9.000% Term Bonds due February 15, 2038, (a)(b) Yield 9.250% (c) CUSIP 187145 AC1 (d)

$720,000 Taxable Education Revenue Bonds, Series 2009B (e)

<table>
<thead>
<tr>
<th>Maturity (February 15)</th>
<th>Principal Amount</th>
<th>Coupon</th>
<th>Yield (c)</th>
<th>CUSIP (d)</th>
</tr>
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<tbody>
<tr>
<td>2011</td>
<td>$155,000</td>
<td>6.500%</td>
<td>7.000%</td>
<td>187145 AD9</td>
</tr>
<tr>
<td>2012</td>
<td>170,000</td>
<td>7.000</td>
<td>7.500</td>
<td>187145 AE7</td>
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<tr>
<td>2013</td>
<td>185,000</td>
<td>7.500</td>
<td>8.000</td>
<td>187145 AF4</td>
</tr>
<tr>
<td>2014</td>
<td>210,000</td>
<td>8.000</td>
<td>8.500</td>
<td>187145 AG2</td>
</tr>
</tbody>
</table>

(Interest to accrue from February 15, 2009)

(a) The Series 2009A Bonds maturing on or after February 15, 2028, are subject to optional redemption prior to scheduled maturity, in whole or in part, on February 15, 2018, and on any date thereafter at par plus accrued interest. See “THE BONDS - Redemption Provisions.”

(b) The Series 2009A Bonds are subject to mandatory sinking fund redemption as described herein. See “THE BONDS - Mandatory Sinking Fund Redemption.”

(c) The initial yields at which the Bonds are priced are established by and are the sole responsibility of the Underwriter and may be changed at any time at the discretion of the Underwriter.

(d) CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the Issuer nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

(e) The Series 2009B Bonds are not subject to optional redemption prior to maturity.
USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman, or other person has been authorized by the Issuer or the Underwriter 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 Underwriter.

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 L.L.P., 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 Underwriter. In accordance with its responsibilities under the federal securities laws, the Underwriter has reviewed the information in this Official Statement, but does 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 Bond 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 Wells Fargo Bank, National Association, Houston, Texas, concerning the Master Trustee and the Trustee, Wells Fargo Bank, National Association, Houston, Texas, has no responsibility for any information in this Official Statement. Wells Fargo Bank, National Association, 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 nor the Underwriter makes any representation as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use in this Official Statement.

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

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

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**Raul Yzaguirre School for Success**  
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**Wells Nelson & Associates**  
17480 Dallas Parkway, Suite 240  
Dallas, Texas  75287

Steve Perry  
Telephone: 972.523.3913  
Fax: 972.818.8101
SYNOPSIS

The Bonds are being issued pursuant to a Trust Indenture and Security Agreement, dated as of February 1, 2009 (the “Indenture”), by and between the Issuer and Wells Fargo Bank, National Association, Houston, Texas, as trustee (the “Trustee”), and a resolution of the Issuer (the “Resolution”). The proceeds from the sale thereof will be loaned to the Tejano Center for Community Concerns, Inc. (the “Borrower”), which operates an open enrollment charter school under the laws of the State of Texas known as the Raul Yzaguirre School for Success (the “School”). See “THE BORROWER” for more detailed information about the Borrower. The proceeds of the Bonds are being loaned to the Borrower for the purposes of (i) financing and refinancing the costs of land acquisition and acquiring, constructing, equipping, and renovating certain “educational facilities” (as that term is defined in Chapter 53, Texas Education Code, as amended) and facilities incidental, subordinate, or related thereto or appropriate in connection therewith for the Borrower’s campuses located in Houston and Brownsville, Texas, (ii) funding a debt service reserve fund, (iii) paying capitalized interest, and (iv) paying the costs of issuing the Bonds. Proceeds of the Series 2009A Bonds will also be used to refund certain of the Borrower’s outstanding obligations. See “PLAN OF FINANCING.”

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 February 1, 2009 (the “Loan Agreement”), between the Borrower and the Issuer, as amended from time to time, and the Taxable and Tax-Exempt Promissory Notes (the “Master Notes”) to be issued under the Master Trust Indenture and Security Agreement, dated as of February 1, 2009, as supplemented by the Supplemental Master Trust Indenture No. 1, dated as of February 1, 2009 (together, the “Master Trust Indenture”), between the Borrower and Wells Fargo Bank, National Association, Houston, Texas, 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 Bond Indenture (except the Rebate Fund), and in certain events out of amounts secured through the exercise of the remedies provided in the Bond Indenture, the Loan Agreement, and the Master Notes upon occurrence of an Event of Default (as defined in the Bond Indenture). The Borrower will execute a Deed of Trust and Security Agreement, dated as of February 1, 2009, encumbering the Campuses in favor of the Master Trustee for the benefit of the holders of the Master Notes (the “Deed of Trust”). The Bonds shall never be payable out of any funds of the Issuer except such revenues and amounts.

The Borrower operates two open-enrollment charter schools in Houston and Brownsville, Texas (the “Campuses”). The Houston campus provides education to Pre-kindergarten through 12th grade students and the Brownsville campus provides education to Pre-Kindergarten through 6th grade students, all as authorized by Chapter 12, Subchapter D, Texas Education Code, as amended. As of September 1, 2008, the Borrower employs 64 teachers and 24 teachers aides and total enrollment is 943. The Project will consist of approximately $15,600,000 of improvements at the Houston Campus. See APPENDIX H for detailed information about the Campuses.

The Borrower primarily serves Houston’s Greater East End, with some neighborhoods extending beyond the immediate East End area. Selected demographics for the service area include: a population totaling nearly 145,000 persons (based on Census 2000 data which is the most recent available data); a median household income that is 72% of the City’s median income of $36,616, and 43% of the area’s median income of $61,000; and 30.9% of the population living below poverty level, nearly twice the number reported citywide. Raul Yzaguirre School for Success currently serves 950 students on two campuses, with 650 pupils enrolled in one of three Houston academies (Primary, Junior and College Preparatory), and 300 attending classes at the Brownsville primary academy. Ninety-five percent of the students enrolled are on the free or reduced lunch program and 98% of the students are economically disadvantaged.

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

<table>
<thead>
<tr>
<th>SOURCES</th>
<th>Series 2009A Bonds</th>
<th>Series 2009B Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Par Amount</td>
<td>$24,480,000.00</td>
<td>$720,000.00</td>
</tr>
<tr>
<td>Plus: Accrued Interest</td>
<td>192,518.89</td>
<td>4,680.00</td>
</tr>
<tr>
<td>Less: Original Issue Discount</td>
<td>($84,644.75)</td>
<td>($10,828.55)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$24,087,874.14</td>
<td>$713,851.45</td>
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</tbody>
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<table>
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<tr>
<th>USES</th>
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<tbody>
<tr>
<td>Escrow Fund</td>
<td>$2,439,359.52</td>
</tr>
<tr>
<td>Project Fund</td>
<td>16,456,048.84</td>
</tr>
<tr>
<td>Loan Repayments</td>
<td>1,084,614.16</td>
</tr>
<tr>
<td>Debt Service Reserve Fund*</td>
<td>2,124,606.26</td>
</tr>
<tr>
<td>Capitalized Interest</td>
<td>1,312,819.37</td>
</tr>
<tr>
<td>Costs of Issuance</td>
<td>—</td>
</tr>
<tr>
<td>Underwriter’s Discount</td>
<td>477,907.11</td>
</tr>
<tr>
<td>Accrued Interest to Debt Service Fund</td>
<td>192,518.89</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$24,087,874.14</td>
</tr>
</tbody>
</table>

* An additional $291,012.00 will be transferred to the Debt Service Reserve Fund from the debt service reserve fund for the Refunded Bonds to satisfy the Debt Service Reserve Fund Requirement for the Bonds.

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 February 15, 2009 (the “Dated Date”), and will be calculated on the basis of a 360-day year of twelve 30-day months. Interest is payable on August 15, 2009, and on each February 15 and August 15 thereafter until the earlier of maturity or redemption.
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OFFICIAL STATEMENT

CLIFTON HIGHER EDUCATION FINANCE CORPORATION
(Tejano Center for Community Concerns, Inc. - Raul Yzaguirre School for Success Project)

$24,480,000 Education Revenue and Refunding Bonds, Series 2009A
and
$720,000 Taxable Education Revenue Bonds, Series 2009B

This Official Statement provides certain information in connection with the issuance by the Clifton Higher Education Finance Corporation (the “Issuer”) of its Education Revenue Bonds (Tejano Center for Community Concerns, Inc. - Raul Yzaguirre School for Success Project) consisting of $24,480,000 Education Revenue and Refunding Bonds, Series 2009A (the “Series 2009A Bonds”) and $720,000 Taxable Education Revenue Bonds, Series 2009B (the “Series 2009B Bonds”) (the Series 2009A Bonds and the Series 2009B Bonds, collectively, the “Bonds”).

The Bonds are being issued pursuant to a Trust Indenture and Security Agreement, dated as of February 1, 2009 (the “Indenture”), by and between the Issuer and Wells Fargo Bank, National Association, Houston, Texas, as trustee (the “Trustee”), and a resolution of the Issuer (the “Resolution”). The proceeds from the sale thereof will be loaned by the Issuer to the Tejano Center for Community Concerns, Inc. (the “Borrower”), which operates an open enrollment charter school under the laws of the State of Texas known as the Raul Yzaguirre School for Success (the “School”). The proceeds of the Bonds are being loaned to the Borrower for the purposes of (i) financing and refinancing the costs of land acquisition and acquiring, constructing, equipping, and renovating certain “educational facilities” (as that term is defined in Chapter 53, Texas Education Code, as amended) and facilities incidental, subordinate, or related thereto or appropriate in connection therewith for the Borrower’s campuses located in Houston and Brownsville, Texas (the “Campuses”), (ii) funding a debt service reserve fund, (iii) paying capitalized interest, and (iv) paying the costs of issuing the Bonds. Proceeds of the Series 2009A Bonds will also be used to refund certain of the Borrower’s outstanding obligations. See “PLAN OF FINANCING.”

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 February 1, 2009 (the “Loan Agreement”), between the Borrower and the Issuer, as amended from time to time, and the Taxable and Tax-Exempt Promissory Notes (the “Master Notes”) to be issued under the Master Trust Indenture and Security Agreement, dated as of February 1, 2009, as supplemented by the Supplemental Master Trust Indenture No. 1, dated as of February 1, 2009 (together, the “Master Trust Indenture”), between the Borrower and Wells Fargo Bank, National Association, Houston, Texas, 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 Bond Indenture (except the Rebate Fund), and in certain events out of amounts secured through the exercise of the remedies provided in the Bond Indenture, the Loan Agreement, and the Master Notes upon occurrence of an Event of Default (as defined in the Bond Indenture). The Borrower will execute a Deed of Trust and Security Agreement, dated as of February 1, 2009, encumbering the Campuses in favor of the Master Trustee for the benefit of the holders of the Master Notes (the “Deed of Trust”). 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 Bond Indenture, the Master Trust Indenture, the Resolution, the Bonds, the Loan Agreement, the Master Notes, the Deed of Trust, the Issuer, the Borrower, and the system of charter schools under Texas law. All descriptions of documents contained herein are only summaries, 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 Bond Indenture, the Master Trust Indenture, the Loan Agreement, the Deed of Trust, the Resolution, and the Master Notes, as executed, are available from Vinson & Elkins L.L.P., 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 Master Trust Indenture, the Bond 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 an open enrollment charter school with campuses in Houston and Brownsville, Texas, under Chapter 12, Texas Education Code, as amended, known as the Raul Yzaguirre School for Success (the “School”). 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 purposes of (i) financing and refinancing the costs of land acquisition and acquiring, constructing, equipping, and renovating certain “educational facilities” (as that term is defined in Chapter 53, Texas Education Code, as amended) and facilities incidental, subordinate, or related thereto or appropriate in connection therewith for the Borrower’s campuses located in Houston and Brownsville, Texas (the “Campuses”), (ii) funding a debt service reserve fund, (iii) paying capitalized interest, and (iv) paying the costs of issuing the Bonds. Proceeds of the Series 2009A Bonds will also be used to refund certain of the Borrower’s outstanding obligations.

The Facilities and the Project

The Borrower operates an open enrollment charter school with campuses in Houston and Brownsville, Texas. The Houston campus provides education to Pre-kindergarten through 12th grade students and the Brownsville campus provides education to Pre-Kindergarten through 6th grade students, all as authorized by Chapter 12, Subchapter D, Texas Education Code, as amended. See APPENDIX H for detailed information about the Campuses.

Following is a description of the “Project” to be financed with proceeds of the Bonds:

- refunding of approximately $2,500,000 of Danbury Higher Education Authority, Inc. Tax-Exempt Education Revenue Bonds, Series 2000A (Tejano Center for Community Concerns, Inc. – Raul Yzaguirre School for Success) (the “Refunded Bonds”) (see “— Refunding” below);
- refinancing of two loans from Wells Fargo Bank, National Association in the aggregate original principal amount of $936,967, the proceeds of which were used for the acquisition of land for and site improvements to the Brownsville campus;
- refinancing of a loan and two recoverable grants in the approximate original aggregate principal amount of $550,000 from Local Initiatives Support Corporation (“LISC”), the proceeds of which were used to pay for the expansion of the Houston Campus, including the construction and equipping of approximately 244,000 square feet of space for administrative offices, a gymnasium and parking and green spaces;
- financing of improvements to the Houston Campus as follows: renovation and equipment of approximately 60,000 square feet of space in the main administration building and junior high school building, construction and equipment of approximately 131,000 square feet of new classroom space for primary school, junior high-school and college preparatory classes, a gymnasium and a parking garage, and demolition and removal of approximately 22,000 square feet of temporary classrooms and converted single-family residential units currently used for classrooms and offices to provide site improvements and additional greenspace;
- funding a debt service reserve fund or obtaining a TCEP Guarantee;
- paying capitalized interest on the Bonds; and
- paying the costs of issuance of the Bonds.

The new money proceeds of the Bonds are expected to be applied approximately as follows:

<table>
<thead>
<tr>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>$16,456,048.84</td>
<td>Houston Campus Improvements</td>
</tr>
<tr>
<td>739,176.65</td>
<td>Brownsville Campus Bank Loan Pay-off (Wells Fargo Bank)</td>
</tr>
<tr>
<td>345,437.51</td>
<td>Repayment of Loan and Recoverable Grants from LISC</td>
</tr>
<tr>
<td>$17,540,663.00</td>
<td>Total Project Cost</td>
</tr>
</tbody>
</table>
Refunding

A portion of the Series 2009A Bonds are being issued for the purpose of refunding all of the Refunded Bonds. The Refunded Bonds and interest due thereon are to be paid on their maturity dates or call dates, as the case may be, from funds to be deposited with Wells Fargo Bank, National Association, Houston, Texas (the “Escrow Agent”), to the escrow fund (the “Escrow Fund”) created under the escrow agreement relating to the Refunded Bonds to be entered into by the Issuer and the Escrow Agent (the “Escrow Agreement”).

The Resolution provides that from the proceeds of the sale of the 2009A Bonds, the Issuer will deposit with the Escrow Agent the amounts necessary to accomplish the defeasance and final payment of the Refunded Bonds at maturity or redemption, as the case may be. Such funds will be held by the Escrow Agent in the Escrow Fund and will be used to purchase a portfolio of obligations authorized under Texas Law. The Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds.

The Borrower has covenanted to make timely deposits into the Escrow Fund in the amounts required to pay the principal of and interest on the Refunded Bonds should, for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund be insufficient to make such payments.

Grant Thornton LLP will verify at the time of delivery of the Bonds to the Underwriter that funds initially placed in the Escrow Fund will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS.”

In the opinion of Bond Counsel, by making the escrow deposit required by the Resolution and the Escrow Agreement, the Issuer will have made firm banking and financial arrangements for the discharge and final payment and/or defeasance of the Refunded Bonds pursuant to the provisions of Chapter 1207, Texas Government Code, as amended. Thereafter, the Refunded Bonds will be deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor pursuant to the Escrow Agreement.

Sources and Uses of Funds

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

**Sources**

<table>
<thead>
<tr>
<th>SERIES 2009A BONDS</th>
<th>SERIES 2009B BONDS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Par Amount</strong></td>
<td>$24,480,000.00</td>
</tr>
<tr>
<td><strong>Plus: Accrued Interest</strong></td>
<td>192,518.89</td>
</tr>
<tr>
<td><strong>Less: Original Issue Discount</strong></td>
<td>(584,644.75)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$24,087,874.14</td>
</tr>
</tbody>
</table>

**Uses**

| **Escrow Fund** | $2,439,359.52 | $ — |
| **Project Fund** | 16,456,048.84 | — |
| **Loan Repayments** | 1,084,614.16 | — |
| **Debt Service Reserve Fund** | 2,124,606.26 | 70,175.49 |
| **Capitalized Interest** | 1,312,819.37 | — |
| **Costs of Issuance** | — | 639,122.45 |
| **Underwriter’s Discount** | 477,907.11 | 189,892.90 |
| **Accrued Interest to Debt Service Fund** | 192,518.89 | 4,553.51 |
| **TOTAL** | $24,087,874.14 | $713,851.45 |

*An additional $291,012.00 will be transferred to the Debt Service Reserve Fund from the debt service reserve fund for the Refunded Bonds to satisfy the Debt Service Reserve Fund Requirement for the Bonds.*
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 February 15, 2009 (the “Dated Date”), and will be calculated on the basis of a 360-day year of twelve 30-day months. Interest is payable on August 15, 2009, and on each February 15 and August 15 thereafter until the earlier of maturity or redemption.

The Bonds will be initially issued in book-entry only form, as discussed under “BOOK-ENTRY ONLY SYSTEM” herein, but may be subsequently issued in fully registered form only, without coupons, and in any case, will be issued in 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 the close of business on the last business day of the month preceding 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 Depository Trust Company (“DTC”) as described under “BOOK-ENTRY ONLY SYSTEM.”

Mandatory Sinking Fund Redemption

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

**Series 2009A Bonds Maturing February 15, 2018**

<table>
<thead>
<tr>
<th>Principal Amount</th>
<th>Redemption Date</th>
<th>Redemption Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 65,000</td>
<td>02/15/2011</td>
<td>100%</td>
</tr>
<tr>
<td>80,000</td>
<td>02/15/2012</td>
<td>100</td>
</tr>
<tr>
<td>95,000</td>
<td>02/15/2013</td>
<td>100</td>
</tr>
<tr>
<td>125,000</td>
<td>02/15/2014</td>
<td>100</td>
</tr>
<tr>
<td>300,000</td>
<td>02/15/2015</td>
<td>100</td>
</tr>
<tr>
<td>315,000</td>
<td>02/15/2016</td>
<td>100</td>
</tr>
<tr>
<td>345,000</td>
<td>02/15/2017</td>
<td>100</td>
</tr>
<tr>
<td>370,000</td>
<td>02/15/2018</td>
<td>100</td>
</tr>
</tbody>
</table>

**Series 2009A Bonds Maturing February 15, 2028**

<table>
<thead>
<tr>
<th>Principal Amount</th>
<th>Redemption Date</th>
<th>Redemption Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>$405,000</td>
<td>02/15/2019</td>
<td>100%</td>
</tr>
<tr>
<td>440,000</td>
<td>02/15/2020</td>
<td>100</td>
</tr>
<tr>
<td>495,000</td>
<td>02/15/2021</td>
<td>100</td>
</tr>
<tr>
<td>545,000</td>
<td>02/15/2022</td>
<td>100</td>
</tr>
<tr>
<td>595,000</td>
<td>02/15/2023</td>
<td>100</td>
</tr>
<tr>
<td>645,000</td>
<td>02/15/2024</td>
<td>100</td>
</tr>
<tr>
<td>690,000</td>
<td>02/15/2025</td>
<td>100</td>
</tr>
<tr>
<td>810,000</td>
<td>02/15/2026</td>
<td>100</td>
</tr>
<tr>
<td>880,000</td>
<td>02/15/2027</td>
<td>100</td>
</tr>
<tr>
<td>965,000</td>
<td>02/15/2028</td>
<td>100</td>
</tr>
</tbody>
</table>
### Series 2009A Bonds Maturing February 15, 2038

<table>
<thead>
<tr>
<th>Principal Amount</th>
<th>Redemption Date</th>
<th>Redemption Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,055,000</td>
<td>02/15/2029</td>
<td>100%</td>
</tr>
<tr>
<td>1,150,000</td>
<td>02/15/2030</td>
<td>100%</td>
</tr>
<tr>
<td>1,260,000</td>
<td>02/15/2031</td>
<td>100%</td>
</tr>
<tr>
<td>1,380,000</td>
<td>02/15/2032</td>
<td>100%</td>
</tr>
<tr>
<td>1,510,000</td>
<td>02/15/2033</td>
<td>100%</td>
</tr>
<tr>
<td>1,650,000</td>
<td>02/15/2034</td>
<td>100%</td>
</tr>
<tr>
<td>1,805,000</td>
<td>02/15/2035</td>
<td>100%</td>
</tr>
<tr>
<td>1,975,000</td>
<td>02/15/2036</td>
<td>100%</td>
</tr>
<tr>
<td>2,165,000</td>
<td>02/15/2037</td>
<td>100%</td>
</tr>
<tr>
<td>2,365,000</td>
<td>02/15/2038</td>
<td>100%</td>
</tr>
</tbody>
</table>

### Redemption Provisions

**Optional Redemption.** The Series 2009A Bonds maturing on or after February 15, 2028, are subject to optional redemption prior to scheduled maturity, in whole or in part, on February 15, 2018, and on any date thereafter, at the option of the Borrower at a redemption price of par, plus accrued interest to the date of redemption. The Series 2009B Bonds are not subject to optional redemption prior to maturity.

**Mandatory Redemption Upon Determination of Taxability.** The Series 2009A Bonds will be redeemed in whole prior to maturity on a date selected by the Borrower which is not more than 120 days following the occurrence of a Determination of Taxability at a redemption price equal to 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 a deposit of amounts transferred from the Construction Fund to the Series 2009 Debt Service Fund as excess proceeds upon completion of the Project. Bonds redeemed as described in this paragraph will be redeemed within 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 (and if the redemption date is other than an Interest Payment Date, interest shall be calculated on the basis of a 360-day year).

**Extraordinary Optional Redemption.** The Bonds are subject to extraordinary redemption, at the option of the Issuer upon the request of a Borrower Representative, at a redemption price of par plus interest accrued thereon to the redemption date, without premium, on any date, in the event the Project is damaged, destroyed, or condemned or threatened to be condemned, (i) in whole, if, in accordance with the terms of the Loan 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 Series 2009 Debt Service Fund which, together with an amount required to be paid by the Borrower pursuant to the Loan Agreement, will be sufficient to pay the Bonds in full, or (ii) in part, after reconstruction, repair, or replacement of the Project in accordance with the terms of the Loan Agreement, from excess insurance or condemnation proceeds transferred from the Construction Fund to the Series 2009 Debt Service Fund for such purpose.

**Redemption in Part.** If less than all of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed will be redeemed by the Trustee in accordance with the written direction of the Borrower; 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 held in 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 therefor, in exchange for the unredeemed portion of the principal amount of such Bond so surrendered, a Bond of the same Stated Maturity and bearing interest at the same rate.

**Notice of Redemption.** At least 30 days prior to the date fixed for any redemption of the Bonds, 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 principal amount of the Bonds being redeemed, premium, if any, and interest accrued thereon. 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 Bond 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.

Additional Debt

Subject to certain conditions provided in the Master Trust Indenture described below, the Borrower has reserved the right to issue additional Debt (as defined in the Master Trust Indenture) which is secured under the Master Trust Indenture on an equal basis with the Bonds. The Borrower anticipates the issuance of approximately $12,000,000 of such additional Debt within the next five years. Assuming that no Event of Default under the Master Trust Indenture has occurred or will result from the issuance of any additional Debt, and satisfaction of the applicable requirements of Section 202 of the Master Trust Indenture, such additional Debt may be issued if the following conditions are met:

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

2. 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) Delivery of an Officer’s Certificate stating that, for either the Borrower’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) Delivery of a written report of an Independent Management Consultant selected by the Borrower and approved by each Bond Insurer setting forth projections which indicate that the estimated Available Revenues are equal to at least 1.10 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 Management 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. In lieu of the requirements described in clause (3) above, the Borrower may deliver an Officer’s Certificate stating that, based on the audited results of the operations for the most recently completed Fiscal Year, the Available Revenues equal at least 1.10 times Maximum Annual Debt Service on all Debt then Outstanding as well as the additional Debt;
For the purposes of calculating Maximum Annual Debt Service in clauses (3) and (4) above, the principal and interest payable upon final maturity for any outstanding Debt for which a reserve fund has been established shall be reduced by the amounts held in such reserve fund(s);

(6) 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;

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

(8) The Rating Agencies then rating any Notes shall provide a rating of the additional Debt that is at or above the then current ratings on the Notes. The Borrower has covenanted that, so long as any Notes are outstanding it will maintain a rating on the Notes by S&P, Moody’s Investor Services, Inc. or Fitch Inc.

If additional Debt is being issued for the purpose of refunding any Outstanding Debt, the report required by clause (3) above 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.

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 last 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.

The Borrower reserves the right to issue and incur Short-Term Debt.

The Borrower also reserves the right to issue and incur additional parity Debt in an amount not to exceed $100,000 for the expansion or relocation of any Participating Campus; provided further, that clauses (3) and (4) above shall not apply to such additional Debt.

The Borrower reserves the right to incur indebtedness subordinate to the Master Trust Indenture. Such subordinate debt may be secured by a subordinate lien on all or any portion of the Trust Estate.

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.

The Bonds shall not be considered additional Debt and are not subject to the provisions described in Section 212 of the Master Indenture.

Except for the parity additional Debt and any subordinate Debt authorized by Section 212 of the Master Trust Indenture, no other additional Debt shall be issued by the Borrower for activities under its Charter, whether or not issued under the Master Trust Indenture, without the prior written consent of each Bond Insurer.

For additional information, see “RISK FACTORS – Risk of Additional Debt” and “APPENDIX D – Substantially Final Forms of the Master Trust Indenture and the Supplemental Master Trust Indenture No. 1.”
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 Security certificate will be issued for each maturity of the Securities, each in the aggregate principal amount of such maturity, 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 and www.dtc.org.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written 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 or 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 disbursement of such payments to the Beneficial Owners will be the responsibility
of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 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.

SECURITY AND SOURCE OF PAYMENT

Security for the Bonds

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

Pursuant to the Bond Indenture, the Issuer grants to the Trustee a security interest in the following:

i. All right, title, and interest of the Issuer in and to the Loan Agreement, including all amounts payable thereunder, including but not limited to Loan Payments, the Master Notes, any and all security heretofore or hereafter granted or held for the payment thereof, including the Deed of Trust, 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, except amounts agreed to be paid by the Borrower to the Issuer pursuant to Sections 4.7 and 5.1 of the Loan Agreement (the “Issuer’s Unassigned Rights”);

ii. All right, title, and interest of the Issuer in and to all money and investments from time to time held for the funds and accounts established by or under the Bond Indenture (except monies held in the Rebate Fund);

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 thereof by the Issuer or by anyone on its behalf, which subjection to the lien and security interest thereof 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; and

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

The foregoing is collectively referred to as the “Trust Estate.”

The Master Notes

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

The Master Trust Indenture

The Master Notes issued by the Borrower to the Trustee evidencing the obligation of the Borrower to make the payments required under the Loan Agreement are duly authorized promissory notes of the Borrower issued pursuant to and secured by the Master Trust Indenture. Under the Master Trust 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 Trust Indenture, subject to certain limitations relating to fraudulent conveyance, insolvency, and other considerations, and has granted a security interest in its Adjusted Revenues (as defined in the Master Trust Indenture) to the Master Trustee, which Adjusted Revenues are pledged to the payment of the Notes issued under the Master Trust Indenture, including the Master Notes. The Borrower has also granted a lien on certain real and personal property for the benefit of the Master Trustee. See APPENDIX D – Substantially Final Forms of the Master Trust Indenture and the Supplemental Master Trust Indenture No. 1 and APPENDIX G – Substantially Final Form of the Deed of Trust.

Revenue Fund

As security for the repayment of the Master Notes and the performance by the Borrower of its other obligations under the Bond Documents (as defined in the Bond Indenture), the Borrower will covenant and agree in the Master Trust Indenture that, if an Event of Default under the Master Trust 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 the Adjusted Revenues for deposit into the Revenue Fund held by the Master Trustee. The Borrower authorizes and directs the Master Trustee to invest and disburse such amounts and proceeds in accordance with the Master Trust Indenture.
The Master Trustee is required to immediately transfer funds on deposit in the Revenue Fund in accordance with the Master Trust Indenture. To the extent funds in the Revenue Fund are transferred by the Master Trustee in accordance with the requirements of the Master Trust Indenture and are sufficient for such purposes, the transfer and application of such funds for the purposes described in the Master Trust 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 Bond Indenture, the Borrower shall make the related Loan Payments from funds other than the Adjusted Revenues, if any.

The Master Trust 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:

i. to the Master Trustee any fees or expenses which are then due and payable;

ii. 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 or interest on the Master Notes an amount equal to all defaulted principal of (or premium, if any) and interest on such Master Note;

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

iv. a transfer to the Principal Account of the amount necessary to accumulate in equal monthly installments the principal of the Master Notes maturing or subject to mandatory sinking fund redemption on the next Interest Payment Date taking into account with respect to each such payment (i) any other money actually available in the Principal Account for such purpose and (ii) any credit against amounts due on each Interest Payment Date granted pursuant to other provisions of 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 such Interest Payment Date. There shall be paid from the Principal Account equally and ratably to the Holder of each instrument evidencing a Master Note the amount of principal payments due on each Master Note, whether at maturity or earlier mandatory redemption (other than by reason of acceleration of maturity or other demand for payment), as such principal becomes due;

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

vi. 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 day following the end of the month in which all Events of Default under the Master Trust Indenture have been cured or waived, will be paid to the Borrower upon Request for deposit in a deposit account of the Borrower subject to a Deposit Account Control Agreement which may be used for any lawful purpose.

Upon satisfaction of the applicable requirements of Section 212 of the Master Trust 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 1.10 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 Project being financed. For all requirements relating to the issuance of additional Debt see Section 212 of APPENDIX D – Substantially Final Forms of the Master Trust Indenture and Supplemental Master Trust Indenture No. 1.

The Borrower anticipates the issuance of approximately $12,000,000 of additional Debt within the next five years. Such additional Debt will be subject to the additional Debt requirements of Section 212 of the Master Trust Indenture as described in the preceding paragraph and in “THE BONDS – Additional Debt.”

The Indenture

Under the Bond 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 the Trust Estate. See APPENDIX E – Substantially Final Form of the Bond Indenture.

Capitalized Interest

A portion of the proceeds of the Bonds will be used to pay interest on the Bonds during construction of the Project.

Debt Service Fund

The Indenture establishes the Series 2009 Debt Service Fund. The money deposited into the Series 2009 Debt Service Fund, together with all investments thereof and investment income therefrom, will be held in trust and applied solely as provided in the Bond Indenture. The Trustee will deposit to the credit of the Series 2009 Debt Service Fund immediately upon receipt: (i) amounts due and payable by the Borrower pursuant to the terms of the Loan Agreement and the Master Notes, (ii) any other amounts required by the Bond Indenture, and (iii) any other amounts delivered to the 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 lesser of (i) the maximum annual principal and interest requirements of the Bonds, (ii) one hundred twenty-five percent (125%) of the average annual Debt Service on the Bonds, or (iii) ten percent (10%) of the initial principal amount (or sale proceeds, in certain circumstances) of the Bonds (the “Debt Service Reserve Fund Requirement”). Except as otherwise provided in the Bond 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 Series 2009 Debt Service Fund amounts necessary to make such payments from the Series 2009 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 the final Debt Service payment at maturity.

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**

The Borrower will execute a Deed of Trust and Security Agreement encumbering the Campuses located in Houston and Brownsville, Texas (collectively, the “Land and Improvements”), in favor of the Master Trustee for the benefit of the Holders of the Master Notes. See APPENDIX G – Substantially Final Form of the Deed of Trust.”

**Borrower Set-aside**

The Borrower has covenanted in the Loan Agreement that it will report to the Trustee on each September 1 and February 1, commencing September 1, 2009, the aggregate enrollment at the School. The enrollment is projected to equal 1,120 or more for the 2009-2010 and thereafter. If on any reporting date the enrollment is less than 1,120, the Borrower will, within sixty (60) days, provide evidence to the Trustee that the Board of the Borrower has, by official action, reserved an amount of general operating funds equal to the next twelve (12) months’ principal and interest payments for the sole purpose of ensuring that adequate funds are available to make debt service payments prior to accessing debt services reserve funds. Such amounts shall remain reserved until the School’s enrollment meets or exceeds 1,120.

**RISK FACTORS**

**General**

THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS.

**Limited Obligations**

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

**Dependence on the Operations of the Borrower**

Dependence on Per Student Revenues. The Borrower derived approximately 79% (unaudited) of its revenues during the 2007-2008 school year from payments by the State of Texas based on the school district (Houston ISD or Brownsville ISD) that a student would otherwise attend for each student in average daily attendance. The timely payment of principal of and interest on the Bonds therefore depends on operations of the Borrower attracting and retaining the number of students that are needed to provide sufficient revenues to make timely payment of Loan Payments securing payment of the Debt Service on the Bonds. See “FINANCIAL AND OPERATIONS INFORMATION–Projections by the Borrower; Required Increases in Attendance for Payment of Future Debt Service” and “APPENDIX B – PROFORMA FINANCIAL PLAN.”

Growth of Student Enrollment. The Borrower expects to receive approximately $8,850 in state funds per student in average daily attendance for 2008-2009, but such amount may vary from year to year. See “THE SYSTEM OF CHARTER SCHOOLS IN TEXAS–State Funding” and “–Local Funding.” The student enrollment
was 869 for the 2003 – 2004 fiscal year, 895 for the 2004-2005 fiscal year, 925 for the 2005-2006 fiscal year, 961 for the 2006-2007 fiscal year, and 943 for the 2007-2008 fiscal year. As of November 1, 2008, enrollment was 932. The Borrower anticipates that it will be able to fulfill its enrollment projections based on past trends in enrollment. Failure to attract and retain students in amounts projected by the Borrower would adversely affect the Borrower’s ability to provide sufficient revenues to make timely payment of Loan Payments securing payment of the Debt Service on the Bonds. See “FINANCIAL AND OPERATIONS INFORMATION–Projections by the Borrower; Required Increases in Attendance for Payment of Future Debt Service” and “APPENDIX B – PROFORMA FINANCIAL PLAN.”

Key Management. The creation of, and the philosophy of teaching in, charter schools initially may reflect the vision and commitment of a few key persons on the board of directors and/or the upper management of the charter school (“Key Directors/Managers”). Loss of such Key Directors/Managers could adversely affect any of the Borrower’s operations or financial results. Richard Farias is the founder of the Borrower, and serves as Chief Executive Officer and President of the Borrower and Superintendent of the School. It is unclear what effect, if any, there would be on the student population should Mr. Farias leave those positions, either temporarily or permanently. However, the School has an executive team with significant project management, finance and education experience, including a Chief Operating Officer and Executive Superintendent, a Principal for Houston’s Primary and College Preparatory Academies, a Principal for Houston’s Junior Academy, a Principal for Brownsville’s Primary Academy, a Director of Curriculum and Instruction and a Director of Resource Development. This team should help to ensure the continuity of operations of the School if Mr. Farias were to leave his positions.

Accuracy of Borrower Projections of Growth. To pay projected operation costs and debt service on the Bonds, the Borrower has projected increases in its enrollment to 1,043 by fiscal year 2010. The bases for such projections are the applications for admissions for the Borrower’s grades currently in operation (Houston: Grades Pre-K – 12; Brownsville: Grades Pre-K - 6). See “APPENDIX B – PROFORMA FINANCIAL PLAN.” These projections may involve known and unknown risks, uncertainties, and other factors, which may cause the actual results, performance, and achievements to be different from the future results, performance, or achievements expressed or implied by such forward-looking statements. Potential investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements. The projections are from the Borrower, and neither the Issuer nor the Underwriter has commissioned an independent feasibility analysis of any of the projected student attendance figures upon which the Borrower’s projections are based. No independent confirmation of the Borrower’s projections has been made, and while the Borrower believes its projections of growth of average daily attendance are reasonable, such growth may or may not occur and may be affected by a variety of factors, including completion of the Project in a timely manner, continued provision for funding of the Borrower by the State at adequate levels, operations and maintenance of the Borrower, and competition from other public or private schools in the 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” and “APPENDIX B – PROFORMA FINANCIAL PLAN.”

Risks of Construction Contract. The Borrower is negotiating a guaranteed maximum price contract for the construction of the Project. However, a fixed price contract does not guarantee completion of the Project for a fixed price under all circumstances. In addition, completion of the Project may be at risk in the event of failures of the contractor or of any underlying bonding companies. Restrictions on issuance of additional Debt by the Borrower contained in the Master Trust Indenture could limit the ability of the Borrower to borrow additional funds necessary for Project completion, which could adversely affect payment of the Bonds.

Risks Associated with 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 the Houston Campus since August, 1996, and the Brownsville Campus since August, 2003. Construction of the Project is necessary to reach projected average daily attendance. The Borrower’s charter is subject to renewal in 2011. 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 general area of the School. 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.”

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 quality facilities or academics at a level acceptable to students and their parents would presumably cause the Borrower to fail to attract or maintain students, and would negatively affect the ability of the Borrower to make Loan Payments in an amount sufficient to pay the Bonds.

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

Pledge of State Revenues to Master Trustee. The Master Trust Indenture provides that all of the Borrower’s Adjusted Revenues, including State Revenues, will be deposited into a deposit account pledged to the Master Trustee pursuant to the Deposit Account Control Agreement. Upon the occurrence of an Event of Default under the Master Trust Indenture, the Master Trustee is entitled to, at the direction of the Holders of not less than 25% in principal amount of the Notes Outstanding, with the consent of each Bond Insurer, as applicable, (i) issue a Notice of Exclusive Control under the Deposit Account Control Agreement and (ii) collect and receive all of the Borrower’s Adjusted Revenues to be applied as specified in the Master Trust Indenture. While the Holders of not less than 25% in principal amount of Notes Outstanding are entitled to direct the Master Trustee in the exercise of remedies following an Event of Default, such percentage may be composed wholly or partially of the holders of Notes other than the Series 2009A Note and the Series 2009B Note.

If an Event of Default has occurred under the Master Trust Indenture, the Borrower covenants and agrees in the Master Trust 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 all of its Adjusted Revenues, including amounts subject to the Deposit Account Control Agreement for which a Notice of Exclusive Control has been delivered, for credit to the Revenue Fund. If the Borrower were to fail to deliver such Adjusted Revenues, either before or after an
Event of Default, 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 Trust Indenture.

Assumptions Regarding Enrollment and State Funding


Tax-Exempt Status of the Series 2009A 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 Series 2009A 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 Series 2009A Bonds as taxable. Such adverse treatment may be retroactive to the date of issuance. See also “TAX MATTERS.”

In December 1999, as a part of a larger reorganization of the IRS, the IRS commenced operation of its Tax-Exempt and Government Entities Division (the “TE/GE Division”) as the successor to its Employee Plans and Exempt Organizations division. The TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. The number of tax-exempt bond examinations has increased significantly under the TE/GE Division. The Borrower has not sought to obtain a private letter ruling from the IRS with respect to the Series 2009A Bonds, and the opinion of Bond Counsel is not binding on the IRS. There is no assurance that any IRS
examination of the Series 2009A Bonds will not adversely affect the market value of the Series 2009A Bonds. See “TAX MATTERS” below.

Tax-Exempt Status of the Borrower

The tax-exempt status of the Series 2009A Bonds presently depends upon maintenance by the Borrower of its status as an organization described in section 501(c)(3) of the Code. The maintenance of this status depends on compliance with general rules regarding the organization and operation of tax-exempt entities, including operation for charitable and educational purposes and avoidance of transactions that may cause earnings or assets to inure to the benefit of private individuals, such as the private benefit and inurement rules.

Tax-exempt organizations are subject to scrutiny from and face the potential for sanction and monetary penalties imposed by the IRS. One primary penalty available to the IRS under the Code with respect to a tax-exempt entity engaged in inurement or unlawful private benefit is the revocation of tax-exempt status. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of non-profit organizations, it could do so in the future. Loss of tax-exempt status by the Borrower could result in loss of tax exemption of the Series 2009A Bonds and defaults in covenants regarding the Series 2009A Bonds and other obligations would likely be triggered. Loss of tax-exempt status by the Borrower could also result in substantial tax liabilities on its income. For these reasons, loss of tax-exempt status of the Borrower could have material adverse consequences on the financial condition of the Borrower.

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

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

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

The Borrower may be audited by the IRS. Because of the complexity of the tax laws and the presence of issues about which reasonable persons can differ, an IRS audit could result in additional taxes, interest, and penalties. An IRS audit ultimately could affect the tax-exempt status of the Borrower, as well as the exclusion from gross income for federal income tax purposes of the interest on the Series 2009A 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 Series 2009A Bonds.

**Dependence on the State**

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

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

**Revocation or Non-renewal of Charter.** The Borrower’s charter has been renewed and will expire as set forth under “THE BORROWER-Terms of Operation Under Charter.” However, the Borrower’s charter may be revoked if the persons operating the School commit 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, 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.”

**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 Project (during both the period of construction and the period subsequent to completion of the Project), against such losses and in such amounts as is customary for persons engaged in the same business as the Borrower and operating facilities similar to its buildings and other facilities, including the Project. The Borrower has additionally covenanted in the Loan Agreement to provide general liability, comprehensive professional liability, comprehensive automobile liability and workers’ compensation insurance. In the event that insurance proceeds from damage, destruction, or condemnation with respect to the Project are in an amount greater than $100,000, 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 affected 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 Project, there could be a lengthy period of time during which there would be little or no revenues produced by operation of the affected school.

**Limited Remedies After Default**

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

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

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

**Risk of Bankruptcy**

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

**Value of Land and Improvements**

Under the Deed of Trust, the Borrower will grant to the Mortgage Trustee (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 the “Project”).

The Borrower has commissioned independent appraisals of both Campuses, the final results of which are not yet available. The Executive Summaries of Edward Miller Appraisal Services with respect to the pending appraisals of the Campuses are attached hereto as APPENDIX I. The Executive Summary for the Houston Campus reflects a Final Value Estimate of $26,000,000 after the proposed improvements have been completed. The Executive Summary for the Brownsville Campus reflects a Final Value Estimate of $900,000 as of January 23, 2009. For a complete description of the Executive Summaries, see “APPENDIX I – Executive Summaries of the Property Appraisals.”
Regardless of their appraised value, 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 Project could negatively affect any sale of the Project pursuant to the Deed of Trust.

**Inability to Liquidate or Delay in Liquidating the Project**

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

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

**Risk of Additional Debt**

Subject to certain conditions provided in the Master Trust Indenture, the Borrower has reserved the right to issue additional Debt (as defined in the Master Trust Indenture) which is secured under the Master Trust 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 “THE BONDS – Additional Debt” and “APPENDIX D – Substantially Final Forms of the Master Trust Indenture and the Supplemental Master Trust Indenture No. 1.”

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

Failure of the Issuer to comply with certain covenants contained in the Bond Indenture or of the Borrower with certain covenants in the Loan Agreement on a continuing basis prior to the maturity of the Series 2009A Bonds could result in interest on the Series 2009A Bonds becoming taxable retroactive to the date of original issuance. See “TAX MATTERS.”

**Limited Marketability of the Bonds**

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

**THE BORROWER**

**Organization**

The Borrower is a non-profit corporation established under the laws of the State of Texas on June 24, 1992. It is one of Houston’s most successful community development corporations operating a diverse portfolio of
programs, including the School, an adult education program, an affordable housing counseling and construction program, emergency youth shelter and child placing agency, and a youth empowerment and juvenile justice diversion program. The Borrower was granted its charter for the School as one of the first twenty charter schools in the State of Texas. The School provides an array of programs to ensure educational excellence and is supported by wraparound support services for students and their families provided by the Borrower, including counseling, social services, special needs, language-learning programs, juvenile delinquency prevention, citizenship orientation, social-emotional learning, nutrition and health/wellness programs, adult education programs in partnership with Houston Community College, basic adult literacy skills programs, evening and Saturday classes, special enrichment classes, affordable housing homebuyer counseling, affordable single family housing development and a senior citizen apartment project.

Management

The Borrower is governed by a seventeen member Board of Directors. An executive committee consisting of six members of the Borrower’s Board of Directors serves as the Board of Directors of the School and governs the operations and fiscal affairs of the School. The Borrower’s Board of Directors is selected pursuant to the bylaws of the Borrower and has the authority to make decisions, appoint the President and Chief Executive Officer of the Borrower, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Borrower. The current Board of Directors is comprised of the members shown on the following page. Those members whose names are marked with an asterisk serve on the Board of Directors of the School.

Pursuant to Texas law, Board Members must file conflicts disclosure statements with the records administrator of the Borrower with respect to persons who enter into a contract with the Borrower or with whom the Borrower is considering entering into a contract if the person: (A) has an employment or other business relationship with the Board Member or a family member of the Board Member that results in the Board Member or family member receiving taxable income, other than investment income, that exceeds $2,500 during the 12-month period preceding the date that the Board Member becomes aware that (i) such contract has been executed, or (ii) the Borrower is considering entering into a contract with the person; or (B) has given to the Board Member or a family member of the Board Member one or more gifts that have an aggregate value of more than $250 in the 12-month period preceding the date the Board Member becomes aware that: (i) such contract has been executed; or (ii) the Borrower is considering entering into a contract with the person.

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<td>Business</td>
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Biographies of Certain Administrators and Leadership

**SCHOOL ADMINISTRATORS**

**Maria Elena Barrientos**, Director of Curriculum & Instruction. Ms. Barrientos has 28 years of teaching and school administration experience gained in Houston area public school districts and at the university level, ranging from elementary school to high school administration and college instruction at Texas Southern University. Ms. Barrientos has completed all her coursework leading to a Doctorate in School Administration & Education Policy from Texas Southern University-Houston, and received her Master in School Administration and Bilingual/ESL Instruction from Texas Southern University. She has held positions, beginning in 1979, with the Houston Independent School District (HISD), (1979-96, Teacher, Dean of Instruction, Principal), Spring Branch ISD (1996-97, Principal), and Lamar Consolidated ISD (1998-2001, Principal). She joined School as Director of Curriculum and Instruction and Adult Education in 2001.

Her professional recognitions and awards include being honored as a Teacher of the Year with Houston ISD (J.P. Henderson Elementary) and at the School; and recognition as a Bank of America Emerging Leader. Ms. Barrientos is a member the Association of Supervision and Curriculum Development, Reading First Program, Accelerated Schools Program, and the National Council of La Raza, a Hispanic-serving national organization.

**Carlos Rodriguez**, Principal, Primary & College Preparatory Academy. Mr. Rodriguez is a graduate of Texas A&M University, Kingsville, Texas (1983). He was employed by the Houston Independent School District at Edison Middle School from 1983-1987 as an English as a Second Language teacher, and at Stephen F. Austin High School from 1991-1997, as an English/ESL teacher. He was also employed by the Brownsville Independent School District at Gladys Porter High School from 1987-1991, as an English/ESL teacher.

**Philip Cano**, Principal, Junior Academy. Mr. Cano holds a Bachelor of Arts degree from Texas A&M University – Kingsville (formerly Texas A & I University) and a Master of Education from Texas Southern University. Prior to joining the Borrower in 1999, Mr. Cano worked at the Polytechnic Institute as Campus Coordinator and at the Association for the Advancement of Mexican Americans as Principal.

**Raul Yzaguirre Jr.**, Principal, RYSS Brownsville Primary Academy. Mr Yzaguirre was appointed Principal of RYSS-Brownsville Campus in August 2008. He holds a Master of Business Administration from the University of Texas-Pan American (concentration in Human Relations) and a Bachelor of Arts in Anthropology from UT-Pan American, receiving an Accelerated Academic Program certification in 1999. Mr. Yzaguirre Jr. enjoyed a successful career in corporate human resources and sales (McDonalds and Pizza Hut), managing fast food restaurants, and related human resources, marketing, and sales divisions corporate assignments. He subsequently transferred that experience to the education field, including a Fellowship with Building Excellent School in Boston, Ma., and professional positions with the La Joya Independent School District (Mission, Texas), Early Education Teacher. Other leadership and training assignments have included serving as the campus technologist for La Joya ISD, administration of the school’s E-chalk website, and implementation of curriculum and instruction and bilingual education programs.

**BORROWER LEADERSHIP**

**Richard Farias** is President and Chief Executive Officer of the Borrower and Superintendent of the School. Since its inception in 1992, Mr. Farias has developed the Borrower from a small neighborhood organization to the 17th largest charitable non-profit in the Houston area (and the youngest). Supported by a strong board of directors plus a staff of more than 180 employees, Mr. Farias pilots the Borrower’s efforts to improve life opportunities for low-income children and families through the provision of educational, social and health services and community development initiatives. A pioneer in the charter school movement, he established the School as one of the first twenty charter schools in Texas. Mr. Farias was formerly Executive Director of the Association for the Advancement of Mexican Americans. His previous experience includes working in the juvenile justice system in Harris County for sixteen years as Educational Liaison for adjudicated youth and the public school system. He also served as a juvenile probation officer and supervisor of the East Harris County Unit. Prior to this time he served in the United States Air Force as an E-4 Aircraft Electrical Technician, including one year in Vietnam.
Among Richard Farias’ accomplishments are: participating as a presenter at four national charter school conferences; starting one of the five community development corporations in Houston; and serving as the first Chairman of the Texas National Council of La Raza (“NCLR”) Affiliate Network and as the first Chairman of the NCLR Affiliate Council for four years. Additional memberships include National Urban Coalition Board Member; Consumer Credit Counseling Services Board Member; InterEthnic Forum Board Member; Community Coalition for Criminal Justice Reform Board Member; Gulf Coast Community Action Services Treasurer; Mayor’s Anti-Gang Office, Safe Schools Initiative Advisory Board; National Committee for Responsive Philanthropy Board, Blue Print Houston Executive Committee; Center for Houston’s Future Convocation Member; and Head Start Policy Council Treasurer.

Richard Farias is recipient of the National Urban Coalition’s John A. Bowser Networking Award; the Willie Velasquez Excellence Award; NCLR Affiliate Advocacy Award; and the Hispanic Magazine Community Development Award. In addition, under his leadership the Borrower has twice been named the NCLR Regional Affiliate of the Year.

Richard Farias holds Bachelor of Arts Degree in Social Rehabilitation and Social Services from Sam Houston State University in Huntsville Texas, and completed his Master of Science coursework in Criminology and Corrections. He also attended the Senior Executives of State and Local Government Program at the JFK School of Government, Harvard University.

Manuel Lopez is the Chief Operating Officer and Executive Superintendent for the Borrower and serves as its Housing Programs Manager. He assists the President & Chief Executive Officer of the Borrower with oversight and supervision of its homeownership counseling and single family development and multi-family development initiatives. The latter responsibility includes planning and implementation of building projects; preparation of proposals and grant applications; leveraging of interim and permanent financing for the projects; and providing oversight to construction operations. Prior to this time, he served as Deputy Director of the Association for the Advancement of Mexican-Americans and as Executive Director for the Valley Investment and Development Association where his duties included overall responsibility for program operations; planning and project development; supervision of financial management and accounting systems; compliance with all reporting requirements and public relations. Mr. Lopez was formerly Executive Director of Church and Society Commission in Brownsville, Texas, where he represented the Diocese on federal, state and locals boards and commissions related to social justice issues. Additional career experience includes serving as a city manager, rural development planner, urban planner and manpower training program director.

Mr. Lopez graduated from Pan American University with a major in Political Science and History.

Rene Martinez, AICP, is Director of Resource Development for the Borrower. He works closely with the Borrower’s President, Board of Directors and key staff, and directs all aspects of the Borrower’s fund development and capital campaign efforts ($40 million campus redevelopment); corporate strategic planning and financial management; management of consultants (public relations, advertising and marketing, and architects & engineers). He also develops and implements new community and economic development initiatives and partnerships for the Borrower.

Mr. Martinez previously served as Director of Economic Development for Neighborhood Centers Inc., a human services non-profit corporation, where he developed targeted community reinvestment strategies to promote economic opportunities in the primarily low-income neighborhoods that the agency served. Mr. Martinez is a former manager with the City of Houston Planning & Development Department, joining the department in 1991, and has extensive economic development, public finance, and neighborhood redevelopment experience, including the development of neighborhood partnerships and redevelopment financing plans. He spent fifteen years structuring and implementing the City’s Tax Increment Financing (“TIF”) Program, including underwriting over $140 million in TIF debt obligations that directed funds to infrastructure projects and direct real estate project subsidies. He also authored significant amendments in 2005 to the state’s Tax Increment Financing Act. Notable projects include formation of Houston Technology Center, a technology accelerator created through a partnership of the U.S. Economic Development Administration, the City of Houston, and the Midtown Redevelopment Authority. Prior to joining the city in 1991, he managed a statewide property tax research and consulting firm located in Austin, Texas.
Rene Martinez holds a Master of Science in Community and Regional Planning, and a Bachelor of Arts in Psychology from the University of Texas at Austin.

**BOARD MEMBERS - RAUL YZAGUIRRE SCHOOL FOR SUCCESS**

David Corpus is Chairman of the School’s Board of Directors and Vice Chair of the Borrower’s Board of Directors where he chairs the Finance Committee. He is President of Banco Herencia, a branch of Wallis State Bank. Mr. Corpus has worked in banking for the past 24 years. His areas of specialty include commercial, industrial, and real estate lending transactions, and he has extensive experience in bank mergers, acquisitions and expansions. He also serves on the City of Houston’s Affirmative Action Commission Board, an appointment by Mayor Bill White, and was recently appointed to the Harris County Housing Finance Corporation Board of Directors. His board service with other organizations spans over 20 years. David Corpus holds a Bachelor of Applied Sciences degree in Management and a Master of Business Administration from Our Lady of the Lake University at San Antonio, Texas.

Karen Becerra is the Chairperson of the Borrower’s Board of Directors and a member of the School’s Board of Directors. She is co-owner of The Principle Partnering Group, L.L.C., a strategic management consulting firm that works with corporations, institutions and businesses to help them achieve their operational goals. She has more than 25 years of experience in business development, community relations and outreach. Ms. Becerra has been recognized by the Mayor of Houston through her appointments to chair the Mayor’s HAB Economic Development Task Force and the $15 million Small Business Development Board. She also served on Harris County’s Workforce Development Commission. Ms. Becerra is an advocate for the Hispanic Community and is highly skilled at development of student internship/workforce programs. She is a specialist in outreach to Hispanic businesses, community and neighborhood organizations in greater Houston and has led educational institutions such as San Jacinto Community College to develop strong relationships with the business community.

Anthony Magdaleno II serves as Secretary of the Borrower’s Board of Directors and is also Secretary of the School’s Board of Directors. He is an attorney in private practice with a concentration in family law. His legal experience spans several different sectors including the fields of family, education, consumer and bankruptcy law, and has also served as an Assistant School Attorney with the Houston Independent School District, the fifth largest school district in the United States. Mr. Magdaleno is a past president and current director of the Mexican-American Bar Association and legal advisor to Hispanic Women in Leadership. He is a Director with the Houston Bar Association Family Law Section, member Delta Theta Phi Law Fraternity; and Volunteer Judge, South Texas College of Law and the University of Houston Law School Mock Trial and Moot Court Programs. Anthony Magdaleno holds a Bachelor of Science degree in Political Science from the University of Houston and a Doctor of Jurisprudence degree from South Texas College of Law in Houston, Texas.

Domingo Gonzalez serves as Treasurer for the Borrower’s Board of Directors and chairs the Brownsville Campus Advisory Committee. He is also a member of the School’s Board of Directors. He has worked for over 20 years as a community advocate for low income, immigrant and border communities on social, economic, civil and environmental rights through the American Friends Service Committee. He has served as Chair of the Farm-Workers Justice Fund, and currently serves on the National Programs Committee of the American Friends and the Border Environment Justice Committee of the Sierra Club. Mr. Gonzalez co-founded Organizaciones Unidas, a grassroots federation of community groups that was organized for the establishment of health care facilities for the region’s migrant workers, which culminated in the formation of Su Clinica Familiar. Domingo Gonzalez holds an Associates of Arts degree from Texas Southmost College in Brownsville, Texas, with further study at Antioch University in Philadelphia, Pa, Universidad El Sagrado Corazon in Carolina Puerto Rico, and the University of the Philippines in Manila, Philippines.

Charles Galindo Jr. serves on the Borrower’s Board of Directors and chairs the Education Committee. He is also a member of the School’s Board of Directors. Mr. Galindo works is affiliated with NASA’s Johnson Space Center and is a Manager for ARES Astrobiology Laboratories through Muñiz Engineering, Inc. He is the manager and project lead for the Astrobiology, Instrumental Neutron Activation and X-Ray Diffraction labs. Mr. Galindo has been an educational advocate for the past sixteen years, encouraging students of all ethnic and economic backgrounds to pursue advanced degrees in math, science and engineering. He has been a contributor to a number of space science, and geological scientific publications. He serves on the Advisory Board of the Society of Hispanic Professional Engineers, the Coalition of Higher Education of Immigrant Students Board, and is a member...
of the Houston Livestock Show and Rodeo. Charles Galindo Jr. holds a Bachelor of Science in Geology from Saint Mary’s University in San Antonio Texas, and a Master of Science in Physical Science from the University of Houston-Clear Lake.

Margarita J. Dunlap is a member of the Borrower’s Board of Directors and a member of the School’s Board of Directors. She chairs the Human Resources Committee. She is Compliance and Program Advisor Manager for METRO and has 25 years of experience in compliance, supervision, administration, presentation and training, organization, developing, managing and coordinating special projects. Her extensive volunteer experience includes serving in the Community Collaborative for Children-Junior League of Houston; Head Start Policy Council Chair, Gulf Coast Community Service Agency; and she is a board member and past president of Hispanic Women in Leadership. Ms. Dunlap was appointed by Mayor White to the City of Houston Police Officer’s Civil Service Commission and received the YMCA Outstanding Woman of the Year award. Margarita Dunlap holds a Bachelor of Science degree from Texas A & I University, Kingsville Texas; with further study at the University of Colorado-Boulder, International Banking program; American Banking Association Management program, and the Graduate School of Social Work at the University of Houston.

Terms of Operation Under Charters

The Borrower was granted its initial open-enrollment charter from the Texas Education Agency to operate its initial school as an open enrollment charter school on April, 1996. The Borrower’s charter from the Texas Education Agency is currently for a total enrollment of 950 students. The charter is subject to renewal in 2011. See APPENDIX H for detailed information about the Campuses.

FINANCIAL AND OPERATIONS INFORMATION


The following is derived from the Borrower’s audited financial statements for fiscal years 2008, 2007, 2006, 2005, and 2004 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.

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### ASSETS

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<td>Inventory</td>
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<td></td>
<td>732,996</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property held for sale</td>
<td></td>
<td></td>
<td></td>
<td>514,099</td>
<td>275,610</td>
</tr>
<tr>
<td>Grants receivable</td>
<td>553,941</td>
<td>225,960</td>
<td>353,769</td>
<td>302,087</td>
<td>338,899</td>
</tr>
<tr>
<td>Other receivables</td>
<td>109,938</td>
<td>165,902</td>
<td>64,321</td>
<td>33,358</td>
<td>103,976</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>1,408,854</td>
<td>544,778</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>$3,946,894</td>
<td>$4,239,136</td>
<td>$3,172,700</td>
<td>$3,218,652</td>
<td>$2,747,482</td>
</tr>
<tr>
<td><strong>Land, structures and equipment:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>495,666</td>
<td>495,666</td>
<td>1,933,901</td>
<td>495,666</td>
<td>495,666</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>5,812,348</td>
<td>4,845,884</td>
<td>3,397,297</td>
<td>4,806,363</td>
<td>4,105,647</td>
</tr>
<tr>
<td>Furniture, vehicles and equipment</td>
<td>1,689,649</td>
<td>1,571,128</td>
<td>1,400,442</td>
<td>1,361,744</td>
<td>1,033,820</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(3,243,409)</td>
<td>(2,735,735)</td>
<td>(2,194,666)</td>
<td>(1,644,419)</td>
<td>(1,207,305)</td>
</tr>
<tr>
<td><strong>Total land, depreciation and equipment</strong></td>
<td>4,754,254</td>
<td>4,176,943</td>
<td>4,536,974</td>
<td>5,019,354</td>
<td>4,427,828</td>
</tr>
<tr>
<td><strong>Other assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>196,299</td>
<td>176,850</td>
<td>63,024</td>
<td>104,847</td>
<td>68,015</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>8,897,447</td>
<td>8,592,929</td>
<td>7,772,698</td>
<td>8,342,853</td>
<td>7,243,325</td>
</tr>
</tbody>
</table>

### LIABILITIES and NET ASSETS

|                |              |              |              |              |              |
| **Current liabilities:** |              |              |              |              |              |
| Lines of credit | 894,212      | 100,000      | 100,834      |              |              |
| Notes payable, current portion | 201,383      | 195,753      |              |              |              |
| Bonds payable, current portion | 135,000      |              |              |              |              |
| Accounts payable | 457,942      | 250,917      | 133,960      | 323,217      | 142,884      |
| Payroll tax payable |              |              | 51,980       | 2,327        | 16,766       |
| Other liabilities | 538,398      | 204,320      | 174,078      | 214,567      | 177,358      |
| Interest payable |              | 93,437       | 194,675      | 172,800      | 104,325      |
| Deferred revenue | 6,540        | 47,779       |              |              |              |
| Capital lease obligations |              |              |              | 9,356        | 21,408       |
| Recoverable grant | 100,000      |              |              |              |              |
| **Total current liabilities** | 2,333,475    | 892,206      | 655,527      | 722,267      | 462,741      |
| Notes payable, net of current portion | 838,862      | 900,929      | 1,168,983    | 1,405,309    | 1,027,422    |
| Bonds payable, net of current portion | 2,285,000    | 2,545,000    | 2,665,000    | 2,880,000    | 2,880,000    |
| **Total liabilities** | 5,457,337    | 4,338,135    | 4,489,510    | 5,007,576    | 4,370,163    |
| **Net assets** |              |              |              |              |              |
| Unrestricted     | 2,940,110    | 3,754,794    | 2,749,741    | 2,935,278    | 2,873,161    |
| Temporarily restricted |              |              |              | 33,447      |              |
| Permanently restricted | 500,000      | 500,000      | 500,000      | 400,000      |              |
| **Total net assets** | 3,440,110    | 4,254,794    | 3,283,188    | 3,335,278    | 2,873,161    |

**TOTAL LIABILITIES and NET ASSETS**

8,897,447 | 8,592,929 | 7,772,698 | 8,342,853 | 7,243,325

*Source: Audited Financial Statements*

The following is derived from the Borrower’s audited financial statements for fiscal years 2008, 2007, 2006, 2005, and 2004 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.

<table>
<thead>
<tr>
<th>REVENUES</th>
<th>FYE 8/31/08</th>
<th>FYE 8/31/07</th>
<th>FYE 8/31/06</th>
<th>FYE 8/31/05</th>
<th>FYE 8/31/04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal grants</td>
<td>$2,327,388</td>
<td>2,443,468</td>
<td>2,605,988</td>
<td>2,451,413</td>
<td>2,151,114</td>
</tr>
<tr>
<td>State grants</td>
<td>7,252,432</td>
<td>7,642,263</td>
<td>5,825,972</td>
<td>5,939,486</td>
<td>4,984,242</td>
</tr>
<tr>
<td>NeighborWorks America Grants</td>
<td>178,000</td>
<td>121,500</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Rent Income</td>
<td>645,010</td>
<td>671,349</td>
<td>644,888</td>
<td>654,210</td>
<td>670,225</td>
</tr>
<tr>
<td>Contributions/donations</td>
<td>958,449</td>
<td>699,973</td>
<td>1,225,273</td>
<td>529,873</td>
<td>27,987</td>
</tr>
<tr>
<td>Interest income</td>
<td>42,061</td>
<td>59,062</td>
<td>50,298</td>
<td>34,581</td>
<td>27,961</td>
</tr>
<tr>
<td>Sales of constructed homes</td>
<td>99,000</td>
<td>850,609</td>
<td>533,509</td>
<td>555,800</td>
<td>1,203,080</td>
</tr>
<tr>
<td>Other Income</td>
<td>105,400</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>405,887</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td><strong>11,607,740</strong></td>
<td><strong>12,488,224</strong></td>
<td><strong>10,885,928</strong></td>
<td><strong>10,165,363</strong></td>
<td><strong>9,520,296</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EXPENSES</th>
<th>FYE 8/31/08</th>
<th>FYE 8/31/07</th>
<th>FYE 8/31/06</th>
<th>FYE 8/31/05</th>
<th>FYE 8/31/04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program services:</td>
<td>11,413,146</td>
<td>10,797,552</td>
<td>10,044,456</td>
<td>9,928,113</td>
<td>9,361,778</td>
</tr>
<tr>
<td>Supporting services:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tejano commercial properties</td>
<td>709,074</td>
<td>689,554</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Management and general</td>
<td>163,908</td>
<td>126,850</td>
<td>858,578</td>
<td>115,543</td>
<td>59,841</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>12,296,128</strong></td>
<td><strong>11,613,956</strong></td>
<td><strong>10,903,034</strong></td>
<td><strong>10,043,656</strong></td>
<td><strong>9,421,259</strong></td>
</tr>
<tr>
<td>Changes in net assets</td>
<td>(678,388)</td>
<td>874,268</td>
<td>(17,106)</td>
<td>121,707</td>
<td>99,037</td>
</tr>
<tr>
<td>Net assets, beginning of year,</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>as previously reported</td>
<td>4,254,794</td>
<td>3,283,188</td>
<td>3,300,294</td>
<td>2,873,161</td>
<td>2,774,125</td>
</tr>
<tr>
<td>Prior period adjustment</td>
<td>(136,296)</td>
<td>97,338</td>
<td>—</td>
<td>340,410</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net assets, end of year</strong></td>
<td><strong>3,440,110</strong></td>
<td><strong>4,254,794</strong></td>
<td><strong>3,283,188</strong></td>
<td><strong>3,335,278</strong></td>
<td><strong>2,873,161</strong></td>
</tr>
</tbody>
</table>

Source: Audited Financial Statements

Audited Financial Information

Audited financial statements for the Borrower for the fiscal years 2008, 2007, 2006, and 2005 obtained from the Texas Education Agency website are included herein as APPENDIX A. The Borrower has not sought or obtained the consent of its auditors for inclusion of the audited financial statements.

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

The Borrower has projected revenues for the fiscal years from 2008-2009 through 2011-2012 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.” 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.”

The maximum annual combined debt service for the Bonds is $2,031,657.50 (estimated). See Schedule 1 – Projected Debt Service. Based on the analysis provided by the Borrower, a copy of which is reproduced as
APPENDIX B – PROFORMA FINANCIAL PLAN and, assuming the Borrower’s projected operating expenditures (less any contingencies and surplus included in projections of expenses by the Borrower), weighted average daily attendance of 1,043 or greater will support such projected maximum combined annual debt service and operating expenses.

Based on the projections of the Borrower, the debt service coverage is at least 1.02 times the annual principal and interest requirements of the Bonds, less projected interest earnings on the debt service reserve fund. The projections by the Borrower assume State and local funding of approximately $9,098 per average daily attendance.

THE SYSTEM OF CHARTER SCHOOLS IN TEXAS

General

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

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

Limitation on Number of Charters Granted

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

Authority Under Charter

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

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

An open enrollment charter school has the powers granted to schools under Title 2, Texas Education Code (“Title 2”), 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; public school accountability (including testing requirements, and requirements to report an educator’s misconduct).
An open enrollment charter school is part of the public school system of the State. The board members of the governing body of the school are considered a governmental body for purposes of Chapters 551 and 552, Texas Government Code, as amended, governing open meetings and open records. In matters relating to operation of the school, the school is immune from liability to the same extent as a school district, and its employees and volunteers are immune from liability to the same extent as school district employees and volunteers. Members of the governing body of a charter school are immune from liability to the same extent as a school district trustee. An employee of an open enrollment charter school who qualifies for membership in the Teacher Retirement System of Texas will be covered under the system to the same extent a qualified employee of a school district is covered. For each employee of the school covered under the system, the school is responsible for making any contribution that otherwise would be the legal responsibility of the school district, and the State is responsible for making contributions to the same extent it would be legally responsible if the employee were a school district employee.

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

**State Funding**

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

Commencing August 31, 2001, a charter holder is entitled to receive 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.

Pursuant to Section 12.107, Texas Education Code, State Revenues 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. Such funds may be used only for purposes necessary in the conduct of the schools as authorized by statute which include, without limitation, (i) paying teachers’ and superintendents’ salaries and interest on money borrowed on short time to pay those salaries that become due before the school funds for the current year become available; (ii) purchasing appliances and supplies; (iii) paying insurance premiums; (iv) paying janitors and other employees; (v) buying school sites; and (vi) buying, building, repairing and renting school buildings, including acquiring school buildings and sites by leasing through annual payment with an ultimate option to purchase. Pending their use, the State Revenues must be deposited with the charter holder’s depository bank as filed with the Texas Education Agency.

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

for the 2008-2009 school year, 40 percent of its funding according to the law in effect on August 31, 2001, and 60 percent of its funding according to the change;

for the 2009-2010 school year, 30 percent of its funding according to the law in effect on August 31, 2001, and 70 percent of its funding according to the change;
for the 2010-2011 school year, 20 percent of its funding according to the law in effect on August 31, 2001, and 80 percent of its funding according to the change;

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

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

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 $2,537 per student in average daily attendance. To receive the State subsidy, a local school district must levy an effective property tax of at least $0.86 per $100 of assessed valuation.

Tier Two allotments are intended to guarantee each school district an opportunity to provide a basic program and to supplement that program at a level of its own choice. Each school district is guaranteed a specified amount per weighted student in State and local funds. The guaranteed specified amount per weighted student in State and local funds for each cent of tax effort (the Tier Two allotment) is $31.95, in part to fund the costs of the school district health care system described below. The State’s share of the school district’s health care system is funded, in general terms, by a dedication of 75% of the additional funds to which a school district is entitled due to the increase in the equalized wealth level or the Tier Two allotment.

The Borrower’s total per student funding budgeted for the 2008-2009 fiscal year is approximately $8,599 per average daily attendance. The Borrower’s historical total per student funding for the Campuses for fiscal years 2005 – 2009 is provided below:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Enrollment</td>
<td>932</td>
<td>943</td>
<td>961</td>
<td>925</td>
<td>895</td>
</tr>
<tr>
<td>ADA</td>
<td>834</td>
<td>840</td>
<td>823</td>
<td>822</td>
<td>858</td>
</tr>
<tr>
<td>% Attendance</td>
<td>89.1%</td>
<td>89.1%</td>
<td>85.6%</td>
<td>88.9%</td>
<td>95.9%</td>
</tr>
<tr>
<td>Total State Funding</td>
<td>$8,014,527</td>
<td>$6,899,999</td>
<td>$6,553,062</td>
<td>$5,271,827</td>
<td>$5,513,659</td>
</tr>
<tr>
<td>Funding per ADA</td>
<td>$8,599</td>
<td>$8,214</td>
<td>$7,962</td>
<td>$6,413</td>
<td>$6,426</td>
</tr>
</tbody>
</table>

(a) Taken from Statement of Funding provided by TEA. Additional state funding payments are received based upon types of students enrolled and programs offered at the School.

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 State Board of Education has the authority to select applicants to establish open-enrollment charter schools. The Board has adopted an application form and procedures for applications to operate an open-enrollment charter school. The Board has also adopted criteria to use in selecting a charter 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 State Board of Education rule, in PEIMS; describe the facilities to be used; describe the geographical area served by the program; and specify any type of enrollment criteria to be used.

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

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

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

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

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

The Commissioner may take certain disciplinary actions available for public schools generally to the extent the Commissioner determines necessary, if an open-enrollment charter school commits a material violation of the school’s charter, fails to satisfy generally accepted accounting standards of fiscal management, or fails to comply with 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 determinate is made that, despite initial evidence, the conditions at the school do no 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 Notes, 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.

On June 14, 2006, an entity called Citizens Lowering Our Unfair Taxes PAC (“CLOUT”) filed a lawsuit (case number GN602156) in the 345th District Court (the “District Court”) in Travis County, Texas against the
Texas Lieutenant Governor, the Speaker of the Texas House of Representatives, the Texas Comptroller of Public Accounts, the State of Texas and the Legislative Budget Board (the “LBB” and, collectively with the other named defendants, the “State Defendants”) in a case styled Edd Hendee, individually and as Executive Director of C.L.O.U.T. v. Dewhurst, et al. (“CLOUD Lawsuit No. 1”). The plaintiffs alleged that various violations of Article VIII, Section 22(a) of the Texas Constitution and Chapter 316 of the Texas Government Code had occurred and had resulted in unconstitutional and illegal spending by the State government, including the appropriations made for the Finance System under HB 1. (See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM - General” for a discussion regarding HB 1). Among other things, the plaintiffs sought a declaratory judgment that the methodology used to establish the maximum amount of non-dedicated State revenues subject to appropriation in the 2006-2007 State biennium, and the amount appropriated by the Legislature in HB 1 to fund the Finance System during such biennium, violated Article VIII, Section 22(a), which provides that, unless a resolution is adopted by the Legislature to override the spending limit “[i]n no biennium shall the rate of growth of appropriations from state tax revenues not dedicated by this constitution exceed the estimated rate of growth of the state’s economy”. A series of court decisions, appeals, and other legal actions pursued by both the plaintiffs and the State Defendants has most recently resulted in the Third Court of Appeals’ decision on April 2, 2008 dismissing all of the plaintiff’s causes of action alleged in the CLOUD Lawsuit No. 1 for lack of subject matter jurisdiction, save and except one allegation added during the appeal process claiming that the specific amount of the 2008-2009 State legislative appropriation from non-dedicated State tax revenues exceeds the 2008-2009 spending cap (the “CLOUD Lawsuit No. 2”). Thus, the matter remains pending. The Borrower can make no representation or prediction concerning the outcome of the CLOUD Lawsuit No. 2 or its effects on the Finance System, and, consequently, its impact on the financial condition of the Borrower. However, the Borrower does not anticipate that the security for the payment of the Notes would be affected as a result of the outcome of the CLOUD Lawsuit No. 2.

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

General

The following description of the Finance System includes the provisions of the Reform Legislation. For a more complete description of school finance and fiscal management in the State, reference is made to Chapters 41 through 46, Texas Education Code, 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 by one third over two years, 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. The additional State funding needed to offset local tax rate reductions must be generated by the modified State franchise, motor vehicle and tobacco taxes or any other revenue source appropriated by the Legislature. The LBB has projected that the Reform Legislation will be underfunded from the Reform Legislation revenue sources by a cumulative amount of $25 billion over fiscal years 2006-07 through 2010-11, although current State surpluses were expected to offset the revenue shortfall in fiscal years 2006-07 and 2007-08, and the shortfall could be further reduced if the Reform Legislation, particularly the ad valorem tax compression measures of HB 1 should prove to be an economic stimulus for the State.

In addition, school districts and charter schools are guaranteed to receive a $2,000 across-the-board salary increase for teachers and certain other employees funded by the State, a $500 stipend for public school employee health insurance and a high school student allotment of $275 per student in average daily attendance for dropout prevention and college readiness programs.

In addition to making changes to the Finance System that are generally described above, HB 1 modifies other laws. Among other reform measures included in HB 1 are provisions mandating that all public schools in the State start the school year on a uniform date; establishing a statewide electronic student records system; requiring the Commissioner and the Texas Higher Education Coordinating Board to align high school and college curriculums; and establishing approximately $300 million in incentive pay programs for campus and teacher incentive programs.
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 to provide operational funding for an “enriched” educational program (“Tier Two”). Tier One and Tier Two allotments represent the State funding share of the cost of maintenance and operations of public schools in Texas and supplement local ad valorem O&M Taxes levied, by public schools, for that purpose. Tier One and Tier Two allotments are generally required to be funded each biennium by the Legislature.

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

The Borrower 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 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 public school’s Tier Two State funding.

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 Underwriter, 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

Clifton Higher Education Finance Corporation is a public non-profit corporation created by the City of Clifton, Texas (the “City”), and existing as an instrumentality of the City pursuant to Chapters 53 and 53A 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 accredited institutions of higher education, secondary schools, and primary schools, and to authorized charter schools for the purpose of aiding such schools in financing or refinancing “educational facilities” and “housing facilities” (as such terms are 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 seven members, each of whom has been appointed by the City Council of the City. Board members serve two-year terms, and each Board member may serve an unlimited number of two-year terms. Board members serve until their successors have been appointed as described above. All vacancies on the Board are filled by the City Council as described above. Further, while there is no requirement that the Board members reside within the corporate limits of the City, no officer or employee of the City may serve as a Board member.

The officers of the Issuer consist of a president, a vice president, a secretary, a treasurer, and three assistant secretaries, each selected by the Board from among its members, whose terms of office may not exceed two years 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. Vacancies may be filled by the Board.
Neither Board members nor officers receive compensation for serving as such, but they are entitled to reimbursement for expenses incurred in performing such service.

The Issuer has no assets, property, or employees. Other than legal counsel, the Issuer has not engaged any consultant or other professional. THE ISSUER HAS NO TAXING POWER.

The Issuer is receiving a fee of approximately $25,000 in connection with the issuance of the Bonds, after provision has been made for expenses of the Issuer, which amount shall be paid to the City and may be used by the City 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. The Borrower has agreed to indemnify the Issuer for certain matters under the Loan Agreement.

The directors of the Issuer are not personally liable in any way for any act or omission committed or suffered in the performance of the functions of the Issuer.

Neither the Issuer nor the City has assumed any responsibility for the matters contained herein except, in the case of the Issuer, solely as to matters relating to the Issuer. All findings and determinations by the Issuer and the City, respectively, are and have been made by each for its own internal uses and purposes. Notwithstanding its approval of the Bonds for purposes of Section 147(f) of the Code, the City does not endorse in any manner, directly or indirectly, guarantee or promise to pay the Bonds from any source of funds of the City or guarantee, warrant or endorse the creditworthiness or credit standing of the Borrower, or in any manner guarantee, warrant, or endorse the investment quality or value of the Bonds. The Bonds are payable solely as described in this Official Statement and are not in any manner payable wholly or partially from any funds or properties otherwise belonging to the Issuer. By its issuance of the Bonds, the Issuer does not in any manner, directly or indirectly, guarantee, warrant or endorse the creditworthiness or credit standing of the Borrower or the investment quality or value of the Bonds. The Issuer has no taxing power.

THE TRUSTEE

Wells Fargo Bank, National Association, Houston, Texas, will act as initial Trustee under the Bond Indenture and also will initially act as Master Trustee under the Master Trust 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 Bond Indenture and the Loan Agreement, as evidenced by the Master Notes, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, and the approving legal opinion of Vinson & Elkins L.L.P., Houston, Texas, Bond Counsel, in substantially the form attached hereto as APPENDIX C.

Bond Counsel was not requested to participate and did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information appearing in this Official Statement under the captions “SECURITY AND SOURCE OF PAYMENT,” “THE BONDS,” “LEGAL MATTERS,” “TAX MATTERS,” “THE SYSTEM OF CHARTER SCHOOLS IN TEXAS,” “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS,” “CURRENT PUBLIC SCHOOL FINANCE SYSTEM,” “LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS,” “CONTINUING DISCLOSURE OF INFORMATION,” “APPENDIX C – FORM OF OPINION OF BOND COUNSEL,” “APPENDIX D – SUBSTANTIALLY FINAL FORMS OF THE MASTER TRUST INDENTURE AND THE SUPPLEMENTAL MASTER TRUST INDENTURE NO. 1,” “APPENDIX E –
No-Litigation Certificates

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

The Borrower will furnish the Underwriter a certificate, executed by both the Chairperson 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 Notes, the Deed of Trust, or the title of the officers thereof to their respective offices.

TAX MATTERS

Tax-Exempt Bonds

In the opinion of Vinson & Elkins L.L.P., Bond Counsel, assuming compliance with certain covenants and based on certain representations, (i) interest on the Series 2009A Bonds (the “Tax-Exempt Bonds”) is excludable from gross income for federal income tax purposes under existing law and (ii) the Tax-Exempt Bonds are “qualified 501(c)(3) bonds” under the Code, and, as such, interest on the Tax-Exempt Bonds is not subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

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

For purposes of its opinion that the Tax-Exempt Bonds are “qualified 501(c)(3) bonds,” Bond Counsel will rely upon representations of the Issuer and the Borrower in the Bond Indenture and the Loan Agreement and will assume continuing compliance with the covenants of the Bond Indenture and the Loan Agreement pertaining to those sections of the Code that affect the status of the Borrower as an organization described in section 501(c)(3) of the Code and the exclusion from gross income of interest on the Tax-Exempt Bonds for federal income tax purposes. In addition, Bond Counsel will rely on representations by the Issuer, the Borrower, the Underwriter and Wells Nelson & Associates (the “Financial Advisor”) with respect to matters solely within the knowledge of the Issuer, the Borrower, the Underwriter and the Financial Advisor, respectively, which Bond Counsel has not independently verified. Bond Counsel will further rely on the report of Grant Thornton LLP, certified public accountants, regarding the mathematical accuracy of certain computations. If the Borrower or the Issuer should fail to comply with the covenants in the Bond Indenture and/or the Loan Agreement or the foregoing representations or report should be determined to be incorrect, inaccurate, or incomplete, interest on the Tax-Exempt Bonds could become includable in gross income for federal income tax purposes from the date of delivery of the Tax-Exempt Bonds, regardless of the date on which the event causing such includability occurs.

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

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

Bond Counsel’s opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel’s knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel’s attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel’s opinions are not a guarantee of result and are not binding on the IRS; rather, such opinions represent Bond Counsel’s legal judgment based upon its review of existing 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 Tax-Exempt 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 Tax-Exempt Bonds. If an audit is commenced, in accordance with its current published procedures, the IRS is likely to treat the Issuer as the taxpayer and the Beneficial Owners of the Tax-Exempt Bonds may not have a right to participate in such audit. Public awareness of any future audit of the Tax-Exempt Bonds could adversely affect the value and liquidity of the Series 2009A Bonds regardless of the ultimate outcome of the audit.

Collateral Tax Consequences

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

Tax Accounting Treatment of Tax-Exempt Original Issue Discount Bonds

The initial offering price to be paid for certain Tax-Exempt Bonds (the “Tax-Exempt Original Issue Discount Bonds”) may be less than the stated redemption price payable at maturity of such Tax-Exempt Bonds. In such case, the difference between (i) the amount payable at the maturity of each Tax-Exempt Original Issue Discount Bond, and (ii) the initial offering price to the public of such Tax-Exempt Original Issue Discount Bond constitutes original issue discount with respect to such Tax-Exempt Original Issue Discount Bond in the hands of any owner who has purchased such Tax-Exempt Original Issue Discount Bond at the initial offering price in the initial public offering of the Tax-Exempt Original Issue Discount Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Tax-Exempt Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Tax-Exempt Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the caption “Collateral Tax Consequences” generally applies, and should be considered in connection with the discussion in this portion of the Official Statement.
In the event of the redemption, sale, or other taxable disposition of such Tax-Exempt Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Tax-Exempt Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Tax-Exempt Original Issue Discount Bond was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (i) the Underwriter has purchased the Bonds for contemporaneous sale to the public and (ii) all of the Tax-Exempt Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm’s-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the inside cover page of this Official Statement. Neither the Borrower nor Bond Counsel has made any investigation or offers any comfort that the Tax-Exempt Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original discount on each Tax-Exempt Original Issue Discount Bond accrues daily to the stated maturity thereof (in amounts calculated as described below for a six-month period ending on the date before the semi-annual anniversary dates of the date of such Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner’s basis for the Tax-Exempt Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale, or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (ii) the amounts payable as current interest during such accrual period on such Bond.

The federal income tax consequences of the purchase, ownership, and redemption, sale, or other disposition of the Tax-Exempt Original Issue Discount Bonds that are not purchased in the initial offering may be determined according to rules that differ from those described above. All owners of the Tax-Exempt Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale, or other disposition of the Tax-Exempt Original Issue Discount Bonds and with respect to the federal, state, local, and foreign tax consequences of purchase, ownership, redemption, sale, or other disposition of the Tax-Exempt Original Issue Discount Bonds.

**Taxable Bonds**

The following discussion describes certain U.S. federal income tax considerations of United States persons that are beneficial owners (“Owners”) of the Series 2009B Bonds (the “Taxable Bonds”). This discussion is based upon the provisions of the Code, applicable Treasury Regulations promulgated and proposed thereunder, judicial authority, and administrative interpretations, as of the date hereof, all of which are subject to change, possibly with retroactive effect, or are subject to different interpretations. Owners cannot be assured that the IRS will not challenge one or more of the tax consequences described herein, and neither the Borrower nor Bond Counsel has obtained, nor does the Borrower or Bond Counsel intend to obtain, a ruling from the IRS with respect to the U.S. federal tax consequences of acquiring, holding, or disposing of the Taxable Bonds. This summary is limited to initial holders who purchase the Taxable Bonds for cash at their “issue price” (which will equal the first price at which a substantial portion of the Taxable Bonds is sold for cash to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers) and who hold the Taxable Bonds as capital assets (generally property held for investment).

This summary does not discuss all of the tax consequences that may be relevant to Owners in light of their particular circumstances or to Owners subject to special rules, such as certain financial institutions, insurance companies, tax-exempt organizations, foreign taxpayers, taxpayers who may be subject to the alternative minimum tax on personal holding company provisions of the Code, dealers in securities or foreign currencies, or Owners whose functional currency (as defined in Section 985 of the Code) is not the U.S. dollar. Except as stated herein, this summary describes no federal, state, or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Taxable Bonds. Owners who are subject to special provisions of the Code should consult their own tax advisors regarding the tax consequences to them of purchasing, holding, owning, and disposing of the Taxable Bonds, including the advisability of making any of the elections described below, before determining whether to purchase the Taxable Bonds.
The Code generally defines a United States person as (i) an individual who, for U.S. federal income tax purposes, is a citizen or resident of the United States, (ii) a corporation or other entity taxable as a corporation for U.S. federal income tax purposes, that was created or organized in or under the laws of the United States, and any state thereof or the District of Columbia or any political subdivision thereof, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust whose administration is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust.

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

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

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

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

Original Issue Discount. Certain Taxable Bonds may be sold at a discount below their principal amount. As provided in the Code and the Treasury Regulations, the excess of the “stated redemption price at maturity” (as defined below) of each such Taxable Bond over its issue price will be original issue discount if such excess equals or exceeds a de minimis amount (i.e., one quarter of one percent of the Taxable Bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity). A Taxable Bond having original issue discount equal to or greater than a de minimis amount will be referred to as “Taxable Original Issue Discount Bond.” Owners of Taxable Bonds that are not Taxable Original Issue Discount Bonds will include any de minimis original issue discount in income, as capital gain, on a pro rata basis as principal payments are made on the Taxable Bond. The stated redemption price at maturity of a Taxable Bond includes all payments on the Taxable Bonds other than the stated interest amounts, which are based on a fixed rate and payable unconditionally at the end of each six-month accrual period.

Except as described below, Owners of Taxable Original Issue Discount Bonds will have to include in gross income (irrespective of their method of accounting) a portion of the original issue discount of Taxable Original Issue Discount Bonds for each year during which Taxable Original Issue Discount Bonds are held, even though the cash to which such income is attributable will not be received until maturity of Taxable Original Issue Discount Bonds. The amount of original issue discount included in income for each year will be calculated under a constant yield to maturity formula that results in the allocation of less original issue discount to earlier years of the term of Taxable Original Issue Discount Bonds and more original issue discount to the later years.

The foregoing summary is based on the assumptions that (i) the Underwriter has purchased the Taxable Bonds for contemporaneous sale to the general public and not for investment purposes, (ii) all of the Taxable Bonds have been offered, and a substantial amount of each maturity thereof has been sold to the general public in arm’s-length transactions for a cash price (and with no other consideration being included) equal to the initial offering prices thereof stated on the inside cover page of this Official Statement, and (iii) the respective initial offering prices of the Taxable Bonds to the general public are equal to the fair market value thereof. Neither the Borrower nor Bond Counsel has made any investigation or offers any assurance that the Taxable Bonds will be offered and sold in accordance with such assumptions.

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

**Disposition or Retirement.** Upon the sale, exchange, or certain other dispositions of a Taxable Bond, or upon the retirement of a Taxable Bond (including by redemption), an Owner will generally recognize capital gain or loss. This gain or loss will equal the difference between the Owner’s adjusted tax basis in the Taxable Bond and the proceeds the Owner receives, excluding any proceeds attributable to accrued interest, which will be recognized as ordinary interest income to the extent the Owner has not previously included the accrued interest in income. The proceeds an Owner receives will include the amount of any cash and the fair market value of any other property received for the Taxable Bond. Notwithstanding the discussion under “Taxable Bonds – Original Issue Discount,” an Owner’s tax basis in the Taxable Bond will generally equal the amount the Owner paid for the Taxable Bond. The gain or loss will be long-term capital gain or loss if the Owner held the Taxable Bond for more than one year. Long-term capital gains of individuals, estates, and trusts currently are subject to a reduced tax rate. The deductibility of capital losses may be subject to limitation.

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

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

**Qualified Tax-Exempt Obligations**

Section 265(a) of the Code provides, in general, that a deduction for interest on indebtedness incurred to acquire or carry tax-exempt obligations is disallowed. Section 265(b) of the Code provides a specific complete disallowance of any deduction by a financial institution of its pro rata interest expense to reflect such financial institution's investment in tax-exempt obligations acquired after August 7, 1986. Section 265(b) of the Code provides, however, two exceptions to this disallowance for a financial institution: (i) new money tax-exempt obligations issued during calendar years 2009 and 2010 that have an adjusted cost basis that does not exceed two percent of the adjusted cost basis of the financial institution’s total assets and (ii) tax-exempt obligations that are properly designated by an issuer as “qualified tax-exempt obligations.” During 2009 and 2010, an organization described under section 501(c)(3) of the Code is treated as an issuer.

The Tax-Exempt Bonds have been designated as “qualified tax-exempt obligations” based, in part, on the Borrower's representation that the amount of the Tax-Exempt Bonds, when added to the amount of all other tax-exempt obligations (not including private activity bonds other than qualified 501(c)(3) bonds) issued or reasonably anticipated to be issued on behalf of the Borrower during 2009, will not exceed $30,000,000. Further, the Borrower has not designated more than $30,000,000 in "qualified tax-exempt obligations" (including the Tax-Exempt Bonds) during 2009.
Notwithstanding the designation of the Tax-Exempt Bonds as “qualified tax-exempt obligations” under this exception, financial institutions acquiring the Tax-Exempt Bonds will be subject to a 20 percent disallowance of allocable interest expense.

SALE AND DISTRIBUTION OF THE BONDS

The Underwriter

The Series 2009A Bonds are being purchased by the Underwriter, pursuant to a bond purchase agreement with the Issuer, as approved by the Borrower, at a price of $23,609,967.14, which reflects the par amount of the Series 2009A Bonds less an underwriting discount of $477,907.11 less an original issue discount of $584,644.75 plus accrued interest to the date of delivery. The Series 2009B Bonds are being purchased by the Underwriter, pursuant to a bond purchase agreement with the Issuer, as approved by the Borrower, at a price of $523,958.55, which reflects the par amount of the Series 2009B Bonds less an underwriting discount of $189,892.90 less an original issue discount of $10,828.55 plus accrued interest to the date of delivery. The Underwriter’s 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 Underwriter.

Prices and Marketability

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

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

The Issuer has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. 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 S&P. 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, until July 1, 2009, the Borrower will be obligated to provide certain updated financial information and operating data at least annually to the appropriate state information depository (“SID”) and timely notice of specified material events to certain information vendors. On and after July 1, 2009, the Borrower will no longer be obligated to provide such information to the SID or other information vendors, but will instead be obligated to provide such information to the Municipal Securities Rulemaking Board (the “MSRB”) in an electronic format prescribed by the MSRB.

Annual Reports

Until July 1, 2009, the Borrower will provide certain updated financial information and operating data annually to certain information vendors or, on and after July 1, 2009, the MSRB. The information to be updated includes all quantitative financial information and operating data of the general type included in this Official Statement under the captions “THE BORROWER” and “FINANCIAL AND OPERATIONS INFORMATION” and in APPENDIX A and in Tables 1-6 and 9-10 in APPENDIX H. The Borrower will update and provide this information within six months after the end of each fiscal year. The Borrower will provide updated information until July 1, 2009, to each nationally recognized municipal securities information repository (“NRMSIR”) and to any SID that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the “SEC”), and may provide such information through a central post office facility. On and after July 1, 2009, the Borrower will no longer be obligated to provide such information to the SID or other information vendors, but will instead be obligated to provide such information to the MSRB only, in an electronic format prescribed by the MSRB.

Until July 1, 2009, 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”). On and after July 1, 2009, such updated financial information may either be set forth in full in one or more documents or included by specific reference to documents available to the public through the MSRB or the SEC. The updated information will include audited financial statements if the Borrower commissions an audit and the audit is completed by the required time. If audited financial statements are not available by the required time, the Borrower will provide such financial statements on an unaudited basis within the required time and audited financial statements when they become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX A or such other accounting principles as the Borrower may be required to employ from time to time pursuant to State law or regulation.
The Borrower’s current fiscal year end is the last day of August. Accordingly, the Borrower must provide updated information by the last day of February in each year, unless the Borrower changes its fiscal year. If the Borrower changes its fiscal year, it will (i) until July 1, 2009, notify each NRMSIR and any SID of the change, and (ii) on and after July 1, 2009, notify the MSRB of the change, prior to the next date by which the Borrower otherwise would be required to provide the foregoing information.

Material Event Notices

Until July 1, 2009, the Borrower also will provide timely notices of certain events to certain information vendors and, on and after July 1, 2009, to the MSRB. Specifically, the Borrower will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. Neither the Bonds nor the Agreement make any provision for liquidity enhancement. In addition, the Borrower will provide timely notice of any failure by the Borrower to provide annual financial information, data, or financial statements in accordance with its agreement described above under “Annual Reports.” The Borrower will provide each notice described in this paragraph to (i) until July 1, 2009, any SID and to either each NRMSIR or the MSRB, and (ii) on and after July 1, 2009, the MSRB.

Availability of Information

Until July 1, 2009, the Borrower has agreed to provide the foregoing information to the SID and with respect to Material Event Notices to either each NRMSIR or the MSRB. On and after July 1, 2009, such information will be provided only to the MSRB. Until July 1, 2009, the information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so. On and after July 1, 2009, the MSRB will provide access to such information. The MSRB expects to provide such information to the public free of charge.

With regard to the Borrower’s obligations prior to July 1, 2009, the Municipal Advisory Council of Texas has been designated by the State as a SID and the SEC has determined that it is a qualified SID, until July 1, 2009. The address of the Municipal Advisory Council is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is (512) 476 6947.

Limitations and Amendments

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

The continuing disclosure agreement may be amended by the Borrower from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Borrower, but only if (1) the agreement, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Bond 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” 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.

Compliance with Prior Undertakings

The Borrower has no previous continuing disclosure obligations.

ADDITIONAL DISCLOSURE

In addition to the disclosure described above under “CONTINUING DISCLOSURE OF INFORMATION,” the Borrower has agreed in the Loan Agreement to cause an annual audit of its books and accounts to be made by independent certified public accountants and to deliver such audit to the Trustee and the Issuer within 120 days after the end of each Fiscal Year. In addition, the Borrower shall deliver a copy of the management letter of such accountants and a certificate signed by the Superintendent or President of the Governing Body of the Borrower stating items as described in the Loan Agreement.

The Borrower shall deliver to the Trustee, the SID and each NRMSIR, at the end of each calendar quarter commencing June 30, 2009, a copy of the financial reports customarily prepared for and provided to the Board of the Borrower during that calendar quarter.

The Borrower 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 under the Loan Agreement or under the Series 2009 Notes, the Master Indenture or the Indenture.

The Borrower has also agreed to conduct investor calls on the first Business Day of the month following the end of each calendar quarter until such time as the Company’s reported enrollment equals or exceeds 1,120 students. Such calls shall be initially scheduled at 2 p.m. Eastern Standard Time on April 1, 2009, July 1, 2009, October 1, 2009 and January 4, 2010, through the services of Digital Assurance Certification LLC. The dates and times of any investor call may be changed upon thirty (30) days’ written notice filed with the NRMSIR or the MSRB. Such quarterly investor calls shall resume on the first Business Day of the month following the end of the calendar quarter in which (i) the Company's reported enrollment subsequently drops below 1,120 and (ii) the Trustee is required to apply funds in the Debt Service Reserve Fund to pay the Debt Service on the Bonds pursuant to Section 404(b) of the Indenture; provided that such quarterly investor calls shall no longer be required once the reported enrollment again equals or exceeds 1,120 students.

VERIFICATION OF MATHEMATICAL ACCURACY

The accuracy of the mathematical computations of the adequacy of the maturing principal of and interest earned on the securities held in the Escrow Fund, together with other available funds held in the Escrow Fund, to provide for the payment of the Refunded Bonds will be verified by Grant Thornton LLP, a firm of independent certified public accountants. Grant Thornton LLP will verify that the scheduled payments of principal and interest on such securities are in such amounts and become due at such times so as to provide, together with the initial cash
deposit by the Borrower (if any), sufficient funds to pay all principal of and interest on the Refunded Bonds when due, without reinvestment.

These computations will be based upon information and assumptions supplied by the Underwriter on behalf of the Borrower. Grant Thornton LLP has restricted its procedures to recalculating the computations provided by the Underwriter and has not evaluated or examined the assumptions or information used in the computations.

**PREPARATION OF OFFICIAL STATEMENT**

**Sources and Compilation of Information**

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

This Official Statement was approved by the Board of Directors of the Issuer, as of the date shown on the cover page.
**SCHEDULE 1**

**REFUNDED BONDS**

Danbury Higher Education Authority, Inc. Tax-Exempt Education Revenue Bonds, Series 2000A (Tejano Center for Community Concerns, Inc. – Raul Yzaguirre School for Success Project)

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<td>08/31/2036</td>
<td>2,165,000.00</td>
<td>106,425.00</td>
<td>(2,145,426.85)</td>
<td></td>
<td>325,998.15</td>
</tr>
<tr>
<td>Total</td>
<td>$25,200,000.00</td>
<td>$46,787,862.50</td>
<td>(3,429,349.37)</td>
<td>(1,470,403.13)</td>
<td>$67,088,110.00</td>
</tr>
</tbody>
</table>
APPENDIX A
AUDITED FINANCIALS OF THE BORROWER FOR FISCAL YEARS 2005-2008
TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2005
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<th>Page No.</th>
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</tr>
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<td>Independent Auditor’s Report on Supplementary Information</td>
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<td></td>
</tr>
<tr>
<td>Other Matters Based on an Audit of Financial Statements</td>
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</tr>
<tr>
<td>Performed in Accordance with Government Auditing Standards</td>
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</tr>
<tr>
<td>Report on Compliance with Requirements Applicable to Each Major Program</td>
<td></td>
</tr>
<tr>
<td>and on Internal Control over Compliance in Accordance with OMB Circular</td>
<td></td>
</tr>
<tr>
<td>A-133</td>
<td>24</td>
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<tr>
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<tr>
<td>Schedule of Prior Year Findings</td>
<td>28</td>
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<td>Schedule of Expenditures of Federal Awards</td>
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</tr>
<tr>
<td>Notes to Schedule of Expenditures of Federal Awards</td>
<td>30</td>
</tr>
</tbody>
</table>
We, the undersigned, certify that the attached Annual Financial and Compliance Report of Tejano Center for Community Concerns was reviewed and approved disapproved for the year ended August 31, 2005, at a meeting of the governing body of said charter school on the day of , 20 .

______________________________    ______________________________
Signature of Board Secretary     Signature of Board President
(THIS PAGE LEFT BLANK INTENTIONALLY)
INDEPENDENT AUDITOR’S REPORT

To The Board of Directors of
Tejano Center for Community Concerns, Inc.
Houston, Texas

We have audited the accompanying statement of financial position of Tejano Center for Community Concerns, Inc. (TCCC, Inc.) as of August 31, 2005, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of TCCC, Inc.’s 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 TCCC, Inc. as of August 31, 2005, 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 24, 2006, on our consideration of TCCC, Inc.’s 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 should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of TCCC, Inc. 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.

January 24, 2006
## TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

### STATEMENT OF FINANCIAL POSITION

#### AUGUST 31, 2005

<table>
<thead>
<tr>
<th>Assets:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$2,369,108</td>
</tr>
<tr>
<td>Cash - Restricted</td>
<td>0</td>
</tr>
<tr>
<td>Grants Receivable</td>
<td>302,087</td>
</tr>
<tr>
<td>Other Receivables</td>
<td>33,358</td>
</tr>
<tr>
<td>Notes Receivables</td>
<td>0</td>
</tr>
<tr>
<td>Property Held for Sale</td>
<td>514,099</td>
</tr>
<tr>
<td>Land and Improvements</td>
<td>495,666</td>
</tr>
<tr>
<td>Building</td>
<td>4,806,363</td>
</tr>
<tr>
<td>Equipment and Furniture</td>
<td>1,361,744</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>(1,644,419)</td>
</tr>
<tr>
<td>Other Assets</td>
<td>104,847</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$8,342,853</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Net Assets:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities:</td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$323,217</td>
</tr>
<tr>
<td>Payroll Taxes Payable</td>
<td>2,327</td>
</tr>
<tr>
<td>Interest Payable</td>
<td>172,800</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>214,567</td>
</tr>
<tr>
<td>Capital Lease Obligations</td>
<td>9,356</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>1,405,309</td>
</tr>
<tr>
<td>Bonds Payable</td>
<td>2,880,000</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>5,007,575</strong></td>
</tr>
</tbody>
</table>

| Net Assets:                |        |
| Unrestricted               | 2,935,278|
| Temporarily Restricted     | 0      |
| Permanently Restricted     | 400,000|
| **Total Net Assets**       | **3,335,278** |

| **Total Liabilities and Net Assets** | **$8,342,853** |

See accompanying notes to financial statements.
TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2005

<table>
<thead>
<tr>
<th>SUPPORT AND REVENUE</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal grants</td>
<td>$0</td>
<td>$2,451,413</td>
<td>$0</td>
<td>$2,451,413</td>
</tr>
<tr>
<td>State and local grants</td>
<td>5,864,486</td>
<td>75,000</td>
<td>5,939,486</td>
<td></td>
</tr>
<tr>
<td>Rent income</td>
<td>654,210</td>
<td></td>
<td>654,210</td>
<td></td>
</tr>
<tr>
<td>Donations</td>
<td>529,873</td>
<td></td>
<td>529,873</td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>34,581</td>
<td></td>
<td>34,581</td>
<td></td>
</tr>
<tr>
<td>Sales of constructed homes</td>
<td>555,800</td>
<td></td>
<td>555,800</td>
<td></td>
</tr>
<tr>
<td>Net Assets released from restrictions</td>
<td>8,315,899</td>
<td>(8,315,899)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Support and Revenue</strong></td>
<td>10,090,363</td>
<td>0</td>
<td>75,000</td>
<td>10,165,363</td>
</tr>
</tbody>
</table>

| EXPENSES                              |              |                        |                        |        |
| Program Services                      | 9,928,113    |                        | 9,928,113              |        |
| Management and general                | 115,543      |                        | 115,543                |        |
| **Total Expenses**                    | 10,043,656   | 0                      | 0                      | 10,043,656 |

| Increase in net assets                | 46,707       |                        | 75,000                 | 121,707 |

| Net assets, beginning of year         | 2,873,161    |                        | 2,873,161              |        |
| Prior period adjustment               | 15,410       |                        | 325,000                | 340,410 |
| Net assets, beginning of year restated| 2,888,571    |                        | 325,000                | 3,213,571 |

| Net assets, end of year               | $2,935,278   | $0                     | $400,000               | $3,335,278 |

See accompanying notes to financial statements.
## Statement of Functional Expenses

**For the Year Ended August 31, 2005**

<table>
<thead>
<tr>
<th></th>
<th>Program Services</th>
<th>Supporting Services</th>
<th>Total Program Funds</th>
<th>Total Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Charter School</td>
<td>Child Housing</td>
<td>Commercial Shelter</td>
<td>All M &amp; G</td>
</tr>
<tr>
<td><strong>CHARTER SCHOOL</strong></td>
<td>$3,691,858</td>
<td>$190,662</td>
<td>$346,728</td>
<td>$2,877</td>
</tr>
<tr>
<td><strong>CHILD HOUSING</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>COMMERCIAL SHELTER</strong></td>
<td>$596</td>
<td></td>
<td>$6,754</td>
<td>$262</td>
</tr>
<tr>
<td><strong>COMMERCIAL PROPERTIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Salaries</strong></td>
<td></td>
<td></td>
<td></td>
<td>$82,176</td>
</tr>
<tr>
<td><strong>Fringe Benefits</strong></td>
<td>$58,778</td>
<td>$6,015</td>
<td>$6,754</td>
<td>$596</td>
</tr>
<tr>
<td><strong>Payroll taxes</strong></td>
<td></td>
<td></td>
<td></td>
<td>$6,192</td>
</tr>
<tr>
<td><strong>Total personnel and related benefits</strong></td>
<td>$3,884,910</td>
<td>$210,077</td>
<td>$381,975</td>
<td>$89,933</td>
</tr>
<tr>
<td><strong>Food Purchases</strong></td>
<td>$262,920</td>
<td></td>
<td></td>
<td>$262,920</td>
</tr>
<tr>
<td><strong>Insurance</strong></td>
<td>$659,185</td>
<td>$28,752</td>
<td>$47,740</td>
<td>$41,187</td>
</tr>
<tr>
<td><strong>Supplies</strong></td>
<td>$280,860</td>
<td>$2,692</td>
<td>$47,361</td>
<td>$96,863</td>
</tr>
<tr>
<td><strong>Travel</strong></td>
<td>$123,477</td>
<td>$6,702</td>
<td>$3,128</td>
<td>$6,158</td>
</tr>
<tr>
<td><strong>Telephone</strong></td>
<td>$70,826</td>
<td>$6,680</td>
<td>$9,473</td>
<td>$1,159</td>
</tr>
<tr>
<td><strong>Rent Expense</strong></td>
<td>$636,514</td>
<td>$780</td>
<td>$1,317</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Leases</strong></td>
<td>$55,511</td>
<td>$4,784</td>
<td>$994</td>
<td>$7,009</td>
</tr>
<tr>
<td><strong>Professional fees</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Dues &amp; Subscriptions</strong></td>
<td>$75,412</td>
<td>$6,290</td>
<td>$8,889</td>
<td>$28,468</td>
</tr>
<tr>
<td><strong>Other taxes</strong></td>
<td>$164,010</td>
<td>$8,691</td>
<td>$56,073</td>
<td>$30,370</td>
</tr>
<tr>
<td><strong>Postage &amp; delivery</strong></td>
<td>$3,232</td>
<td>$999</td>
<td>$0</td>
<td>$1,150</td>
</tr>
<tr>
<td><strong>Permits &amp; Licenses</strong></td>
<td>$1,518</td>
<td>$2,263</td>
<td>$691</td>
<td>$38,411</td>
</tr>
<tr>
<td><strong>Training</strong></td>
<td>$46,206</td>
<td>$3,961</td>
<td>$18,318</td>
<td>$105,607</td>
</tr>
<tr>
<td><strong>Utilities</strong></td>
<td>$8,768</td>
<td>$1,627</td>
<td>$100</td>
<td>$130</td>
</tr>
<tr>
<td><strong>Advertising</strong></td>
<td>$48,640</td>
<td>$567</td>
<td>$21,314</td>
<td>$4,697</td>
</tr>
<tr>
<td><strong>Bank charges</strong></td>
<td>$3,454</td>
<td>$9,871</td>
<td>$368</td>
<td>$1,775</td>
</tr>
<tr>
<td><strong>Fundraisers</strong></td>
<td>$46,876</td>
<td>$0</td>
<td>$250</td>
<td>$45,505</td>
</tr>
<tr>
<td><strong>Interest</strong></td>
<td>$125,329</td>
<td>$2,239</td>
<td>$941</td>
<td>$377,856</td>
</tr>
<tr>
<td><strong>Contract labor</strong></td>
<td>$313,825</td>
<td>$1,245</td>
<td>$384</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Foster Parents</strong></td>
<td>$0</td>
<td>$0</td>
<td>$273,940</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Cost of houses sold</strong></td>
<td>$0</td>
<td>$475,110</td>
<td>$0</td>
<td>$475,110</td>
</tr>
<tr>
<td><strong>Miscellaneous</strong></td>
<td>$148,196</td>
<td>$9,150</td>
<td>$27,725</td>
<td>$738</td>
</tr>
<tr>
<td><strong>Total expenses before depreciation</strong></td>
<td>$7,008,680</td>
<td>$817,260</td>
<td>$903,318</td>
<td>$765,983</td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$7,283,597</td>
<td>$828,037</td>
<td>$928,610</td>
<td>$887,870</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2005

Cash Flows From Operating Activities

Change in net assets $ 121,707

Adjustments to reconcile change in net assets to net cash provided (used) by operating activities

Prior period adjustment 340,410
Depreciation 435,267
(Increase) decrease in accounts receivable 106,817
(Increase) decrease in prepaid assets (36,409)
(Increase) decrease in inventories (250,179)
Increase (decrease) in accounts payable 140,553
Increase (decrease) in notes payable to suppliers 438,481
Increase (decrease) in interest payable 68,475
Increase (decrease) in other accrued liabilities 135,268
Increase (decrease) in payroll taxes (63,894)

Net Cash Provided (Used) by Operating Activities 1,438,447

Cash Flows From Investing Activities

Purchases of fixed assets (1,028,639)

Net Cash Provided (Used) by Investing Activities (1,028,639)

Cash Flows From Financing Activities

Repayment of long-term debt (69,696)

Net Cash Provided (Used) by Financing Activities (69,696)

NET INCREASE (DECREASE) IN CASH 340,111

CASH AT BEGINNING OF YEAR 2,028,997

CASH AT END OF YEAR $ 2,369,108

Cash Paid During the Year for:

Interest $ 506,860

See accompanying notes to financial statements.
A. Organization:

Tejano Center for Community Concerns, Inc. (TCCC, Inc.) is a community based, non-profit corporation organized under the laws of the State of Texas. TCCC, Inc. was established in 1992 primarily for the delivery of educational, social services and community development initiatives for low income children and families in the Houston area.

TCCC, Inc. operated several different programs during the period ended August 31, 2005 as follows:

Child Placing

The purpose of this program is to provide for the placement of abused/neglected and homeless children in culturally and language appropriate foster homes and foster group homes. This program involves the recruitment, certification and monitoring of foster homes and the Agency’s ‘El Hogar de Niño’s’ which provides emergency type care. The State Department of Protective & Regulatory Services licenses the program.

Affordable Housing Program

This program develops and builds affordable housing for low-income families and provides pre-home ownership counseling and prepares the homebuyer for mortgage approval.

After School Extended Day Program

This program provides students of the Raul Yzaguirre School for Success (RYSS) with after school activities, which focus on leadership and character development. The program further provides supervision during the critical hours of 3:30 and 6:00 p.m., when children are most vulnerable for committing delinquent acts and getting involved with the juvenile justice system.

Americorps

This program is a nationally sponsored volunteer project which provides qualifying youth and adults with stipends and scholarships upon completion of 1700 hours of community service. Members serve as Teacher Aides to the Raul Yzaguirre School and for the Center’s Adult Education Program.

Tejano Health Clinic

This program serves low-income children and families with primary care and operates one day a week. Volunteer doctors see more than 1500 patients annually.
A. **Organization: (Continued)**

**Raul Yzaguirre School for Success**

The RYSS was one of the first 20 charter schools in the State of Texas and serves 950 students in grades PreK through 12th. It was created for the purpose of addressing the dropout problem, over crowding and school violence. RYSS provides one of the most comprehensive and innovative programs anywhere in the country and is regarded as one of the top charter schools in the State of Texas.

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

**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.

**PROPERTY AND EQUIPMENT**

Property and equipment purchased by TCCC, Inc. are recorded at cost. Donations of property and equipment are recorded at their fair value at the date of the gift. All purchases and donations in excess of $1,000 are capitalized. Depreciation is provided on the straight-line method based upon estimated useful lives of five years for equipment. Gains or losses on retired or 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 TCCC, Inc., that 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
B. Summary of Significant Accounting Policies: (Continued)

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

TCCC, Inc. 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

TCCC, Inc. considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash is held in demand accounts at a bank.

ESTIMATES

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

ADVERTISING

Advertising costs are expensed as they are incurred. Advertising expense was $11,795 for the year ended August 31, 2005.

C. Pension Plan:

Plan Description

The charter school 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 and disability retirement benefits, and
C. **Pension Plan**: (Continued)

dec death benefits to plan members and beneficiaries. The System operates under the authority of
dictions 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. The charter school’s employees’ contributions to the System for the year ending
August 31, 2005 were $321,368 equal to the required contributions for that year.

D. **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.

E. **Operating Lease Commitment:**

TCCC, Inc. is currently leasing its office equipment on a non-cancelable operating lease.

TCCC, Inc.’s minimum annual lease commitment is as follows:

<table>
<thead>
<tr>
<th>Year Ending August 31</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$11,565</td>
</tr>
<tr>
<td>2007</td>
<td>11,565</td>
</tr>
<tr>
<td>2008</td>
<td>7,575</td>
</tr>
<tr>
<td>2009</td>
<td>1,100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$31,805</strong></td>
</tr>
</tbody>
</table>

Operating lease expense amounted to $25,722 for the year ended August 31, 2005.
F. Capital Leases:

The Organization maintains noncancellable capital leases for some of its equipment. The following is a schedule by year of approximate future minimum lease payments required under these leases:

<table>
<thead>
<tr>
<th>Year ended August 31</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$ 9,356</td>
</tr>
<tr>
<td>Total</td>
<td>$ 9,356</td>
</tr>
<tr>
<td>Amount representing interest</td>
<td>(498)</td>
</tr>
<tr>
<td>Net future minimum lease payments</td>
<td>$ 8,858</td>
</tr>
</tbody>
</table>

G. Notes Payable:

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

- Note payable to a bank, interest at 6.13% per year, secured by real estate $ 31,851
- Note payable to a bank, interest at 6.5% per year, secured by real estate 72,000
- Note payable to a bank, interest at 5.87% per year, secured by real estate 142,402
- Note payable to a bank, interest at 4.5% per year, secured by real estate 523,062
- Note payable to a bank, interest at 6.5% per year, secured by real estate 121,332
- Note payable to a bank, interest at 6.65% per year, secured by real estate 40,974
- Note payable to a bank, interest at 6.75% per year, secured by real estate 24,839
- Note payable to a bank, interest at 7.0% per year, secured by real estate 46,367
- Note payable to a vendor, interest at 0% per year, secured by real estate 270,950
- Note payable to a bank, interest at 5% per year, secured by real estate 81,532
- Revocable grant from bank, non-interest bearing 50,000

Total notes payable $ 1,405,309
G. Notes Payable: (Continued)

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

<table>
<thead>
<tr>
<th>Year Ending August 31</th>
<th>Notes Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$1,197,916</td>
</tr>
<tr>
<td>2007</td>
<td>58,683</td>
</tr>
<tr>
<td>2008</td>
<td>55,306</td>
</tr>
<tr>
<td>2009</td>
<td>46,702</td>
</tr>
<tr>
<td>2010</td>
<td>46,702</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,405,309</strong></td>
</tr>
</tbody>
</table>

H. Bonds Payable:

TCCC, Inc. has secured bonds pursuant to Chapter 53 of Texas Education Code $2,880,000 of Tax Exempt Education Revenue Bonds Series 2000A and $65,000 of Taxable Education Revenue Bonds Series 2000B Bonds (both collectively referred to as the Series 2000 Bonds) were authorized to be issued dated November 15, 2000 to pay project costs and costs of issuance of the Series 2000 Bonds.

The bonds have a level debt service structure, maturing March 15, 2003 through 2020. Interest on the Bonds will be paid semiannually each March 15, and September 15 until maturity, commencing September 15, 2001. The Bonds were issued in fully registered form in denominations of $100,000 and in integral multiples of $5,000 in excess thereof. The Bonds maturing on or after March 15, 2010 will be subject to optional redemption. Bonds maturing in 2005 will have an interest rate of 8.75% per annum, bonds maturing in 2010 will have an interest rate of 6.5% per annum, and the bonds maturing in 2020 will have an interest rate of 7.5% per annum.

The bonds will mature according to the following schedule:

<table>
<thead>
<tr>
<th>Year Ending August 31, 2005</th>
<th>Bonds Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$735,000</td>
</tr>
<tr>
<td>2020</td>
<td>2,145,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,880,000</strong></td>
</tr>
</tbody>
</table>

TCCC must maintain a debt service fund which is required to maintain a minimum balance of $288,000. The amount of the bonds at August 31, 2005 was $2,880,000.
I. Commitments and Contingencies:

The charter school 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.

TCCC, Inc. is the sponsoring agency to the Kimble–Dover Apartment Housing Corporation. The agency received a loan from HUD for approximately $10,000,000 for the development of a senior housing project. Construction was halted by the general contractor, Primis Corporation, due to there bankruptcy. HUD had advanced approximately $2,100,000 toward the project. TCCC, Inc. is currently attempting to exercise the performance bond. TCCC, Inc. could potentially owe HUD a portion of the funds disbursed or be required to inject capital to complete the project.

J. Health Care Coverage:

During the year ended August 31, 2005, employees of the charter school were covered by a Health Insurance Plan (the Plan). The charter school contributed $249 for Houston campus and $249 for Brownsville campus per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insures.

K. Defined Contribution Plan:

The Organization has made available a defined contribution (403(b)) plan to all employees. Employees may elect to defer a portion of their yearly compensation, up to statutory limits. The Organization does not contribute to the plan.

L. Prior Period Adjustment:

During the year ended August 31, 2004 $325,000 was recorded as a recoverable grant liability due to NRC. NRC provided information which showed the funds should had been recorded as a permanently restricted net asset, therefore a prior period adjustment was necessary to correct net assets. During the audit we also noted that TCCC, Inc. also had outstanding checks from 2004 which totaled to $15,410 that were voided to correct cash balances.
INDEPENDENT AUDITOR’S REPORT ON SUPPLEMENTARY INFORMATION

To The Board of Directors of
Tejano Center for Community Concerns, Inc.
Houston, Texas

Our report on our audit of the consolidated financial statement of Tejano Center for Community Concerns, Inc. (TCCC, Inc.) for the year ended August 31, 2005 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.

January 24, 2006
### TEJANO CENTER FOR COMMUNITY CONCERNS, INC.
### RAUL YZAGUIRRE SCHOOL FOR SUCCESS
### SUPPLEMENTAL STATEMENT OF FINANCIAL POSITION
### AUGUST 31, 2005

#### ASSETS

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$1,241,997</td>
</tr>
<tr>
<td>Grants Receivable</td>
<td>$31,521</td>
</tr>
<tr>
<td>Due from Agency</td>
<td>$93,798</td>
</tr>
<tr>
<td>Other Receivables</td>
<td>$136,785</td>
</tr>
<tr>
<td>Building</td>
<td>$1,952,091</td>
</tr>
<tr>
<td>Equipment and Furniture</td>
<td>$1,097,495</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>($900,967)</td>
</tr>
<tr>
<td>Other Assets</td>
<td>$77,660</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$3,730,380</strong></td>
</tr>
</tbody>
</table>

#### LIABILITIES AND NET ASSETS

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>$299,228</td>
</tr>
<tr>
<td>Payroll Taxes Payable</td>
<td>$2,327</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>$1,191,402</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>$70,307</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>$1,563,265</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>$2,167,115</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td><strong>$2,167,115</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Liabilities and Net Assets</strong></td>
<td><strong>$3,730,380</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
TEJANO CENTER FOR COMMUNITY CONCERNS, INC.
RAUL YZAGUIRRE SCHOOL FOR SUCCESS
SUPPLEMENTAL STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2005

<table>
<thead>
<tr>
<th>REVENUES</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Support:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5740 Other Revenues from Local Sources</td>
<td>$136,367</td>
<td>$0</td>
<td>$136,367</td>
</tr>
<tr>
<td>5760 Revenues from Intermediate Sources</td>
<td>1,366</td>
<td></td>
<td>1,366</td>
</tr>
<tr>
<td>Total Local Support</td>
<td>137,733</td>
<td>0</td>
<td>137,733</td>
</tr>
<tr>
<td>State Program Revenues:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5810 Foundation School Program Act Revenues</td>
<td>0</td>
<td>5,266,328</td>
<td>5,266,328</td>
</tr>
<tr>
<td>5820 State Program Revenues Distributed by Texas</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education Agency</td>
<td>0</td>
<td>358,359</td>
<td>358,359</td>
</tr>
<tr>
<td>5830 State Revenues from State of Texas Government</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agencies (Other than Texas Education Agency)</td>
<td>0</td>
<td>195,922</td>
<td>195,922</td>
</tr>
<tr>
<td>Total State Program Revenues</td>
<td>0</td>
<td>5,820,609</td>
<td>5,820,609</td>
</tr>
<tr>
<td>Federal Program Revenues:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5920 Federal Revenues Distributed by Texas Education</td>
<td>1,512,821</td>
<td></td>
<td>1,512,821</td>
</tr>
<tr>
<td>Agency</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5940 Federal Revenues Distributed Directly</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>from the Federal Government</td>
<td>0</td>
<td>47,721</td>
<td>47,721</td>
</tr>
<tr>
<td>Total Federal Program Revenues</td>
<td>0</td>
<td>1,560,542</td>
<td>1,560,542</td>
</tr>
<tr>
<td>Net assets released from restrictions:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restrictions satisfied by payments</td>
<td>7,381,151</td>
<td>(7,381,151)</td>
<td></td>
</tr>
<tr>
<td>Total Revenues</td>
<td>7,518,884</td>
<td>0</td>
<td>7,518,884</td>
</tr>
</tbody>
</table>

EXPENSES

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>11 Instruction</td>
<td>3,735,743</td>
<td></td>
<td>3,735,743</td>
</tr>
<tr>
<td>23 School Leadership</td>
<td>271,940</td>
<td></td>
<td>271,940</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
### TEJANO CENTER FOR COMMUNITY CONCERNS, INC.  
### RAUL YZAGUIRRE SCHOOL FOR SUCCESS  
### SUPPLEMENTAL STATEMENT OF ACTIVITIES  
### FOR THE YEAR ENDED AUGUST 31, 2005

<table>
<thead>
<tr>
<th>Service Name</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 Guidance, Counseling and Evaluation Services</td>
<td>39,677</td>
<td></td>
<td>39,677</td>
</tr>
<tr>
<td>32 Social Work Services</td>
<td>75</td>
<td></td>
<td>75</td>
</tr>
<tr>
<td>33 Health Services</td>
<td>52,863</td>
<td>0</td>
<td>52,863</td>
</tr>
<tr>
<td>34 Student (Pupil) Transportation</td>
<td>116,591</td>
<td></td>
<td>116,591</td>
</tr>
<tr>
<td>35 Food Services</td>
<td>448,166</td>
<td></td>
<td>448,166</td>
</tr>
<tr>
<td>36 Cocurricular/Extracurricular Activities</td>
<td>31,918</td>
<td>31,918</td>
<td>31,918</td>
</tr>
<tr>
<td>41 General Administration</td>
<td>976,485</td>
<td></td>
<td>976,485</td>
</tr>
<tr>
<td>51 Plant maintenance and Operations</td>
<td>1,324,767</td>
<td></td>
<td>1,324,767</td>
</tr>
<tr>
<td>53 Data Processing Services</td>
<td>216,588</td>
<td></td>
<td>216,588</td>
</tr>
<tr>
<td>61 Community Services</td>
<td>35,689</td>
<td></td>
<td>35,689</td>
</tr>
<tr>
<td>81 Fund Raising</td>
<td>46,876</td>
<td></td>
<td>46,876</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>7,297,378</strong></td>
<td><strong>0</strong></td>
<td><strong>7,297,378</strong></td>
</tr>
</tbody>
</table>

Change in Net Assets  

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Assets, beginning of year</td>
<td>1,931,002</td>
<td>0</td>
<td>1,931,002</td>
</tr>
<tr>
<td>Prior Period Adjustment</td>
<td>14,607</td>
<td></td>
<td>14,607</td>
</tr>
<tr>
<td><strong>Net Assets, beginning of year as restated</strong></td>
<td><strong>1,945,609</strong></td>
<td><strong>0</strong></td>
<td><strong>1,945,609</strong></td>
</tr>
<tr>
<td>Net Assets, ending of year</td>
<td><strong>$ 2,167,115</strong></td>
<td><strong>$ 0</strong></td>
<td><strong>$ 2,167,115</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2005

Increase (Decrease) in net assets $ 221,506
Adjustments to reconcile net income (loss) to net
cash provided (used) by operating activities
  Prior period adjustment 14,607
  Depreciation 274,917
  (Increase) decrease in accounts receivable 2,624
  (Increase) Decrease in receivables from agencies (146,033)
  (Increase) decrease in prepaid assets (28,659)
  Increase (decrease) in accounts payable 186,118
  Increase (decrease) in notes payable to suppliers 679,884
  Increase (decrease) in other accrued liabilities 25,276
  Increase (decrease) in payroll taxes (14,439)

Net Cash Provided (Used) by Operating Activities 1,216,100

Cash Flows From Investing Activities
  Plant & equipment purchases (915,174)

Net Cash Provided (Used) by Investing Activities (915,174)

NET INCREASE (DECREASE) IN CASH 300,926

CASH AT BEGINNING OF YEAR 941,071

CASH AT END OF YEAR $ 1,241,997

Supplemental Disclosures
Cash Paid During the Year for:
  Interest $ 125,329

See accompanying notes to financial statements.
TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

RAUL YZAGUIRRE SCHOOL FOR SUCCESS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2005

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>6100 Payroll Costs</td>
<td>$4,806,629</td>
</tr>
<tr>
<td>6200 Professional and Contracted Services</td>
<td>1,154,139</td>
</tr>
<tr>
<td>6300 Supplies and Materials</td>
<td>686,520</td>
</tr>
<tr>
<td>6400 Other Operating Costs</td>
<td>521,721</td>
</tr>
<tr>
<td>6500 Debt</td>
<td>128,369</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>$7,297,378</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements
<table>
<thead>
<tr>
<th>Ownership Interest</th>
<th>Local</th>
<th>State</th>
<th>Federal</th>
</tr>
</thead>
<tbody>
<tr>
<td>1110 Cash</td>
<td>$</td>
<td>$</td>
<td>1,241,997 $</td>
</tr>
<tr>
<td>1520 Buildings</td>
<td>$</td>
<td>$</td>
<td>1,036,576</td>
</tr>
<tr>
<td>1521 Leasehold Improvements</td>
<td>915,515</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1541 Vehicles</td>
<td>202,802</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1548 Equipment</td>
<td>785,510</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1549 Furniture</td>
<td>109,183</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Property and Equipment</strong></td>
<td>$</td>
<td>$</td>
<td>3,255,007 $</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements
# TEJANO CENTER FOR COMMUNITY CONCERNS

**RAUL YZAGUIRRE SCHOOL FOR SUCCESS**

**BUDGETARY COMPARISON SCHEDULE**

**FOR THE YEAR ENDED AUGUST 31, 2005**

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Budgeted Amounts</th>
<th>Actual from Final Amounts</th>
<th>Variance from Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Local Support:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5740 Other Revenues from Local Sources</td>
<td>$223,197</td>
<td>$223,197</td>
<td>$136,367</td>
</tr>
<tr>
<td>5760 Revenues from Intermediate Sources</td>
<td></td>
<td>1,366</td>
<td>1,366</td>
</tr>
<tr>
<td><strong>Total Local Support</strong></td>
<td>223,197</td>
<td>223,197</td>
<td>137,733</td>
</tr>
<tr>
<td><strong>State Program Revenues:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5810 Foundation School Program Act Revenues</td>
<td>4,559,672</td>
<td>4,559,672</td>
<td>5,266,328</td>
</tr>
<tr>
<td>5820 State Program Revenues Distributed by Texas Education Agency</td>
<td></td>
<td>358,359</td>
<td>358,359</td>
</tr>
<tr>
<td>5830 State Program Revenues Distributed by Texas Education Agency</td>
<td></td>
<td>195,922</td>
<td>195,922</td>
</tr>
<tr>
<td><strong>Total State Program Revenues</strong></td>
<td>4,559,672</td>
<td>4,559,672</td>
<td>5,820,609</td>
</tr>
<tr>
<td><strong>Federal Program Revenues:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5920 Federal Revenues Distributed by the Texas Education Agency</td>
<td>1,434,490</td>
<td>1,434,490</td>
<td>1,512,821</td>
</tr>
<tr>
<td>5940 Federal Revenues Distributed by the Texas Education Agency</td>
<td></td>
<td>47,721</td>
<td>47,721</td>
</tr>
<tr>
<td><strong>Total Federal Program Revenues</strong></td>
<td>1,434,490</td>
<td>1,434,490</td>
<td>1,560,542</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>6,217,359</td>
<td>6,217,359</td>
<td>7,518,884</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Budgeted Amounts</th>
<th>Actual from Final Amounts</th>
<th>Variance from Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>11 Instruction</td>
<td>3,231,736</td>
<td>3,231,736</td>
<td>3,735,743</td>
</tr>
<tr>
<td>13 Curriculum and Staff Development</td>
<td>12,578</td>
<td>12,578</td>
<td>13,050</td>
</tr>
<tr>
<td>23 School Leadership</td>
<td>267,902</td>
<td>267,902</td>
<td>271,940</td>
</tr>
<tr>
<td>31 Guidance, Counseling and Evaluation</td>
<td>32,108</td>
<td>32,108</td>
<td>39,677</td>
</tr>
<tr>
<td>32 Social Work Services</td>
<td>27,474</td>
<td>27,474</td>
<td>27,399</td>
</tr>
<tr>
<td>33 Health Services</td>
<td>40,996</td>
<td>40,996</td>
<td>52,863</td>
</tr>
<tr>
<td>34 Student (Pupil) Transportation</td>
<td>103,541</td>
<td>103,541</td>
<td>116,591</td>
</tr>
<tr>
<td>35 Food Services</td>
<td>381,725</td>
<td>381,725</td>
<td>448,166</td>
</tr>
<tr>
<td>36 Cocurricular/Extracurricular Activities</td>
<td>23,186</td>
<td>23,186</td>
<td>31,918</td>
</tr>
<tr>
<td>41 General Administration</td>
<td>924,482</td>
<td>924,482</td>
<td>976,485</td>
</tr>
<tr>
<td>51 Plant Maintenance and Operations</td>
<td>1,301,049</td>
<td>1,301,049</td>
<td>1,324,767</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
### TEJANO CENTER FOR COMMUNITY CONCERNS

#### RAUL YZAGUIRRE SCHOOL FOR SUCCESS

#### BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2005

<table>
<thead>
<tr>
<th>Category</th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>53 Data Processing Services</td>
<td>129,847</td>
<td>129,847</td>
<td>216,588</td>
<td>(86,741)</td>
</tr>
<tr>
<td>61 Community Services</td>
<td>31,466</td>
<td>31,466</td>
<td>35,689</td>
<td>(4,223)</td>
</tr>
<tr>
<td>81 Fund Raising</td>
<td>27,020</td>
<td>27,020</td>
<td>46,876</td>
<td>(19,856)</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>6,535,110</strong></td>
<td><strong>6,535,110</strong></td>
<td><strong>7,297,378</strong></td>
<td><strong>(762,268)</strong></td>
</tr>
<tr>
<td><strong>Change in Net Assets</strong></td>
<td><strong>(317,751)</strong></td>
<td><strong>(317,751)</strong></td>
<td><strong>221,506</strong></td>
<td><strong>539,257</strong></td>
</tr>
</tbody>
</table>

Net Assets, beginning of year | 14,607       | 14,607       | 14,607       |
Prior period adjustment       | 14,607       | 14,607       | 14,607       |
Net assets, as restated beginning of year | 29,214       | 29,214       | 29,214       |

Net Assets, end of year       | $ (288,537)  | $ (288,537)  | $ 250,720    | $ 539,257    |

See accompanying notes to financial statements.
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
Tejano Center for Community Concerns, Inc.
Houston, Texas

We have audited the financial statements of Tejano Center for Community Concerns, Inc. (TCCC, Inc.) for the year ended August 31, 2005, and have issued our report thereon dated January 24, 2006. 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 TCCC, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal controls over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls over financial reporting that, in our judgment, could adversely affect TCCC, Inc.'s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item I.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal controls over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items I to be a material weakness.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether TCCC, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements 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 item II.
We also noted other matters involving the internal control over financial reporting, which we have reported to management of TCCC, Inc. in a separate letter dated January 24, 2006.

This report is intended solely for the information and use of the audit committee, management, and the board of directors, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

January 24, 2006
REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To The Board of Directors of  
Tejano Center for Community Concerns, Inc.  
Houston, Texas

Compliance
We have audited the compliance of Tejano Center for Community Concerns, Inc. (TCCC, Inc.) 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, 2005. TCCC, Inc.’s major federal programs are identified in the summary of auditor’s result 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 TCCC, Inc.’s management. Our responsibility is to express an opinion on TCCC, Inc.’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organization. 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 TCCC, Inc.’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on TCCC, Inc.’s compliance with those requirements.

In our opinion, TCCC, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2005.

Internal Control over Compliance
The management of TCCC, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered TCCC, Inc.’s internal control over compliance with 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.
Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of law, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the board of directors, management and the federal awarding agencies and pass-through entities. However, this report is a matter of public record, and its distribution is not limited.

January 24, 2006
Summary of Audit Results

1. Unqualified opinion issued on financial statements.

2. Two reportable conditions disclosed during the audit of the financial statements are reported in the Schedule of Findings and Questioned Costs. One of the conditions is reported as a material weakness.

3. There was one instance of noncompliance which is material to the financial statements.

4. No reportable conditions or material weaknesses on internal control over major programs.

5. Unqualified opinion issued on compliance with major 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 the Texas Education Agency:
   Title I, Part A, School Improvement  CFDA Number 84.010A
   Texas Reading First Initiative for Grades K-3  CFDA Number 84.357A

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.


Findings Related to the Financial Statements

1. Recording of Financial Data

**Condition:**
During the audit, key financial entries had to be recorded to the TCCC, Inc.’s, general ledger to correct account balances.

**Criteria:**
The TCCC, Inc.’s, entries should be recorded in the manner required by generally accepted accounting principals and government guidelines.

**Effect:**
Without recording of key financial entries, financial statements could be misleading.
Recommendation:
We recommend that TCCC, Inc. implement procedures and controls to provide for timely recording of financial transactions, month-end entries and year-end closing entries. We also recommend that TCCC, Inc. send its accounting staff to non-profit accounting courses. These recommendations have been discussed with TCCC, Inc.’s, management and action will be taken to insure that the recommendations are implemented.

Management Response:
The accounting software has been updated and training has been scheduled for the entire accounting staff. The department is currently being evaluated for restructuring and a new controller has been hired. The year end closing will occur upon completion of the audit and month end entries will be done in a timely manner under the direction of the controller.

Findings Related to Compliance with State of Texas Programs

II. Restricted Program Funds - Unsupported Cost

<table>
<thead>
<tr>
<th>Questioned Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 93,798</td>
</tr>
</tbody>
</table>

Condition:
During the audit, we noted that TCCC, Inc. was advancing restricted funds from TEA to other programs. TEA could request the funds be reimbursed since these funds are restricted and not for use of other programs.

Criteria:
TCCC, Inc., is not allowed to restricted funds for other than there intended purpose.

Effect:
Without providing the requested supporting documents TCCC, Inc. will be liable to reimburse the TEA.

Recommendation:
We recommend that TCCC, Inc., cease this practice and all fund be returned to the appropriate program. We also recommend that TCCC, Inc. implement procedures and controls to provide for compliance with all government reporting requirements. These recommendations have been discussed with TCCC, Inc.’s, management and action will be taken to insure that the recommendations are implemented.

Management Response:
Additional in depth training for the PEIMS Coordinator has been established and new procedures will be set for allocating funds to its appropriate program for compliance under the direction of the controller. Training and implementation of new policies for compliance of government reporting are currently scheduled. A line of credit has also been established that will eliminate the advancing of restricted funds. The advanced restricted funds have since been returned to the appropriate program.
Summary Schedule of Prior Year Findings

No audit findings were noted as per Section .300 (f) of OMB A-133 for the year months ended August 31, 2003. $-0-$
### Federal Grantor/ Pass - Through Grantor/ CFDA Entity Identifying Federal Program Title Number Number Expenditures

#### U.S. Department of Education
Passed - Through Texas Education Agency:

- Title I, Part A, School Improvement 84.010A 056101101806 $488,681
- Title I, Part F, Comprehensive 84.332A 056160017110072 88,325
- Title II, Part A, Teacher/Principal Training 84.367A 05694501101806 89,441
- Title II, Part D, Enhancing Education 84.318X 05630001101806 12,447
- Title III, LEP 84.365A 05671001101806 45,469
- Title IV, Part A, Safe/Drug Free Schools 84.186A 05691001101806 9,281
- Title V, Part A, Innovative Programs 84.298A 05685001101806 5,762
- Carl D. Perkins - Basic Grant Foundation 84.048A 0542000610180604 20,874
- Texas Reading First Initiative for Grades K-3 84.357A 056455017110055 213,911
- Idea - B Preschool 84.173A 056610011018066600 911
- Idea - B Formula 84.027A 56600041018066600 154,886

Total U.S. Department of Education 1,129,988

#### U.S. Department of Agriculture
Passed - Through Texas Education Agency Federal Food Service Reimbursement

- Breakfast 10.553 71400501 76,912
- Lunch 10.555 71300501 325,068

Total U.S. Department of Agriculture 401,980

#### U.S. Department of Health and Human Services
Passed - Through Texas Department of Protective & Regulatory Services Residential Child Care 93.658 896,920

Total U.S. Department of Health & Human Services 896,920

#### U.S. Department of Housing & Urban Development
Passed - Through Local Initiative Support Corp.

- Housing Program New Hope 14.218 36,663

Total U.S. Department of Housing & Urban Development 36,663

Total Expenditures of Federal Awards $2,465,551
NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of expenditures of federal 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.
TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2006
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<td>6</td>
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</tr>
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<td></td>
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<tr>
<td>- Statement of Activities for Raul Yzaguirre School for Success</td>
<td>16</td>
</tr>
<tr>
<td>- Statement of Cash Flows for the Raul Yzaguirre School for Success</td>
<td>18</td>
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<td>20</td>
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<tr>
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<td>24</td>
</tr>
<tr>
<td>Schedule of Findings and Questioned Costs</td>
<td>26</td>
</tr>
<tr>
<td>Schedule of Prior Year Findings</td>
<td>28</td>
</tr>
<tr>
<td>Schedule of Expenditures of Federal Awards</td>
<td>30</td>
</tr>
<tr>
<td>Notes to Schedule of Expenditures of Federal Awards</td>
<td>31</td>
</tr>
</tbody>
</table>
TEJANO CENTER FOR COMMUNITY CONCERNS, INC. /
RAUL YZAGUIRRE SCHOOL FOR SUCCESS
101-806

CERTIFICATE OF BOARD
August 31, 2006

We, the undersigned, certify that the attached Annual Financial and Compliance Report of Tejano Center for Community Concerns was reviewed and _____ approved _____ disapproved for the year ended August 31, 2006, at a meeting of the governing body of said charter school on the _____ day of ________________, 20__.  

_____________________________  ________________________________
Signature of Board Secretary                                   Signature of Board President
INDEPENDENT AUDITOR’S REPORT

To The Board of Directors of
Tejano Center for Community Concerns, Inc.
Houston, Texas

We have audited the accompanying statement of financial position of Tejano Center for Community Concerns, Inc. (TCCC, Inc.) as of August 31, 2006, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of TCCC, Inc.'s 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 TCCC, Inc. as of August 31, 2006, 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 11, 2007, on our consideration of TCCC, Inc.'s 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 should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of TCCC, Inc. 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.

January 11, 2007

[Signature of Company]
TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2006

ASSETS

Assets:
Cash $ 2,021,614
Grants receivable 353,769
Other receivable 64,321
Inventory 732,996
Land and improvements 1,933,901
Buildings 3,397,297
Furniture, vehicles & equipment 1,400,442
Accumulated depreciation (2,194,666)
Other assets 63,024

TOTAL ASSETS $ 7,772,698

LIABILITIES AND
NET ASSETS

Liabilities:
Accounts payable $ 133,960
Other liabilities 174,078
Payroll tax payable 51,980
Interest payable 194,675
Notes payable 1,168,983
Line of credit 100,834
Bonds payable 2,665,000

TOTAL LIABILITIES 4,489,510

Net Assets:
Unrestricted 2,749,741
Temporarily restricted 33,447
Permanently restricted 500,000

TOTAL NET ASSETS 3,283,188

TOTAL LIABILITIES AND
NET ASSETS $ 7,772,698

See accompanying notes to financial statements.
TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2006

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal grants</td>
<td>$</td>
<td>$ 2,605,988</td>
<td>$</td>
<td>$ 2,605,988</td>
</tr>
<tr>
<td>State and local grants</td>
<td></td>
<td>5,825,972</td>
<td></td>
<td>5,825,972</td>
</tr>
<tr>
<td>Rent income</td>
<td>644,888</td>
<td></td>
<td>644,888</td>
<td></td>
</tr>
<tr>
<td>Donations</td>
<td>1,005,080</td>
<td>120,193</td>
<td>100,000</td>
<td>1,225,273</td>
</tr>
<tr>
<td>Interest income</td>
<td>50,298</td>
<td></td>
<td>50,298</td>
<td></td>
</tr>
<tr>
<td>Sales of constructed homes</td>
<td>533,509</td>
<td></td>
<td>533,509</td>
<td></td>
</tr>
<tr>
<td><strong>Net Assets released from restrictions</strong></td>
<td>8,518,706</td>
<td>(8,518,706)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Support and Revenues</strong></td>
<td>10,752,481</td>
<td>33,447</td>
<td>100,000</td>
<td>10,885,928</td>
</tr>
</tbody>
</table>

| **EXPENSES**         |              |                        |                        |           |
| Program services     | 10,044,456   |                        | 10,044,456             |           |
| Management and general| 858,578     |                        | 858,578                |           |
| **Total Expenses**   | 10,903,034   |                        | 10,903,034             |           |
| **Change in Net Assets** | (150,553) | 33,447                 | 100,000                | (17,106)  |
| **Net Assets, beginning of year as restated** | 2,900,294 |                        | 400,000                | 3,300,294 |
| **Net Assets, end of year** | $ 2,749,741 | $ 33,447               | $ 500,000              | $ 3,283,188 |

See accompanying notes to financial statements.
# TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

## STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2006

<table>
<thead>
<tr>
<th></th>
<th>Program Services</th>
<th>Supporting Services</th>
<th>Total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CHARTER SCHOOL</td>
<td>AFFORDABLE HOUSING/HOMEBUYER EDUCATION</td>
<td>CHILD SHELTER/PLACING</td>
<td>COMMERCIAL PROPERTIES</td>
</tr>
<tr>
<td>Salaries</td>
<td>$4,111,182</td>
<td>$245,018</td>
<td>$416,812</td>
<td>$67,697</td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>101,317</td>
<td>4,103</td>
<td>8,020</td>
<td>300</td>
</tr>
<tr>
<td>Payroll taxes</td>
<td>141,424</td>
<td>12,856</td>
<td>24,064</td>
<td>2,406</td>
</tr>
<tr>
<td>Total Personnel and Related Benefits</td>
<td>4,353,923</td>
<td>261,977</td>
<td>448,896</td>
<td>70,402</td>
</tr>
</tbody>
</table>

|                     |                  |                     |       | 289      |        | 319,301 | 1,769 |
| Food                | 319,012          | 26,584              | 38,349 | 21,199   |        | 614,223 | 593,024 |
| Insurance           | 528,091          | 26,584              | 38,349 | 21,199   |        | 593,024 | 593,024 |
| Supplies            | 524,381          | 37,813              | 83,472 | 41,972   | 9,171  | 695,610 | 645,666 |
| Travel              | 93,037           | 10,079              | 2,328   | 7,571    | 421    | 112,937 | 105,444 |
| Telephone           | 83,381           | 14,370              | 14,529  | 4,211    | 445    | 116,935 | 112,280 |
| Rent expense        | 638,174          | 2,100               | 358     | 7,492    | 445    | 640,632 | 640,632 |
| Leases              | 58,736           | 4,294               | 1,406   | 373      | 2,765  | 67,573  | 64,435  |
| Repairs and maintenance | 65,732              | 7,819               | 9,034   | 23,681   | 1,288  | 107,555 | 82,586  |
| Professional fees   | 390,303          | 13,131              | 68,264  | 5,832    | 50,159 | 527,689 | 471,697 |
| Dues and subscriptions | 1,144             | 625                | 500     | 2,269    |        | 1,769   |       |
| Other Taxes         | 100              | 4,645               | 882     | 2,053    |        | 7,680   | 5,627  |
| Postage and delivery | 13,197          | 2,851               | 767     | 204      | 653    | 17,673  | 16,815  |
| Permits and licenses | 873              | 2,068               | 1,307   | 1,600    | 168    | 5,016   | 4,248   |
| Training            | 13,198           | 6,097               | 1,217   | 1,600    | 2,884  | 24,216  | 21,332  |
| Utilities           | 96,031           | 8,675               | 7,790   | 168,655  |        | 311,331 | 142,677 |
| Advertising         | 3,598           | 1,472               | 239     | 85       | 81,043 | 142,677 | 5,309   |
| Auto expense        | 54,529           | 2,975               | 19,388  | 4,150    | 81,043 | 76,893  |        |
| Bank Charges        | 2,380           | 15,529              | 30      | 31       | 330    | 18,299  | 17,938  |
| Fundraisers         | 35,072           | 1,000               | 21,088  | 57,160   |        | 36,072  |        |
| Interest            | 63,176           | 24,005              | 496     | 144,161  | 57,430 | 289,267 | 87,676  |
| Contract labor      | 90,289           | 20,743              | 426     | 111,458  |        | 111,458 |        |
| Foster parents      | 228,690          |                    |        | 228,690  |        | 228,690 |        |
| Cost of houses sold | 455,237          |                    |        | 455,237  |        | 455,237 |        |
| Miscellaneous       | 174,719          | 92,038              | 47,815  | 8,285    | 49,884 | 372,786 | 314,617 |
| Total Expenses Before Depreciation | 7,003,795 | 1,015,173 | 1,066,963 | 494,757 | 231,567 | 10,352,193 | 9,625,930 |
| Depreciation        | 368,933          | 10,244              | 39,348  | 129,507  | 2,806  | 550,839 | 418,525 |
| Total Expenses      | $7,972,728       | $1,025,417          | $1,046,311 | $624,264 | $234,314 | $10,463,04 | $10,444,456 |

See accompanying notes to financial statements.
Cash flows from operating activities

Change in net assets $ (17,106)

Adjustments to reconcile change in net assets to net cash provided (used) by operating activities

Depreciation 550,839
(Increase) decrease in grants receivable (183,784)
(Increase) decrease in other receivable (30,963)
(Increase) decrease in other assets 41,232
(Increase) decrease in inventory (218,897)
Increase (decrease) in accounts payable (189,257)
Increase (decrease) in other liabilities (1,310)
Increase (decrease) in payroll taxes 49,653
Increase (decrease) in interest payable 78,969

Total adjustments 96,482

Net cash provided (used) by operating activities 79,376

Cash flows from investing activities

Purchase of fixed assets (67,867)

Net cash provided (used) by investing activities (67,867)

Cash flows from financing activities

Proceeds from line of credit 100,834
Repayment of long-term debt (231,389)
Repayment of bond (215,000)
Repayment of capital lease obligation (9,356)

Net cash provided (used) by financing activities (354,911)

NET INCREASE (DECREASE) IN CASH (343,402)

CASH AT BEGINNING OF YEAR 2,365,016

CASH AT END OF YEAR $ 2,021,614

Cash paid during the year for:

Interest $ 289,267

See accompanying notes to financial statements.
TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2006

A. Organization:

Tejano Center for Community Concerns, Inc. (TCCC, Inc.) is a community based, non-profit corporation organized under the laws of the State of Texas. TCCC, Inc. was established in 1992 primarily for the delivery of educational, social services and community development initiatives for low-income children and families in the Houston area.

TCCC, Inc. operated several different programs during the period ended August 31, 2006 as follows:

Child Placing/Shelter

The purpose of this program is to provide for the placement of abused/neglected and homeless children in culturally and language appropriate foster homes and foster group homes. This program involves the recruitment, certification and monitoring of foster homes and the Agency’s ‘El Hogar de Niño’s’ which provides emergency type care. The State Department of Protective & Regulatory Services licenses the program.

Affordable Housing/Homebuyer Education

This program develops and builds affordable housing for low-income families and provides pre-home ownership counseling and prepares the homebuyer for mortgage approval.

Charter School

The Raul Yzaguirre School for Success (RYSS) was one of the first 20 charter schools in the State of Texas and serves 950 students in grades PreK through 12th. It was created for the purpose of addressing the dropout problem, over crowding and school violence. RYSS provides one of the most comprehensive and innovative programs anywhere in the country and is regarded as one of the top charter schools in the State of Texas. The charter school has two additional programs as follows:

After School Extended Day Program

This program provides students of the (RYSS) with after school activities, which focus on leadership and character development. The program further provides supervision during the critical hours of 3:30 and 6:00 p.m., when children are most vulnerable for committing delinquent acts and getting involved with the juvenile justice system.

Americorps

This program is a nationally sponsored volunteer project, which provides qualifying youth and adults with stipends and scholarships upon completion of 1700 hours of community service. Members serve as Teacher Aides to the RYSS and for the Center’s Adult Education Program.
B. Summary of Significant Accounting Policies:

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.

PROPERTY AND EQUIPMENT

Property and equipment purchased by TCCC, Inc. are recorded at cost. Donations of property and equipment are recorded at their fair value at the date of the gift. All purchases and donations in excess of $1,000 are capitalized. Depreciation is provided on the straight-line method based upon estimated useful lives of five years for equipment. Gains or losses on retired or 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 TCCC, Inc., that 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.
B. **Summary of Significant Accounting Policies:** (Continued)

**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**

TCCC, Inc. 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**

TCCC, Inc. considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash is held in demand accounts at a bank.

**ESTIMATES**

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

**ADVERTISING**

Advertising costs are expensed as they are incurred. Advertising expense was $5,394 for the year ended August 31, 2006.

C. **Pension Plan:**

**Plan Description**

The charter school 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 and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. The System's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas, 78701-2698 or by calling (800) 877-0123.
TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2006

C. Pension Plan: (Continued)

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. The charter school's employees' contributions to the System for the year ending August 31, 2006 were $263,729 equal to the required contributions for that year.

D. 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.

E. Operating Lease Commitment:

TCCC, Inc. is currently leasing its office equipment on a non-cancelable operating lease.

TCCC, Inc.'s minimum annual lease commitment is as follows:

<table>
<thead>
<tr>
<th>Year Ending August 31,</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$11,565</td>
</tr>
<tr>
<td>2008</td>
<td>7,575</td>
</tr>
<tr>
<td>2009</td>
<td>1,000</td>
</tr>
<tr>
<td>Total</td>
<td>$20,240</td>
</tr>
</tbody>
</table>

Operating lease expense amounted to $38,576 for the year ended August 31, 2006.

F. Notes Payable:

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

- Note payable to a bank, interest at 6.13% per year, secured by real estate $20,383
- Note payable to a bank, interest at 6.5% per year, secured by real estate 67,263
- Note payable to a bank, interest at 5.87% per year, secured by real estate 385,388
- Note payable to a bank, interest at 4.5% per year, secured by real estate 486,675
- Note payable to a bank, interest at 6.5% per year, secured by real estate 99,796
- Note payable to a bank, interest at 6.65% per year, secured by real estate 28,952
- Note payable to a bank, interest at 7.0% per year, secured by real estate 30,526
- Revocable grant from bank, non-interest bearing 50,000

Total notes payable $1,168,983
TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2006

F. Notes Payable: (Continued)

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

<table>
<thead>
<tr>
<th>Year Ending August 31</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$ 289,493</td>
</tr>
<tr>
<td>2008</td>
<td>167,695</td>
</tr>
<tr>
<td>2009</td>
<td>136,137</td>
</tr>
<tr>
<td>2010</td>
<td>133,195</td>
</tr>
<tr>
<td>2011</td>
<td>107,400</td>
</tr>
<tr>
<td>Thereafter</td>
<td>335,063</td>
</tr>
<tr>
<td>Total</td>
<td>$1,168,983</td>
</tr>
</tbody>
</table>

G. Bonds Payable:

TCCC, Inc. has secured bonds pursuant to Chapter 53 of Texas Education Code $2,880,000 of Tax Exempt Education Revenue Bonds Series 2000A and $65,000 of Taxable Education Revenue Bonds Series 2000B Bonds (both collectively referred to as the Series 2000 Bonds) were authorized to be issued dated November 15, 2000 to pay project costs and costs of issuance of the Series 2000 Bonds.

The bonds have a level debt service structure, maturing March 15, 2003 through 2020. Interest on the Bonds will be paid semiannually each March 15, and September 15 until maturity, commencing September 15, 2001. The Bonds were issued in fully registered form in denominations of $100,000 and in integral multiples of $5,000 in excess thereof. The Bonds maturing on or after March 15, 2010 will be subject to optional redemption. Bonds maturing in 2005 will have an interest rate of 8.75% per annum, bonds maturing in 2010 will have an interest rate of 6.5% per annum, and the bonds maturing in 2020 will have an interest rate of 7.5% per annum.

The bonds will mature according to the following schedule:

<table>
<thead>
<tr>
<th>Year Ending August 31, 2006</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$ 520,000</td>
</tr>
<tr>
<td>2020</td>
<td>2,145,000</td>
</tr>
<tr>
<td>Total</td>
<td>$ 2,665,000</td>
</tr>
</tbody>
</table>

TCCC must maintain a debt service fund which is required to maintain a minimum balance of $288,000. The current balance in the debt service fund at August 31, 2006 is $466,613. The amounts of the bonds at August 31, 2006 were $2,665,000.
H. Revolving Line of Credit:

TCCC, Inc. has a $510,000 revolving line of credit, of which $409,166 was unused; the outstanding balance is $100,834 at August 31, 2006. Bank advances on the credit line are payable on demand and carry an interest rate of 5.0% over prime. The credit line is secured by real estate.

The agency also has a $350,000 revolving line of credit, of which $350,000 was unused at August 31, 2006. Bank advances on the credit line are payable on demand and carry an interest rate of 6.0% fixed. The credit line is secured by land.

I. Temporarily Restricted Net Assets:

Temporarily restricted net assets at August 31, 2006, are available for the following periods:

| Periods after August 31, 2006 | $ 33,447 |
| Total temporarily restricted donations | $ 33,447 |

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

- Texas Education Agency: $7,196,902
- Texas Department of Health & Human Services: 928,005
- Local Initiative Support Corp.: 40,000
- Health & Human Services Commission: 24,396
- Criminal Justice Department: 99,389
- Americorp: 93,478
- Army JROTC: 49,789
- Private Donations: 86,747

Total restrictions released: $8,518,706

J. Permanently Restricted Net Assets:

Permanently restricted net assets consist of the following at August 31, 2006:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at August 31, 2005</td>
<td>$ 400,000</td>
</tr>
<tr>
<td>Contributions made during the year</td>
<td>100,000</td>
</tr>
<tr>
<td>Total permanently restricted contributions</td>
<td>$ 500,000</td>
</tr>
</tbody>
</table>

This amount is restricted for use in building projects associated with the NeighborWorks organization. In accordance with the grant award letter, TCCC, Inc. must establish and maintain a permanently restricted revolving loan and capital projects fund to account exclusively for their use.
K. Commitments and Contingencies:

The charter school 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.

L. Health Care Coverage:

During the year, ended August 31, 2006, employees of the charter school were covered by a Health Insurance Plan (the Plan). The charter school contributed $331 for Houston campus and $331 for Brownsville campus per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

M. Defined Contribution Plan:

The Organization has made available a defined contribution (403(b)) plan to all employees. Employees may elect to defer a portion of their yearly compensation, up to statutory limits. The Organization does not contribute to the plan.

N. Affiliated Company:

TCCC, Inc. is the sponsoring agency to the Kimble–Dover Apartment Housing Corporation. The agency received a loan from HUD for approximately $10,000,000 for the development of a senior housing project. At August 31, 2006, TCCC, Inc. had advanced $28,545 to Kimble-Dover and the amount is reflected in their other receivable balance.

O. Settlements and Lawsuits:

TCCC, Inc. is presently being sued by a former employee for alleged injuries sustained at the Raul Yzaguirre Charter School campus. TCCC, Inc. does not have workers compensation insurance and, if found responsible, would have to compensate the employee. TCCC, Inc. has decided to accrue a possible settlement liability in the amount of $75,000 at August 31, 2006.

Another former employee is also suing TCCC, Inc. for breach of contract. The case is in the discovery process and the extent of any liability, if any, has not yet been determined.
P. Prior Period Adjustment:

During the year ended August 31, 2006 five adjustments were made to TCCC, Inc. net assets. These changes were due to accounting errors in previous years.

The adjustments are as follows:

- Accounts receivable written off $ (132,102)
- Voided checks (4,092)
- Reversing accrued liabilities 39,179
- Overstatement of notes payable 4,937
- Overstatement of interest payable 57,094
- Net effect of the adjustments $ (34,984)

The result of these adjustments decreased net assets by $34,984 at August 31, 2005.
INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To The Board of Directors of
Tejano Center for Community Concerns, Inc.
Houston, Texas

Our report on our audit of the consolidated financial statement of Tejano Center for Community Concerns, Inc. (TCCC, Inc.) for the year ended August 31, 2006 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.

January 11, 2007
## ASSETS

<table>
<thead>
<tr>
<th>Asset</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$ 880,580</td>
</tr>
<tr>
<td>Grants receivable</td>
<td>265,314</td>
</tr>
<tr>
<td>Other receivable</td>
<td>5,265</td>
</tr>
<tr>
<td>Due from agency</td>
<td>84,517</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>915,539</td>
</tr>
<tr>
<td>Buildings</td>
<td>1,039,576</td>
</tr>
<tr>
<td>Furniture, vehicles, &amp; equipment</td>
<td>1,130,086</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(1,268,734)</td>
</tr>
<tr>
<td>Other assets</td>
<td>51,504</td>
</tr>
</tbody>
</table>

**TOTAL ASSETS** $3,103,647

## LIABILITIES AND NET ASSETS

<table>
<thead>
<tr>
<th>Liability</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$ 90,810</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>113,052</td>
</tr>
<tr>
<td>Payroll tax payable</td>
<td>51,980</td>
</tr>
<tr>
<td>Notes payable</td>
<td>1,043,007</td>
</tr>
</tbody>
</table>

**TOTAL LIABILITIES** 1,298,849

**Net Assets:**

- **Unrestricted** 1,804,798

**TOTAL NET ASSETS** 1,804,798

**TOTAL LIABILITIES AND NET ASSETS** $3,103,647

See accompanying notes to financial statements.
<table>
<thead>
<tr>
<th>Description</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>2006 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local Support</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5740 Other revenues from local sources</td>
<td>$ 238,554</td>
<td>$</td>
<td>$ 238,554</td>
</tr>
<tr>
<td>5750 Revenue from cocurricular activities</td>
<td>39,648</td>
<td></td>
<td>39,648</td>
</tr>
<tr>
<td>5760 Revenues from intermediate services</td>
<td>842</td>
<td></td>
<td>842</td>
</tr>
<tr>
<td>Total Local Support</td>
<td>279,044</td>
<td></td>
<td>279,044</td>
</tr>
<tr>
<td>State Program Revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5810 Foundation school program act revenues</td>
<td></td>
<td>5,203,656</td>
<td>5,203,656</td>
</tr>
<tr>
<td>5820 State program revenues distributed by Texas Education Agency</td>
<td></td>
<td>379,660</td>
<td>379,660</td>
</tr>
<tr>
<td>5830 State revenues from state of Texas government agencies (other than</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Texas Education Agency)</td>
<td></td>
<td>192,867</td>
<td>192,867</td>
</tr>
<tr>
<td>Total state program revenues</td>
<td></td>
<td>5,776,183</td>
<td>5,776,183</td>
</tr>
<tr>
<td>Federal Program Revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5920 Federal revenues distributed by Texas Education Agency</td>
<td></td>
<td>1,637,983</td>
<td>1,637,983</td>
</tr>
<tr>
<td>5940 Federal revenues distributed directly from the federal government</td>
<td></td>
<td>49,789</td>
<td>49,789</td>
</tr>
<tr>
<td>Total Federal Program Revenue</td>
<td></td>
<td>1,687,772</td>
<td>1,687,772</td>
</tr>
<tr>
<td>Net assets released from restrictions:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restrictions satisfied by payments</td>
<td>7,463,955</td>
<td>(7,463,955)</td>
<td></td>
</tr>
<tr>
<td>Total Revenues</td>
<td>7,742,999</td>
<td></td>
<td>7,742,999</td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td>4,082,398</td>
<td>4,082,398</td>
<td></td>
</tr>
<tr>
<td>11 Instruction</td>
<td>139</td>
<td>139</td>
<td></td>
</tr>
<tr>
<td>12 Instructional resources and media services</td>
<td>61,658</td>
<td>61,658</td>
<td></td>
</tr>
<tr>
<td>23 School leadership</td>
<td>250,778</td>
<td>250,778</td>
<td></td>
</tr>
<tr>
<td>31 Guidance, counseling, and evaluation services</td>
<td>38,742</td>
<td>38,742</td>
<td></td>
</tr>
<tr>
<td>33 Health services</td>
<td>63,296</td>
<td>63,296</td>
<td></td>
</tr>
<tr>
<td>34 Student (pupil) transportation</td>
<td>167,168</td>
<td>167,168</td>
<td></td>
</tr>
<tr>
<td>35 Food Service</td>
<td>508,583</td>
<td>508,583</td>
<td></td>
</tr>
<tr>
<td>36 Cocurricular/extracurricular activities</td>
<td>25,540</td>
<td>25,540</td>
<td></td>
</tr>
<tr>
<td>41 General administration</td>
<td>974,671</td>
<td>974,671</td>
<td></td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>51</td>
<td>Plant maintenance and operations</td>
<td>1,480,950</td>
<td>1,480,950</td>
</tr>
<tr>
<td>53</td>
<td>Data processing services</td>
<td>238,478</td>
<td>238,478</td>
</tr>
<tr>
<td>61</td>
<td>Community services</td>
<td>45,064</td>
<td>45,064</td>
</tr>
<tr>
<td>81</td>
<td>Fund raising</td>
<td>35,262</td>
<td>35,262</td>
</tr>
<tr>
<td></td>
<td>Total Expenses</td>
<td>7,972,728</td>
<td>7,972,728</td>
</tr>
<tr>
<td></td>
<td>Change in net assets</td>
<td>(229,729)</td>
<td>(229,729)</td>
</tr>
<tr>
<td></td>
<td>Net assets, beginning of year as renotated</td>
<td>2,034,527</td>
<td>2,034,527</td>
</tr>
<tr>
<td></td>
<td>Net assets, ending of year</td>
<td>$1,804,798</td>
<td>$1,804,798</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.

-17-
Cash flows from operating activities

Change in net assets $ (229,729)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities
  Depreciation 368,933
  (Increase) decrease in grants receivable (233,793)
  (Increase) decrease in other receivable 5,536
  (Increase) decrease in receivable from agency 9,281
  (Increase) decrease in other assets 22,477
  Increase (decrease) in accounts payable (208,418)
  Increase (decrease) in other liabilities 42,745
  Increase (decrease) in payroll taxes 49,653

Total adjustments 56,414

Net cash provided (used) by operating activities (173,315)

Cash flows from investing activities

Purchase of fixed assets (35,615)

Net cash provided (used) by investing activities (35,615)

Cash flows from financing activities

Repayment of long-term debt (148,395)

Net cash provided (used) by financing activities (148,395)

NET INCREASE (DECREASE) IN CASH (357,325)
CASH AT BEGINNING OF YEAR 1,237,905
CASH AT END OF YEAR $ 880,580

Cash paid during the year for:
  Interest $ 63,176

See accompanying notes to financial statements.
TEJANO CENTER FOR COMMUNITY CONCERNS, INC.
RAUL YZAGUIRRE SCHOOL FOR SUCCESS
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2006

<table>
<thead>
<tr>
<th>EXPENSES</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>6100 Payroll costs</td>
<td>$4,880,969</td>
</tr>
<tr>
<td>6200 Professional and contracted services</td>
<td>1,401,017</td>
</tr>
<tr>
<td>6300 Supplies and materials</td>
<td>915,647</td>
</tr>
<tr>
<td>6400 Other operating costs</td>
<td>634,541</td>
</tr>
<tr>
<td>6500 Debt</td>
<td>65,555</td>
</tr>
<tr>
<td>8900 Extraordinary item</td>
<td>75,000</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>$7,972,728</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.

-19-
<table>
<thead>
<tr>
<th>Ownership Interest</th>
<th>Local</th>
<th>State</th>
<th>Federal</th>
</tr>
</thead>
<tbody>
<tr>
<td>1110 Cash</td>
<td>$</td>
<td>$880,580</td>
<td>$</td>
</tr>
<tr>
<td>1520 Buildings</td>
<td></td>
<td></td>
<td>1,039,576</td>
</tr>
<tr>
<td>1521 Leasehold improvements</td>
<td>915,539</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1541 Vehicles</td>
<td></td>
<td>201,635</td>
<td></td>
</tr>
<tr>
<td>1548 Equipment</td>
<td></td>
<td>795,688</td>
<td></td>
</tr>
<tr>
<td>1549 Furniture</td>
<td></td>
<td>132,763</td>
<td></td>
</tr>
<tr>
<td>Total Property and Equipment</td>
<td>$</td>
<td>$2,926,205</td>
<td>$1,039,576</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
**TEJANO CENTER FOR COMMUNITY CONCERNS, INC.**
**RAUL YZAGUIRRE SCHOOL FOR SUCCESS**
**BUDGETARY COMPARISON SCHEDULE**
**FOR THE YEAR ENDED AUGUST 31, 2006**

<table>
<thead>
<tr>
<th></th>
<th>Budgeted Amounts</th>
<th>Actual Amounts</th>
<th>Variance from Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Original</td>
<td>Final</td>
<td></td>
</tr>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local Support:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5740 Other revenues from local sources</td>
<td>$ 281,691</td>
<td>$ 281,961</td>
<td>$ 238,554</td>
</tr>
<tr>
<td>5750 Revenue from cocurricular activities</td>
<td>39,648</td>
<td>39,648</td>
<td></td>
</tr>
<tr>
<td>5760 Revenues from intermediate services</td>
<td>842</td>
<td>842</td>
<td></td>
</tr>
<tr>
<td><strong>Total Local Support</strong></td>
<td>281,691</td>
<td>281,961</td>
<td>279,044</td>
</tr>
<tr>
<td>State Program Revenues:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5810 Foundation school program act revenues</td>
<td>5,603,311</td>
<td>5,603,311</td>
<td>5,203,656</td>
</tr>
<tr>
<td>5820 State program revenues distributed by Texas Education Agency</td>
<td>3,796</td>
<td>3,796</td>
<td>379,660</td>
</tr>
<tr>
<td>5830 State revenues from state of Texas government agencies (other than Texas Education Agency)</td>
<td></td>
<td></td>
<td>192,867</td>
</tr>
<tr>
<td><strong>Total State Program Revenues</strong></td>
<td>5,607,107</td>
<td>5,607,107</td>
<td>5,776,183</td>
</tr>
<tr>
<td>Federal Program Revenues:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5920 Federal revenues distributed by Texas Education Agency</td>
<td>1,895,850</td>
<td>1,895,580</td>
<td>1,637,983</td>
</tr>
<tr>
<td>5940 Federal revenue distributed directly from the federal government</td>
<td>13,300</td>
<td>13,300</td>
<td>49,789</td>
</tr>
<tr>
<td><strong>Total Federal Program Revenues</strong></td>
<td>1,909,150</td>
<td>1,908,880</td>
<td>1,687,772</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>7,797,948</td>
<td>7,797,948</td>
<td>7,742,999</td>
</tr>
</tbody>
</table>

| **EXPENSES**             |                  |                |                            |
| 11 Instruction           | 3,901,389        | 3,901,389      | 4,082,398                | (181,009)  |
| 12 Instructional resources and media services | 139 | 139 |            |            |
| 13 Curriculum development and instructional | 61,658 | 61,658 |            |            |
| 23 School leadership     | 285,226          | 285,226        | 250,778                  | 34,448     |
| 31 Guidance, counseling, and evaluation services | 22,660 | 22,660 | 38,742 | 167,601 |
| 33 Health services       | 63,296           | 63,296         | 63,296                   |            |
| 34 Student (pupil) transportation | 162,496 | 162,496 | 167,168 | (4,672) |
| 35 Food service          | 389,558          | 389,558        | 508,583                  | (119,025)  |
| 36 Cocurricular/extracurricular activities | 8,290 | 8,290 | 25,540 | (17,250) |
| 41 General administration | 881,612 | 881,612 | 974,671 | (93,059) |
| 51 Plant maintenance and operations | 1,331,038 | 1,331,038 | 1,480,950 | (149,912) |
| 53 Data processing services | 98,422 | 98,422 | 238,478 | (140,056) |
| 61 Community services    | 45,064           | 45,064         | 45,064                   |            |
| 81 Fund raising          | 35,262           | 35,262         | 35,262                   |            |
| **Total Expenses**       | 7,080,691        | 7,080,691      | 7,972,728                | (892,037)  |

Change in net assets
717,257 717,257 (229,729) (946,986)

Net assets, beginning of year as restated
2,034,527 2,034,527

Net assets at end of year
$2,751,784 $2,751,784 $1,804,798 $ (946,986)

See accompanying notes to financial statements.

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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
Tejano Center for Community Concerns, Inc.
Houston, Texas

We have audited the financial statements of Tejano Center for Community Concerns, Inc. (TCCC, Inc.) for the year ended August 31, 2006, and have issued our report thereon dated January 11, 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 TCCC, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect TCCC, Inc.'s ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item I.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether TCCC, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements 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 one instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned cost as item I.
We noted certain matters involving the internal control over financial reporting, which we have reported to management of TCCC, Inc. in a separate letter dated January 11, 2007.

This report is intended solely for the information and use of the audit committee, management, and the board of directors, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

January 11, 2007
REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To The Board of Directors of
Tejano Center for Community Concerns, Inc.
Houston, Texas

Compliance
We have audited the compliance of Tejano Center for Community Concerns, Inc. (TCCC, Inc.) 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, 2006. TCCC, Inc.’s major federal programs are identified in the summary of auditor’s result 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 TCCC, Inc.’s management. Our responsibility is to express an opinion on TCCC, Inc.’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organization. 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 TCCC, Inc.’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on TCCC, Inc.’s compliance with those requirements.

In our opinion, TCCC, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2006.

Internal Control over Compliance
The management of TCCC, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered TCCC, Inc.’s internal control over compliance with 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.
Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of law, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the board of directors, management and the federal awarding agencies and pass-through entities. However, this report is a matter of public record, and its distribution is not limited.

January 11, 2007
TEJANO CENTER FOR COMMUNITY CONCERNS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2006

Summary of Audit Results

1. Unqualified opinion issued on financial statements.

2. One reportable condition disclosed during the audit of the financial statements is reported in the Schedule of Findings and Questioned Costs. This condition is not reported as a material weakness.

3. There was one instance of noncompliance which is not material to the financial statements.

4. No reportable conditions or material weaknesses on internal control over major programs.

5. Unqualified opinion issued on compliance with major 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 the Texas Education Agency:
   Title I, Part A, School Improvement                   CFDA Number  84.010A

   U.S. Department of Health and Human Services
   Passed - Through the Texas Department of Protective
   & Regulatory Services:
   Residential Child Care                                CFDA Number  93.658

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 does not qualify as a low-risk auditee.

Findings Related to Compliance with Teacher Retirement System

I. TRS Withholding for Non-eligible Employees                      Questioned Cost

   Condition:
   During the audit, we noted that TCCC, Inc. was withholding Teacher Retirement System (TRS) for non-charter school employees, which is a violation of the laws and regulations of the TRS.

   Criteria:
   TCCC, Inc. is not allowed to withhold TRS from non-eligible employees.

   Effect:
   TCCC, Inc. is contributing to a plan for non-eligible employees.
Findings Related to Compliance with Teacher Retirement System: (Continued)

**Recommendation:**
We recommend that TCCC, Inc. review the Teacher Retirement System’s policies and procedures to determine eligibility for participants. Management should correct the current payroll deduction system to only withhold TRS for eligible employees. Furthermore, the agency should implement procedures to correctly classify which employees are eligible for TRS withholding. These recommendations have been discussed with TCCC, Inc.’s, management and action will be taken to insure that the recommendations are implemented.

**Management Response:**
The agency has contacted TRS and informed them of the problem. The agency is in the process of correcting the problem and will request a refund of TRS contributions.
Summary Schedule of Prior Year Findings

Findings Related to the Financial Statements

I. Recording of Financial Data

Condition:
During the audit, key financial entries had to be recorded to the TCCC, Inc.'s, general ledger to correct account balances.

Criteria:
The TCCC, Inc.'s, entries should be recorded in the manner required by generally accepted accounting principals and government guidelines.

Effect:
Without recording of key financial entries, financial statements could be misleading.

Recommendation:
We recommend that TCCC, Inc. implement procedures and controls to provide for timely recording of financial transactions, month-end entries and year-end closing entries. We also recommend that TCCC, Inc. send its accounting staff to non-profit accounting courses. These recommendations have been discussed with TCCC, Inc.'s, management and action will be taken to insure that the recommendations are implemented.

Management Response:
The accounting software has been updated and training has been scheduled for the entire accounting staff. The department is currently being evaluated for restructuring and a new controller has been hired. The year end closing will occur upon completion of the audit and month end entries will be done in a timely manner under the direction of the controller.

Status:
The agency has hired a new controller and has implemented procedures to insure timely recording of transactions. The finding appears to have been corrected.

Findings Related to Compliance with State of Texas Programs

II. Restricted Program Funds - Unsupported Cost

| Questioned Costs | $93,798 |

Condition:
During the audit, we noted that TCCC, Inc. was advancing restricted funds from TEA to other programs. TEA could request the funds be reimbursed since these funds are restricted and not for use of other programs.

Criteria:
TCCC, Inc., is not allowed to use restricted funds for other than there intended purpose.
Findings Related to Compliance with State of Texas Programs: (Continued)

Effect:
Without providing the requested supporting documents TCCC, Inc. will be liable to reimburse the TEA.

Recommendation:
We recommend that TCCC, Inc., cease this practice and all fund be returned to the appropriate program. We also recommend that TCCC, Inc. implement procedures and controls to provide for compliance with all government reporting requirements. These recommendations have been discussed with TCCC, Inc.’s, management and action will be taken to insure that the recommendations are implemented.

Management Response:
Additional in depth training for the PEIMS Coordinator has been established and new procedures will be set for allocating funds to its appropriate program for compliance under the direction of the controller. Training and implementation of new policies for compliance of government reporting are currently scheduled. A line of credit has also been established that will eliminate the advancing of restricted funds. The advanced restricted funds have since been returned to the appropriate program.

Status:
During the audit we noted that TCCC, Inc. had attempted to correct the problem, but as of August 31, 2006 not all of the funds had been replenished to the correct programs. Management agreed to return the rest of the restricted funds to the appropriate programs as soon as possible.
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2006

<table>
<thead>
<tr>
<th>Federal Grantor/Pass - Through Grantor/Program Title</th>
<th>Federal CFDA Number</th>
<th>Pass - Through Entity Identifying Number</th>
<th>Federal Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.S. Department of Education</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passed - Through Texas Education Agency:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Title I, Part A, School Improvement</td>
<td>84.010A</td>
<td>0661010110101806</td>
<td>$497,086</td>
</tr>
<tr>
<td>Title I, Part F, Comprehensive</td>
<td>84.332A</td>
<td>066160171100072</td>
<td>150,532</td>
</tr>
<tr>
<td>Title II, Part A, Teacher/Principal Training</td>
<td>84.367A</td>
<td>0669450110101806</td>
<td>51,806</td>
</tr>
<tr>
<td>Title II, Part D, Enhancing Education</td>
<td>84.318X</td>
<td>066300110101806</td>
<td>8,614</td>
</tr>
<tr>
<td>Title III, LEP</td>
<td>84.365A</td>
<td>0667100110101806</td>
<td>49,119</td>
</tr>
<tr>
<td>Title IV, Part A, Safe/Drug Free Schools</td>
<td>84.186A</td>
<td>0669100110101806</td>
<td>5,492</td>
</tr>
<tr>
<td>Title V, Part A, Innovative Programs</td>
<td>84.298A</td>
<td>0668500110101806</td>
<td>2,320</td>
</tr>
<tr>
<td>Carl D. Perkins - Basic Grant Foundation</td>
<td>84.048A</td>
<td>064200610180604</td>
<td>10,551</td>
</tr>
<tr>
<td>Texas Reading First Initiative for Grades K-3</td>
<td>84.357A</td>
<td>066455017110055</td>
<td>233,754</td>
</tr>
<tr>
<td>Idea - B Preschool</td>
<td>84.173A</td>
<td>066100011018066600</td>
<td>1,094</td>
</tr>
<tr>
<td>Idea - B Formula</td>
<td>84.027A</td>
<td>06600011018066600</td>
<td>177,869</td>
</tr>
<tr>
<td><strong>Total U.S. Department of Education</strong></td>
<td></td>
<td></td>
<td>1,188,237</td>
</tr>
<tr>
<td><strong>U.S. Department of Agriculture</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passed - Through Texas Education Agency</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Food Service Reimbursement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Breakfast</td>
<td>10.553</td>
<td>71400601</td>
<td>73,946</td>
</tr>
<tr>
<td>Lunch</td>
<td>10.555</td>
<td>71300601</td>
<td>351,404</td>
</tr>
<tr>
<td>Passed - Through Health and Human Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commission</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Food Service Reimbursement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Summer</td>
<td>10.559</td>
<td>17603771019</td>
<td>24,396</td>
</tr>
<tr>
<td><strong>Total U.S. Department of Agriculture</strong></td>
<td></td>
<td></td>
<td>449,746</td>
</tr>
<tr>
<td><strong>U.S. Department of Health and Human Services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passed - Through Texas Department of Protective &amp; Regulatory Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential Child Care</td>
<td>93.658</td>
<td></td>
<td>928,005</td>
</tr>
<tr>
<td><strong>Total U.S. Department of Health &amp; Human Services</strong></td>
<td></td>
<td></td>
<td>928,005</td>
</tr>
<tr>
<td><strong>U.S. Department of Housing &amp; Urban Development</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passed - Through Local Initiative Support Corp.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing Program New Hope</td>
<td>14.218</td>
<td></td>
<td>40,000</td>
</tr>
<tr>
<td><strong>Total U.S. Department of Housing &amp; Urban Development</strong></td>
<td></td>
<td></td>
<td>40,000</td>
</tr>
<tr>
<td><strong>Total Expenditures of Federal Awards</strong></td>
<td></td>
<td></td>
<td>$2,605,988</td>
</tr>
</tbody>
</table>
NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of expenditures of federal 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.
TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

Financial Statements
and
Single Audit Reports

August 31, 2007
(With Independent Auditors' Report Thereon)
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</tr>
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<td>Statement of Financial Position</td>
<td>3</td>
</tr>
<tr>
<td>Statement of Activities and Changes in Net Assets</td>
<td>4</td>
</tr>
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<td>Statement of Functional Expenses</td>
<td>5</td>
</tr>
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<td>Statement of Cash Flows</td>
<td>6</td>
</tr>
<tr>
<td>Notes to Financial Statements</td>
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</tr>
<tr>
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<td></td>
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<tr>
<td>Schedule of Financial Position - Raul Yzaguirre School for Success</td>
<td>15</td>
</tr>
<tr>
<td>Schedule of Activities - Raul Yzaguirre School for Success</td>
<td>16</td>
</tr>
<tr>
<td>Schedule of Cash Flows - Raul Yzaguirre School for Success</td>
<td>17</td>
</tr>
<tr>
<td>Schedule of Expenses - Raul Yzaguirre School for Success</td>
<td>18</td>
</tr>
<tr>
<td>Schedule of Capital Assets - Raul Yzaguirre School for Success</td>
<td>19</td>
</tr>
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<td>20</td>
</tr>
<tr>
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<td>28</td>
</tr>
</tbody>
</table>
INDEPENDENT AUDITORS' REPORT

Board of Directors
Tejano Center for
Community Concerns, Inc.:

We have audited the accompanying statement of financial position of Tejano Center for Community Concerns, Inc. (TCCC) as of August 31, 2007, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of TCCC's 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of TCCC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As further explained in note 16 to the financial statements, the August 31, 2006 financial statements included an over accrual of bond interest payable. Net assets at the beginning of the year was increased by $97,338 as a result of the correction of this error.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TCCC 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 March 25, 2008 on our consideration of TCCC's 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 should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of TCCC, taken as a whole. The supplemental schedules for Raul Yzaguirre School for Success are presented for purposes of additional analysis and are not required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and in our opinion, are fairly stated in all material respect, in relation to the basic financial statements taken as a whole.
The accompanying schedules of expenditures of Federal awards and expenditures of State Awards of Texas for the year ended August 31, 2007 are presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State of Texas Single Audit Circular, respectively, and are 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.

March 25, 2008
## TEJANO CENTER FOR
COMMUNITY CONCERNS, INC.

Statement of Financial Position
August 31, 2007

### Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets:</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$1,762,186</td>
</tr>
<tr>
<td>Investments</td>
<td>1,540,310</td>
</tr>
<tr>
<td>Grant receivable</td>
<td>225,960</td>
</tr>
<tr>
<td>Other receivable</td>
<td>165,902</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>544,778</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>4,239,136</strong></td>
</tr>
<tr>
<td>Land, structures and equipment:</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>495,666</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>4,845,884</td>
</tr>
<tr>
<td>Furniture, vehicles and equipment</td>
<td>1,571,128</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(2,735,735)</td>
</tr>
<tr>
<td><strong>Total land, structures and equipment</strong></td>
<td><strong>4,176,943</strong></td>
</tr>
<tr>
<td>Other assets</td>
<td>176,850</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>8,592,929</strong></td>
</tr>
</tbody>
</table>

### Liabilities and Net Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities:</td>
<td></td>
</tr>
<tr>
<td>Line of credit</td>
<td>100,000</td>
</tr>
<tr>
<td>Notes payable, current portion</td>
<td>195,753</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>250,917</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>204,320</td>
</tr>
<tr>
<td>Interest payable</td>
<td>93,437</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>47,779</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>892,206</strong></td>
</tr>
<tr>
<td>Notes payable, net of current portion</td>
<td>900,929</td>
</tr>
<tr>
<td>Bonds payable</td>
<td>2,545,000</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>4,338,135</strong></td>
</tr>
<tr>
<td>Net assets:</td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>3,754,794</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>500,000</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td></td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td><strong>4,254,794</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td><strong>8,592,929</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
TEJANO CENTER FOR
COMMUNITY CONCERNS, INC.

Statement of Activities and Changes in Net Assets
Year Ended August 31, 2007

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal grants</td>
<td>$ 1,002,268</td>
<td>1,441,200</td>
<td></td>
<td>2,443,468</td>
</tr>
<tr>
<td>State grants</td>
<td></td>
<td>7,642,263</td>
<td></td>
<td>7,642,263</td>
</tr>
<tr>
<td>NeighborWorks America Grants</td>
<td>121,500</td>
<td></td>
<td></td>
<td>121,500</td>
</tr>
<tr>
<td>Rent income</td>
<td>671,349</td>
<td></td>
<td></td>
<td>671,349</td>
</tr>
<tr>
<td>Contributions/donations</td>
<td>699,973</td>
<td></td>
<td></td>
<td>699,973</td>
</tr>
<tr>
<td>Interest income</td>
<td>59,062</td>
<td></td>
<td></td>
<td>59,062</td>
</tr>
<tr>
<td>Sales of constructed homes</td>
<td>850,609</td>
<td></td>
<td></td>
<td>850,609</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>9,116,910</td>
<td>(9,116,910)</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Total revenues</td>
<td>12,521,671</td>
<td>(33,447)</td>
<td></td>
<td>12,488,224</td>
</tr>
<tr>
<td>Expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program services:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charter school</td>
<td>8,693,443</td>
<td></td>
<td></td>
<td>8,693,443</td>
</tr>
<tr>
<td>Affordable housing/homebuyer education</td>
<td>1,204,411</td>
<td></td>
<td></td>
<td>1,204,411</td>
</tr>
<tr>
<td>Child shelter/placing</td>
<td>899,698</td>
<td></td>
<td></td>
<td>899,698</td>
</tr>
<tr>
<td>Supporting services:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tejano commercial properties</td>
<td>689,554</td>
<td></td>
<td></td>
<td>689,554</td>
</tr>
<tr>
<td>Management and general</td>
<td>126,850</td>
<td></td>
<td></td>
<td>126,850</td>
</tr>
<tr>
<td>Total expenses</td>
<td>11,613,956</td>
<td></td>
<td></td>
<td>11,613,956</td>
</tr>
<tr>
<td>Changes in net assets</td>
<td>907,715</td>
<td>(33,447)</td>
<td></td>
<td>874,268</td>
</tr>
<tr>
<td>Net assets, beginning of year, as previously reported</td>
<td>2,749,741</td>
<td>33,447</td>
<td>500,000</td>
<td>3,283,188</td>
</tr>
<tr>
<td>Prior period adjustment</td>
<td>97,338</td>
<td></td>
<td></td>
<td>97,338</td>
</tr>
<tr>
<td>Net assets, end of year</td>
<td>$ 3,754,794</td>
<td></td>
<td>500,000</td>
<td>4,254,794</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
## TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

### Statement of Functional Expenses

**Year Ended August 31, 2007**

<table>
<thead>
<tr>
<th></th>
<th>Affordable Housing/Charter School</th>
<th>Affordable Housing/Charter Homebuyer Education</th>
<th>Affordable Housing/Charter Shelter/Placing</th>
<th>Child Development/Tejano Commercial Properties</th>
<th>Management and General</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$ 4,999,366</td>
<td>269,053</td>
<td>445,534</td>
<td>52,632</td>
<td>15,773</td>
<td>5,782,358</td>
</tr>
<tr>
<td>Employee fringe benefits</td>
<td>679,395</td>
<td>20,483</td>
<td>37,645</td>
<td>15,459</td>
<td>2,938</td>
<td>755,202</td>
</tr>
<tr>
<td>Payroll taxes</td>
<td>172,207</td>
<td>31,532</td>
<td>60,205</td>
<td>6,203</td>
<td>1,151</td>
<td>271,658</td>
</tr>
<tr>
<td><strong>Total salaries and related expenses</strong></td>
<td><strong>5,850,968</strong></td>
<td><strong>321,068</strong></td>
<td><strong>543,384</strong></td>
<td><strong>74,294</strong></td>
<td><strong>20,222</strong></td>
<td><strong>6,809,936</strong></td>
</tr>
<tr>
<td>Food</td>
<td>394,115</td>
<td>579</td>
<td>32,634</td>
<td></td>
<td>1,033</td>
<td>428,361</td>
</tr>
<tr>
<td>Insurance</td>
<td>67,317</td>
<td>8,486</td>
<td>7,929</td>
<td>46,474</td>
<td></td>
<td>130,206</td>
</tr>
<tr>
<td>Supplies</td>
<td>469,259</td>
<td>29,671</td>
<td>30,645</td>
<td>22,581</td>
<td>13,586</td>
<td>565,742</td>
</tr>
<tr>
<td>Travel</td>
<td>72,692</td>
<td>10,635</td>
<td>4,093</td>
<td></td>
<td>13,112</td>
<td>100,532</td>
</tr>
<tr>
<td>Telephone</td>
<td>21,531</td>
<td>8,804</td>
<td>5,493</td>
<td>734</td>
<td></td>
<td>36,562</td>
</tr>
<tr>
<td>Rent expense</td>
<td>640,054</td>
<td>7,970</td>
<td>2,673</td>
<td>359</td>
<td>1,343</td>
<td>652,399</td>
</tr>
<tr>
<td>Leases</td>
<td>26,081</td>
<td>2,522</td>
<td>1,796</td>
<td></td>
<td></td>
<td>30,399</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>31,536</td>
<td>2,490</td>
<td>2,186</td>
<td>13,191</td>
<td>955</td>
<td>50,358</td>
</tr>
<tr>
<td>Professional fees</td>
<td>192,438</td>
<td>6,591</td>
<td>54,646</td>
<td>4,684</td>
<td>32,148</td>
<td>290,507</td>
</tr>
<tr>
<td>Utilities</td>
<td>145,676</td>
<td>9,148</td>
<td>39,390</td>
<td>155,030</td>
<td></td>
<td>349,244</td>
</tr>
<tr>
<td>Auto expenses</td>
<td>25,356</td>
<td>3,258</td>
<td>17,130</td>
<td>5,019</td>
<td></td>
<td>50,763</td>
</tr>
<tr>
<td>Bank charges</td>
<td>959</td>
<td>27,009</td>
<td>565</td>
<td></td>
<td>1,650</td>
<td>30,183</td>
</tr>
<tr>
<td>Fundraisers</td>
<td>43,393</td>
<td></td>
<td></td>
<td></td>
<td>39,142</td>
<td>82,535</td>
</tr>
<tr>
<td>Interest</td>
<td>67,664</td>
<td>2,338</td>
<td>2,019</td>
<td>193,405</td>
<td></td>
<td>265,426</td>
</tr>
<tr>
<td>Contract labor</td>
<td>217,642</td>
<td>19,870</td>
<td>3,221</td>
<td>44,429</td>
<td></td>
<td>285,162</td>
</tr>
<tr>
<td>Foster parents</td>
<td>103,133</td>
<td></td>
<td></td>
<td></td>
<td>103,133</td>
<td>103,133</td>
</tr>
<tr>
<td>Cost of houses sold</td>
<td>701,077</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>701,077</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>30,087</td>
<td>30,594</td>
<td>10,935</td>
<td>3,448</td>
<td>1,416</td>
<td>76,460</td>
</tr>
<tr>
<td><strong>Total operating expenses before depreciation</strong></td>
<td><strong>8,296,768</strong></td>
<td><strong>1,192,110</strong></td>
<td><strong>861,872</strong></td>
<td><strong>563,648</strong></td>
<td><strong>124,607</strong></td>
<td><strong>11,039,005</strong></td>
</tr>
<tr>
<td>Depreciation</td>
<td>396,675</td>
<td>12,301</td>
<td>37,826</td>
<td>125,906</td>
<td>2,243</td>
<td>574,951</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>$ 8,693,443</td>
<td>1,204,411</td>
<td>899,698</td>
<td>689,554</td>
<td>126,850</td>
<td>11,613,956</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

Statement of Cash Flows
Year Ended August 31, 2007

Cash flows from operating activities:
Change in net assets $ 874,268
  Adjustments to reconcile change in net assets to net cash provided by operating activities:
  Depreciation 574,951
  Loss on disposal of assets 15,161
Change in operating assets and liabilities:
  Grant and other receivables 26,228
  Construction in progress 188,218
  Other assets (113,826)
  Accounts payable and other liabilities 95,219
  Interest payable (3,900)
  Deferred revenue 47,779
  Net cash provided by operating activities 1,704,098

Cash flows used by investing activities:
  Purchase of investments (849,748)
  Building improvements and purchases of equipment (230,081)
  (1,079,829)

Cash flows from financing activities:
  Repayments of bonds payable (120,000)
  Repayments of line of credit and notes payable (605,810)
  Proceeds from line of credit and notes payable 532,675
  Net cash used by financing activities (193,135)

  Net increase in cash and cash equivalents 431,134

Cash and cash equivalents, beginning of year 1,331,052
Cash and cash equivalents, end of year $ 1,762,186

Supplemental disclosure of cash flow information - interest paid during the year $ 261,526

See accompanying notes to financial statements.
TEJANO CENTER FOR
COMMUNITY CONCERNS, INC.

Notes to Financial Statements
August 31, 2007

1. Organization

The Tejano Center for Community Concerns, (TCCC) was incorporated by the State of Texas in 1992 for the purpose of improving opportunities for Hispanic children and their families in Houston’s Greater East End through the provision of housing and community development initiatives, as well as, educational, social, and health services. Throughout its 15-year history, Tejano Center has developed a number of local, state, and national partnerships including support from the corporate and foundation sectors, the Local Initiatives Support Corporation (LISC), Neighbor Works America, the National Council of La Raza, the City of Houston and Harris County. Tejano Center is a certified Community Housing Development Organization and Community Development Organization (CHDO) and a HUD-designated Housing Counseling Agency. TCCC is led by a 14 member community-based Board of Directors comprised of community and business leaders having as strong vested interest in the neighborhoods the agency serves. TCCC Raul Yzaguirre School for Success School (RYSS) open enrollment charter school is governed by a separate school board comprised of members from TCCC board of directors. TCCC has a combined 196 member staff in Houston and Brownsville.

TCCC operated several different programs during the year ended August 31, 2007 as follows:

Charter School

The Raul Yzaguirre School for Success (RYSS) was one of the first 20 charter schools in the State of Texas and serves 950 students in grades PreK through 12. It was created for the purpose of addressing the dropout problem, over crowding and school violence. RYSS provides one of the most comprehensive and innovative programs anywhere in the country and is regarded as one of the top charter schools in the State of Texas. The Houston campus is now in its’ twelfth year of operation. Drop-out rates average less than 2% and the school has a mandatory parental involvement component; 85% of graduates, with numbers reaching 100%, go on to institutions of higher learning.

The charter school has additional programs as follows:

Youth Empowerment Program

The goal of the youth empowerment project is to reduce the incidence of juvenile delinquency through the provision of focused, structured prevention/intervention activities that help youth develop positive self-esteem, high self discipline, increased self respect, and encourage decreased street violence, drug prevention and gang involvement. Target area and population served is primarily Hispanic and African American youth and their families. Services are aimed specifically at preventing and diverting the number of minority youth who enter the juvenile justice system. Program activities include a ROPES course, completion of anger management classes, restitution activities, community service, military and or boot type training that is rigid and intended to be highly disciplined and rigorous in nature. Referrals for our program come from HPD Juvenile Department, HISD Campus Police, existing Teen Courts, and from area Public and Charter schools for children and youth who are at risk of suspension and or expulsion. Additionally, referrals are accepted from Juvenile Probation for juveniles who are at risk of having their probation revoked.

Continued
TEJANO CENTER FOR
COMMUNITY CONCERNS, INC.

Notes to Financial Statements, Continued

**Americorps**

This program is a nationally sponsored volunteer project which provides qualifying youth and adults with stipends and scholarships upon completion of 1,700 hours of community service. Members serve as Teacher Aides to RYSS and for TCCC Adult Education Program.

**Adult Basic Education Program**

Through partnerships with Houston Community College and Monterrey TECH, TCCC provides GED, ESL, and basic computing classes to neighborhood residents and parents of RYSS students. Since 1999, approximately 400+ students per semester have enrolled.

**Child Shelter/Placing**

Established in 1996, the 32-bed Shelter serves children 4-17. The shelter is the only children's facility in Harris County that by design serves primarily Hispanic children. The goal of the Tejano Child Placing Agency is to provide for placement of abused, neglected, and homeless children in culturally and language appropriate private foster homes.

**Affordable Housing/Homebuyer Education**

This program develops and builds affordable housing for low-income families earning between 50-80% of the Houston area Medicare income and provides pre home ownership counseling and prepares the homebuyer for mortgage approval. TCCC has developed and rehabbed numerous residential properties. In addition, TCCC holds homebuyer classes every Saturday of the month as well on scheduled weekdays.

2. **Summary of Significant Accounting Policies**

**Basis of presentation**

TCCC's financial statements have been prepared on the accrual basis of accounting. The financial statements have been prepared in accordance with the Financial Accounting Standards Board Statement (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, TCCC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.
Standard financial accounting system

For all Federal and state programs, RYSS used the net asset classes and codes specified by the Texas Education Agency in the Special Supplement to Financial Accounting and Reporting, Nonprofit Charter School Chart of Accounts. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by a grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.

Cash and cash equivalents

TCCC considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash is held in demand accounts at a bank. At August 31, 2007, the cash and cash equivalents funds are to be re-invested in the individual programs that generated these funds.

Investments

Investments in mutual funds, money market funds, and certificates of deposits are reported at fair value which is based on quoted market price. Realized and unrealized gains and losses on investment sold or held are reflected in the statement of activities.

Pledges and accounts receivable

Contributions are recognized when the donor makes a promise to give to TCCC that 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.

Construction in progress

Construction in progress includes land and development costs of residential projects undertaken by TCCC.

Property and equipment

Property and equipment purchased by TCCC are recorded at cost. Donations of property and equipment are recorded at their fair value at the date of the gift. All purchases and donations in excess of $1,000 are capitalized. Depreciation is provided on the straight-line method based upon estimated useful lives of the asset. Gains or losses on retired or 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.

Capital assets acquired with public funds received by TCCC for the operation of RYSS constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the supplemental schedule of capital assets.

Continued
Deferred revenue

Deferred revenue represents grant amounts received by TCCC which have not yet been earned. Such amounts are recognized as revenue when earned, generally when expenditures have been incurred for purposes specified by the grant.

Contributions

TCCC accounts for contribution in accordance with the Financial Accounting Standards Board’s SFAS No. 116, Accounting for Contributions Received and Contributions Made. Under SFAS No. 116, contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor and is to be used in future periods is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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 TCCC.

Advertising

Advertising costs are expensed as they are incurred. Advertising expense was $9,944 for the year ended August 31, 2007.

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 TCCC's multiple function expenditures.

Income taxes

TCCC is exempt from income taxes under Section 501(c)(3) and Section 501(c)(4) of the U.S. Internal Revenue Code (the Code) and comparable state law, and contributions to it are tax deductible within the limitations prescribed by the Code. TCCC has been classified as a publicly-supported organization which is not a private foundation under Section 509(a) of the Code.
Use of estimates

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

3. Investments

At August 31, 2007, TCCC’s investment consisted of the following:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money market funds</td>
<td>$653,125</td>
</tr>
<tr>
<td>Certificates of deposits</td>
<td>400,000</td>
</tr>
<tr>
<td>Bonds</td>
<td>398,705</td>
</tr>
<tr>
<td>Corporate stocks</td>
<td>88,480</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,540,310</strong></td>
</tr>
</tbody>
</table>

The majority of these investments are pledged against the bond financing.

4. Pension Plan

Plan description

TCCC contributes for RYSS employees 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 and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. The System’s annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas, 78701-2698 or by calling (800) 877-0123.

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. The RYSS employees’ contributions to the System for the year ended August 31, 2007 were approximately $266,500 equal to the required contributions for that year.

5. Revolving Line of Credit

TCCC has a $250,000 revolving line of credit. The outstanding balance is $100,000 at August 31, 2007. Bank advances on the credit line are payable on demand and carry an interest rate of 7.5%. The credit line is unsecured.
6. Notes Payable

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

<table>
<thead>
<tr>
<th>Note Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Note payable to a bank, interest at 6.13% per year,</td>
<td>$8,403</td>
</tr>
<tr>
<td>secured by real estate</td>
<td></td>
</tr>
<tr>
<td>Note payable to a bank, interest at 6.5% per year,</td>
<td>63,131</td>
</tr>
<tr>
<td>secured by real estate</td>
<td></td>
</tr>
<tr>
<td>Note payable to a bank, interest at 6.27% per year,</td>
<td>354,399</td>
</tr>
<tr>
<td>secured by real estate</td>
<td></td>
</tr>
<tr>
<td>Note payable to a bank, interest at 5.87% per year,</td>
<td>462,121</td>
</tr>
<tr>
<td>secured by real estate</td>
<td></td>
</tr>
<tr>
<td>Note payable to a bank, interest at 6.75% per year,</td>
<td>76,761</td>
</tr>
<tr>
<td>secured by real estate</td>
<td></td>
</tr>
<tr>
<td>Note payable to a bank, interest at 7.0% per year,</td>
<td>13,171</td>
</tr>
<tr>
<td>secured by real estate</td>
<td></td>
</tr>
<tr>
<td>Note payable to a bank, interest at 8.0% per year,</td>
<td>58,922</td>
</tr>
<tr>
<td>secured by vehicle</td>
<td></td>
</tr>
<tr>
<td>Note payable to a bank, interest at 8.0% per year,</td>
<td>59,774</td>
</tr>
<tr>
<td>secured by vehicle</td>
<td></td>
</tr>
<tr>
<td>Total notes payable</td>
<td>1,096,682</td>
</tr>
<tr>
<td>Current portion</td>
<td>(195,753)</td>
</tr>
<tr>
<td>Notes payable, net of current portion</td>
<td>$900,929</td>
</tr>
</tbody>
</table>

Maturities of notes payable are as follows:

<table>
<thead>
<tr>
<th>Year Ending August 31,</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$195,753</td>
</tr>
<tr>
<td>2009</td>
<td>115,153</td>
</tr>
<tr>
<td>2010</td>
<td>120,700</td>
</tr>
<tr>
<td>2011</td>
<td>101,526</td>
</tr>
<tr>
<td>2012</td>
<td>86,089</td>
</tr>
<tr>
<td>Thereafter</td>
<td>477,461</td>
</tr>
<tr>
<td>Total</td>
<td>$1,096,682</td>
</tr>
</tbody>
</table>

7. Bonds Payable

TCCC has secured bonds pursuant to Chapter 53 of Texas Education Code. TCCC obtained $2,880,000 of Tax Exempt Education Revenue Bonds Series 2000A and $65,000 of Taxable Education Revenue Bonds Series 2000B Bonds (both collectively referred to as the Series 2000 Bonds).

The bonds have a level debt service structure, maturing March 15, 2005 through 2020. Interest on the Bonds will be paid semiannually each March 15, and September 15 until maturity. The bonds were issued in fully registered form in denominations of $100,000 and in integral multiples of $5,000 in excess thereof. The bonds maturing on or after March 15, 2010 will be subject to optional redemption. Bonds maturing in 2010 will have an interest rate of 6.5% per annum and the bonds maturing in 2020 will have an interest rate of 7.5% per annum.

Continued
TEJANO CENTER FOR
COMMUNITY CONCERNS, INC.

Notes to Financial Statements, Continued

The bonds will mature according to the following schedule:

<table>
<thead>
<tr>
<th>Year Ending August 31</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$ 125,000</td>
</tr>
<tr>
<td>2009</td>
<td>135,000</td>
</tr>
<tr>
<td>2010</td>
<td>140,000</td>
</tr>
<tr>
<td>2011</td>
<td>150,000</td>
</tr>
<tr>
<td>2012</td>
<td>165,000</td>
</tr>
<tr>
<td>Thereafter</td>
<td>1,830,000</td>
</tr>
<tr>
<td>Total</td>
<td>$ 2,545,000</td>
</tr>
</tbody>
</table>

TCCC must maintain a debt service fund which is required to maintain a minimum balance of $288,000. The current balance in the debt service fund at August 31, 2007 is $304,519. The amounts of the bonds outstanding at August 31, 2007 were $2,545,000.

8. Operating Lease Commitment

TCCC is currently leasing its office equipment on a non-cancelable operating lease. TCCC’s minimum annual lease commitments are as follows:

<table>
<thead>
<tr>
<th>Year Ending August 31</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$ 26,813</td>
</tr>
<tr>
<td>2009</td>
<td>3,118</td>
</tr>
<tr>
<td>Total</td>
<td>$ 29,931</td>
</tr>
</tbody>
</table>

Operating lease expense amounted to $30,399 for the year ended August 31, 2007.

9. Net Assets Released From Restrictions

During the year ended August 31, 2007, net assets of $33,447 were released from donor restrictions by satisfying restrictions. Net assets of $9,083,463 were released from Texas Education Agency restrictions by satisfying restrictions.

10. Permanently Restricted Net Assets

Permanently restricted net assets of $500,000 are restricted for use in building projects associated with the NeighborWorks organization. In accordance with the grant award letter, TCCC must establish and maintain a permanently restricted revolving loan and capital projects fund to account exclusively for their use.
11. Commitments and Contingencies

RYSS 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 RYSS have complex compliance requirements, and should state or Federal auditors discover areas of noncompliance, funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

12. Health Care Coverage

During the year ended August 31, 2007, employees of RYSS were covered by a Health Insurance Plan (the Plan). RYSS contributed $331 for the Houston and Brownsville campuses per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

13. Defined Contribution Plan

TCCC has made available a defined contribution (403(b) plan to all employees. Employees may elect to defer a portion of their yearly compensation, up to statutory limits. The TCCC does not contribute to the plan.

14. Related Party Transactions

TCCC is the sponsoring agency to the Kimble-Dover Apartment Housing Corporation (Kimble-Dover). Kimble-Dover received a loan from HUD for approximately $4,561,600 for the development of a senior housing project. At August 31, 2007, TCCC had advanced $35,000 to Kimble-Dover and the amount is reflected in their other receivable balance.

In addition, TCCC has two residential leases with TCCC executives. For the year ended August 31, 2007, TCCC received approximately $8,400 in rent revenues.

15. Settlements and Lawsuits

TCCC has an unresolved lawsuit by a former employee for alleged injuries sustained at a RYSS campus. TCCC did not have workers compensation insurance at the time of the accident and, if found responsible, would have to compensate the employee subject to an award by the court. TCCC has accrued a possible settlement liability in the amount of $75,000 at August 31, 2007.

16. Correction of Error

During the year ended August 31, 2007, TCCC management realized that it had incorrectly over accrued bond interest payable in the amount of $97,338. In 2007, management corrected this error by increasing beginning fund balance by $97,338.

17. Credit risk exposure

During 2007, TCCC had cash in bank operating accounts in excess of FDIC insurance limit. TCCC’s credit risk exposure is mitigated by the financial strength of the banking institution in which the deposits are held.
**Assets**

Current assets:
- Cash and cash equivalents $678,074
- Investments 1,540,310
- Grant receivable 149,045
- Other receivable 4,088
  
  Total current assets 2,371,517

Land, structures and equipment:
- Buildings and improvements 2,042,567
- Furniture, vehicles and equipment 1,291,178
- Accumulated depreciation (1,647,517)
  
  Total land, structures and equipment 1,686,228

Other assets 161,571

  Total assets $4,219,316

**Liabilities and Net Assets**

Liabilities:
- Notes payable 1,033,551
- Accounts payable 200,504
- Other liabilities 86,003
- Due to Agency 18,506
- Deferred revenue 15,000
  
  Total liabilities 1,353,564

Net assets-
- Unrestricted 2,865,752
  
  Total liabilities and net assets $4,219,316

See accompanying notes to supplemental information.
## TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

### RAUL YZAGUIRRE SCHOOL FOR SUCCESS

**Schedule of Activities**  
**Year Ended August 31, 2007**

<table>
<thead>
<tr>
<th>Revenues:</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Local support:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5740 Other revenues from local sources</td>
<td>$167,626</td>
<td></td>
<td>167,626</td>
</tr>
<tr>
<td>5750 Revenue from co curricular, enterprising services or activities</td>
<td>46,197</td>
<td></td>
<td>46,197</td>
</tr>
<tr>
<td>5760 Revenue from intermediate services</td>
<td>23,315</td>
<td></td>
<td>23,315</td>
</tr>
<tr>
<td><strong>Total local support</strong></td>
<td>237,138</td>
<td></td>
<td>237,138</td>
</tr>
<tr>
<td><strong>State program revenues:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5810 Foundation school program act revenues</td>
<td></td>
<td>7,152,992</td>
<td>7,152,992</td>
</tr>
<tr>
<td>5820 State program revenues distributed by Texas Education Agency</td>
<td></td>
<td>4,168,982</td>
<td>4,168,982</td>
</tr>
<tr>
<td>5830 State revenues from State of Texas government agencies (other than Texas Education Agency)</td>
<td></td>
<td>70,289</td>
<td>70,289</td>
</tr>
<tr>
<td><strong>Total State program revenues</strong></td>
<td></td>
<td>7,642,263</td>
<td>7,642,263</td>
</tr>
<tr>
<td><strong>Federal program revenues:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5910 Federal revenues distributed through government entities other than State or Federal agencies</td>
<td></td>
<td>1,441,200</td>
<td>1,441,200</td>
</tr>
<tr>
<td>5920 Federal revenues distributed by the Texas Education Agency</td>
<td></td>
<td>78,268</td>
<td>78,268</td>
</tr>
<tr>
<td>5930 Federal revenues distributed by other State of Texas government agencies (other than Texas Education Agency)</td>
<td></td>
<td>151,026</td>
<td>151,026</td>
</tr>
<tr>
<td><strong>Total Federal program revenues</strong></td>
<td></td>
<td>1,670,494</td>
<td>1,670,494</td>
</tr>
<tr>
<td><strong>Net assets released from restrictions - restrictions satisfied by payments</strong></td>
<td>9,312,757</td>
<td>(9,312,757)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>9,549,895</td>
<td></td>
<td>9,549,895</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses:</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>11 Instruction</td>
<td>4,637,390</td>
<td></td>
<td>4,637,390</td>
</tr>
<tr>
<td>13 Curriculum development and instructional staff development</td>
<td>44,470</td>
<td></td>
<td>44,470</td>
</tr>
<tr>
<td>15 General</td>
<td>176</td>
<td></td>
<td>176</td>
</tr>
<tr>
<td>23 School leadership</td>
<td>294,415</td>
<td></td>
<td>294,415</td>
</tr>
<tr>
<td>31 Guidance, counseling and evaluation services</td>
<td>26,555</td>
<td></td>
<td>26,555</td>
</tr>
<tr>
<td>32 Social work services</td>
<td>3,186</td>
<td></td>
<td>3,186</td>
</tr>
<tr>
<td>33 Health services</td>
<td>35,383</td>
<td></td>
<td>35,383</td>
</tr>
<tr>
<td>34 Student (pupil) transportation</td>
<td>151,339</td>
<td></td>
<td>151,339</td>
</tr>
<tr>
<td>35 Food services</td>
<td>583,987</td>
<td></td>
<td>583,987</td>
</tr>
<tr>
<td>36 Co curricular / extracurricular activities</td>
<td>24,245</td>
<td></td>
<td>24,245</td>
</tr>
<tr>
<td>41 General administration</td>
<td>1,139,449</td>
<td></td>
<td>1,139,449</td>
</tr>
<tr>
<td>42 General</td>
<td>6,857</td>
<td></td>
<td>6,857</td>
</tr>
<tr>
<td>51 Plant maintenance and operations</td>
<td>1,488,683</td>
<td></td>
<td>1,488,683</td>
</tr>
<tr>
<td>53 Data processing services</td>
<td>143,355</td>
<td></td>
<td>143,355</td>
</tr>
<tr>
<td>61 Community services</td>
<td>70,111</td>
<td></td>
<td>70,111</td>
</tr>
<tr>
<td>81 Fundraising</td>
<td>43,393</td>
<td></td>
<td>43,393</td>
</tr>
<tr>
<td>99 Undefined</td>
<td>449</td>
<td></td>
<td>449</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>8,693,443</td>
<td></td>
<td>8,693,443</td>
</tr>
</tbody>
</table>

| Change in net assets | 856,452 | | 856,452 |

| Net assets, beginning of year, as previously reported | 1,804,798 | | 1,804,798 |

| Prior period adjustment | 204,502 | | 204,502 |

| Net assets, end of year | $2,865,752 | | 2,865,752 |

See accompanying notes to supplemental information.
Cash flows from operating activities:
  Change in net assets $ 856,452
  Adjustments to reconcile change in net assets to net cash provided by operating activities:
    Depreciation 396,675
  Change in operating assets and liabilities:
    Grant and other receivables 117,446
    Due to/from Agency 141,160
    Other assets (110,067)
    Accounts payable and accrued liabilities 30,665
    Deferred revenue 15,000

Net cash provided by operating activities 1,447,331

Cash flows used by investing activities:
  Purchase of investments (849,748)
  Building improvements and purchases of equipment (266,436)

(1,116,184)

Cash flows from financing activities:
  Repayments of notes payable (140,677)
  Proceeds from notes payable 131,221

Net cash used by financing activities (9,456)

Net increase in cash and cash equivalents 321,691

Cash and cash equivalents, beginning of year 356,383

Cash and cash equivalents, end of year $ 678,074

Supplemental disclosure of cash flow information - interest paid during the year $ 67,664

See accompanying notes to supplemental information.
## Schedule of Expenses
### Year Ended August 31, 2007

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>6100 Payroll costs</td>
<td>$5,860,968</td>
</tr>
<tr>
<td>6200 Professional and contracted services</td>
<td>410,080</td>
</tr>
<tr>
<td>6300 Supplies and materials</td>
<td>863,374</td>
</tr>
<tr>
<td>6400 Other operating costs</td>
<td></td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>$8,693,443</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to supplemental information.
Ownership Interest

<table>
<thead>
<tr>
<th></th>
<th>Local</th>
<th>State</th>
<th>Federal</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$</td>
<td>678,074</td>
<td></td>
<td>678,074</td>
</tr>
<tr>
<td>Building and improvements</td>
<td>1,002,991</td>
<td>1,039,576</td>
<td></td>
<td>2,042,567</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>1,291,178</td>
<td></td>
<td></td>
<td>1,291,178</td>
</tr>
<tr>
<td><strong>Total capital assets</strong></td>
<td>$</td>
<td>2,972,243</td>
<td>1,039,576</td>
<td>4,011,819</td>
</tr>
</tbody>
</table>

See accompanying notes to supplemental information.
<table>
<thead>
<tr>
<th>Revenues:</th>
<th>Budgeted Amounts</th>
<th>Actual Amounts</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local support:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5740 Other revenues from local sources</td>
<td>$</td>
<td>167,626</td>
<td>167,626</td>
</tr>
<tr>
<td>5750 State program revenues distributed by Texas Education Agency</td>
<td>46,197</td>
<td></td>
<td>46,197</td>
</tr>
<tr>
<td>5760 State revenues from State of Texas government agencies (other than Texas Education Agency)</td>
<td>23,315</td>
<td></td>
<td>23,315</td>
</tr>
<tr>
<td>Total local support</td>
<td>-</td>
<td>237,138</td>
<td>237,138</td>
</tr>
<tr>
<td>State program revenues:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5810 Foundation school program act revenues</td>
<td>6,564,928</td>
<td>7,152,992</td>
<td>588,064</td>
</tr>
<tr>
<td>5820 State program revenues distributed by Texas Education Agency</td>
<td>420,506</td>
<td>418,982</td>
<td>(1,524)</td>
</tr>
<tr>
<td>5830 State revenues from State of Texas government agencies (other than Texas Education Agency)</td>
<td>231,244</td>
<td>70,289</td>
<td>(160,955)</td>
</tr>
<tr>
<td>Total State program revenues</td>
<td>7,216,678</td>
<td>7,624,263</td>
<td>425,585</td>
</tr>
<tr>
<td>Federal program revenues:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5910 Federal revenues distributed through government entities other than State or Federal agencies</td>
<td>1,454,085</td>
<td>1,441,200</td>
<td>(226,796)</td>
</tr>
<tr>
<td>5920 Federal revenues distributed by Texas Education Agency</td>
<td></td>
<td>78,268</td>
<td>78,268</td>
</tr>
<tr>
<td>5930 Federal revenues distributed by other State of Texas government agencies (other than Texas Education Agency)</td>
<td></td>
<td>151,026</td>
<td>151,026</td>
</tr>
<tr>
<td>5940 Federal revenues distributed directly from the Federal government</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Federal program revenues</td>
<td>1,454,085</td>
<td>1,670,494</td>
<td>2,498</td>
</tr>
<tr>
<td>Total revenues</td>
<td>8,670,763</td>
<td>9,549,895</td>
<td>665,221</td>
</tr>
<tr>
<td>Expenses:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11 Instruction</td>
<td>4,223,922</td>
<td>4,637,390</td>
<td>(10,165)</td>
</tr>
<tr>
<td>13 Curriculum development and instructional staff development</td>
<td>53,736</td>
<td>44,470</td>
<td>20,156</td>
</tr>
<tr>
<td>15 General</td>
<td>300</td>
<td>176</td>
<td>124</td>
</tr>
<tr>
<td>23 School leadership</td>
<td>306,172</td>
<td>294,415</td>
<td>11,757</td>
</tr>
<tr>
<td>31 Guidance, counseling and evaluation services</td>
<td>41,000</td>
<td>26,555</td>
<td>14,445</td>
</tr>
<tr>
<td>32 Social work services</td>
<td>100</td>
<td>3,186</td>
<td>(3,186)</td>
</tr>
<tr>
<td>33 Health services</td>
<td>100</td>
<td>35,383</td>
<td>(35,283)</td>
</tr>
<tr>
<td>34 Student (pupil) transportation</td>
<td>154,988</td>
<td>151,339</td>
<td>3,494</td>
</tr>
<tr>
<td>35 Food services</td>
<td>441,087</td>
<td>563,987</td>
<td>3,744</td>
</tr>
<tr>
<td>36 Co curricular extracurricular/activities</td>
<td>24,574</td>
<td>24,245</td>
<td>329</td>
</tr>
<tr>
<td>41 General administration</td>
<td>1,006,767</td>
<td>1,139,449</td>
<td>(10,908)</td>
</tr>
<tr>
<td>42 General</td>
<td>7,500</td>
<td>6,857</td>
<td>643</td>
</tr>
<tr>
<td>51 Plant maintenance and operations</td>
<td>1,724,970</td>
<td>1,488,683</td>
<td>236,287</td>
</tr>
<tr>
<td>53 Data processing services</td>
<td>156,697</td>
<td>143,355</td>
<td>(23,342)</td>
</tr>
<tr>
<td>61 Community services</td>
<td>20,100</td>
<td>70,111</td>
<td>(50,011)</td>
</tr>
<tr>
<td>81 Fundraising</td>
<td>9,050</td>
<td>43,393</td>
<td>(34,343)</td>
</tr>
<tr>
<td>99 Non-function</td>
<td></td>
<td>449</td>
<td>(449)</td>
</tr>
<tr>
<td>Total expenses</td>
<td>8,172,963</td>
<td>8,693,443</td>
<td>153,480</td>
</tr>
<tr>
<td>Change in net assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>497,780</td>
<td>38,089</td>
<td>856,452</td>
<td>818,363</td>
</tr>
<tr>
<td>Net assets, beginning of year as adjusted</td>
<td>2,009,300</td>
<td>2,009,300</td>
<td></td>
</tr>
<tr>
<td>Net assets, end of year</td>
<td>$ 2,507,080</td>
<td>2,047,369</td>
<td>2,665,752</td>
</tr>
</tbody>
</table>

See accompanying notes to supplemental information.
## TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

### Schedule of Expenditures of Federal Awards

**Year Ended August 31, 2007**

<table>
<thead>
<tr>
<th>Federal Grantor / Pass - Through Grantor / Program Title</th>
<th>Federal CFDA Number</th>
<th>Pass - Through Entity Identifying Number</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.S. Department of Education - Texas Education Agency:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Title I, Part A, School Improvement</td>
<td>84.010A</td>
<td>66101011011806606</td>
<td>479,017</td>
</tr>
<tr>
<td>Idea - B Formula</td>
<td>84.027A</td>
<td>666000110118066600</td>
<td>156,105</td>
</tr>
<tr>
<td>Carl D. Perkins - Basic Grant Foundation</td>
<td>84.048A</td>
<td>64200061011806604</td>
<td>12,520</td>
</tr>
<tr>
<td>Idea - B Preschool</td>
<td>84.173A</td>
<td>666010110118066600</td>
<td>1,043</td>
</tr>
<tr>
<td>Title IV, Part A, Safe/Drug Free Schools</td>
<td>84.188A</td>
<td>66910011011806606</td>
<td>7,832</td>
</tr>
<tr>
<td>Title V, Part A, Innovative Programs</td>
<td>84.298A</td>
<td>66850011011806606</td>
<td>3,461</td>
</tr>
<tr>
<td>Title II, Part D, Enhancing Education</td>
<td>84.318X</td>
<td>66300011011806606</td>
<td>4,678</td>
</tr>
<tr>
<td>Title I, Part F, Comprehensive</td>
<td>84.332X</td>
<td>661600111110107</td>
<td>41,993</td>
</tr>
<tr>
<td>Texas Reading First Initiative for Grades K-3</td>
<td>84.357A</td>
<td>664500111110055</td>
<td>172,581</td>
</tr>
<tr>
<td>Title III, LEP</td>
<td>84.365A</td>
<td>66700101101806606</td>
<td>58,768</td>
</tr>
<tr>
<td>Title II, Part A, Teacher/Principal Training</td>
<td>84.367A</td>
<td>66940011011806606</td>
<td>78,668</td>
</tr>
<tr>
<td><strong>Total U.S. Department of Education</strong></td>
<td></td>
<td></td>
<td>1,016,666</td>
</tr>
</tbody>
</table>

| **U.S. Department of Agriculture:**                                                        |                     |                                          |              |
| Texas Education Agency:                                                                    |                     |                                          |              |
| School Breakfast Program                                                                   | 10.553              | 714000601                                | 74,965       |
| National School Lunch Program                                                              | 10.555              | 713000601                                | 349,569      |
| Health and Human Services Commission:                                                      |                     |                                          |              |
| Food Distribution                                                                          | 10.550              | N/A                                      | 25,247       |
| Summer Food Service Program                                                                 | 10.559              | 17603711019                             | 21,250       |
| **Total U.S. Department of Agriculture**                                                    |                     |                                          | 471,031      |

| **U.S. Department of Defense - Junior ROTC**                                                | 12.000              | N/A                                      | 56,339       |

| **U.S. Department of Health and Human Services - Texas Department of Family and Protective Services - Foster Care Title IV-E - Residential Child Care | 93.658              | N/A                                      | 587,932      |

| **U.S. Department of Housing and Urban Development:**                                       |                     |                                          |              |
| National Council for La Raza - Housing Counseling Assistance                               | 14.169              | N/A                                      | 46,500       |
| Local Initiative Support Corporation - Community Development Block Grants - Housing Program | 14.218              | N/A                                      | 52,500       |
| Harris County - Community Development Block Grants/Entitlement Grants - Construction Program | 14.239              | N/A                                      | 63,864       |
| City of Houston - Community Development Block Grants/Entitlement Grants - Housing Program   | 14.239              | N/A                                      | 22,178       |
| **Total U.S. Department of Housing and Urban Development**                                |                     |                                          | 185,042      |

| **U.S. Department of Treasury- NeighborWorks America**                                     | 21.000              | N/A                                      | 121,500      |
| AmeriCorps - Americorps School and Katrina                                                 | 94.006              | N/A                                      | 94,687       |

**Total expenditures of Federal awards**                                                    |                     |                                          | $2,533,197   |

See accompanying notes to supplemental information.
**TEJANO CENTER FOR COMMUNITY CONCERNS, INC.**

Schedule of Expenditures of State of Texas Awards
Year Ended August 31, 2007

<table>
<thead>
<tr>
<th>State Grantor / Pass - Through Grantor / Program Title</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas Education Agency:</td>
<td></td>
</tr>
<tr>
<td>Foundation Entitlements</td>
<td>$ 7,169,537</td>
</tr>
<tr>
<td>High School Allotment</td>
<td>52,851</td>
</tr>
<tr>
<td>Pre-K TEA Grant</td>
<td>332,186</td>
</tr>
<tr>
<td>Accelerated Reading Program and Math</td>
<td>58,012</td>
</tr>
<tr>
<td>Optional Extended Year Program</td>
<td>4,781</td>
</tr>
<tr>
<td>Technology Allotment</td>
<td>24,896</td>
</tr>
<tr>
<td><strong>Total expenditures of State awards</strong></td>
<td><strong>$ 7,642,263</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to supplemental information.
1. **Basis of Presentation - Schedules of Expenditures of Federal and State of Texas Awards**

The schedules of expenditures of Federal and State of Texas awards presents the Federal and State of Texas programs expenditures of all Federal and state award programs of TCCC reflected on the accrual basis of accounting for the year ended August 31, 2007.

2. **Basis of Presentation - Other Supplemental Schedules**

The accompanying supplemental schedules as listed in the table of contents for the year ended August 31, 2007 are presented on the accrual basis of accounting.

3. **Relationship to TCCC’s Financial Statements**

Federal and state award expenditures, as reported in the schedules of expenditures of Federal and State of Texas awards, correspond with the amount reported as Federal and state and local grants revenue in TCCC’s basic financial statements for the year ended August 31, 2007, since TCCC’s policy is to recognize revenues as budgeted costs attributable to grants and contracts are incurred.

4. **Relationship to Grantor Agency Financial Reports**

Differences between amounts reflected in the financial reports filed with grantor agencies for the programs are due to different program year-ends, different methods of accounting (cash versus accrual basis), and estimates made by management.

5. **Reconciliation to Basic Financial Statements**

The following reconciles Federal and state awards expenditures as included in the accompanying schedules to Federal and state and local grants revenue as reported in the basic financial statements of TCCC:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fees from Government Agencies</td>
<td></td>
</tr>
<tr>
<td>Total Federal and NeighborWorks grants per basic financial statements</td>
<td>$ 2,564,968</td>
</tr>
<tr>
<td>Less - vendor contracts</td>
<td>(31,771)</td>
</tr>
<tr>
<td>Total Federal awards expenditures per accompanying schedule</td>
<td>$ 2,533,197</td>
</tr>
</tbody>
</table>

6. **Standard Financial Accounting System**

For all Federal programs, RYSS used the net asset classes and codes specified by the Texas Education Agency in the *Special Supplement to Financial Accounting and Reporting Nonprofit Charter School Chart of Accounts*. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by a grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.

7. **Correction of Error**

In prior year, all the funds that related to the RYSS School were not included in the supplemental schedules of RYSS. The effect of correcting this error was to increase beginning net assets for RYSS by $204,502.
INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Tejano Center for
Community Concerns, Inc.:

We have audited the financial statements of Tejano Center for Community Concerns, Inc. (TCCC) as of and for the year ended August 31, 2007, and have issued our report thereon dated March 25, 2008. 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 TCCC'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 the effectiveness of TCCC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 accounting principles generally accepted in the United States of America 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. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. TCCC's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit TCCC's responses and, accordingly, we express no such opinion.

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 the 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 and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider findings 2007-1 through 2007-3 to be material weaknesses.

One Riverway, Suite 1900
Houston, TX 77056
713 622 1120
713 961 0625 Fax
www.mfrpc.com

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether TCCC’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.

This report is intended solely for the information and use of the Board of Director’s, TCCC’s management, Federal and State of Texas awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

March 25, 2008

[Signature]
INDEPENDENT AUDITORS' 
REPORT ON COMPLIANCE WITH REQUIREMENTS 
APPLICABLE TO EACH MAJOR PROGRAM AND 
INTERNAL CONTROL OVER COMPLIANCE IN 
ACCORDANCE WITH OMB CIRCULAR A-133 AND 
THE STATE OF TEXAS SINGLE AUDIT CIRCULAR 

Board of Directors 
Tejano Center for 
Community Concerns, Inc.: 

Compliance 

We have audited the compliance of Tejano Center for Community Concerns, Inc. (TCCC) 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 and state programs for the year ended August 31, 2007. TCCC's major Federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal and state programs is the responsibility of TCCC's management. Our responsibility is to express an opinion on TCCC'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 and the State of Texas Single Audit Circular. Those standards, OMB Circular A-133 and the State of Texas Single Audit Circular, 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 and state program occurred. An audit includes examining, on a test basis, evidence about TCCC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on TCCC's compliance with those requirements. 

In our opinion, TCCC complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal and state programs for the year ended August 31, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to report in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as finding 2007-3. 

Internal Control over Compliance 

The management of TCCC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal and state programs. In planning and performing our audit, we considered TCCC's internal control over compliance with requirements that could have a direct and material effect on a major Federal and state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular.
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity’s internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

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 and state 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 and state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal and state program that is more than inconsequential will not be prevented or detected by the entity’s internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 2007-3 to be a significant deficiency.

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 and state program will not be prevented or detected by the entity’s internal control. The significant deficiency, 2007-3, in internal control over compliance described in the accompanying schedule of findings and questioned costs is considered to be a material weakness.

This report is intended solely for the information and use of the Board of Directors, TCCC’s management, Federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

March 25, 2008

Mei Fox, Rodriguez
Section 1
Financial Statements

1. Type of auditors’ report issued
2. Internal control over financial reporting:
   a. Material weaknesses identified?
   b. Significant deficiencies identified not considered to be material weaknesses?
   c. Noncompliance material to the financial statements noted?

Federal and State of Texas Awards

1. Internal control over major programs:
   a. Material weaknesses identified?
   b. Significant deficiencies identified not considered to be material weaknesses?
2. Type of auditors’ report issued on compliance for major programs:
3. Any audit findings disclosed that are required to be reported in accordance with Circular OMB A-133, Section 510(a) and State of Texas Single Audit Circular?
4. Identification of major programs:

   Federal - CFDA Number
   84.010A
   10.555
   93.658

   State of Texas - Contract Number
   N/A

5. Dollar threshold used to distinguish between Type A and Type B programs:
6. Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530 and State of Texas Single Audit Circular?

Summary of Auditors’ Results

Unqualified
Yes
None reported
No

Name of Federal and State of Texas Program
Title I, Part A, School Improvement
National School Lunch Program
Foster Care Title IV-E

Foundation Entitlements

Federal - $300,000
State - $300,000

Federal - No
State - No

Continued
Section 2

Financial Statement Findings

Finding 2007-1

Criteria: The Auditing Standards Board recently issued guidance to auditors related to an entity’s internal control over financial reporting. Many small organizations rely on their auditor to generate the annual financial statements including notes. Statement on Auditing Standards No. 112 emphasizes that the auditor cannot be part of an entity’s system of internal control over financial reporting.

Condition and cause: In our judgment, it appears that management does not fully utilize the internal processes in place to ensure the adequacy of financial statement disclosure and is dependent on its external auditors to comply with disclosure requirements established by generally accepted accounting principles of the United States of America.

Recommendation: We recommend that management annually obtain a current financial statement disclosure checklist and review and answer the checklist to ensure propriety and completeness of the disclosures within the notes to the financial statements.

Management’s response: Management will obtain a current financial statement disclosure checklist and review and answer the checklist to ensure propriety and completeness of the disclosures within the notes to the financial statements starting with the year ending August 31, 2008 to ensure the adequacy of financial statement disclosure. Management has already implemented these procedures and, further, has retained the services of G&A Partners, a nationally recognized financial, accounting and human resources firm to provide direct financial accounting, fund accounting and human resources services.

Continued
Finding 2007-2

Criteria: Organizations need to reconcile all accounts that could contain a significant or material misstatement and post all necessary adjustments to the general ledger in a timely manner. Necessary adjustments include all identified general ledger entries that either individually or in the aggregate are significant or material to the financial statements, with the most necessary adjustments being those that would result in a material misstatement if they were not recorded. The organization also should analyze all nonreconciled accounts and nonposted identified adjustments to the general ledger to determine their effect and the potential for financial misstatement or significant deficiency or material weakness.

Condition and cause: In our judgment, it appears that management does not fully utilize the internal processes in place to ensure that all accounts are reconciled monthly and is dependent on its external auditors to identify significant or material misstatements and to comply with accounting principles generally accepted in the United States of America.

Recommendation: We recommend that management reconcile monthly all accounts that could contain a significant or material misstatement and post all necessary adjustments to the general ledger in a timely manner. We also recommend that management should analyze all nonreconciled accounts and nonposted identified adjustments to the general ledger to determine their effect and the potential for financial misstatement.

Management's response: Management has installed new financial accounting and fund accounting software (APTA) to address weaknesses the TCCC has found in its previous accounting software (Cougar Mountain) which created problems with posting all necessary adjustments to the general ledger in a timely manner. Management will reconcile all accounts monthly that could contain a significant or material misstatement. TCCC has also taken measures to ensure that TCCC accounting policies and procedures are followed to ensure that timely reconciliation and posting occurs each month.

TCCC has made improvements in its accounting and financial management systems, which will result in accrual-based, timely, and accurate financial statements and income reports to generate critical information and data to achieve sound financial and accounting practices. As addressed in 2007-1, Management and the TCCC board of directors have contracted with G&A Partners and have outsourced TCCC's finance & human resources departments. G&A Partners will work with TCCC's accounting staff in performing day-to-day accounting & financial services, human resources and risk management. This partnership will result in enhanced financial reporting, improved regulatory compliance, and access to better technology.

Continued
Section 3

Federal and State of Texas Award Findings and Questioned Costs:

Finding 2007-3

Texas Education Agency (TEA)  Foundation Entitlements Funds

Questioned costs:  Undeterminable

Criteria: The Foundation Entitlement Funds are based on the refined ADA which is party calculated by the number of students enrolled as well as the percentage of attendance.

Condition and Cause: The number of absences submitted to TEA was not in agreement with to the students attendance card. The third six week period and sixth six week period were selected for the audit testwork. From those periods 100 student timesheets were selected for review from a population of 1,046. Based on our sample, 20 out of 100 student’s timesheets were not in agreement to the attendance reported to TEA. The Foundation Entitlement Funds reimburses TCCC based on the attendance numbers received and therefore, funds could be over or under stated. Proper documentation and review procedures are not in place to maintain the accuracy of the information submitted to TEA.

Recommendation: It is recommended that TCCC implement a formal attendance procedures and a stringent review process to ensure that attendance information is properly submitted to TEA.

Management’s response: For the 2007-08 school year, new formal attendance procedures and stringent review processes were put in place by TCCC administration. These procedures include:

- Procedures for teachers to take attendance in class.
- Procedures for the office to enter attendance into the student data software.
- Procedures for reconciling attendance on a regular basis.
- Procedures for record retention.
- Assigned responsibilities.

Revised procedures are in place for the current 2007-08 school year and are being closely adhered to. When TCCC recognized that the reporting to the Texas Education Agency was inadequate, we also hired a new PEIMS Coordinator, Ms. Kim King. Ms. King is regarded as an expert by Houston’s Region IV ESC and by TEA. We are comfortable that we have thoroughly addressed this issue through these new procedures and staffing.
Section 4

Schedule of Prior Year Audit Findings

Findings Related to Compliance with Teacher Retirement System

1. TRS Withholding for Non-eligible Employees

   Questioned Cost: $30,694

   Condition: During the audit, it was noted that TCCC was withholding Teacher Retirement System (TRS) for noncharter school employees, which is a violation of the laws and regulations of the TRS. TCCC is not allowed to withhold TRS from non-eligible employees.

   Current status: TCCC has not yet resolved this finding.

Findings Related to Compliance with State of Texas Programs

2. Restricted Program Funds - Unsupported Cost

   Questioned Costs: $93,298

   Condition: During the audit, it was noted that TCCC was advancing restricted funds from TEA to other programs. TEA could request the funds be reimbursed since these funds are restricted and not for use of other programs

   Criteria: TCCC is not allowed to use restricted funds for other than their intended purpose.

   Current status: TCCC has replenished all TEA funds to RYSS.
TEJANO CENTER FOR
COMMUNITY CONCERNS, INC.

Financial Statements
and
Single Audit Reports

August 31, 2008
(With Independent Auditors' Report Thereon)
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<th>Page</th>
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</tr>
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<td></td>
</tr>
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<td>3</td>
</tr>
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<td>4</td>
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<td>5</td>
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<td>6</td>
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<td>7</td>
</tr>
<tr>
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<td></td>
</tr>
<tr>
<td>Schedule of Financial Position - Raul Yzaguirre School for Success</td>
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</tr>
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</tr>
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</tr>
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<td>19</td>
</tr>
<tr>
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<td>20</td>
</tr>
<tr>
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</tr>
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<td>Schedule of Expenditures of Federal Awards</td>
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</tr>
<tr>
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<td>23</td>
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<td>24</td>
</tr>
<tr>
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<td>27</td>
</tr>
<tr>
<td>Schedule of Findings and Questioned Costs</td>
<td>29</td>
</tr>
</tbody>
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Tejano Center for
Community Concerns, Inc.:

We have audited the accompanying statement of financial position of Tejano Center for Community Concerns, Inc. (TCCC) as of August 31, 2008, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of TCCC's 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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of TCCC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As further explained in note 18 to the financial statements, the August 31, 2007 financial statements did not include accrued state foundation revenue, accrued wages and vacation expenses. Net assets at the beginning of the year ended August 31, 2008 was decreased by $136,296 as a result of the correction of these errors.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TCCC 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of TCCC, taken as a whole. The supplemental schedules for Raul Yzaguirre School for Success are presented for purposes of additional analysis and are not required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and in our opinion, are fairly stated in all material respect, in relation to the basic financial statements taken as a whole.

January 23, 2009

MFR, P.C.
INDEPENDENT AUDITORS' REPORT

Board of Directors
Tejano Center for
Community Concerns, Inc.

We have audited the accompanying statement of financial position of Tejano Center for Community Concerns, Inc. (TCCC) as of August 31, 2008, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of TCCC's 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of TCCC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As further explained in note 18 to the financial statements, the August 31, 2007 financial statements did not include accrued state foundation revenue, accrued wages and vacation expenses. Net assets at the beginning of the year ended August 31, 2008 was decreased by $136,296 as a result of the correction of these errors.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TCCC 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 23, 2009 on our consideration of TCCC's 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 should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of TCCC, taken as a whole. The supplemental schedules for Raul Yzaguirre School for Success are presented for purposes of additional analysis and are not required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and in our opinion, are fairly stated in all material respect, in relation to the basic financial statements taken as a whole.
The accompanying schedules of expenditures of Federal awards and expenditures of State awards of Texas for the year ended August 31, 2008 are presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State of Texas Single Audit Circular, respectively, and are 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.

MFR, P.C.

January 23, 2009
TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

Statement of Financial Position
August 31, 2008

**Assets**

<table>
<thead>
<tr>
<th>Current assets:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$1,139,441</td>
</tr>
<tr>
<td>Investments</td>
<td>734,720</td>
</tr>
<tr>
<td>Grants receivable</td>
<td>553,941</td>
</tr>
<tr>
<td>Other receivables</td>
<td>109,938</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>1,408,854</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>3,946,884</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Land, property and equipment:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>495,666</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>5,812,348</td>
</tr>
<tr>
<td>Furniture, vehicles and equipment</td>
<td>1,589,649</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(3,243,409)</td>
</tr>
<tr>
<td><strong>Total land, property and equipment, net</strong></td>
<td><strong>4,754,254</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$8,897,447</strong></td>
</tr>
</tbody>
</table>

**Liabilities and Net Assets**

<table>
<thead>
<tr>
<th>Current liabilities:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>457,942</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>538,398</td>
</tr>
<tr>
<td>Lines of credit</td>
<td>894,212</td>
</tr>
<tr>
<td>Notes payable, current portion</td>
<td>201,383</td>
</tr>
<tr>
<td>Bonds payable, current portion</td>
<td>135,000</td>
</tr>
<tr>
<td>Recoverable grant</td>
<td>100,000</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>6,540</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>2,333,475</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Notes payable, net of current portion</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds payable, net of current portion</td>
<td><strong>2,285,000</strong></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>5,457,337</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net assets:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>2,940,110</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>500,000</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td><strong>3,440,110</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td><strong>$8,897,447</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
TEJANO CENTER FOR
COMMUNITY CONCERNS, INC.

Statement of Activities and Changes in Net Assets
Year Ended August 31, 2008

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal grants</td>
<td>$683,550</td>
<td>1,643,838</td>
<td></td>
<td>2,327,388</td>
</tr>
<tr>
<td>State grants</td>
<td>70,116</td>
<td>7,182,316</td>
<td></td>
<td>7,252,432</td>
</tr>
<tr>
<td>Neighbor Works America Grants</td>
<td>178,000</td>
<td></td>
<td></td>
<td>178,000</td>
</tr>
<tr>
<td>Rent income</td>
<td>645,010</td>
<td></td>
<td></td>
<td>645,010</td>
</tr>
<tr>
<td>Contributions/donations</td>
<td>958,449</td>
<td></td>
<td></td>
<td>958,449</td>
</tr>
<tr>
<td>Other income</td>
<td>105,400</td>
<td></td>
<td></td>
<td>105,400</td>
</tr>
<tr>
<td>Interest income</td>
<td>42,061</td>
<td></td>
<td></td>
<td>42,061</td>
</tr>
<tr>
<td>Sales of constructed homes</td>
<td>99,000</td>
<td></td>
<td></td>
<td>99,000</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>8,826,154</td>
<td>(8,826,154)</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>11,607,740</td>
<td></td>
<td></td>
<td>11,607,740</td>
</tr>
</tbody>
</table>

| **Expenses:**          |              |                        |                        |           |
| Program services:      |              |                        |                        |           |
| Charter school         | 9,860,878    |                        |                        | 9,860,878 |
| Affordable housing/homebuyer education | 804,779 |                        |                        | 804,779   |
| Child shelter/placing  | 747,489      |                        |                        | 747,489   |
| Supporting services:   |              |                        |                        |           |
| Tejano commercial properties | 709,074 |                        |                        | 709,074   |
| Management and general | 163,908      |                        |                        | 163,908   |
| **Total expenses**     | 12,286,128   |                        |                        | 12,286,128|
| Changes in net assets  | (678,388)    |                        |                        | (678,388) |

Net assets, beginning of year, as previously reported

Prior period adjustment

Net assets, end of year

See accompanying notes to financial statements.
<table>
<thead>
<tr>
<th></th>
<th>Charter School</th>
<th>Affordable Housing/ Homebuyer Education</th>
<th>Child Shelter/ Placing</th>
<th>Tejano Commercial Properties</th>
<th>Management and General</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$ 5,485,069</td>
<td>354,982</td>
<td>328,840</td>
<td>126,454</td>
<td>500</td>
<td>6,295,845</td>
</tr>
<tr>
<td>Employee fringe benefits</td>
<td>967,282</td>
<td>83,610</td>
<td>41,245</td>
<td>21,689</td>
<td>341</td>
<td>1,114,167</td>
</tr>
<tr>
<td>Payroll taxes</td>
<td>213,299</td>
<td>25,301</td>
<td>38,153</td>
<td>1,063</td>
<td></td>
<td>277,848</td>
</tr>
<tr>
<td><strong>Total salaries and related expenses</strong></td>
<td>6,665,650</td>
<td>463,893</td>
<td>406,238</td>
<td>149,236</td>
<td>841</td>
<td>7,887,858</td>
</tr>
<tr>
<td>Food</td>
<td>374,833</td>
<td>1,835</td>
<td>27,813</td>
<td></td>
<td>17,975</td>
<td>422,456</td>
</tr>
<tr>
<td>Insurance</td>
<td>114,573</td>
<td>32,476</td>
<td>7,685</td>
<td>33,495</td>
<td></td>
<td>188,229</td>
</tr>
<tr>
<td>Supplies</td>
<td>612,316</td>
<td>36,567</td>
<td>33,685</td>
<td>16,643</td>
<td>31,005</td>
<td>730,216</td>
</tr>
<tr>
<td>Travel</td>
<td>100,345</td>
<td>19,927</td>
<td>2,484</td>
<td>20</td>
<td>15,396</td>
<td>138,172</td>
</tr>
<tr>
<td>Telephone</td>
<td>5,657</td>
<td>10,710</td>
<td>5,651</td>
<td>1,545</td>
<td></td>
<td>23,573</td>
</tr>
<tr>
<td>Rent expense</td>
<td>634,934</td>
<td>7,273</td>
<td>6,090</td>
<td></td>
<td>3,738</td>
<td>652,035</td>
</tr>
<tr>
<td>Leases</td>
<td>33,881</td>
<td>2,194</td>
<td>986</td>
<td></td>
<td></td>
<td>37,061</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>147,312</td>
<td>9,665</td>
<td>2,277</td>
<td>12,428</td>
<td>586</td>
<td>172,248</td>
</tr>
<tr>
<td>Professional fees</td>
<td>237,422</td>
<td>66,107</td>
<td>60,288</td>
<td>15,937</td>
<td>11,421</td>
<td>451,175</td>
</tr>
<tr>
<td>Utilities</td>
<td>176,531</td>
<td>14,635</td>
<td>37,150</td>
<td>179,529</td>
<td>(395)</td>
<td>407,450</td>
</tr>
<tr>
<td>Auto expenses</td>
<td>29,351</td>
<td>2,485</td>
<td>14,961</td>
<td>4,409</td>
<td></td>
<td>51,206</td>
</tr>
<tr>
<td>Bank charges</td>
<td>8,763</td>
<td>285</td>
<td>63</td>
<td></td>
<td>107</td>
<td>9,208</td>
</tr>
<tr>
<td>Fundraisers</td>
<td>8,018</td>
<td></td>
<td></td>
<td></td>
<td>51,658</td>
<td>59,676</td>
</tr>
<tr>
<td>Interest</td>
<td>60,412</td>
<td></td>
<td>5,052</td>
<td>175,633</td>
<td>3</td>
<td>241,100</td>
</tr>
<tr>
<td>Contract labor</td>
<td>195,918</td>
<td>21,469</td>
<td>2,572</td>
<td>10,065</td>
<td>35</td>
<td>230,059</td>
</tr>
<tr>
<td>Foster parents</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>100,470</td>
<td>100,470</td>
</tr>
<tr>
<td>Cost of houses sold</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>85,145</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>29,318</td>
<td>85,145</td>
<td>6,865</td>
<td>216</td>
<td>30,922</td>
<td>91,117</td>
</tr>
<tr>
<td><strong>Total operating expenses before depreciation</strong></td>
<td>9,495,234</td>
<td>798,482</td>
<td>716,240</td>
<td>605,246</td>
<td>163,272</td>
<td>11,778,454</td>
</tr>
<tr>
<td>Depreciation</td>
<td>365,644</td>
<td>6,317</td>
<td>31,249</td>
<td>103,828</td>
<td>636</td>
<td>507,574</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>$ 9,860,878</td>
<td>804,779</td>
<td>747,489</td>
<td>709,074</td>
<td>163,908</td>
<td>12,286,128</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

Statement of Cash Flows
Year Ended August 31, 2008

Cash flows from operating activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net assets</td>
<td>$(678,388)</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets</td>
<td></td>
</tr>
<tr>
<td>to net cash used by operating activities:</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>507,674</td>
</tr>
<tr>
<td>Change in operating assets and liabilities:</td>
<td></td>
</tr>
<tr>
<td>Grant and other receivables</td>
<td>(75,585)</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>(864,076)</td>
</tr>
<tr>
<td>Other assets</td>
<td>(19,449)</td>
</tr>
<tr>
<td>Accounts payable and other liabilities</td>
<td>2,705</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>112,233</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>(41,239)</td>
</tr>
<tr>
<td>Net cash used by operating activities</td>
<td>(1,056,125)</td>
</tr>
</tbody>
</table>

Cash flows from investing activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from sale of investments</td>
<td>805,590</td>
</tr>
<tr>
<td>Building improvements and purchases of equipment</td>
<td>(1,084,985)</td>
</tr>
<tr>
<td>Net cash used by investing activities</td>
<td>(279,395)</td>
</tr>
</tbody>
</table>

Cash flows from financing activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from recoverable grant</td>
<td>100,000</td>
</tr>
<tr>
<td>Repayments of bonds payable</td>
<td>(125,000)</td>
</tr>
<tr>
<td>Repayments of line of credit and notes payable</td>
<td>(333,167)</td>
</tr>
<tr>
<td>Proceeds from line of credit and notes payable</td>
<td>1,070,942</td>
</tr>
<tr>
<td>Net cash provided by financing activities</td>
<td>712,775</td>
</tr>
<tr>
<td>Net decrease in cash and cash equivalents</td>
<td>(622,745)</td>
</tr>
</tbody>
</table>

Cash and cash equivalents, beginning of year           | 1,762,186 |
Cash and cash equivalents, end of year                 | $ 1,139,441|

Supplemental disclosure of cash flow information - interest paid during the year

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 252,600</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
TEJANO CENTER FOR
COMMUNITY CONCERNS, INC.

Notes to Financial Statements
August 31, 2008

1. Organization

The Tejano Center for Community Concerns, (TCCC) was incorporated by the State of Texas in 1992 for the purpose of improving opportunities for Hispanic children and their families in Houston’s Greater East End through the provision of housing and community development initiatives, as well as, educational, social, and health services. Throughout its 16-year history, Tejano Center has developed a number of local, state, and national partnerships including support from the corporate and foundation sectors, the Local Initiatives Support Corporation (LISC), Neighbor Works America, the National Council of La Raza, the City of Houston and Harris County. Tejano Center is a certified Community Housing Development Organization and Community Development Organization (CHDO) and a HUD-designated Housing Counseling Agency. TCCC is led by a 17 member community-based Board of Directors comprised of community and business leaders having as strong vested interest in the neighborhoods the agency serves. TCCC’s Raul Yzaguirre School for Success (RYSS) open enrollment charter school is governed by a separate school board comprised of members from TCCC board of directors. TCCC has a combined 196 member staff in Houston, Brownsville and Port Author/Beaumont.

TCCC operated several different programs during the year ended August 31, 2008 as follows:

Charter School

The Raul Yzaguirre School for Success (RYSS) was one of the first 20 charter schools in the State of Texas and serves 950 students in grades PreK through 12. It was created for the purpose of addressing the dropout problem, over crowding and school violence. RYSS provides one of the most comprehensive and innovative programs anywhere in the country and is regarded as one of the top charter schools in the State of Texas. The Houston campus is now in its twelfth year of operation. Drop-out rates average less than 2% and the school has a mandatory parental involvement component. In 2008 nearly 100% of graduates matriculated to institutions of higher learning.

The charter school has additional programs as follows:

Youth Empowerment Program

The goal of the youth empowerment project is to reduce the incidence of juvenile delinquency through the provision of focused, structured prevention/intervention activities that help youth develop positive self-esteem, high self discipline, increased self respect, and encourage decreased street violence, drug prevention and gang involvement. Target area and population served is primarily Hispanic and African American youth and their families. Services are aimed specifically at preventing and diverting the number of minority youth who enter the juvenile justice system. Program activities include a ROPES course, completion of anger management classes, restitution activities, community service, military and/or boot type training that is rigid and intended to be highly disciplined and rigorous in nature. Referrals for our program come from HPD Juvenile Department, HISD Campus Police, existing Teen Courts, and from area Public and Charter schools for children and youth who are at risk of suspension and or expulsion. Additionally, referrals are accepted from Juvenile Probation for juveniles who are at risk of having their probation revoked.

Continued
TEJANO CENTER FOR
COMMUNITY CONCERNS, INC.

Notes to Financial Statements, Continued

**Americorps**

This program is a nationally sponsored volunteer project which provides qualifying youth and adults with stipends and scholarships upon completion of 1,700 hours of community service. Members serve as Teacher Aides to RYSS and for TCCC Adult Education Program.

**Adult Basic Education Program**

Through partnerships with Houston Community College and Monterrey TECH, TCCC provides GED, ESL, and basic computing classes to neighborhood residents and parents of RYSS students. Since 1999, approximately 400+ students per semester have enrolled.

**Child Shelter/Placing**

Established in 1996, the 32-bed Shelter serves children ages 4-17. The shelter is the only children’s facility in Harris County that by design serves primarily Hispanic children. The goal of the TCCC is to provide for placement of abused, neglected, and homeless children in culturally and language appropriate private foster homes.

**Affordable Housing/Homebuyer Education**

This program develops and builds affordable housing for low-income families earning between 50-80% of the Houston area Medicare income and provides pre home ownership counseling and prepares the homebuyer for mortgage approval. TCCC has developed and rehabbed numerous residential properties. In addition, TCCC holds homebuyer classes every Saturday of the month as well as on scheduled weekdays.

2. **Summary of Significant Accounting Policies**

   **Basis of presentation**

   TCCC’s financial statements have been prepared on the accrual basis of accounting. The financial statements have been prepared in accordance with the Financial Accounting Standards Board Statement (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, TCCC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

   **Standard financial accounting system**

   For all Federal and state programs, RYSS used the net asset classes and codes specified by the Texas Education Agency in the *Special Supplement to Financial Accounting and Reporting, Nonprofit Charter School Chart of Accounts*. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by a grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.
Notes to Financial Statements, Continued

Cash and cash equivalents

TCCC considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash is held in demand accounts at a bank. At August 31, 2008, the cash and cash equivalents funds are to be re-invested in the individual programs that generated these funds.

Investments

Investments in mutual funds, money market funds, and certificates of deposits are reported at fair value which is based on quoted market price. Realized and unrealized gains and losses on investment sold or held are reflected in the statement of activities.

Grants receivable

Grants receivable represent payments due from contracts or grants awarded to TCCC that are expected to be collected within one year and are recorded at net realizable value. As of August 31, 2008, TCCC considers all grants receivable to be collectible.

Construction in progress

Construction in progress includes land and development costs of residential projects undertaken by TCCC.

Property and equipment

Property and equipment purchased by TCCC are recorded at cost. Donations of property and equipment are recorded at their fair value at the date of the gift. All purchases and donations in excess of $5,000 are capitalized. Depreciation is provided on the straight-line method based upon estimated useful lives of the asset. Gains or losses on retired or 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.

Capital assets acquired with public funds received by TCCC for the operation of RYSS constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the supplemental schedule of capital assets.

Deferred revenue

Deferred revenue represents grant amounts received by TCCC which have not yet been earned. Such amounts are recognized as revenue when earned, generally when expenditures have been incurred for purposes specified by the grant.

Continued
Contributions

TCCC accounts for contribution in accordance with the Financial Accounting Standards Board’s SFAS No. 116, Accounting for Contributions Received and Contributions Made. Under SFAS No. 116, contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions are recognized when the donor makes a promise to give to TCCC that 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 and reported in the statement of activities as net assets released from restrictions. At August 31, 2008, TCCC reported all contributions as increases in unrestricted net assets because the contributions are either not restricted by the donors or the restriction expired in the year ended August 31, 2008.

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 TCCC.

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 TCCC’s multiple function expenditures.

Income taxes

TCCC is exempt from income taxes under Section 501(c)(3) and Section 501(c)(4) of the U.S. Internal Revenue Code (the Code) and comparable state law, and contributions to it are tax deductable within the limitations prescribed by the Code. TCCC has been classified as a publicly-supported organization which is not a private foundation under Section 509(a) of the Code.

Use of estimates

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

Continued
3. **Investments**

At August 31, 2008, TCCC’s investment consisted of the following:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money market funds</td>
<td>$10,299</td>
</tr>
<tr>
<td>Certificates of deposits</td>
<td>$420,928</td>
</tr>
<tr>
<td>Bonds</td>
<td>$218,693</td>
</tr>
<tr>
<td>Corporate stocks</td>
<td>$84,800</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$734,720</strong></td>
</tr>
</tbody>
</table>

The majority of these investments are pledged against the bond financing.

4. **Revolving Lines of Credit**

TCCC has $850,000 and $510,000 revolving lines of credit with Whitney Community Development Corporation with interest at the rate 6.0%. The proceeds of the loans should be used to construct up to 10 and 8 houses, respectively. The credit lines are secured by the real estate.

In addition, TCCC has a $250,000 revolving lines of credit with Wells Fargo Bank. Bank advances on the credit line are payable on demand and carry an interest rate of 7.5%. The credit line is unsecured.

The total outstanding balance of the lines of credit is $894,212 at August 31, 2008.

5. **Recoverable Grant**

TCCC received a recoverable grant of $100,000 from Local Initiative Support Corporation (LISC). The purpose of the recoverable grant is to support TCCC’s efforts to expand the Raul Yzaguirre School for Success Charter School. The recoverable grant will be used for predevelopment costs associated with the $24 million campus expansion. TCCC shall repay the recoverable grant to LISC in full on the earlier of the close of construction financing, or the maturity date of December 31, 2008 except for some circumstances under which repayment of the portion of the recoverable grant that is unable to be repaid shall not be required.
6. Notes Payable

TCCC’s obligations under notes payable consists of the following at August 31, 2008:

- Note payable to a bank, interest at 6.5% per year, secured by real estate $49,353
- Note payable to a bank, interest at 6.27% per year, secured by real estate 321,414
- Note payable to a bank, interest at 5.87% per year, secured by real estate 436,220
- Note payable to a bank, interest at 6.75% per year, secured by real estate 54,238
- Note payable to a bank, interest at 5.00% per year, secured by real estate 86,250
- Note payable to a bank, interest at 8.0% per year, secured by vehicle 46,764
- Note payable to a bank, interest at 8.0% per year, secured by vehicle 46,006

Total notes payable 1,040,245
Current portion (201,383)
Notes payable, net of current portion $838,862

Maturities of notes payable are as follows:

<table>
<thead>
<tr>
<th>Year Ending August 31</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$201,383</td>
</tr>
<tr>
<td>2010</td>
<td>123,113</td>
</tr>
<tr>
<td>2011</td>
<td>101,526</td>
</tr>
<tr>
<td>2012</td>
<td>86,858</td>
</tr>
<tr>
<td>2013</td>
<td>76,440</td>
</tr>
<tr>
<td>Thereafter</td>
<td>450,925</td>
</tr>
<tr>
<td>Total</td>
<td>$1,040,245</td>
</tr>
</tbody>
</table>

7. Bonds Payable

TCCC has secured bonds pursuant to Chapter 53 of Texas Education Code. TCCC obtained $2,880,000 of Tax Exempt Education Revenue Bonds Series 2000A and $120,000 of Taxable Education Revenue Bonds Series 2000B Bonds (both collectively referred to as the Series 2000 Bonds).

The bonds have a level debt service structure, maturing March 15, 2005 through 2020. Interest on the Bonds will be paid semiannually each March 15 and September 15 until maturity. The bonds were issued in fully registered form in denominations of $100,000 and in integral multiples of $5,000 in excess thereof. The bonds maturing on or after March 15, 2010 will be subject to optional redemption. Bonds maturing in 2010 will have an interest rate of 6.5% per annum and the bonds maturing in 2020 will have an interest rate of 7.5% per annum.

Continued
TEJANO CENTER FOR
COMMUNITY CONCERNS, INC.

Notes to Financial Statements, Continued

The bonds will mature according to the following schedule:

<table>
<thead>
<tr>
<th>Year Ending August 31</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$ 135,000</td>
</tr>
<tr>
<td>2010</td>
<td>140,000</td>
</tr>
<tr>
<td>2011</td>
<td>150,000</td>
</tr>
<tr>
<td>2012</td>
<td>165,000</td>
</tr>
<tr>
<td>2013</td>
<td>175,000</td>
</tr>
<tr>
<td>Thereafter</td>
<td>1,655,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 2,420,000</strong></td>
</tr>
</tbody>
</table>

TCCC must maintain a debt service fund which is required to maintain a minimum balance of $288,000. The current balance in the debt service fund at August 31, 2008 is $290,976. The amounts of the bonds outstanding at August 31, 2008 were $2,420,000.

8. **Operating Lease Commitment**

TCCC is currently leasing its office equipment and housing property on a non-cancelable operating lease. TCCC’s minimum annual lease commitments are as follows:

<table>
<thead>
<tr>
<th>Year Ending August 31</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$ 39,454</td>
</tr>
<tr>
<td>2010</td>
<td>38,964</td>
</tr>
<tr>
<td>2011</td>
<td>38,964</td>
</tr>
<tr>
<td>2012</td>
<td>38,964</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 156,346</strong></td>
</tr>
</tbody>
</table>

Operating lease expense amounted to $44,976 for the year ended August 31, 2008.

9. **Net Assets Released From Restrictions**

During the year ended August 31, 2008, net assets of $8,826,154 were released from Texas Education Agency and other Federal and state grantors restrictions by satisfying restrictions.

10. **Permanently Restricted Net Assets**

Permanently restricted net assets of $500,000 are restricted for use in building projects associated with the Neighbor Works organization. In accordance with the grant award letter, TCCC must establish and maintain a permanently restricted revolving loan and capital projects fund to account exclusively for their use.

Continued
11. Commitments and Contingencies

TCCC 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 TCCC have complex compliance requirements, and should state or Federal auditors discover areas of noncompliance, funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

12. Pension Plan

Plan description

TCCC contributes for RYSS employees 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 and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. The System’s annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas, 78701-2698 or by calling (800) 877-0123.

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. The RYSS employees’ contributions to the System for the year ended August 31, 2008 were approximately $340,600.

13. Health Care Coverage

During the year ended August 31, 2008, employees of RYSS were covered by a Health Insurance Plan (the Plan). RYSS contributed $354 for the Houston and Brownsville campuses per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

14. Defined Contribution Plan

TCCC has made available a defined contribution 403(b) plan to all employees. Employees may elect to defer a portion of their yearly compensation, up to statutory limits. The TCCC does not contribute to the plan.

Continued
15. Related Party Transactions

TCCC is the sponsoring agency to the Kimble-Dover Apartment Housing Corporation (Kimble-Dover). Kimble-Dover received a loan from HUD for approximately $4,581,600 for the development of a senior housing project. At August 31, 2008, TCCC had advanced $35,000 to Kimble-Dover, and paid Kimble-Dover’s bills in the amount of $36,675. The total amount $71,675 is reflected in TCCC’s other receivable balance.

TCCC has two residential leases with TCCC executives. For the year ended August 21, 2008, TCCC received approximately $8,400 in rent revenues from the executives.

In addition, TCCC has made an advance to one of the executives in the amount of $8,000. The amount is reflected in TCCC’s other receivable balance.

16. Settlements and Lawsuits

TCCC has an unresolved lawsuit by a former employee for alleged injuries sustained at a RYSS campus. TCCC did not have workers compensation insurance at the time of the accident and, if found responsible, would have to compensate the employee subject to an award by the court.

TCCC has accrued a possible settlement liability in the amount of $75,000 at August 31, 2008.

17. Credit Risk Exposure

During 2008, TCCC had cash in bank operating accounts in excess of the FDIC insurance limit. Management believes that TCCC’s credit risk exposure is mitigated by the financial strength of the banking institution in which the deposits are held.

18. Correction of Error

During the year ended August 31, 2008, TCCC management realized that it had not recorded accrued state foundation revenue, accrued wages and vacation expenses in the net amount of $136,296. In 2008, management corrected this error by decreasing beginning fund balance by $136,296.
### TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

**RAUL YZAGUIRRE SCHOOL FOR SUCCESS**

**Schedule of Financial Position**
**August 31, 2008**

#### Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$399,460</td>
</tr>
<tr>
<td>Investments</td>
<td>$715,855</td>
</tr>
<tr>
<td>Grants receivable</td>
<td>$384,426</td>
</tr>
<tr>
<td>Due from Agency</td>
<td>$516,024</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>$2,015,765</strong></td>
</tr>
<tr>
<td>Land, property and equipment</td>
<td></td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>$2,113,017</td>
</tr>
<tr>
<td>Furniture, vehicles and equipment</td>
<td>$1,400,540</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>$(2,013,163)</td>
</tr>
<tr>
<td><strong>Total land, property and equipment, net</strong></td>
<td><strong>$1,500,394</strong></td>
</tr>
<tr>
<td>Other assets</td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$3,756,638</strong></td>
</tr>
</tbody>
</table>

#### Liabilities and Net Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities:</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$229,596</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>$388,100</td>
</tr>
<tr>
<td>Line of credit</td>
<td>$150,000</td>
</tr>
<tr>
<td>Notes payable</td>
<td>$904,642</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>$1,672,338</strong></td>
</tr>
<tr>
<td>Net assets - unrestricted</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$2,084,300</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td><strong>$3,756,638</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to supplemental information.
## Schedule of Activities
### Year Ended August 31, 2008

### Revenues:

<table>
<thead>
<tr>
<th>Source</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Local support:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5740 Other revenues from local sources</td>
<td>$310,020</td>
<td></td>
<td>310,020</td>
</tr>
<tr>
<td>5750 Revenue from co-curricular, enterprise services or activities</td>
<td>36,101</td>
<td></td>
<td>36,101</td>
</tr>
<tr>
<td><strong>Total local support</strong></td>
<td>346,121</td>
<td>-</td>
<td>346,121</td>
</tr>
<tr>
<td><strong>State program revenues:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5810 Foundation school program act revenues</td>
<td></td>
<td>6,801,412</td>
<td>6,801,412</td>
</tr>
<tr>
<td>5820 State program revenues distributed by Texas Education Agency</td>
<td></td>
<td>346,010</td>
<td>346,010</td>
</tr>
<tr>
<td>5930 State revenues from State of Texas government agencies (other than Texas Education Agency)</td>
<td></td>
<td>31,894</td>
<td>31,894</td>
</tr>
<tr>
<td><strong>Total State program revenues</strong></td>
<td></td>
<td>-</td>
<td>7,183,316</td>
</tr>
<tr>
<td><strong>Federal program revenues:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5910 Federal revenues distributed through government entities other than State or Federal agencies</td>
<td></td>
<td>10,564</td>
<td>10,564</td>
</tr>
<tr>
<td>5920 Federal revenues distributed by the Texas Education Agency</td>
<td></td>
<td>1,544,891</td>
<td>1,544,891</td>
</tr>
<tr>
<td>5930 Federal revenues distributed by other State of Texas government agencies (other than Texas Education Agency)</td>
<td></td>
<td>23,124</td>
<td>23,124</td>
</tr>
<tr>
<td>5940 Federal revenues distributed directly from the Federal government</td>
<td></td>
<td>65,259</td>
<td>65,259</td>
</tr>
<tr>
<td><strong>Total Federal program revenues</strong></td>
<td></td>
<td>-</td>
<td>1,643,838</td>
</tr>
<tr>
<td><strong>Net assets released from restrictions - restrictions satisfied by payments</strong></td>
<td>8,826,154</td>
<td>(8,826,154)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>9,172,275</td>
<td>-</td>
<td>9,172,275</td>
</tr>
</tbody>
</table>

### Expenses:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>11 Instruction</td>
<td>4,743,202</td>
<td></td>
<td>4,743,202</td>
</tr>
<tr>
<td>13 Curriculum development and instructional staff development</td>
<td>200,249</td>
<td></td>
<td>200,249</td>
</tr>
<tr>
<td>23 School leadership</td>
<td>524,843</td>
<td></td>
<td>524,843</td>
</tr>
<tr>
<td>31 Guidance, counseling and evaluation services</td>
<td>109,800</td>
<td></td>
<td>109,800</td>
</tr>
<tr>
<td>32 Social work services</td>
<td>51,723</td>
<td></td>
<td>51,723</td>
</tr>
<tr>
<td>33 Health services</td>
<td>65,754</td>
<td></td>
<td>65,754</td>
</tr>
<tr>
<td>34 Student (pupil) transportation</td>
<td>181,012</td>
<td></td>
<td>181,012</td>
</tr>
<tr>
<td>35 Food services</td>
<td>623,676</td>
<td></td>
<td>623,676</td>
</tr>
<tr>
<td>36 Co-curricular / extracurricular activities</td>
<td>178,532</td>
<td></td>
<td>178,532</td>
</tr>
<tr>
<td>41 General administration</td>
<td>871,052</td>
<td></td>
<td>871,052</td>
</tr>
<tr>
<td>51 Plant maintenance and operations</td>
<td>1,666,962</td>
<td></td>
<td>1,666,962</td>
</tr>
<tr>
<td>52 Security and monitoring services</td>
<td>60,407</td>
<td></td>
<td>60,407</td>
</tr>
<tr>
<td>53 Data processing services</td>
<td>320,707</td>
<td></td>
<td>320,707</td>
</tr>
<tr>
<td>61 Community services</td>
<td>124,474</td>
<td></td>
<td>124,474</td>
</tr>
<tr>
<td>81 Facility acquisition and construction</td>
<td>157,885</td>
<td></td>
<td>157,885</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>9,860,878</td>
<td>-</td>
<td>9,860,878</td>
</tr>
</tbody>
</table>

### Change in net assets

- Net assets, beginning of year, as previously reported: $(698,603)
- Prior period adjustment: $(92,849)
- Net assets, end of year: $2,084,300

See accompanying notes to supplemental information.
Cash flows from operating activities:
  Change in net assets $ (688,603)

  Adjustments to reconcile change in net assets to net cash used by operating activities:
    Depreciation 365,644
    Change in operating assets and liabilities:
      Grants and other receivables (34,861)
      Due to/from Agency (534,530)
      Other assets (78,908)
      Accounts payable and other liabilities (56,911)
      Accrued liabilities 98,819
      Deferred revenue (15,000)
    Net cash used by operating activities (944,350)

Cash flows used by investing activities:
  Proceeds from sale of of investments 824,455
  Building improvements and purchases of equipment (179,810)
    Net cash provided by investing activities 644,645

Cash flows from financing activities:
  Repayments of notes payable (128,909)
  Proceeds from line or credit 150,000
    Net cash provided by financing activities 21,091
    Net decrease in cash and cash equivalents (278,614)

Cash and cash equivalents, beginning of year 678,074
Cash and cash equivalents, end of year $ 399,460

Supplemental disclosure of cash flow information - interest paid during the year $ 60,412

See accompanying notes to supplemental information.
## Schedule of Expenses

Year Ended August 31, 2008

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>6100</td>
<td>Payroll costs</td>
<td>$ 6,665,650</td>
</tr>
<tr>
<td>6200</td>
<td>Professional and contracted services</td>
<td>$ 493,340</td>
</tr>
<tr>
<td>6300</td>
<td>Supplies and materials</td>
<td>$ 987,149</td>
</tr>
<tr>
<td>6400</td>
<td>Other operating costs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total expenses</td>
<td><strong>$ 9,860,878</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to supplemental information.
# TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

RAUL YZAGUIRRE SCHOOL FOR SUCCESS

Schedule of Capital Assets
August 31, 2008

<table>
<thead>
<tr>
<th>Ownership Interest</th>
<th>Local</th>
<th>State</th>
<th>Federal</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$</td>
<td>399,460</td>
<td></td>
<td>399,460</td>
</tr>
<tr>
<td>Building and improvements</td>
<td>1,073,441</td>
<td>1,039,576</td>
<td>2,113,017</td>
<td></td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>1,400,540</td>
<td></td>
<td></td>
<td>1,400,540</td>
</tr>
<tr>
<td>Total capital assets</td>
<td>$</td>
<td>2,873,441</td>
<td>1,039,576</td>
<td>3,913,017</td>
</tr>
</tbody>
</table>

See accompanying notes to supplemental information.
TEJANO CENTERS FOR COMMUNITY CONCERNS, INC.

RAUL YZAGUIRRE SCHOOL FOR SUCCESS

Budgetary Comparison Schedule
Year Ended August 31, 2008

<table>
<thead>
<tr>
<th>Revenues:</th>
<th>Original</th>
<th>Final</th>
<th>Actual Amounts</th>
<th>Variance Favorable (Unfavorable)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Local support:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5740 Other revenues from local sources</td>
<td>$136,167</td>
<td>136,167</td>
<td>310,020</td>
<td>173,853</td>
</tr>
<tr>
<td>5750 State program revenues distributed by Texas Education Agency</td>
<td></td>
<td></td>
<td>36,101</td>
<td>36,101</td>
</tr>
<tr>
<td><strong>Total local support</strong></td>
<td>$136,167</td>
<td>136,167</td>
<td>346,121</td>
<td>208,854</td>
</tr>
<tr>
<td><strong>State program revenues:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5810 Foundation school program act revenues</td>
<td>6,871,524</td>
<td>6,871,524</td>
<td>6,801,412</td>
<td>(70,112)</td>
</tr>
<tr>
<td>5820 State program revenues distributed by Texas Education Agency</td>
<td>337,801</td>
<td>337,801</td>
<td>349,010</td>
<td>(38,701)</td>
</tr>
<tr>
<td>5830 State revenues from State of Texas government agencies other than Texas Education Agency</td>
<td>217,838</td>
<td>211,391</td>
<td>31,894</td>
<td>(179,947)</td>
</tr>
<tr>
<td><strong>Total State program revenues</strong></td>
<td>7,477,163</td>
<td>7,470,716</td>
<td>7,162,316</td>
<td>(288,400)</td>
</tr>
<tr>
<td><strong>Federal program revenues:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5910 Federal revenues distributed through government entities other than State or Federal agencies</td>
<td>1,434,373</td>
<td>1,594,807</td>
<td>1,544,091</td>
<td>(49,816)</td>
</tr>
<tr>
<td>5920 Federal revenues distributed by the Texas Education Agency</td>
<td></td>
<td></td>
<td>23,124</td>
<td>23,124</td>
</tr>
<tr>
<td>5930 Federal revenues distributed by other State of Texas government agencies other than Texas Education Agency</td>
<td>67,530</td>
<td>67,530</td>
<td>65,259</td>
<td>(2,271)</td>
</tr>
<tr>
<td><strong>Total Federal program revenues</strong></td>
<td>1,501,903</td>
<td>1,662,337</td>
<td>1,643,838</td>
<td>(18,499)</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>$9,115,233</td>
<td>9,269,220</td>
<td>8,172,275</td>
<td>(86,645)</td>
</tr>
</tbody>
</table>

| Expenses:                     |                |              |                |                                  |
| 11 Instruction                | 4,425,720      | 4,402,537    | 4,743,202      | (340,665)                        |
| 13 Curriculum development and instructional staff development | 188,662        | 177,044      | 200,249        | (23,205)                         |
| 23 School leadership          | 552,981        | 553,141      | 524,643        | 28,498                           |
| 31 Guidance, counseling and evaluation services | 98,005         | 99,660       | 108,800        | (10,140)                         |
| 32 Social work services       | 92,473         | 91,823       | 51,723         | 40,100                           |
| 33 Health services            |                |              | 66,754         | (66,754)                         |
| 34 Student (pupil) transportation | 158,915        | 160,317      | 161,012        | (20,696)                         |
| 35 Food services              | 580,530        | 581,810      | 623,676        | (41,766)                         |
| 36 Co curricular extracurricular/activities | 249,726        | 295,125      | 178,532        | 117,604                          |
| 41 General administration     | 753,576        | 742,271      | 871,052        | (128,781)                        |
| 51 Plant maintenance and operations | 1,149,662      | 1,154,662    | 1,846,062      | (402,300)                        |
| 52 Security and monitoring services |                |              | 60,407         | (50,407)                         |
| 53 Data processing services  | 215,597        | 215,597      | 320,707        | (105,110)                        |
| 61 Community services         | 112,538        | 112,538      | 124,474        | (11,936)                         |
| 81 Facility acquisition and construction | 55,738         | 54,488       | 157,685        | (102,217)                        |
| **Total expenses**            | $8,638,823     | $8,642,094   | $9,860,978     | ($1,216,764)                     |

Change in net assets:
476,410
627,126
(689,603)
(1,315,729)

Net assets, beginning of year as adjusted:
2,772,903
2,772,903
2,772,903

Net assets, end of year:
$ 3,249,313
3,400,029
2,684,300
(1,315,729)

See accompanying notes to supplemental information.
# Schedule of Expenditures of Federal Awards

**Year Ended August 31, 2008**

<table>
<thead>
<tr>
<th>Federal Grantor / Pass - Through Grantor / Program Title</th>
<th>Federal CFDA Number</th>
<th>Pass - Through Entity Identifying Number</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Department of Agriculture:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Texas Education Agency:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Breakfast Program</td>
<td>10.553</td>
<td>71400801 $</td>
<td>93,325</td>
</tr>
<tr>
<td>National Lunch Program</td>
<td>10.555</td>
<td>71300601</td>
<td>423,670</td>
</tr>
<tr>
<td>Health and Human Services Commission:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USDA Donated Commodities</td>
<td></td>
<td></td>
<td>10,500</td>
</tr>
<tr>
<td>Summer School</td>
<td>10.559</td>
<td>17603771019</td>
<td>24,228</td>
</tr>
<tr>
<td>Total U.S. Department of Agriculture</td>
<td></td>
<td></td>
<td>551,723</td>
</tr>
<tr>
<td>U.S. Department of Defense -</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Junior ROTC</td>
<td>12.116</td>
<td>N/A</td>
<td>65,259</td>
</tr>
<tr>
<td>Total U.S. Department of Defense</td>
<td></td>
<td></td>
<td>65,259</td>
</tr>
<tr>
<td>U.S. Department of Housing and Urban Development -</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Council for La Raza - Housing Counseling Assistance</td>
<td>14.169</td>
<td>N/A</td>
<td>69,259</td>
</tr>
<tr>
<td>Local Initiative Support Corporation - Community Development</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Block Grants - Housing Program</td>
<td>14.218</td>
<td>N/A</td>
<td>27,500</td>
</tr>
<tr>
<td>City of Houston - Community Development Block Grants/Entitlement Grants - Housing Program</td>
<td>14.239</td>
<td>N/A</td>
<td>27,844</td>
</tr>
<tr>
<td>Total U.S. Department of Housing and Urban Development</td>
<td></td>
<td></td>
<td>124,403</td>
</tr>
<tr>
<td>U.S. Department of Treasury -</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Neighbor Works America</td>
<td>21.000</td>
<td>N/A</td>
<td>178,000</td>
</tr>
<tr>
<td>Total U.S. Department of Housing and Urban Development</td>
<td></td>
<td></td>
<td>178,000</td>
</tr>
<tr>
<td>U.S. Department of Education -</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Texas Education Agency:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Title I, Part A, School Improvement</td>
<td>84.010A</td>
<td>6610101101806</td>
<td>489,173</td>
</tr>
<tr>
<td>Idea - B Formula</td>
<td>84.027A</td>
<td>6603001101808600</td>
<td>188,469</td>
</tr>
<tr>
<td>Carl D. Perkins - Basic Grant Foundation</td>
<td>84.048A</td>
<td>642000101080604</td>
<td>13,891</td>
</tr>
<tr>
<td>Idea - B Preschool</td>
<td>84.173A</td>
<td>6610101101808600</td>
<td>1,082</td>
</tr>
<tr>
<td>Title IV, Part A, Safe/Drug Free Schools</td>
<td>84.189A</td>
<td>6691001101806</td>
<td>5,712</td>
</tr>
<tr>
<td>Title V, Part A, Innovative Programs</td>
<td>84.298A</td>
<td>6685001101806</td>
<td>1,969</td>
</tr>
<tr>
<td>Title II, Part D, Enhancing Education</td>
<td>84.318X</td>
<td>6630001101806</td>
<td>4,580</td>
</tr>
<tr>
<td>Title I, Part F, Comprehensive</td>
<td>84.332A</td>
<td>68160017110072</td>
<td>3,847</td>
</tr>
<tr>
<td>Texas Reading First Initiative for Grades K-3</td>
<td>84.357A</td>
<td>68455017110055</td>
<td>148,926</td>
</tr>
<tr>
<td>Title III, LEP</td>
<td>84.365A</td>
<td>6671001101808</td>
<td>59,983</td>
</tr>
<tr>
<td>Title II, Part A, Teacher/Principal Training</td>
<td>84.367A</td>
<td>6694501101806</td>
<td>69,528</td>
</tr>
<tr>
<td>Summer School LEP</td>
<td>84.369A</td>
<td>69550702</td>
<td>3,467</td>
</tr>
<tr>
<td>Total U.S. Department of Education</td>
<td></td>
<td></td>
<td>990,728</td>
</tr>
<tr>
<td>Americorps -</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Americorps School</td>
<td>94.006</td>
<td>N/A</td>
<td>23,124</td>
</tr>
<tr>
<td>Total Americorps</td>
<td></td>
<td></td>
<td>23,124</td>
</tr>
<tr>
<td>Total Expenditures of Federal Awards</td>
<td></td>
<td></td>
<td>1,933,237</td>
</tr>
</tbody>
</table>

See accompanying notes to supplement information.
<table>
<thead>
<tr>
<th>State Grantor / Pass - Through Grantor / Program Title</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas Education Agency:</td>
<td></td>
</tr>
<tr>
<td>Foundation Entitlements</td>
<td>$ 6,783,053</td>
</tr>
<tr>
<td>State Lunch Matching</td>
<td>4,029</td>
</tr>
<tr>
<td>Student Success Initiative</td>
<td>24,552</td>
</tr>
<tr>
<td>Prekinder Grant</td>
<td>307,379</td>
</tr>
<tr>
<td>Texas Now Grant</td>
<td>8,769</td>
</tr>
<tr>
<td>Optional Extended Year Program</td>
<td>5,336</td>
</tr>
<tr>
<td>Technology Allotment</td>
<td>24,519</td>
</tr>
<tr>
<td>Total expenditures</td>
<td>$ 7,157,837</td>
</tr>
</tbody>
</table>

Office of the Governor -
Criminal Justice Division -
Criminal Justice

Total expenditures of State awards

$ 7,252,432

See accompanying notes to supplemental information.
1. **Basis of Presentation - Schedules of Expenditures of Federal and State of Texas Awards**

   The schedules of expenditures of Federal and State of Texas awards presents the Federal and State of Texas programs expenditures of all Federal and state award programs of TCCC reflected on the accrual basis of accounting for the year ended August 31, 2008.

2. **Basis of Presentation - Other Supplemental Schedules**

   The accompanying supplemental schedules as listed in the table of contents for the year ended August 31, 2008 are presented on the accrual basis of accounting.

3. **Relationship to TCCC's Financial Statements**

   Federal and state award expenditures, as reported in the schedules of expenditures of Federal and State of Texas awards, correspond with the amount reported as Federal and state and local grants revenue in TCCC's basic financial statements for the year ended August 31, 2008, since TCCC's policy is to recognize revenues as budgeted costs attributable to grants and contracts are incurred.

4. **Relationship to Grantor Agency Financial Reports**

   Differences between amounts reflected in the financial reports filed with grantor agencies for the programs are due to different program year-ends, different methods of accounting (cash versus accrual basis), and estimates made by management.

5. **Reconciliation to Basic Financial Statements**

   The following reconciles Federal and state awards expenditures as included in the accompanying schedules to Federal and state and local grants revenue as reported in the basic financial statements of TCCC:

<table>
<thead>
<tr>
<th>Fees from Government Agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Federal and NeighborWorks grants per basic financial statements</td>
</tr>
<tr>
<td>Less - vendor contracts</td>
</tr>
<tr>
<td>Total Federal awards expenditures per accompanying schedule</td>
</tr>
</tbody>
</table>

6. **Standard Financial Accounting System**

   For all Federal programs, RYSS used the net asset classes and codes specified by the Texas Education Agency in the *Special Supplement to Financial Accounting and Reporting Nonprofit Charter School Chart of Accounts*. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by a grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.
INDEPENDENT AUDITORS’ REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Tejano Center for
Community Concerns, Inc.:

We have audited the financial statements of Tejano Center for Community Concerns, Inc. (TCCC) as of
and for the year ended August 31, 2008, and have issued our report thereon dated January 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 TCCC'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 the effectiveness of TCCC's internal control
over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the
preceding paragraph and would not necessarily identify all deficiencies in internal control over financial
reporting that might be significant deficiencies or material weaknesses. However, as discussed below,
we identified certain deficiencies in internal control over financial reporting that we consider to be
significant deficiencies.

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 accounting principles generally accepted in the United
States of America 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. We consider the deficiencies described in the accompanying schedule
of findings and responses to be significant deficiencies in internal control over financial reporting. TCCC's
responses to the findings identified in our audit are described in the accompanying schedule of findings
and questioned costs. We did not audit TCCC's responses and, accordingly, we express no such opinion
on them.

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 the 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 and accordingly, would not necessarily disclose all significant
deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies
described above, we consider findings 2008-1 through 2008-5 to be material weaknesses.
Compliance and Other Matters

As part of obtaining reasonable assurance about whether TCCC’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.

This report is intended solely for the information and use of the Board of Director’s, TCCC’s management, Federal and State of Texas 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 23, 2009

MFR, P.C.
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE STATE OF TEXAS SINGLE AUDIT CIRCULAR

Board of Directors
Tejano Center for Community Concerns, Inc.

Compliance

We have audited the compliance of Tejano Center for Community Concerns, Inc. (TCCC) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the State of Texas Single Audit Circular that are applicable to each of its major Federal and state programs for the year ended August 31, 2008. TCCC’s major Federal and state programs are identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal and state programs is the responsibility of TCCC’s management. Our responsibility is to express an opinion on TCCC’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; OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State of Texas Single Audit Circular. Those standards, OMB Circular A-133 and the State of Texas Single Audit Circular, 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 and state program occurred. An audit includes examining, on a test basis, evidence about TCCC’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on TCCC’s compliance with those requirements.

In our opinion, TCCC complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal and state programs for the year ended August 31, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to report in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular. Those instances of noncompliance are described in the accompanying schedule of findings and questioned costs as findings 2008-4 and 2008-6.

Internal Control over Compliance

The management of TCCC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal and state programs. In planning and performing our audit, we considered TCCC’s internal control over compliance with requirements that could have a direct and material effect on a major Federal and state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular.
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

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 and state 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 and state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal and state program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 2008-4 and 2008-5 to be a significant deficiency.

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 and state program will not be prevented or detected by the entity's internal control. The significant deficiencies, 2008-4 and 2008-5, in internal control over compliance described in the accompanying schedule of findings and questioned costs are considered to be a material weakness.

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

This report is intended solely for the information and use of the Board of Directors, TCCC's management, Federal and state 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 23, 2009

\[\text{MFR. P.C.}\]
TEJANO CENTER FOR
COMMUNITY CONCERNS, INC.

Schedule of Findings and Questioned Costs
Year Ended August 31, 2008

Section 1
Financial Statements

1. Type of auditors' report issued
2. Internal control over financial reporting:
   a. Material weaknesses identified?
   b. Significant deficiencies identified not considered to be material weaknesses?
   c. Noncompliance material to the financial statements noted?

Summary of Auditors' Results

   Unqualified
   Yes
   None reported
   No

Federal and State of Texas Awards

1. Internal control over major programs:
   a. Material weaknesses identified?
   b. Significant deficiencies identified not considered to be material weaknesses?

2. Type of auditors' report issued on compliance for major programs:

3. Any audit findings disclosed that are required to be reported in accordance with Circular OMB A-133, Section 510(a) and State of Texas Single Audit Circular?

4. Identification of major programs:

   Federal - CFDA Number
   84.010A
   10.553/10.555

   State of Texas - Contract Number
   N/A

5. Dollar threshold used to distinguish between Type A and Type B programs:

6. Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530 and State of Texas Single Audit Circular?

   Name of Federal and State of Texas Program
   Title I, Part A, School Improvement
   National School Breakfast and Lunch Program

   Foundation Entitlements

   Federal - $300,000
   State - $300,000

   Federal - No
   State - No

Continued
Section 2

Financial Statement Findings

Finding 2008-1

Criteria: The Auditing Standards Board recently issued guidance to auditors related to an entity’s internal control over financial reporting. Many small organizations rely on their auditor to generate the annual financial statements including notes. Statement on Auditing Standards No. 112 emphasizes that the auditor cannot be part of an entity’s system of internal control over financial reporting.

Condition and cause: In our judgment, it appears that management does not fully utilize the internal processes in place to ensure proper preparation of financial statements including footnote disclosures and is dependent on its external auditors to prepare financial statements comply with disclosure requirements established by generally accepted accounting principles of the United States of America.

Recommendation: We recommend that management establish policies and procedures to ensure proper preparation of their financial statements including footnotes with generally accepted accounting principles of the United States of America.

Management’s response: Management will establish policies and procedures to be included in TCCC’s accounting policies and procedures to ensure proper preparation of their financial statements including footnotes with generally accepted accounting principles of the United States of America. It will periodically include notations in monthly financial reports. Management will develop a monthly closing process to ensure appropriate closeout measure occur and the Agency’s Board of Directors Finance Committee will periodically review these monthly closeout processes with Management.

Finding 2008-2

Criteria: Organizations need to reconcile all accounts that could contain a significant or material misstatement and post all necessary adjustments to the general ledger in a timely manner. Necessary adjustments include all identified general ledger entries that either individually or in the aggregate are significant or material to the financial statements, with the most necessary adjustments being those that would result in a material misstatement if they were not recorded. The organization also should analyze all nonreconciled accounts and nonposted identified adjustments to the general ledger to determine their effect and the potential for financial misstatement or significant deficiency or material weakness.

Condition and cause: In our judgment, it appears that management does not fully utilize the internal processes in place to ensure that all accounts are reconciled monthly and is dependent on its external auditors to identify significant or material misstatements and to comply with accounting principles generally accepted in the United States of America.

Continued
Recommendation: We recommend that management reconcile monthly all accounts that could contain a significant or material misstatement and post all necessary adjustments to the general ledger in a timely manner. We also recommend that management should analyze all non-reconciled accounts and non-posted identified adjustments to the general ledger to determine their effect and the potential for financial misstatement.

Management's response: Management is currently reconciling all accounts monthly that could contain a significant or material misstatement and posting all necessary adjustments to the general ledger in a timely manner and has taken measures to monitor this periodically. Management will also analyze all non-reconciled accounts and non-posted identified adjustments to the general ledger to determine their effect and the potential for financial misstatement. We will incorporate monthly reconciliations into TCCC's accounting policies and procedures.

Finding 2008-3

Criteria: The accounting principles generally accepted in the United States of America requires the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred. Not preparing the necessary accruals can potentially have a material effect on the financial statements.

Condition and cause: In our judgment, it appears that management does not fully utilize the internal processes in place to ensure necessary accruals are recorded. During our audit, we noted that revenue from the state foundation and expenses for wages and vacation days were not accrued at the year end.

Recommendation: We recommend that management establish policies and procedures to ensure all possible accruals are being recorded on a timely basis.

Management's response: Management will establish policies and procedures to ensure necessary accruals are being recorded on a timely basis.

Finding 2008-4

Criteria: Texas charter school is required to adopt a budgeting process that is consistent with the requirements discussed in the budgeting module of Financial Accountability System Resource Guide specified by the Texas Education Agency. The budget must include all expenses and must be prepared in a manner consistent with the account code structures used by the charter school, and the budget monitoring should be conducted periodically. In addition to the budget's initial adoption, the governing body of the charter school must formally adopt amendments to the charter school's budget.
Condition and cause: In our judgment, it appears that management does not fully utilize the internal processes in place to ensure that RYSS' budget is amended and those amendments approved by TCCC's board. The budget hasn't been amended and approved by the board. As noted, the RYSS' actual expense is $1,218,784 more than the budgeted amounts. Among fifteen functional expenses, there are twelve functional expenses with unfavorable variances when compared to the budget.

Recommendation: We recommend that management establish policies and procedures to ensure that the initial budget is adopted, TCCC management monitor the budget closely and prepare budget amendments for the board's approval.

Management's response: Management will incorporate a budget amendment process in TCCC's accounting policies and procedures and has taken measures in implementing this process for the 2009 fiscal year.

Finding 2008-5

<table>
<thead>
<tr>
<th>Texas Education Agency (TEA)</th>
<th>Foundation Entitlements Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Questioned costs:</td>
<td>Undeterminable</td>
</tr>
<tr>
<td>Criteria: The Foundation Entitlement Funds are based on the refined ADA which is partly calculated by the number of students enrolled as well as the percentage of attendance.</td>
<td></td>
</tr>
<tr>
<td>Condition and cause: The number of absences submitted to TEA was not in agreement with the student attendance cards. The third six week period and sixth six week period were selected for the audit testwork. From those periods, 100 student timesheets were selected for review from a population of 1,048. Based on our sample, 19 out of 100 student timesheets were not in agreement to the attendance reported to TEA. The Foundation Entitlement Funds reimburses TCCC based on the attendance numbers received and therefore, funds could be over or under stated. Proper documentation and review procedures are not in place to maintain the accuracy of the information submitted to TEA.</td>
<td></td>
</tr>
<tr>
<td>Recommendation: It is recommended that TCCC implement formal attendance procedures and a stringent review process to ensure that accurate attendance information is submitted to TEA.</td>
<td></td>
</tr>
<tr>
<td>Management's response: For the 2008-2009 school year, TCCC implemented a new computer system (RSCCC) that is recommended by TEA Region 4 to track via computer classroom attendance. The new method will greatly reduce the errors caused by the manual attendance procedure.</td>
<td></td>
</tr>
</tbody>
</table>
Section 3
Federal and State of Texas Award Findings and Questioned Costs:

See findings 2008-4 and 2008-5 included in Section 2 of the Schedule of Finding and Questioned Costs.

Section 4
Schedule of Prior Year Audit Findings

Finding 2007-1

Criteria: The Auditing Standards Board recently issued guidance to auditors related to an entity's internal control over financial reporting. Many small organizations rely on their auditor to generate the annual financial statements including notes. Statement on Auditing Standards No. 112 emphasizes that the auditor cannot be part of an entity's system of internal control over financial reporting.

Condition and cause: In our judgment, it appears that management does not fully utilize the internal processes in place to ensure the adequacy of financial statement disclosure and is dependent on its external auditors to comply with disclosure requirements established by generally accepted accounting principles of the United States of America.

Recommendation: We recommend that management annually obtain a current financial statement disclosure checklist and review and answer the checklist to ensure propriety and completeness of the disclosures within the notes to the financial statements.

Current status: This finding has continued to be a finding in 2008. See Finding 2008-1.

Finding 2007-2

Criteria: Organizations need to reconcile all accounts that could contain a significant or material misstatement and post all necessary adjustments to the general ledger in a timely manner. Necessary adjustments include all identified general ledger entries that either individually or in the aggregate are significant or material to the financial statements, with the most necessary adjustments being those that would result in a material misstatement if they were not recorded. The organization also should analyze all nonreconciled accounts and nonposted identified adjustments to the general ledger to determine their effect and the potential for financial misstatement or significant deficiency or material weakness.

Condition and cause: In our judgment, it appears that management does not fully utilize the internal processes in place to ensure that all accounts are reconciled monthly and is dependent on its external auditors to identify significant or material misstatements and to comply with accounting principles generally accepted in the United States of America.
Recommendation: We recommend that management reconcile monthly all accounts that could contain a significant or material misstatement and post all necessary adjustments to the general ledger in a timely manner. We also recommend that management should analyze all non reconciled accounts and non posted identified adjustments to the general ledger to determine their effect and the potential for financial misstatement.

Current status: This finding has continued to be a finding in 2008. See Finding 2008-2.

Finding 2007-3

Criteria: The Foundation Entitlement Funds are based on the refined ADA which is partly calculated by the number of students enrolled as well as the percentage of attendance.

Condition and cause: The number of absences submitted to TEA was not in agreement with the students attendance card. The third six week period and sixth six week period were selected for the audit testwork. From those periods 100 student timesheets were selected for review from a population of 1,046. Based on our sample, 20 out of 100 student timesheets were not in agreement to the attendance reported to TEA. The Foundation Entitlement Funds reimburses TCCC based on the attendance numbers received and therefore, funds could be over or under stated. Proper documentation and review procedures are not in place to maintain the accuracy of the information submitted to TEA.

Recommendation: It is recommended that TCCC implement formal attendance procedures and a stringent review process to ensure that accurate attendance information is submitted to TEA.

Current status: This finding has continued to be a finding in 2008. See Finding 2008-5.
APPENDIX B
PROFORMA FINANCIAL PLAN

Nature of Forecasts

The following cash flow forecasts reflect the projections of the Borrower’s board and management as of February 18, 2009, the date of these forecasts, of the expected financial environment, and its expected budgetary decisions.

These forecasts represent, to the best of the knowledge and belief of board and management, the combined expected financial cash flows of the Borrower (including the School) as of August 31, 2009, 2010, 2011, and 2012 and for the fiscal years then ending.

The revenue and expenditure assumptions herein are those that the board and management believes are significant to these projections at this time. There will likely be differences between projected and actual results due to changes in funding formulas, student population, and unforeseen financial impacts due to outside forces. These differences may be material in nature. The board and management have no responsibility to update this report.

The board and management do have the responsibility to provide to bondholders the ongoing quarterly financial reports that are presented to the board, beginning April 1, 2009.

Details of the School

The School was one of the first 20 charter schools approved by the State Board of Education and was approved for operation in 1996. The Houston Campus, located in the East End of Houston at 2950 Broadway, Houston, Texas (nine miles from Downtown Houston), provides public education for students in grades Pre-K through 12. The Brownsville Campus, located at 2255 North Coria, Brownsville, Texas, provides public education for students in grades Pre-K through 6.

The Houston Campus, the site of the Project, serves a City of Houston Super Neighborhood area consisting of eleven neighborhoods located primarily in Houston’s Greater East End, with some neighborhoods extending beyond the immediate East End area. Selected demographics for the service area include: a population totaling nearly 145,000 persons (based on Census 2000 data which is the most recent available data); a median household income that is 72% of the City’s median income of $36,616, or 43% of the area’s median income of $61,000; and 30.9% of the population living below poverty, or nearly twice the number reported citywide.

Tax Status

The Borrower is a Texas nonprofit corporation and is exempt from taxes under section 501(c)(3) of the Internal Revenue Service Code. For the forecasted cashflow periods, the Borrower has not anticipated any business practices that would change its tax status.

Cash Flow Statement Presentation

The forecasted cash flow schedules are presented on a Fund Accounting basis.

Forecasted Project Financing

These forecasts assume the renovation of the Houston Campus facilities expected to be financed with the Bonds. The new money proceeds assumptions for the Bonds are approximately as follows:

[The remainder of this page intentionally left blank.]
<table>
<thead>
<tr>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>16,456,048.84</td>
<td>Houston Campus Improvements</td>
</tr>
<tr>
<td>739,176.65</td>
<td>Brownsville Campus Bank Loan Pay-off (Wells Fargo Bank)</td>
</tr>
<tr>
<td>345,437.51</td>
<td>Repayment of Loan and Recoverable Grants from LISC</td>
</tr>
<tr>
<td>$17,540,663.00</td>
<td>Total Project Cost</td>
</tr>
<tr>
<td>$2,439,359.52</td>
<td>Deposit to Escrow Fund to Defease the Refunded Bonds</td>
</tr>
<tr>
<td>2,194,781.75</td>
<td>Deposit to Debt Service Reserve Fund</td>
</tr>
<tr>
<td>1,312,819.37</td>
<td>Capitalized Interest Through February 15, 2010</td>
</tr>
<tr>
<td>1,117,029.56</td>
<td>Costs of Issuance/Underwriter’s Discount</td>
</tr>
<tr>
<td>16,558.64</td>
<td>Rounding Amount</td>
</tr>
<tr>
<td>$24,621,211.84</td>
<td>Total Proceeds to Borrower</td>
</tr>
</tbody>
</table>

The Series 2009A Bonds are expected to have a final maturity date of February 15, 2038 and bear an average coupon interest rate of approximately 9.00%. The Series 2009B Bonds are expected to have a final maturity of February 15, 2014 and bear an average coupon interest rate of approximately 12.00%.

All of the Bonds will be limited obligations of the Issuer, payable solely from revenues received by the Issuer pursuant to a Loan Agreement dated as of February 1, 2009 (the “Loan Agreement”), between the Issuer and the Borrower and a first-lien security interest encumbering the Houston and Brownsville Campuses in favor of the Master Trustee for the benefit of the holders of the Bonds.

These forecasts assume interest on the Bonds is payable February 15 and August 15 of each fiscal year, commencing February 15, 2009. The Series 2009A Bonds maturing on or after February 15, 2028, are subject to optional redemption prior to scheduled maturity, in whole or in part, on February 15, 2018, and on any date thereafter at par plus accrued interest. The Series 2009B Bonds are not subject to optional redemption.
## Cash Flow Model For Series 2009 A&B Bonds

<table>
<thead>
<tr>
<th>Historical</th>
<th>Projected (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 05</td>
<td>FY 06</td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
</tr>
<tr>
<td>Local Revenue</td>
<td>$ 137,733</td>
</tr>
<tr>
<td>State</td>
<td>5,820,609</td>
</tr>
<tr>
<td>Federal</td>
<td>1,560,542</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>$ 7,518,884</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Salaries (4)</td>
<td>$ 3,691,858</td>
</tr>
<tr>
<td>Payroll Taxes</td>
<td>134,274</td>
</tr>
<tr>
<td><strong>Total Salaries &amp; Related Exp.</strong></td>
<td>$ 3,884,910</td>
</tr>
<tr>
<td>Insurance</td>
<td>280,860</td>
</tr>
<tr>
<td>Supplies</td>
<td>123,477</td>
</tr>
<tr>
<td>Travel</td>
<td>123,477</td>
</tr>
<tr>
<td>Telephone</td>
<td>70,826</td>
</tr>
<tr>
<td>Utilities</td>
<td>117,032</td>
</tr>
<tr>
<td><strong>Combined Tele. &amp; Utilities</strong></td>
<td>$ 117,032</td>
</tr>
<tr>
<td>Leases</td>
<td>636,514</td>
</tr>
<tr>
<td><strong>Combined Rent &amp; Leases</strong></td>
<td>$ 692,025</td>
</tr>
<tr>
<td>Repairs &amp; Maintenance</td>
<td>75,412</td>
</tr>
<tr>
<td>Professional Fees</td>
<td>164,010</td>
</tr>
<tr>
<td><strong>Total Operating expenses before Depreciation</strong></td>
<td>$ 3,884,910</td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td>110,949</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$ 3,995,859</td>
</tr>
<tr>
<td>Excess Revenue over (under) Expenses</td>
<td>$ 235,286</td>
</tr>
<tr>
<td>Prior Period Adjustment</td>
<td>-</td>
</tr>
<tr>
<td><strong>Plus Series 2009 A&amp;B Debt Service</strong></td>
<td>110,949</td>
</tr>
<tr>
<td><strong>Beginning Fund Balance</strong></td>
<td>$ 1,931,002</td>
</tr>
<tr>
<td><strong>Ending Fund Balance</strong></td>
<td>$ 2,167,115</td>
</tr>
<tr>
<td><strong>REIMBURSEMENT RESOLUTION</strong></td>
<td>Coverage:</td>
</tr>
<tr>
<td>Total Student Enrollment:</td>
<td>895</td>
</tr>
<tr>
<td>Average Daily Attendance (ADA)</td>
<td>858</td>
</tr>
<tr>
<td>ADA Enrollment</td>
<td>96%</td>
</tr>
<tr>
<td>Funding Per ADA (2)</td>
<td>$6,784</td>
</tr>
</tbody>
</table>

### Notes
1. **Prior Period Adjustment** is calculated as the difference between the beginning and ending fund balances.
2. **Funding Per ADA (2)** is calculated based on total student enrollment and average daily attendance.
3. **Projecting (3)** requires assumptions about future student enrollment, attendance, and funding levels. Potential risks and uncertainties should be considered when projecting future cash flows.

---

**B-3**
Notes to Financial Projections:

1. The School received notice from the Texas Education Agency (“TEA”) at the beginning of the 2008-2009 Fiscal Year that its funding from per student revenues would equal the amount shown in the pro forma financial plan.

Throughout the fiscal year, TEA notifies the School of potential adjustments to funding based on adjustments to student enrollment and fluctuations in local revenue (see “THE SYSTEM OF CHARTER SCHOOLS IN TEXAS – State Funding”). The School currently believes that it will be able to achieve the level of funding shown herein. However, the School will need to enroll an additional approximately 20 students who are currently on the waiting list in order to meet its projections. It is in the process of identifying those students and contacting them to enroll them.

2. Variability in past years’ funding per Average Daily Attendance (“ADA”) is due to the following factors:
   a. Per student revenues are calculated throughout a given fiscal year. To the extent that a school has received funding in excess of its final student count, it must “settle up” in the following fiscal year.
   b. As noted in “THE SYSTEM OF CHARTER SCHOOLS IN TEXAS – State Funding,” the methodology for funding for the School has been modified since 2001.

3. Projected per student revenues are based on levels of funding contained in the notice of funding from TEA referenced in Note 1 above. For purposes of the projections, revenues and expenses are assumed to increase by three percent in each year beginning with Fiscal Year 2009-2010. Such increase in revenues is expected due to increased funding included in the stimulus bill signed into law by President Obama on February 17, 2009. If revenues are instead assumed to remain constant and expenses are assumed to increase by three percent in each year, debt service coverage is as follows: Fiscal Year 2009-2010: 1.57X; Fiscal Year 2010-2011: 1.28X; and Fiscal Year 2011-2012: 1.18X.

4. As shown in Appendix H – Table 5, an additional seventeen teachers were added in Fiscal Year 2007-2008. These teachers will have capacity to serve many of the additional students that will be served by the added physical space that the Project creates. The School has analyzed its staffing needs and believes that the projections adequately allow for servicing the number of students shown.

5. The School will not have any leases or rent payable after this financing. All existing loans and leases will terminate upon closing of the Bonds.

6. The increase in state funding from Fiscal Year 2005-2006 to Fiscal Year 2006-2007 2007 is associated with a change in legislation which resulted in $1,549 more in state funding per ADA. Please refer to the table on page 31 for further details.

7. Represents $900,000 of Series 2009A proceeds that will be used to reimburse the School for project costs incurred prior to the issuance of the Bonds

Other Notes:

Financial controls, including monthly financial reporting to the School’s Board and the addition of Rene Martinez as Director of Resource Development, have strengthened and will continue to strengthen over the course of these projections. The School is currently considering each faculty and administration position to determine whether it will continue to fund such positions in the future.
APPENDIX C
FORM OF OPINION OF BOND COUNSEL
[CLOSING DATE]

Clifton Higher Education Finance Corporation  
c/o Vinson & Elkins L.L.P.  
1001 Fannin Street  
Suite 2500  
Houston, Texas 77002

Wells Fargo Bank, National Association  
1021 Main Street  
Suite 2403  
Houston, Texas 77002

Re: Clifton Higher Education Finance Corporation Education Revenue and Refunding Bonds (Tejano Center for Community Concerns, Inc. - Raul Yzaguirre School for Success Project), Series 2009A and Taxable Education Revenue Bonds (Tejano Center for Community Concerns, Inc. - Raul Yzaguirre School for Success Project), Series 2009B

Ladies and Gentlemen:

We have been engaged by Tejano Center for Community Concerns, Inc. (the “Company”) to serve as bond counsel in connection with the issuance by the Clifton Higher Education Finance Corporation (the “Issuer”) of its Education Revenue and Refunding Bonds (Tejano Center for Community Concerns, Inc. - Raul Yzaguirre School for Success Project) Series 2009A (the “Series 2009A Bonds”) and its Taxable Education Revenue Bonds (Tejano Center for Community Concerns, Inc. - Raul Yzaguirre School for Success Project) Series 2009B (the “Series 2009B Bonds”) (collectively, the “Bonds”). The Bonds are issued pursuant to a Trust Indenture and Security Agreement, dated as of February 1, 2009 (the “Bond Indenture”), between the Issuer and Wells Fargo Bank, National Association, as trustee (the “Trustee”). The proceeds of the Bonds will be loaned by the Issuer to the Company, pursuant to a Loan Agreement (the “Loan Agreement”), dated as of February 1, 2009, between the Issuer and the Company, which loan will be evidenced by two promissory notes (the “Series 2009 Notes”), issued pursuant to the Master Trust Indenture and Security Agreement, dated as of February 1, 2009 (as amended and supplemented as set forth herein, the “Master Indenture”), between the Company and Wells Fargo Bank, National Association, as master trustee (the “Master Trustee”), as amended and supplemented by the
Supplemental Master Trust Indenture No. 1, dated as of February 1, 2009, between the Company and the Master Trustee. Under the Loan Agreement, the Company has agreed to make payments to or for the account of the Issuer in amounts necessary to pay when due the principal of, premium, if any, and interest on the Bonds. Such payments and the rights of the Issuer under the Loan Agreement (except certain rights to indemnification, rebate payments and administrative fees) and the Series 2009 Notes are pledged and assigned by the Issuer under the Bond Indenture to the Trustee as security for the Bonds. Capitalized terms not otherwise defined herein have the meanings assigned to such terms in the Bond Indenture, the Loan Agreement and the Master Indenture. The Bonds are payable solely from the Trust Estate.

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

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

Based upon such examination, we are of the opinion that, under existing law:
1. The Issuer is duly created and validly existing as a nonprofit corporation created pursuant to Chapter 53, Texas Education Code, particularly Section 53.351 thereof, and has the corporate power to enter into and perform the obligations under the Bond Indenture and the Loan Agreement and issue the Bonds.

2. Each of the Bond Indenture and the Loan Agreement has been duly authorized, executed and delivered by the Issuer, each is a valid and binding obligation of the Issuer, and, subject to the qualifications stated below, each is enforceable against the Issuer in accordance with its terms. By the terms of the Bond Indenture, (i) all of the Issuer’s right, title and interest in and to the Loan Agreement (except for the right of the Issuer to certain rebate payments, indemnification and the payment of fees, costs and expenses), the Series 2009 Notes, and all Adjusted Revenues derived by the Issuer from the Loan Agreement and the Series 2009 Notes (including the Loan Payments), and (ii) amounts on deposit or held for the credit of the funds and accounts held by the Trustee pursuant to the terms of the Bond Indenture (other than the Rebate Fund), have been assigned to the Trustee.

3. The Bonds have been duly authorized, executed and delivered by the Issuer and are valid and binding limited obligations of the Issuer, payable solely from the Trust Estate, and, subject to the qualifications stated below, are enforceable against the Issuer in accordance with their terms.

4. Interest on the Series 2009A Bonds is excludable from gross income of the owners of the Series 2009A Bonds for federal income tax purposes under existing law.

5. The Series 2009A Bonds are “qualified 501(c)(3) bonds” within the meaning of section 145 of the Code, and interest on the Series 2009A Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Series 2009A Bonds may be required to be included in the “adjusted current earnings” of a corporation (other than any S corporation, regulated investment company, REIT, REMIC or FASIT) for purposes of computing its alternative minimum tax.
In rendering the opinions expressed in paragraphs 4 and 5 above, we have relied on, among other things, certificates signed by officers of the Issuer, the Company, Piper Jaffray & Co. (the “Underwriter”) and Wells Nelson & Associates (the “Financial Advisor”) with respect to certain material facts, estimates and expectations which are solely within the knowledge of the Issuer, the Company, the Underwriter and the Financial Advisor, respectively, which we have not independently verified. In addition, in rendering the opinions set forth in paragraphs 4 and 5, we have assumed continuing compliance with the covenants in the Loan Agreement and the Bond Indenture pertaining to those sections of the Code that affect the status of the Company as an organization described in section 501(c)(3) of the Code and the exclusion from gross income of interest on the Series 2009A Bonds for federal income tax purposes. We have further relied on the report of Grant Thornton, L.L.P., certified public accountants, regarding the mathematical accuracy of certain computations. If the certificates upon which we have relied are determined to be inaccurate or incomplete or the Company or the Issuer fail to comply with such covenants, interest on the Series 2009A Bonds could become includable in gross income from the date of their original delivery, regardless of the date on which the event causing such inclusion occurs.

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

Owners of the Series 2009A Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Series 2009A Bonds).

Our opinions are limited to the laws of the State of Texas and the federal laws of the United States, in each case as in effect on the date hereof. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover,
our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the “Service”); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Series 2009A Bonds. If an audit is commenced in accordance with its current published procedures, the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted in the Bond Indenture and the Company has covenanted in the Loan Agreement not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Series 2009A Bonds as includable in gross income for federal income tax purposes.

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

Very truly yours,
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APPENDIX D
SUBSTANTIALLY FINAL FORMS OF THE MASTER TRUST INDENTURE
AND
THE SUPPLEMENTAL MASTER TRUST INDENTURE NO. 1
MASTER TRUST INDENTURE AND SECURITY AGREEMENT

between

TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

and

WELLS FARGO BANK, NATIONAL ASSOCIATION
as Master Trustee

Dated as of
February 1, 2009
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MASTER TRUST INDENTURE AND SECURITY AGREEMENT

THIS MASTER TRUST INDENTURE AND SECURITY AGREEMENT (this “Master Indenture”), dated as of February 1, 2009, is between TEJANO CENTER FOR COMMUNITY CONCERNS, INC., a Texas non-profit corporation (the “Company”), and WELLS FARGO 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”).

W I T N E S S E T H:

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

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

NOW, THEREFORE, THIS MASTER INDENTURE WITNESSETH:

GRANTING CLAUSES

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

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

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

(c) all accounts, deposit accounts, general intangibles and related rights of the Company (each as defined in the UCC), whether now owned or hereafter acquired or arising and wherever located;

(d) any and all other property of every kind and nature from time to time hereafter, by delivery or by writing of any kind, conveyed, pledged, assigned or transferred as additional security hereunder by the Company or by anyone on its behalf to the Master Trustee, subject to the terms thereof, including without limitation, funds of the Company held by the Master Trustee as security for the Notes;

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

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

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

**TO HAVE AND TO HOLD IN TRUST,** upon the terms herein set forth, subject to Section 210 hereof, for the 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 directly related to the
Charter, 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 plus any transfers of the Company from its non-Charter related activities; provided, however, that no determination thereof shall take into account (a) income derived from the operation of any adult education, affordable housing or other activities of the Company that do not directly relate to the operation of their open enrollment charter schools; (b) income derived from Defeasance Obligations that are irrevocably deposited in escrow to pay the principal of or interest on Debt or Related Bonds, (c) 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, (d) 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), (e) net unrealized gain (losses) on investments and Financial Products Agreements, (f) proceeds of borrowing and (g) prior year ending fund balances. Notwithstanding any provision herein to the contrary, State Revenues received by each of the Borrower’s campuses will be used in accordance with Section 12.107(a) of the Texas Education Code, as amended.

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

(d) **Variable Rate Debt** - as to any Debt that bears interest at a variable interest rate which cannot be ascertained at the time of calculation, an interest rate equal to the greater of an annual interest rate equal to the Bond Buyer Revenue Bond Index (or, if the Bond Buyer Revenue Bond Index is unavailable, a comparable index chosen by the Company’s financial advisor) and the weighted average rate of interest born by such Debt (or other indebtedness of comparable credit quality, maturity and purchase terms in the event that such Debt was not outstanding) during the preceding Fiscal Year (or any period of comparable length ending within 180 days) prior to the date of calculation shall be presumed to apply for all future dates and the principal shall be evenly allocated over the life of the Bond issue with an equal amount of principal deemed due each year but solely for the purpose of spreading the principal requirements for calculation of coverage;

(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 President 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 Wells Fargo Bank, National Association, as trustee (the “Bond Trustee”) pursuant to that certain Trust Indenture and Security Agreement, dated as of February 1, 2009, between Clifton Higher Education Finance Corporation and the Bond Trustee.

“Charter” means the charter or charters issued to the Company by the Texas Education Agency pursuant to Chapter 12, Texas Education Code, authorizing the Company to open one or more open-enrollment charter schools and receive State Revenues for the operation thereof.

“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 Tejano Center for Community Concerns, 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
directly or indirectly, by the
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 therefor or in addition thereto, as such
substitute or additional security instrument may be amended, supplemented or
restated from time to time.

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

“Deposit Account Control Agreement” means the Deposit Account
Control Agreement, dated as of February 1, 2009, 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.

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

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

“Management Consultant” means a firm of Independent professional management consultants, or an independent school management organization, knowledgeable in the operation of public or private schools and having a favorable reputation for skill and experience in the field of public or private school management consultation; 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 Wells Fargo 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 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 therefor satisfactory to the Master Trustee has been made; and

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

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

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

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

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

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

“Qualified Provider” means any financial institution or insurance company which is a party to a Financial Products Agreement if the unsecured long term debt obligations of such financial institution or insurance company (or of the parent or a subsidiary of such financial institution or insurance company if such parent or subsidiary guarantees the performance of such financial institution or insurance company under such Financial Products Agreement), or obligations secured or supported by a letter of credit, contract, guarantee, agreement, insurance policy or surety bond issued by such financial institution or insurance company (or such guarantor parent or subsidiary), are rated in one of the two highest rating categories of a Rating Service at the time of the execution and delivery of the Financial Products Agreement.

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

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

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

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

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

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

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

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

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

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

“Related Bond Trustee” means any trustee under any Related Bond Indenture and any successor trustee thereunder or, if no trustee is appointed under a Related Bond Indenture, the Related Issuer.
“Related Deed of Trust” means any deed of trust or other mortgage instrument delivered by the Company to the Master Trustee in connection with Related Bonds or any Debt.

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

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

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

“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 2009 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 $24,480,000 Education Finance Corporation Education Revenue and Refunding Bonds (Tejano Center for Community Concerns, Inc. – Raul Yzaguirre School for Success) Series 2009A and the $720,000 Education Finance Corporation Education Taxable Education Revenue Bonds (Tejano Center for Community Concerns, Inc. – Raul Yzaguirre School for Success) Series 2009B.

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

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

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 
otice 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 
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 Wells Fargo 
Bank, National Association, 1021 Main Street, Suite 2403, MAC T5017-241, Houston, 
Texas 77002, Attention: Corporate Trust 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 2950 Broadway, Houston, Texas 77017, Attention: Superintendent, 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 his address as it appears on the Note Register, not later than the
latest date, and not earlier than the earliest date, prescribed for the first giving of such notice. In any case where notice to Note Holders is given by mail, neither the failure to mail such notice, nor any default in any notice so mailed to any particular Note Holder shall affect the sufficiency of such notice with respect to other Note Holders. Where this Master Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders of Notes shall be filed with the Master Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Section 106. Successors and Assigns. All covenants and agreements in this Master Indenture by the Company and the Master Trustee shall bind their respective successors and assigns, whether so expressed or not.

Section 107. Severability Clause. If any provision of this Master Indenture shall be held or deemed to be, or shall in fact be, inoperative or unenforceable as applied to any particular case in any jurisdiction or jurisdictions, or in all jurisdictions or in all cases because of the conflicting of any provision with any constitution or statute or rule of public policy or for any other reasons, such circumstance shall not have the effect of rendering the provision or provisions in question inoperative or unenforceable in any other jurisdiction or in any other case or circumstance or of rendering any other provision or provisions herein contained invalid, inoperative or unenforceable to the extent that such other provisions are not themselves actually in conflict with such constitution, statute or rule of public policy.

Section 108. Benefits of Master Indenture. Nothing in this Master Indenture or in the Notes, express or implied, shall give to any Person, other than the parties hereto, and their successors hereunder and the Holders of the Notes, any benefit or any legal or equitable right, remedy or claim under this Master Indenture.

Section 109. Governing Law. This Master Indenture shall be governed, in all respects including validity, interpretation and effect by, and shall be enforceable in accordance with, the law of the State.

Section 110. Effect of Headings and Table of Contents. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

ARTICLE II

ISSUANCE AND FORM OF NOTES

Section 201. Series, Amount and Denomination of Notes.

(a) At any time and from time to time after the execution and delivery of this Master Indenture, Notes shall be issued under this Master Indenture in series issued pursuant to a Supplemental Master Indenture. Each series shall be designated to differentiate the Notes of such series from the Notes of any other series. Notes shall be issued as fully registered notes with the Notes of each series to be lettered and numbered 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) An Opinion of Counsel to the effect that (1) the conditions to issuance of any particular Note or series of Notes set forth in this Section 202 of this Master Indenture have been satisfied, (2) upon the execution of such Note or series of Notes by the Company and the authentication thereof by the Master Trustee, such Note or series of 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:

____________________________________________________

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

By: __________________________________________________
Authorized Signature

Section 204. Form and Terms of Notes. The Notes of each series 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 Dallas, Texas, a register (sometimes herein referred to as the “Note Register”) in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Notes and of transfers of Notes. The Master Trustee is hereby appointed Note Registrar (the “Note Registrar”) for the purpose of registering Notes and transfers of Notes as herein provided. The Master Trustee may delegate any of its duties hereunder 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 Dallas, Texas, or at the office of any alternate Paying Agent or agents named in any such Notes. Unless contrary provision is made in the Supplemental Master Indenture pursuant to which such Note is issued or the election referred to in the next sentence is made, payment of the interest on the Notes and payment of any redemption or prepayment price on any Note pursuant to Section 303 hereof shall be made to the Person appearing on the Note Register as the Holder thereof and shall be paid by check or draft mailed to the Holder thereof at his address as it appears on such registration books or at such other address as is furnished the Master Trustee in writing by such Holder; provided, however, that any Supplemental Master Indenture creating any Note may provide that interest on such Note may be paid, upon the request of the Holder of such Note, by wire transfer. Anything to the contrary in this Master Indenture notwithstanding, if an Event of Default has not occurred and is not continuing hereunder and the Company so elects, payments on a Note shall be made directly by the Company, by check or draft hand delivered to the Holder thereof or its designee or shall be made by the Company by wire transfer to such Holder, in either case delivered on or prior to the date on which such payment is due. The Company may give notice (on which the Master Trustee may conclusively rely) of any such payment to the Master Trustee concurrently with the making thereof, specifying the amount paid and identifying the Note or Notes with respect to which such payment was made by series designation, number and Holder thereof. Except with respect to Notes directly paid, the Company agrees to deposit with the Master Trustee on or prior to each due date, as specified in the Related Bond Documents, a sum sufficient to pay the principal of, premium, if any, and interest on any of the Notes due on such date. Any such moneys shall, upon direction of the Company set forth in an Officer’s Certificate, be invested as set forth therein. The foregoing notwithstanding, amounts deposited with the Master Trustee to provide for the payment of Notes pledged to the payment of Related Bonds shall be invested in accordance with the provisions of the Related Bond Indenture and Related Loan Document. The Master Trustee shall not be liable or responsible for any loss resulting from any such investments, and shall not be responsible for determining whether any such investment is permitted hereunder or in accordance with any such Related Bond Indenture or Related Loan Agreement.

(b) Subject to the foregoing provisions of this Section 207, each Note delivered under this Master Indenture upon transfer of or in exchange for or in lieu of any other Note shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Notes.
Section 208. **Persons Deemed Owners.** The Company, the Master Trustee and any agent thereof may treat the Person in whose name any Note is registered as the owner of such Note for the purpose of receiving payment of principal of (and premium, if any) and interest on such Note and for all other purposes whatsoever whether or not such payment is past due, and neither the Company, the Master Trustee, nor any agent of the Company or the Master Trustee shall be affected by notice to the contrary.

Section 209. **Cancellation.** All Notes surrendered for payment, redemption, transfer or exchange shall, if delivered to any Person other than the Master Trustee, be delivered to the Master Trustee and, if not already cancelled or required to be otherwise delivered by the terms of the Supplemental Master Indenture authorizing the series of Notes of which such Note is a part, shall be promptly cancelled by the Master Trustee. The Company may at any time deliver to the Master Trustee for cancellation any Notes previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and all Notes so delivered shall be promptly cancelled by the Master Trustee. No Notes shall be authenticated in lieu of or in exchange for any Notes cancelled as provided in this Section, except as expressly permitted by this Master Indenture. All cancelled Notes held by the Master Trustee shall be disposed of according to the retention policies of the Master Trustee.

Section 210. **Security for Notes.**

(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 therefore 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 the Holders of not less than 25% in principal amount of the Notes Outstanding with the consent of each Bond Insurer, as applicable, issue a Notice of Exclusive Control under the Deposit Account Control Agreement and (ii) collect and receive all of the Adjusted Revenues. The Master Trustee also shall be entitled to and shall (1) enforce the terms, covenants and conditions of, and preserve and protect the priority of its interest in and under this Master Indenture and the Deed of Trust and (2) assure compliance with all covenants, agreements and conditions of the Company contained in this Master Indenture with respect to the Adjusted Revenues; provided that, without limiting the generality of any of the provisions of this Master Indenture or the Deed of Trust, the Master Trustee need not foreclose the Deed of Trust (or accept a deed in lieu of foreclosure or otherwise exercise remedies with respect to the Mortgaged Property) if the effect of any such foreclosure (or acceptance of a deed in lieu of foreclosure, or other exercise of remedies with respect to the Mortgaged Property) would be to cause the Master Trustee to: (i) incur financial liability for any then existing environmental contamination at or from the Mortgaged Property or (ii) risk its own funds for the remediation of any such existing environmental contamination.

(b) The Company shall, at its own expense, take all necessary action to maintain and preserve the security interest in the property granted by this Master Indenture and the Deed of Trust so long as any Notes are Outstanding. In addition, the Company shall, immediately after the execution and delivery of this Agreement and thereafter from time to time, cause the Deed of Trust and any financing statements in respect thereof to be filed, registered and recorded in such manner and in such places as may be required by law in order to fully perfect and protect such security interest and from time to time will perform or cause to be performed any other act as provided by law and will execute or cause to be executed and filed as provided herein any and all continuation statements as required for such perfection and protection. Copies of all filings and recordings hereunder shall be promptly filed with the Master Trustee and any Bond Insurer. Except to the extent it is exempt therefrom, the Company shall pay or cause to be paid all filing, registration and recording fees and all expenses incident to the preparation, execution and acknowledgment of such instruments of perfection, and all federal or state fees and other similar fees, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of the Deed of Trust and such instruments of perfection. The Master Trustee shall
not be responsible for the sufficiency of or the recording of this instrument, any supplemental indenture, any mortgage, deed of trust, other security or other instruments of further assurance.

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 parity liens to exist, except any Permitted Encumbrances (as defined in the Deed of Trust), on any real property included in the Deed of Trust other than a lien arising in connection with the issuance of Debt as permitted by Section 212. 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 1.10 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) **Reserve Fund Deposits.** For the purposes of calculating Maximum Annual Debt Service in Sections 212(a)(3) and 212(a)(4) above, the principal and interest payable upon final maturity for any outstanding Debt for which a reserve fund has been established shall be reduced by the amounts held in such reserve fund(s).

(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) **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.

(8) **Rating.** The Rating Agencies then rating any Notes shall provide a rating of the Additional Debt that is at or above the then current rating level on the Notes.
The satisfaction of the conditions set forth in paragraphs (1) through (7) above shall be evidenced to the Master Trustee. The Master Trustee may rely, and (subject to Section 701) shall be fully protected in relying upon, a closing certificate that items (1) through (7) 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) 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 last 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.** (1) The Company reserves the right to issue and incur Short-Term Debt and (2) The Company reserves the right to issue and incur additional Debt in an amount not to exceed $100,000 for the expansion or relocation of any Participating Campus; provided further, that Sections 212(a)(3) and (4) shall not apply to such additional Debt.

(e) **Subordinate Debt.** The Company reserves the right to incur indebtedness subordinate to this Master Indenture. Such subordinate debt may be secured by a subordinate lien on all or any portion of the Trust Estate.

(f) **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.

(g) **Exemption.** The Series 2009 Notes and related Education Finance Corporation Education Revenue and Refunding Bonds, (Tejano Center for Community Concerns, Inc. –Raul Yzaguirre School for Success) Series 2009A and Taxable Education Revenue Bonds, (Tejano Center for Community Concerns, Inc. – Raul Yzaguirre School for Success) Series 2009B shall not be considered additional Debt and are not subject to the provisions of this Section 212.

(h) **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 for activities under its**
Charter, 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 $15,600,000 on the Closing Date of the Series 2009 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 and insurance coverage for lost gross revenues due to damage or destruction of the Related Project prior to construction in an amount sufficient to provide temporary or interim facilities and equipment during the period of replacement or repair of the damaged or destroyed facility, 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 (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

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

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

**ARTICLE III**

**REDEMPTION OR PREPAYMENT OF NOTES**

**Section 301. Redemption or Prepayment.** Notes of each series shall be subject to optional and mandatory redemption or prepayment (subject to Section 602) in whole or in part and may be redeemed prior to Stated Maturity only as provided in the Supplemental Master Indenture creating such series. Unless otherwise provided by the Supplemental Master Indenture
creating a series of Notes, the provisions of Sections 302 through 305 of this Master Indenture shall also apply to the redemption of Notes.

Section 302. Election to Redeem or Prepay; Notice to Master Trustee. The Company shall notify the Master Trustee in writing of the election of the Company to redeem or prepay all or any portion of the Notes of any series, together with the redemption or prepayment date and the principal amount of Notes of each Stated Maturity and series to be redeemed or prepaid, at least 60 days prior to the redemption or prepayment date fixed by the Company, unless a shorter notice shall be satisfactory to the Master Trustee.

Section 303. Deposit of Redemption or Prepayment Price. Prior to any redemption or prepayment date, the Company shall deposit with the Master Trustee or its designated agent an amount of money sufficient to pay the redemption or prepayment price of all the Notes which are to be redeemed or prepaid on such date.

Section 304. Notes Payable on Redemption or Prepayment Date.

(a) Notice of redemption or prepayment having been given as aforesaid, and the monies for redemption or prepayment having been deposited as described in Section 303, the Notes to be redeemed or prepaid shall become due and payable on the redemption or prepayment date at the redemption or prepayment price therein specified, and from and after such date such Notes shall cease to bear interest. Upon surrender of any such Note for redemption or prepayment in accordance with said notice, such Note shall be paid by the Company at the redemption or prepayment price. Installments of interest whose Stated Maturity is on or prior to the redemption date shall be payable to the registered Note Holders on the relevant Record Dates according to their terms.

(b) If any Note called for redemption shall not be so paid upon surrender thereof for redemption, the principal (and premium, if any) shall, until paid, bear interest from the redemption date at the rate borne by the Note.

Section 305. Notes Redeemed or Prepaid in Part. Any Note which is to be redeemed or prepaid only in part shall be surrendered at a Place of Payment (with, if the Company or the Master Trustee so requires, due endorsement by, or a written instrument of transfer satisfactory in form to, the Company and the Master Trustee, and duly executed by the Holder thereof or by his attorney who has been duly authorized in writing) and the Company shall execute and the Master Trustee shall authenticate and deliver without service charge a new Note or Notes of the same series, interest rate and maturity, and of any Authorized Denomination, to the Holder of such Note as requested by such Holder in aggregate principal amount equal to and in exchange for the unredeemed or unpaid portion of the principal of the Note so surrendered.

ARTICLE IV

COVENANTS OF THE COMPANY

Section 401. Payment of Debt Service. The Company unconditionally and irrevocably covenants that it will promptly pay the principal of, premium, if any, and interest and any other amount due on every Note issued under this Master Indenture at any time at the place, on the
dates and in the manner provided in said Notes according to the true intent and meaning thereof. Notwithstanding any schedule of payments upon the Notes set forth in the Notes, the Company unconditionally and irrevocably covenants and agrees to make payments upon each Note and be liable therefor at the times and in the amounts (including principal, interest and premium, if any) equal to the amounts to be paid as interest, principal at maturity or by mandatory sinking fund redemption, or premium, or purchase price, if any, upon any Notes or Related Bonds from time to time outstanding.

Section 402. Rating. (a) 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.

(b) So long as the Notes are outstanding, the Company shall maintain a rating on the Notes from Fitch, Inc., Moody’s Investor Services, Inc. or Standard & Poor’s Ratings Services, Inc.

Section 403. Money for Note Payments to be Held in Trust; Appointment of Paying Agents.

(a) The Company may appoint a Paying Agent for each series of the Notes.

(b) Each such Paying Agent appointed by the Company shall be (i) a corporation organized and doing business under the laws of the United States of America or of any state, (ii) authorized under such laws to exercise corporate trust powers, (iii) have a combined capital and surplus of at least $50,000,000, and (iv) be subject to supervision or examination by federal or state authority.

(c) Subject to Section 207 hereof, the Company will, on or prior to each due date of the principal of (and premium, if any) or interest or any other amounts on any Notes, deposit with the Master Trustee which shall thereupon deposit such with the Paying Agent, a sum sufficient to pay the principal (and premium, if any) or interest or purchase price so becoming due and any other amounts due in accordance with the terms of the Notes and this Master Indenture, such sum to be held in trust for the benefit of the Holders of such Notes, and the Company will promptly notify the Master Trustee of its action or failure so to act unless such Paying Agent is the Master Trustee.

(d) The Company will cause each Paying Agent other than the Master Trustee to execute and deliver to the Master Trustee an instrument in which such Paying Agent shall agree with the Master Trustee, subject to the provisions of this Subsection, that such Paying Agent will

(1) hold all sums held by it for the payment of principal of (and premium, if any) or interest or any other amounts on the Notes in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;
(2) give the Master Trustee notice of any default by the Company or any other obligor upon the Notes in the making of any such payment of principal (and premium, if any) or interest or any other amounts; and

(3) upon request by the Master Trustee, pay to the Master Trustee all sums so held in trust by such Paying Agent forthwith at any time during the continuance of such default.

(e) For the purpose of obtaining the satisfaction and discharge of this Master Indenture or for any other purpose, the Company may at any time by Order direct any Paying Agent to pay to the Master Trustee all sums held in trust by such Paying Agent, such sums to be held by the Master Trustee upon the same trusts as those upon which such sums were held by such Paying Agent. Upon such payment by any Paying Agent to the Master Trustee, such Paying Agent shall be released from all further liability with respect to such money.

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

Section 404. Notice of Non-Compliance. Promptly upon the discovery of any default, the Company will deliver to the Master Trustee a written statement describing each default and status thereof which has not been cured or waived under any Note. For the purpose of this Section, the term “default” means any event which is, or after notice or lapse of time or both would become, an Event of Default.

Section 405. Corporate Existence. Subject to Sections 501 and 502, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, rights (charter and statutory), and franchises; provided, however, that the Company shall not be required to preserve any right or franchise if the Governing Body shall
determine that the preservation thereof is no longer desirable in the conduct of its business and that the loss thereof is not disadvantageous in any material respect to the Holders of the Notes.

Section 406. **Revenue Fund.**

(a) There is hereby created by the Company and established with the Master Trustee the special fund of the Company designated the “Raul Yzaguirre 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(a) of this Master Indenture have been cured or waived, shall be paid to the Company upon Request for deposit in a deposit account of the Company 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 “Raul Yzaguirre School 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 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 Texas form T-1 owner’s policy of title insurance and a standard Texas form T-2 lender’s policy of title insurance issued by a title insurance company selected by the Company, showing the Master Trustee 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(l) 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 materialmens’ 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 undischarged and unstayed for a period of 90 days; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of the Company or the Company’s property, or for the winding up or liquidation of the Company or the Company’s affairs, shall have been entered, and such decree or order shall have remained in force undischarged and unstayed for a period of 90 days; or

(d) the Company shall institute proceedings to be adjudicated a voluntary bankruptcy, or shall consent to the institution of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization or arrangement under the Bankruptcy Code or any other similar applicable federal or state law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of it or of its property, or shall make assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or corporate action shall be taken by the Company in furtherance of any of the aforesaid purposes;

(e) an event of default, as therein defined, under any instrument or agreement under which any Note may be incurred or secured, or under any Related Bond Documents, occurs and is continuing beyond any applicable period of grace, if any;

(f) a Qualified Provider under a Financial Products Agreement which is secured by a Note notifies the Master Trustee that an event of default under such Financial Products
Agreement, as therein defined, has occurred and is continuing beyond the applicable grace period, if any.

Section 602. Acceleration of Maturity In Certain Cases; Rescission and Annulment

(a) If an Event of Default occurs and is continuing, then and in every such case the Master Trustee may, and upon the request of: (i) the Holders of not less than 25% in principal amount of the Notes Outstanding with the consent of the Bond 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 named in the Deed of Trust 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 lien of this Indenture, except any thereof subject to which such sale shall have been made), whether made under any power of sale herein
granted or pursuant to judicial proceedings, together with, in the case of an entry or sale as otherwise provided herein, any other sums then held by the Master Trustee as part of the Trust Estate, shall be deposited in the Revenue Fund created by this Master Indenture, shall be applied in the order specified in Section 406, at the date or dates fixed by the Master Trustee and, in case of the distribution of such money on account of principal (or premium, if any), upon presentation of the Notes and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid.

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, on the respective Stated Maturities expressed in such Note (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.
Section 609. Restoration of Rights and Remedies. If the Master Trustee or any Holder of Notes has instituted any proceeding to enforce any right or remedy under this Master Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Master Trustee or to such Holder of Notes, then and in every such case the Company, the Master Trustee and the Holders of Notes shall, subject to any determination in such proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and remedies of the Master Trustee and the Holders of Notes shall continue as though no such proceeding had been instituted.

Section 610. Rights and Remedies Cumulative. No right or remedy herein conferred upon or reserved to the Master Trustee or to the Holders of Notes is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 611. Delay or Omission Not Waiver. No delay or omission of the Master Trustee or of any Holder of any Note to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Master Trustee or to the Holders of Notes may be exercised from time to time, and as often as may be deemed expedient, by the Master Trustee or by the Holders of Notes, as the case may be.

Section 612. Control by Holders of Notes. The Holders of a majority in principal amount of the Outstanding Notes shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Master Trustee or exercising any trust or power conferred on the Master Trustee, provided that such direction shall not be in conflict with any rule of law or with this Master Indenture, and provided further that the Master Trustee shall have the right to decline to comply with any such request in accordance with Section 703(e) hereof or if the Master Trustee shall be advised by counsel (who may be its own counsel) that the action so directed may not lawfully be taken or the Master Trustee in good faith shall determine that such action would be unjustly prejudicial to the Holders of the Notes not parties to such direction. The Master Trustee may take any other action deemed proper by the Master Trustee which is not inconsistent with such direction.

Section 613. Waiver of Past Defaults.

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

(1) a default in the payment of the principal of (or premium, if any) or interest or any other amount on any Note; or
(2) a default in respect of a covenant or provision hereof which under Article VIII cannot be modified or amended without the consent of the Holder of each Outstanding Note affected.

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

Section 614. Undertaking for Costs. All parties to this Master Indenture agree, and each Holder of any Note by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Master Indenture, or in any suit against the Master Trustee for any action taken or omitted by it as Master Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys’ fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Master Trustee, to any suit instituted by any Holder of Notes, or group of Holders of Notes, holding in the aggregate more than 10% in principal amount of the Outstanding Notes, or to any suit instituted by any Holder of Notes for the enforcement of the payment of the principal of (or premium, if any) or interest on any Note on or after the respective Stated Maturities expressed in such Note (or, in the case of redemption, on or after the redemption date).

Section 615. Waiver of Stay or Extension Laws. The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Master Indenture; and the Company (to the extent that it may lawfully do so), hereby expressly waives all benefit or advantage of any such law, and covenants (to the extent that it may lawfully do so) that it will not hinder, delay or impede the execution of any power herein granted to the Master Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

Section 616. No Recourse Against Others. No recourse under or upon any obligation, covenant or agreement contained in this Master Indenture or any indenture supplemental hereto, or in any Note, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, or against any past, present or future director, officer or employee, as such, of the Master Trustee or the Company or of any successor corporation, either directly or through the Company, whether by virtue of any constitution or statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that this Master Indenture and the Notes are solely corporate obligations, and that no such personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, directors, officers or employees, as such, of the Master Trustee or the Company or any successor corporation, or any of them, because of the creation of indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Master Indenture or in any of the Notes or implied therefrom; and that any and all such personal liability, either at
common law or in equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, director, officer or employee, as such, are hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Master Indenture and the issue of such Notes.

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 an attorney or agent selected by it in the exercise of reasonable care and upon the opinion or advice of an attorney or agent retained by the Company. 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 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.

(j) 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.

(k) 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.

(l) 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.

(m) The Trustee shall not be bound to ascertain or inquire as to the performance or observance of any covenants, conditions or agreements on the part of the Company herein or in the Deed of Trust hereunder except as may be expressly provided for herein or therein. The Trustee may require of the Company full information and advice as to the performance of the aforesaid covenants, conditions and agreements.

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. The provisions of this Section 707(a)(3) will survive the satisfaction and discharge of this Master Indenture and the payment of all Notes hereunder.
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.

(e) If the Master Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Master Trustee for any cause, the Company shall promptly appoint a successor Master Trustee. If, within six months after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Master Trustee shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Notes delivered to the Company and the retiring Master Trustee, the successor Master Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Master Trustee and supersede the successor Master Trustee appointed by the Company. If no successor Master Trustee shall have been so appointed by the Company or the Holders of Notes and accepted appointment in the manner hereinafter provided, the Master Trustee or any Holder of Notes who has been a bona fide Holder of a Note for at least 6 months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Master Trustee.

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

Section 710. Acceptance of Appointment by Successor.

(a) Every successor Master Trustee appointed hereunder shall execute, acknowledge and deliver to the Company and to the retiring Master Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Master Trustee shall become effective and such successor Master Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Master Trustee; but, on Request of the Company or the successor Master Trustee, such retiring Master Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Master Trustee all the rights, powers and trusts of the retiring Master Trustee, and shall duly assign, transfer and deliver to the successor Master Trustee all property and money held by such retiring Master Trustee hereunder. Upon request of any such successor Master Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Master Trustee all such rights, powers and trusts.

(b) No successor Master Trustee shall accept its appointment unless at the time of such acceptance such successor Master Trustee shall be qualified and eligible under this Article.

Section 711. Merger or Consolidation. Any corporation into which the Master Trustee may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Master Trustee shall be a party, or any corporation acquiring and succeeding to all or substantially all of the municipal corporate trust business of the Master Trustee, shall be the successor Master Trustee hereunder, provided such corporation
shall be otherwise qualified and eligible under this Article, to the extent operative, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Notes shall have been authenticated, but not delivered, by the Master Trustee then in office, any successor by merger or consolidation to such authenticating Master Trustee may adopt such authentication and deliver the Notes so authenticated with the same effect as if such successor Master Trustee had itself authenticated such Notes.

Section 712. Release of Property. At the request of a majority of the Holders of the Notes 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;
5. the Endowed Facility is complete;
6. the Company shall provide an independent appraisal of the Endowed Facility; and
7. The Company shall provide at least thirty (30) days prior to executing such release, written notice to the Holders of the Notes of the proposed release, including the anticipated date thereof and an address for filing any objections thereto, in the manner required for the delivery of notices of optional redemptions under the Related Bond Indenture. If, prior to executing such release, the Company receives written objections from a majority of the Holders of the Notes, the Company agrees not to proceed with the release and notice of the cancellation thereof shall be timely provided the Holders in the same manner as set forth in the previous sentence.

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 independent 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;

(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; and

(6) evidence that the Company has provided at least thirty (30) days prior to executing such release, written notice to the Holders of the Notes of the proposed release, including the anticipated date thereof and an address for filing any objections thereto, in the manner required for the delivery of notices of optional redemptions under the Related Bond Indenture, and that the Company did not receive written objections to such release from a majority of the Holders of the Notes within the time period specified.

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 (l), (B) make any modification of the type prohibited Section 802 hereof, or (C) make a modification intended to subordinate the right to payment of a Holder of any Note to the right of payment of any Holder of any other Note or any other Debt;

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

(n) to release the Deed of Trust or, pursuant to Section 703(b) herein, portions of property contained therein from the Master Trust Estate upon receipt and deposit with the Master Trustee sufficient assets, cash, letters of credit or other guarantee and written confirmation from each Rating Service that such change will not result in a withdrawal or reduction in its credit rating assigned to any series of Notes or Related Bonds; provided that the Company shall provide at least thirty (30) days prior to executing such release, written notice to the Holders of the Notes of the proposed release, including the anticipated date thereof and an address for filing any objections thereto, in the manner required for the delivery of notices of optional redemptions under the Related Bond Indenture, and if, prior to executing such release, the Company receives written objections to the release from a majority of the Holders of the Notes, the Company agrees not to proceed with the release and timely provide notice of the cancellation thereof to the Holders in the same manner as the original notice of release was given; 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 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 thereof (and premium, if any) and interest thereon and remaining obligations of the Company to make mandatory sinking fund payments, (iv) the rights, remaining obligations, if any, and immunities of the Master Trustee hereunder and (v) the rights of the Holders as beneficiaries hereof with respect to the property so deposited with the Master Trustee payable to all or any of them) and the Master Trustee, on the Request accompanied by an Officer’s Certificate and an Opinion of Counsel to the effect that the conditions precedent to the satisfaction and discharge of this Master Indenture have been fulfilled and at the cost and expense of the Company, shall execute proper instruments acknowledging satisfaction of and discharging this Master Indenture.

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

Section 902. Notes Deemed Paid. Unless otherwise provided in the supplemental indenture establishing any such series of Notes, Notes of any series shall be deemed to have been paid if:

(a) in case said Notes are to be redeemed on any date prior to their Stated Maturity, the Company by Request shall have given to the Master Trustee in form satisfactory to it irrevocable instructions to give notice of redemption of such Notes on said redemption date;

(b) there shall have been deposited with the Master Trustee either money sufficient, or Defeasance Obligations the principal of and the interest on which will provide money sufficient without reinvestment (as established by an Officer’s Certificate delivered to the Master Trustee accompanied by a report of an Independent Accountant setting forth the calculations
upon which such Officer’s Certificate is based), to pay when due the principal of (and premium, if any) and interest due and to become due on said Notes on and prior to the Maturity thereof;

(c) in the event said Notes are not by their terms subject to redemption within the next 45 days, the Company by Request shall have given the Master Trustee in form satisfactory to it irrevocable instructions to give a notice to the Holders of such Notes that the deposit required by clause (b) of this Section 902 above has been made with the Master Trustee and that said Notes are deemed to have been paid in accordance with this Section and stating such Maturity date upon which moneys are to be available for the payment of the principal of (and premium, if any) and interest on said Notes.

Section 903. Application of Trust Money. The Defeasance Obligations and money deposited with the Master Trustee pursuant to Section 902 and principal or interest payments on any such Defeasance Obligations shall be held in trust, shall not be sold or reinvested, and shall be applied by it, in accordance with the provisions of the Notes and this Master Indenture, to the payment, either directly or through any Paying Agent as the Master Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money or Defeasance Obligations were deposited; provided that, upon delivery to the Master Trustee of an Officer’s Certificate (accompanied by the report of an Independent Accountant setting forth the calculations upon which such Officer’s Certificate is based) establishing that the money and Defeasance Obligations on deposit following the taking of the proposed action will be sufficient for the purposes described in subsection (b) of Section 902, any money received from principal or interest payments on Defeasance Obligations deposited with the Master Trustee or the proceeds of any sale of such Defeasance Obligations, if not then needed for such purpose, shall, upon Request be reinvested in other Defeasance Obligations or disposed of as requested by the Company. For purposes of any calculation required by this Article, any Defeasance Obligation which is subject to redemption at the option of its issuer, the redemption date for which has not been irrevocably established as of the date of such calculation, shall be assumed to cease to bear interest at the earliest date on which such obligation may be redeemed at the option of the issuer thereof and the principal of such obligation shall be assumed to be received at its Stated Maturity.

This Master Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.
IN WITNESS WHEREOF, the Company and the Master Trustee have caused this Master Indenture to be signed on their behalf by their duly authorized representatives as of the date first written above.

TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

By: ________________________________
    President, Board of Directors
WELLS FARGO BANK, NATIONAL ASSOCIATION, as Master Trustee

By: Letha Glover, Vice President
SUPPLEMENTAL MASTER TRUST INDENTURE NO. 1

Dated as of February 1, 2009

Between

TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

and

WELLS FARGO BANK, NATIONAL ASSOCIATION

as Master Trustee

Supplemental to:

Master Trust Indenture
Dated as of February 1, 2009

In connection with the issuance of
Series 2009 Notes
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Exhibit A - Form of Tax-Exempt Master Indenture Note and Assignment; Certificate of Authentication and Registration

Exhibit B - Form of Taxable Master Indenture Note and Assignment; Certificate of Authentication and Registration
THIS SUPPLEMENTAL MASTER TRUST INDENTURE NO. 1, dated as of February 1, 2009 (this “Supplemental Master Indenture”), is between WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association, having a corporate trust office in Dallas, Texas, as master trustee (the “Master Trustee”), and TEJANO CENTER FOR COMMUNITY CONCERNS, 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 February 1, 2009 (being referred to herein as the “Original Master Indenture”), with the Master Trustee, for the purpose of providing for the issuance of Notes thereunder to secure Debt of the Company (as such terms are defined in the Original Master Indenture); and

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

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

WHEREAS, the Company deems it desirable to issue (i) a Tax-Exempt Master Indenture Note (Tejano Center for Community Concerns, Inc.—Raul Yzaguirre School for Success) Series 2009A (the “Tax-Exempt Master Note”) entitled to the security of the Master Indenture in the original principal amount of $[23,825,000], and (ii) a Taxable Master Indenture Note (Tejano Center for Community Concerns, Inc.—Raul Yzaguirre School for Success) Series 2009B (the “Taxable Master Note,” together with the Tax-Exempt Master Note, the “Series 2009 Notes”) entitled to the security of the Master Indenture in the original principal amount of $[710,000] and to deliver such Series 2009 Notes to the Clifton Higher Education 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 February 1, 2009, relating to the Issuer’s Education Revenue Bonds (Tejano Center for Community Concerns, Inc.—Raul Yzaguirre School for Success) Series 2009A and the Issuer’s Taxable Education Revenue Bonds (Tejano Center for Community Concerns, Inc.—Raul Yzaguirre School for Success) Series 2009B (together, the “Series 2009 Bonds”) issued pursuant to a Trust Indenture and Security Agreement (the “Related Bond Indenture”), dated as of February 1, 2009, between the Issuer and Wells Fargo Bank, National Association, as trustee (in such capacity, the “Bond Trustee”); and
WHEREAS, all acts and things necessary to make the Series 2009 Notes authorized by this Supplemental Master Indenture, when executed by the Company and authenticated and delivered by the Master Trustee as provided in the Original Master Indenture and this Supplemental Master Indenture, the valid, binding and legal obligations of the Company and to constitute these presents, together with the Original Master Indenture, a valid indenture and agreement according to its terms, have been done and performed, and the execution of this Supplemental Master Indenture and the issuance of the Series 2009 Notes authorized by this Supplemental Master Indenture have in all respects been duly authorized;

NOW, THEREFORE, in order to declare the terms and conditions upon which the Series 2009 Notes authorized hereby are authenticated, issued and delivered, and in consideration of the premises and the acquisition and acceptance of the Series 2009 Notes by the Holders thereof, and in consideration of the mutual covenants, conditions and agreements which follow, the Company covenants and agrees with the Master Trustee as follows:

ARTICLE I
DEFINITIONS

Section 101. Definitions of Words and Terms. Words and terms used in this Supplemental Master Indenture and not otherwise defined herein shall, except as otherwise stated, have the meanings assigned to them in the Original Master Indenture.

Section 102. Designation of Participating Campuses. The Company hereby designates the following schools as “Participating Campuses” and the revenues and assets of these Participating Campuses 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:

(i) Brownsville Campus located at 2255 North Coria, Brownsville, Texas 78520.

(ii) Houston Campus located at 2950 Broadway, Houston, Texas 77017.

ARTICLE II
THE SERIES 2009 NOTES

Section 201. Authorization of Series 2009 Notes.

(a) There is hereby created and authorized to be issued hereunder a Note, described as follows: “Tax-Exempt Master Indenture Note (Tejano Center for Community Concerns, Inc.—Raul Yzaguirre School for Success) Series 2009A” in the aggregate original principal amount of $[23,825,000], dated February 1, 2009, issued on behalf of the Company and for the primary benefit of the Issuer. The Tax-Exempt Master Note shall initially be issued and registered in the name of the Issuer, and then endorsed by the Issuer to the order of and
registered in the name of the Bond Trustee, or its successors or assigns, and shall be executed, authenticated and delivered in accordance with Article II of the Original Master Indenture.

(b) There is hereby created and authorized to be issued hereunder a Note, described as follows: “Taxable Master Indenture Note (Tejano Center for Community Concerns, Inc.—Raul Yzaguirre School for Success) Series 2009B,” in an aggregate amount equal to $[710,000], dated February 1, 2009, issued on behalf of the Company and for the primary benefit of the Issuer. The Taxable Master Note shall initially be issued and registered in the name of the Issuer and then endorsed by the Issuer to the order of and registered in the name of the Bond Trustee, and shall be executed, authenticated and delivered in accordance with Article II of the Original Master Indenture.

Section 202. Form of Series 2009 Notes. The Tax-Exempt Master Note and the Taxable Master Note each shall be issued as single, fully-registered promissory notes without coupons, in substantially the forms set forth in, respectively, Exhibit A and Exhibit B hereto.

Section 203. Payments on Series 2009 Notes. The principal of the Series 2009 Notes shall be payable in the amounts and on the dates, and each of the unpaid installments of principal shall bear interest from the date of such Notes at the respective rates, and such notes shall have such other terms and provisions, as are set forth in or incorporated by reference into the Related Loan Agreement.

Section 204. Credits on Series 2009 Notes.

(a) The Company shall receive a credit against amounts due on the Tax-Exempt Master Note on any payment date equal to the amounts paid as principal of (and premium, if any) or interest on, respectively, the Series 2009A Bonds on such payment date, including credit against any mandatory sinking fund redemption payments.

(b) The Company shall receive a credit against amounts due on the Taxable Master Note on any payment date equal to the amounts paid as principal of (and premium, if any) or interest on, respectively, the Series 2009B Bonds on such payment date, including credit against any mandatory sinking fund redemption payments.

(c) Notwithstanding the provisions of subsection (a) or (b) above or any other provision herein or in the Original Master Indenture, in the event that any payment on or with respect to the Series 2009 Bonds shall have been made by or on behalf of the Company and, by reason of bankruptcy or other act of insolvency, such payment shall be deemed to be a preferential payment, and the Bond Trustee shall be required by a court of competent jurisdiction to surrender such payment, any credit on, respectively, the Tax-Exempt Master Note or the Taxable Master Note which may have been given as a result of such payment shall be rescinded, and the amount owing on, respectively, the Tax-Exempt Master Note or the Taxable Master Note shall be calculated as if such payment shall not have been made.

Section 205. Interest on Overdue Installments. The Tax-Exempt Master Note and the Taxable Master Note shall bear interest on overdue installments of principal (premium, if any), and interest, to the extent permitted by law, at a rate equal to the applicable interest rate or rates borne by, respectively, the Series 2009A Bonds and the Series 2009B Bonds, respectively.
Section 206. Registration, Transfer and Exchange. The Series 2009 Notes shall be transferred or exchanged pursuant to Section 205 of the Original Master Indenture.

ARTICLE III

REDEMPTION OR REDUCTION OF SERIES 2009 NOTES;
SATISFACTION AND RELEASE

Section 301. Redemption. The Tax-Exempt Master Note and the Taxable Master Note shall be subject to redemption prior to Stated Maturity to the extent and with respect to the corresponding redemption of the Series 2009A Bonds and Series 2009B Bonds, respectively, in accordance with the terms of the Related Bond Indenture. Notice of redemption of the Series 2009 Bonds shall, without further notice or action by the Master Trustee or the Company, constitute notice of redemption of the corresponding amounts of principal due on the Tax-Exempt Master Note and the Taxable Master Note, as applicable, and the same shall, thereby, become due and payable on the redemption date of the Series 2009 Bonds or at such earlier time as payment is required with respect thereto pursuant to the terms of the Related Bond Indenture.

Section 302. Partial Redemption or Reduction. In the event of a partial redemption of the Tax-Exempt Master Note or the Taxable Master Note pursuant to Section 301 hereof, the amount of the principal and interest on such Tax-Exempt Master Note or Taxable Master Note becoming due after such redemption shall, to the extent appropriate and with the approval of the Master Trustee, be adjusted so that the installments of principal and interest thereafter due on the Tax-Exempt Master Note or the Taxable Master Note correspond to the payments of the principal of and interest on the Outstanding Series 2009A Bonds and Series 2009B Bonds, respectively.

Section 303. Effect of Call for Prepayment or Redemption. On the date designated for prepayment or redemption by notice as herein provided, the Tax-Exempt Master Note or the Taxable Master Note or the portion thereof so called for prepayment or redemption shall become and be due and payable at the prepayment or redemption price provided for prepayments or redemption of such Tax-Exempt Master Note or Taxable Master Note or portion thereof on such date. If on the date fixed for prepayment or redemption, moneys for payment of the prepayment or redemption price and accrued interest on the Tax-Exempt Master Note or the Taxable Master Note are held by the Master Trustee or the Related Bond Trustee, (i) interest on such Tax-Exempt Master Note or the Taxable Master Note or portion thereof so called for prepayment or redemption shall cease to accrue, (ii) such Tax-Exempt Master Note or the Taxable Master Note or portion thereof shall cease to be entitled to any benefit or security hereunder except the right to receive payment from the moneys held by the Master Trustee or the Related Bond Trustee and (iii) the amount of such Tax-Exempt Master Note or the Taxable Master Note or portion thereof so called for prepayment or redemption shall be deemed paid and no longer outstanding.

Section 304. Satisfaction and Release. The Company’s obligations with respect to the Tax-Exempt Master Note and the Taxable Master Note shall be considered satisfied and the Master Trustee shall release this Supplemental Master Indenture with respect thereto when all amounts due and owing on the Series 2009A Bonds and Series 2009B Bonds, respectively,
including the payment of any Reimbursement Obligations described in Section 5.8 of the Loan Agreement, have been paid or deemed paid under the Related Bond Indenture.

**ARTICLE IV**

**REPRESENTATIONS, WARRANTIES AND COVENANTS**

Section 401. Representations and Warranties. The Company represents and warrants that (a) it is duly authorized under the laws of the State of Texas and all other applicable provisions of law to execute this Supplemental Master Indenture and to issue the Series 2009 Notes, (b) all corporate action on the part of the Company required by its organizational documents and the Original Master Indenture to establish this Supplemental Master Indenture as the binding obligation of the Company has been duly and effectively taken, and (c) all such action so required for the authorization and issuance of the Series 2009 Notes has been duly and effectively taken.

Section 402. Covenants under the Original Master Indenture and Related Bond Documents. The Company covenants and agrees that so long as any of the Series 2009 Notes remain outstanding, it will deliver to the Related Bond Trustee all reports, opinions and other documents required by the Original Master Indenture to be submitted to the Master Trustee at the time said reports, opinions or other documents are required to be submitted to the Master Trustee, and that it will faithfully perform or cause to be performed at all times any and all covenants, agreements and undertakings required on the part of the Company contained in the Master Indenture and the Series 2009 Notes, and the Company hereby confirms its covenants and agrees with its undertakings in the Master Indenture.

**ARTICLE V**

**MISCELLANEOUS PROVISIONS**

Section 501. Notices. Except as otherwise provided in the Original Master Indenture, it shall be sufficient service of any notice, request, complaint, demand or other paper required by the Original Master Indenture to be given to or filed with the parties if the same shall be delivered in person or duly mailed by certified, registered or first class mail addressed to the addresses provided in the Original Master Indenture. The Master Trustee will be deemed to have received notice upon receipt of such notice by the Responsible Officer of the Master Trustee.

Section 502. Ratification of Original Master Indenture. The Original Master Indenture, as supplemented by this Supplemental Master Indenture, is in all respects ratified and confirmed and the Original Master Indenture as so supplemented shall be read, taken and construed as one and the same instrument. Except as herein otherwise expressly provided, all the provisions, definitions, terms and conditions of the Original Master Indenture, as supplemented by this Supplemental Master Indenture, shall be deemed to be incorporated in, and made a part of, this Supplemental Master Indenture.

Section 503. Limitation of Rights. Nothing in this Supplemental Master Indenture or in the Series 2009 Notes, express or implied, shall give or be construed to give any Person other
than the Company, the Master Trustee and the respective registered Holders of the Series 2009 Notes or their assigns, any legal or equitable right, remedy or claim under or in respect of this Supplemental Master Indenture, or under any covenant, condition and provision herein contained, all its covenants, conditions and provisions being for the sole benefit of the Company, the Master Trustee and of the respective Holders of the Series 2009 Notes.

Section 504. **Provisions of the Original Master Indenture to Control.** The provisions of Section 701 through 713 of the Original Master Indenture shall control the terms under which the Master Trustee shall serve under this Supplemental Master Indenture.

Section 505. **Binding Effect.** All the covenants, stipulations, promises and agreements in this Supplemental Master Indenture by or on behalf of the Company or the Master Trustee shall inure to the benefit of and shall bind their respective successors and assigns, whether so expressed or not.

Section 506. **Severability Clause.** If any provision of this Supplemental Master Indenture shall be held or deemed to be, or shall in fact be, inoperative or unenforceable as applied to any particular case in any jurisdiction or jurisdictions, or in all jurisdictions or in all cases because of the conflicting of any provision with any constitution or statute or rule of public policy or for any other reasons, such circumstance shall not have the effect of rendering the provision or provisions in question inoperative or unenforceable in any other jurisdiction or in any 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.

TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

By: ______________________________________
    President, Board of Directors
WELLS FARGO BANK, NATIONAL ASSOCIATION, as Master Trustee

By: __________________________________________
Name: _______________________________________
Title: _________________________________________
EXHIBIT A

FORM OF TAX-EXEMPT MASTER INDENTURE NOTE

TAX-EXEMPT MASTER INDENTURE NOTE
(Tejano Center for Community Concerns, Inc.—Raul Yzaguirre School for Success)
Series 2009A

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 $________

Interest Rate: AS SET FORTH HEREIN Maturity Date: ______________
Issue Date: ______________, 2009

Registered Holder: CLIFTON HIGHER EDUCATION FINANCE CORPORATION

Principal Amount: [__________] DOLLARS

Raul Yzaguirre School for Success, 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 (Tejano Center for Community Concerns, Inc.—Raul Yzaguirre School for Success) Series
2009A” (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 February 1, 2009, between the Company, acting in its own behalf, and Wells Fargo
Bank, National Association, as trustee (the “Master Trustee”), as supplemented by the
Supplemental Master Trust Indenture No. 1, dated as of February 1, 2009, 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 February 1, 2009 (the “Loan Agreement”),
entered into between the Company and the Clifton Higher Education Finance Corporation (the “Issuer”) in connection with the issuance and sale of revenue bonds of the Issuer in the principal amount of $[__________], designated Clifton Higher Education Finance Corporation Education Revenue Bonds (Tejano Center for Community Concerns, Inc.—Raul Yzaguirre School for Success) Series 2009A (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 February 1, 2009 (the “Indenture”), between the Issuer and Wells Fargo Bank, National Association, as trustee (the “Bond Trustee”).

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

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

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

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

Principal and the redemption price of this Note shall be payable to the Holder of this Note at the designated payment office of the Master Trustee located in 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 2009A 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 2009A 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.

TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

By: ________________________________
    President, Board of Directors
ASSIGNMENT

For value received, the undersigned hereby assigns to Wells Fargo Bank, National Association, as Bond Trustee (the “Bond Trustee”) under a Trust Indenture and Security Agreement, dated as of February 1, 2009, 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.

CLIFTON HIGHER EDUCATION FINANCE CORPORATION

By: ________________________________
    President
CERTIFICATE OF AUTHENTICATION

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

Date of Authentication:

________________________________________

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Master Trustee

By: ____________________________________________

Authorized Signature
EXHIBIT B

FORM OF TAXABLE MASTER INDENTURE NOTE

TAXABLE MASTER INDENTURE NOTE
(Tejano Center for Community Concerns, Inc.—Raul Yzaguirre School for Success)
Series 2009B

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

Registered
No. MRB-1
United States of America
Registered
State of Texas
$ ______

Interest Rate: AS SET FORTH HEREIN
Maturity Date: ____________

Issue Date: ____________, 2009

Registered Holder: CLIFTON HIGHER EDUCATION FINANCE CORPORATION

Principal Amount: [__________________________] DOLLARS

Raul Yzaguirre School for Success, 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 “Taxable Master Indenture Note
(Raul Yzaguirre School for Success) Series 2009B” (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 February 1, 2009, between the
Company, acting in its own behalf, and Wells Fargo Bank, National Association as trustee (the
“Master Trustee”), as supplemented by the Supplemental Master Trust Indenture No. 1, dated as
of February 1, 2009, 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 February 1, 2009 (the “Loan Agreement”), entered into between the Company and the Clifton Higher Education Finance Authority (the “Issuer”) in connection with the issuance and sale of revenue bonds of the Issuer in the principal amount of $[__________], designated Clifton Higher Education Finance Corporation Taxable Education Revenue Bonds (Tejano Center for Community Concerns, Inc.—Raul Yzaguirre School for Success) Series 2009B (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 February 1, 2009 (the “Indenture”), between the Issuer and Wells Fargo Bank, National Association, as trustee (the “Bond Trustee”).

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

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

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

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

Principal and the redemption price of this Note shall be payable to the Holder of this Note at the designated payment office of the Master Trustee located in 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 2009B 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 2009B 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.

TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

By:________________________________________
     President, Board of Directors
ASSIGNMENT

For value received, the undersigned hereby assigns to Wells Fargo Bank, National Association, as Trustee (the “Bond Trustee”) under a Trust Indenture and Security Agreement, dated as of February 1, 2009, 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.

CLIFTON HIGHER EDUCATION FINANCE CORPORATION

By: ___________________________________________
    President
(Form of Certificate of Authentication to appear on each Note)

CERTIFICATE OF AUTHENTICATION

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

Date of Authentication:

______________________________

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Master Trustee

By: ________________________________

Authorized Signature
TRUST INDENTURE AND SECURITY AGREEMENT

between

CLIFTON HIGHER EDUCATION FINANCE CORPORATION

and

WELLS FARGO BANK, NATIONAL ASSOCIATION
as Trustee

Relating to
[$23,825,000]
Clifton Higher Education Finance Corporation
Education Revenue and Refunding Bonds
(Tejano Center for Community Concerns, Inc. – Raul Yzaguirre School for Success)
Series 2009A

and

[$710,000]
Clifton Higher Education Finance Corporation
Taxable Education Revenue Bonds
(Tejano Center for Community Concerns, Inc. – Raul Yzaguirre School for Success)
Series 2009B

Dated as of
February 1, 2009
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TRUST INDENTURE AND SECURITY AGREEMENT

THIS TRUST INDENTURE AND SECURITY AGREEMENT (this “Indenture”), dated as of February 1, 2009, is between the CLIFTON HIGHER EDUCATION FINANCE CORPORATION, a non-profit corporation (the “Issuer”) created and existing under the Act as defined herein, and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association with a corporate trust office in Houston, Texas, not in its individual capacity but solely as Trustee (the “Trustee”).

WITNESSETH:

WHEREAS, the City of Clifton, Texas (the “City”), a political subdivision of the State of Texas (the “State”), has, pursuant to Chapter 53 and 53A of the Texas Education Code, as amended (collectively, the “Act”), approved and created the Issuer as a nonstock, nonprofit 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 City, is empowered to issue its revenue bonds in order to enable an accredited primary or secondary school or authorized charter school to acquire, to construct, enlarge, extend, repair, renovate, or otherwise improve an educational or housing facility or any facilities incidental, subordinate, or related thereto or appropriate in connection therewith, or for acquiring land to be used for those purposes, or to create operating and debt service reserves for and to pay issuance costs related to the Bonds (as defined herein) or other obligations;

WHEREAS, in furtherance of the purposes of the Act, the Issuer proposes to issue its revenue bonds in the aggregate principal amount of [$24,535,000], which will be designated “Clifton Higher Education Finance Corporation Education Revenue and Refunding Bonds (Tejano Center for Community Concerns, Inc. – Raul Yzaguirre School for Success) Series 2009A” and “Clifton Higher Education Finance Corporation Taxable Education Revenue Bonds (Tejano Center for Community Concerns, Inc. – Raul Yzaguirre School for Success) Series 2009B” (collectively, the “Bonds” or the “Series 2009 Bonds”), the proceeds of which will be loaned to the Company (as defined herein) to be used to finance or refinance the cost of a project consisting of the acquisition of certain land and campuses, the construction, renovation and equipping of certain educational facilities on the Participating Campuses of the Company in the following cities (all located in the state of Texas): Houston and Brownsville, and to pay certain of the costs of issuing such Bonds; to fund a debt service reserve fund or the purchase of a TCEP Guaranty (as defined herein); to pay 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 (as defined herein) 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 (as defined herein) of the Bonds the payment of the Bond Obligations (as defined herein);

WHEREAS, the Issuer has determined, subject to the conditions set forth herein, 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 (as defined herein) under this 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 subjectio 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;

IN ADDITION, in conjunction with the grant of the security interests hereunder, the Company (as defined herein) has executed the Deed of Trust (as defined herein), in favor of the Mortgage Trustee named therein, for the benefit of the Master Trustee (as defined herein) under the Master Indenture (as defined herein) and the Holders of Notes issued thereunder from time to time.

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

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

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

AND IT IS HEREBY COVENANTED AND DECLARED that all Bonds are to be authenticated and delivered and the Trust Estate is to be held and applied by the Trustee, subject to the further covenants, conditions, and trusts hereinafter set forth, and the Issuer does hereby covenant and agree to and with the Trustee, for the equal and proportionate benefit of all Holders of the Bonds, 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 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 or the Master Indenture 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 Exhibits A, B or C hereto:

“Act” means Chapter 53 of the Texas Education Code, as amended from time to time, including particularly Section 53.35(b) 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 superintendent, the executive director of business, 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 Series 2009 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 Series 2009 Debt Service Fund and the Debt Service Reserve Fund, (3) constituting proceeds of bonds or notes issued to refund the Bonds accompanied by an Opinion of Counsel that such monies would not be subject to a preference in bankruptcy, or (4) amounts as to which the Trustee has received an Opinion of Counsel with expertise in matters dealing with bankruptcy and satisfactory to the Trustee stating that no disbursement thereof pursuant to the Indenture may be recovered under Section 544, 547, or 549 of the Bankruptcy Code or under any similar provision of applicable state law.
“Bankruptcy Code” means Title 11 of the United States Code, as amended from time to time.

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

“Bond Documents” means this Indenture, the Agreement, the Tax-Exempt Master Note, the Taxable Master Note, the Bonds, the Master Indenture, the Supplemental Master Trust Indenture No. 1, 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.

“Bond Year” has the meaning given to such term in the Agreement.

“Bonds” means the Series 2009A Bonds and the Series 2009B Bonds and any Bonds issued upon transfer thereof or in exchange therefor or in lieu thereof.

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

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

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

“Collateral” shall have the meaning assigned to such term in the Deed of Trust.
“Company” means Tejano Center for Community Concerns, Inc., a Texas non-profit corporation, its permitted successors and assigns, and any resulting, surviving or transferee Person permitted hereunder.

“Computation Date” has the meaning given to such term in the Agreement.

“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, as further described in Section 1.150-1(b) of the Regulations.

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

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

“Defeasance Obligations” means obligations now or hereafter authorized by Section 1207.062(b), Texas Government Code, as amended, or its recodification.
“Depository” means any securities depository that is a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended, operating and maintaining, with its participants or otherwise, a Book-Entry System to record ownership of beneficial interests in the Bonds, and to effect transfers of the Bonds, in Book-Entry Form. The initial Depository for the Bonds shall be DTC.

“Disbursement Request” means any Disbursement Request in substantially the form attached as Exhibit C to this Indenture.

“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.

“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, as amended, 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 Series 2009 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 and the Trustee 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 from gross income of interest on the Series 2009A Bonds for federal income tax purposes.

“First Supplemental Master Trust Indenture” shall mean the Supplemental Master Trust Indenture No. 1, dated as of February 1, 2009, between the Company and the Master Trustee.
“Governing Body” of any specified Person means the board of directors or board of trustees of such Person or any duly authorized committee of that board, or if there be no board of trustees or board of directors, then the person or body which pursuant to law or the organizational documents of such Person is vested with powers similar to those vested in a board of trustees or a board of directors.

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

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

“Interest Payment Date” means each February 15 and August 15, commencing August 15, 2009.

“Issuer” means Clifton Higher Education 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 February 1, 2009, between the Company and the Master Trustee, as amended by the Supplemental Master Trust Indenture No. 1 and as further amended or supplemented from time to time in accordance with its terms.

“Master Trustee” means Wells Fargo Bank, National Association, a national banking association, with a corporate trust office in 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” or “Notes” means the Tax-Exempt Master Note and the Taxable Master Note.

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

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

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

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

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

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

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

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

“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 Bonds, one hundred twenty-five percent (125%) of the average annual Debt Service on the Bonds, or ten percent (10%) of the initial principal amount of the Bonds (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); provided, however, that the amount funded by the Series 2009A Bonds shall not exceed the lesser of (i) 10 percent of the stated principal amount of the Series 2009A 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 2009A Bonds), (ii) the 
maximum annual debt service on the Series 2009A Bonds, or (iii) 125 percent of 
the average annual debt service on the Series 2009A Bonds, all within the 
meaning of Section 1.148-2(f)(2)(ii) of the Regulations.

“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 2000A Bonds” means that issue of “Danbury Higher Education 
Authority, Inc. Tax-Exempt Education Revenue Bonds, Series 2000A (Tejano 
Center for Community Concerns, Inc. - Raul Yzaguirre School for Success 
Project),” in the aggregate principal amount of $2,880,000.

“Series 2009 Debt Service Fund” means the special trust fund created in 
Section 403 of this Indenture.

“Series 2009A Bonds” means the Clifton Higher Education Finance 
Corporation Education Revenue and Refunding Bonds (Tejano Center for 
Community Concerns, Inc. - Raul Yzaguirre School for Success) Series 2009A, 
authorized to be issued pursuant to Section 201 of this Indenture.

“Series 2009B Bonds” means the Clifton Higher Education Finance 
Corporation Taxable Education Revenue Bonds (Tejano Center for Community 
Concerns, Inc. - Raul Yzaguirre School for Success) Series 2009B, authorized to 
be issued pursuant to Section 201 of this Indenture.

“Sponsoring Entity” means the City of Clifton, Texas.

“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” means the Supplemental Master 
Trust Indenture No. 1.

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

“Tax-Exempt Master Note” means the promissory note in the form 
attached to the Supplemental Master Trust Indenture as Exhibit A, which is 
secured by the Master Indenture, executed by the Company and dated the Closing 
Date in the principal amount of the Series 2009A Bonds.
“Taxable Interest Rates” shall mean interest rates as set forth in Section 202(b) of this Indenture.

“Taxable Master Note” means the promissory note in the form attached to the Supplemental Master Trust Indenture as Exhibit B, which is secured by the Master Indenture, executed by the Company and dated the Closing Date in the principal amount of the Series 2009B Bonds.

“TCEP Guaranty” means a Texas Credit Enhancement Program Guaranty Agreement issued by the Texas Public Finance Authority Charter School Finance Corporation pursuant to Section 53.351(e), Texas Education Code.

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

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

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

1. As to Eligible Securities (other than as provided in (2) and (3) below), the market value thereof determined by the Trustee at the end of each month using and relying conclusively and without liability upon any generally accepted industry standards and from a generally accepted pricing information service available to it;

2. As to certificates of deposit and bankers acceptances, the face amount thereof, plus accrued interest; and

3. As to any investment not specified above, the value thereof established by prior agreement among the Company and 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 1021 Main Street, Suite 2403, MAC T5017-241, Houston, Texas 77002. Attention: Corporate Trust 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 717 North Harwood, Suite 900, Dallas, Texas 75201 Attention: Joe Eckert, 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 Raul Yzaguirre School for Success, 2950 Broadway, Houston, Texas 77017, Attention: Chief Executive Officer, or at any other address subsequently furnished in writing to the Trustee and the Issuer by the Company;

Section 106. Notices to Bondholders; Waiver. Where this Indenture provides for notice to Bondholders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Bondholder affected by such event, at his address as it appears on the Bond Register, not later than the latest date, and not earlier than the earliest date, prescribed for the first giving of such notice. In any case where notice to Bondholders is given by mail, neither the failure to mail such notice, nor any default in any notice so mailed to any particular Bondholder shall affect the sufficiency of such notice with respect to other Bondholders. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders of Bonds shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Section 107. Successors and Assigns. All covenants and agreements in this Indenture by the Issuer and the Trustee shall bind their respective successors and assigns, whether so expressed or not.
Section 108. **Severability Clause.** In case any provision in this Indenture or in the Bonds or any application thereof shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions and applications shall not in any way be affected or impaired thereby.

Section 109. **Benefits of Indenture.** Nothing in this Indenture or in the Bonds, express or implied, shall give to any Person, other than the parties hereto, their successors hereunder, any separate trustee or co-trustee appointed hereunder, the Company, and the Holders of Bonds, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 110. **Governing Law.** This Indenture shall be governed, in all respects including validity, interpretation and effect by, and shall be enforceable in accordance with, the laws of the State.

Section 111. **Directors, Officers, Employees, and Agents Exempt from Personal Liability.** No recourse under or upon any obligation, covenant, or agreement contained in this Indenture, or in any Bond, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, or against any past, present, or future director, officer, or employee, as such, of the Issuer or the Trustee, or of any successor corporation, either directly or through the Issuer or the Trustee, whether by virtue of any constitution or statute or rule of law, or by the enforcement of any assessment, judgment, or penalty, or otherwise; it being expressly understood that this Indenture and the Bonds are solely corporate obligations, and that no such personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, directors, officers, or employees, as such, of the Issuer, the Trustee, or any other successor corporation, or any of them, because of the creation of indebtedness hereby authorized, or under or by reason of the obligations, covenants, or agreements contained in this Indenture or the Bonds or implied therefrom, and that any and all such personal liability either at common law or equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, director, officer, or employee, as such, are hereby expressly waived and released as a condition of, and in consideration for, the execution of this Indenture and the issuance of the Bonds.

**ARTICLE II**

**AUTHORIZATION AND TERMS OF BONDS; ISSUANCE AND FORM OF BONDS**

Section 201. **Authorization and Form of Bonds.** (a) The Series 2009A Bonds shall be designated “Clifton Higher Education Finance Corporation Education Revenue and Refunding Bonds (Tejano Center for Community Concerns, Inc. – Raul Yzaguirre School for Success) Series 2009A.” The aggregate principal amount of Series 2009A Bonds that will be issued under this Indenture is [\$23,825,000]. Each of the Series 2009A Bonds shall be numbered separately from RA-1 upwards. The Bonds shall be issued only in fully registered form in Authorized Denominations. The Series 2009A Bonds shall be issued for the purpose of providing funds to be loaned by the Issuer to the Company for refinancing the Series 2000A Bonds and constructing the Project; funding a debt service reserve fund or obtaining a TCEP Guaranty; paying capitalized interest; and paying a portion of the costs of issuance of the Bonds.
(b) The Series 2009B Bonds shall be designated “Clifton Higher Education Finance Corporation Taxable Education Revenue Bonds (Tejano Center for Community Concerns, Inc. – Raul Yzaguirre School for Success) Series 2009B.” The aggregate principal amount of the Series 2009B Bonds that will be issued under this Indenture is [$710,000]. Each of the Series 2009B Bonds shall be numbered separately from RB-1 upwards. The Bonds shall be issued only in fully registered form in Authorized Denominations. The Series 2009B Bonds shall be issued for the purpose of providing funds to be loaned by the Issuer to the Company to pay a portion of the costs of issuance of the Bonds and funding a debt service reserve fund.

(c) The Bonds shall be substantially in the forms set forth in Exhibit A-1 and Exhibit A-2 attached hereto, with such appropriate variations, omissions, and insertions as are permitted or required by this Indenture and may have endorsed thereon such legends or text as may be necessary or appropriate to conform to any applicable rules and regulations of any governmental authority or any usage or requirement of law with respect thereto. The Bonds may be typewritten, printed, lithographed, engraved or produced in similar manner. If any Bond is printed, any portion of the text of the Bond may be printed on the back of the Bond with an appropriate reference placed on the front of the Bond.

Section 202. Terms of Bonds. (a) The Series 2009A Bonds shall be dated as of January 15, 2009, shall mature on February 15 in the years and in the amounts set forth below, and shall bear interest at the following rates (the “Tax-Exempt Interest Rates”) from the later of (i) January 15, 2009 or (ii) the most recent Interest Payment Date to which interest has been paid or provided for:

<table>
<thead>
<tr>
<th>Year of Maturity</th>
<th>Amount</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td>%</td>
<td></td>
</tr>
</tbody>
</table>

(b) The Series 2009B Bonds shall be dated as of January 15, 2009, shall mature on February 15 of the years and in the amounts set forth below, and shall bear interest at the Taxable Interest Rate from the later of (i) January 15, 2009 or (ii) the most recent Interest Payment Date to which interest has been paid or provided for:

<table>
<thead>
<tr>
<th>Year of Maturity</th>
<th>Amount</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td>%</td>
<td></td>
</tr>
</tbody>
</table>

(c) The Bonds shall be subject to optional and mandatory redemption prior to maturity in the manner provided in the forms of Bonds set forth in Exhibit A-1 and Exhibit A-2, attached hereto.

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

Section 203. Execution, Authentication and Delivery. The Bonds shall be executed on behalf of the Issuer by its President or one of its Vice Presidents and attested to by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Bonds may be manual or facsimile.

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

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

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

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

(a) a Board Resolution of the Issuer authorizing the issuance, execution and delivery of the Bonds;

(b) an Issuer Order (i) to register the Bonds with the Stated Maturity, principal amount and other terms provided in the Order, and (ii) to authenticate and deliver the Bonds to the original purchasers upon payment to the Trustee for deposit or payment in accordance with the provisions of this Indenture of the sum specified in such Order;

(c) the Tax-Exempt Master Note and the Taxable Master Note of the Company, each duly executed by the Company on behalf of itself and duly authenticated by the Master Trustee, payable to the Trustee or properly endorsed or assigned to the Trustee;
(d) executed counterparts of each of the documents specifically set forth in the definition of 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 Section 202(c) of the Master Indenture;

(g) an Officer’s Certificate of the Company (i) approving the issuance and delivery of the Bonds, and (ii) certifying that there then exists no event of default under the Bond Documents or any outstanding documents by which the Company is bound;

(h) an opinion of Bond Counsel to the effect that (i) this Indenture has been duly authorized, executed and delivered by the Issuer and constitutes a valid and binding obligation of the Issuer enforceable in accordance with its terms, and that all conditions precedent provided in this Indenture relating to the authentication and delivery of the Bonds have occurred, (ii) the Bonds have been duly authorized, executed, issued and delivered by the Issuer, are the legal and valid limited obligations of the Issuer, and are entitled to the benefits and security of this Indenture, (iii) the Bonds and the offering or sale of the Bonds are not required to be registered under the Securities Act of 1933, as amended, and the Indenture is exempt from qualification as an indenture pursuant to the Trust Indenture Act of 1939, (iv) interest on the Series 2009A Bonds is excludable from gross income of the holders of the Series 2009A Bonds for federal income tax purposes, and (v) the Series 2009A Bonds are “qualified 501(c)(3) bonds” within the meaning of Section 145 of the Code; and

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

Section 204. Registration, Transfer and Exchange. The Issuer shall cause to be kept at a corporate trust office or the principal payment office of the Bond Registrar or Bond Registrars for the Bonds, a register or registers (sometimes herein referred to as the “Bond Register”) in which, subject to such reasonable regulations as it may prescribe, the Issuer shall provide for the registration of Bonds and of transfers of Bonds. The Trustee is hereby appointed as Bond Registrar for the purpose of registering Bonds and transfers of Bonds as herein provided, and it shall keep the Bond Register with respect to the Bonds, at its principal payment office in 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 Regular Record Date for such interest.

Any interest on any Bond that is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called “Defaulted Interest”) shall forthwith cease to be payable to the Holder thereof on the relevant Regular Record Date by virtue of such Holder 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.


All obligations of the Issuer hereunder are limited, and are payable solely from and to the extent of money provided by or for the account of the Company, and it is a condition of each undertaking of the Issuer contained herein that, all such undertakings shall be performed at the expense of the Company. The Issuer shall not be required to advance its own funds in connection with the performance of any duty under this Indenture.

Section 210. **Temporary Initial Bonds.** Pending the preparation of definitive Bonds, the Issuer may execute, and upon Issuer Order the Bond Registrar shall deliver, temporary Bonds that are printed, lithographed, typewritten, mimeographed or otherwise produced, in any denomination, substantially of the tenor of the definitive Bonds in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Bonds may determine, as evidenced by their execution of such Bonds.

If temporary Bonds are issued, the Issuer will cause definitive Bonds to be prepared without unreasonable delay. After the preparation of definitive Bonds, the temporary Bonds
shall be exchangeable for definitive Bonds upon surrender of the temporary Bonds at the office of the Trustee in a Place of Payment, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Bonds the Issuer shall execute and the Bond Registrar shall authenticate and deliver in exchange therefore a like principal amount of definitive Bonds of Authorized Denominations. Until so exchanged, temporary Bonds that have attached to them an executed registration certificate of the Comptroller of Public Accounts of the State of Texas in the form set forth in Exhibits A-1 and A-2 shall in all respects be entitled to the same benefits under this Indenture as definitive Bonds.

Section 211. Book-Entry System.

(a) The Bonds may and initially shall be registered under a Book-Entry System maintained by a Depository. Notwithstanding any inconsistent provisions in this Indenture to the contrary, the provisions of this Section 211 shall govern at any time the Bonds are issued and Outstanding in Book-Entry Form.

(b) Under the Book-Entry System, the Bonds shall be issued in the form of a separate, single, fully registered and immobilized bond certificate representing the aggregate principal amount of the Bonds. 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 subsection (e) of this Section 211, the Bonds shall not be transferable or exchangeable, except for transfer to another Depository or to another nominee of a Depository.

(c) With respect to Bonds registered in the Bond Register in the name of the Depository or its nominee, the Issuer, the Company and the Trustee shall have no responsibility or obligation to any Participant or to any Beneficial Owner for whom a Participant acquires an interest in the Bonds. NEITHER THE ISSUER, THE COMPANY, NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE PARTICIPANTS OR THE BENEFICIAL OWNERS OF THE BONDS WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY THE DEPOSITORY OR ANY PARTICIPANT; (ii) THE PAYMENT BY THE DEPOSITORY OR ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF, OR INTEREST, AND PREMIUM, IF ANY, ON OR REDEMPTION PRICE OF THE BONDS; (iii) THE DELIVERY BY THE DEPOSITORY OR ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO HOLDERS UNDER THE TERMS OF THIS INDENTURE; (iv) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (v) ANY CONSENT GIVEN OR OTHER ACTION
TAKEN BY THE DEPOSITORY AS OWNER OF THE BONDS. NEITHER THE ISSUER, THE COMPANY NOR THE TRUSTEE HAS ANY DIRECT OBLIGATION OR RESPONSIBILITY TO PARTICIPANTS OR BENEFICIAL OWNERS.

(d) So long as the Bonds or any portions thereof are registered in the name of a Depository or any nominee thereof, all payments of principal of (premium, if any) or interest on the Bonds or redemption price of such Bonds shall be made only to or upon the order of such Depository on the dates and at the times provided for such payment under this Indenture and at the address indicated for such Depository in the Bond Register kept by the Bond Registrar by transfer of immediately available funds; provided that the Trustee has received sufficient funds from the sources described in the Indenture and the Agreement to make such payment. Each such payment to the Depository or its nominee shall be valid and effective to fully satisfy and discharge all liability of the Issuer or the Trustee with respect to the principal of (premium, if any) or interest on the Bonds and redemption price with respect to the Bonds so registered to the extent of the sum or sums so paid. In the event of the redemption of less than all of the Bonds Outstanding of any Stated Maturity, the Trustee shall not require surrender by the Depository or its nominee of the Bonds so purchased or redeemed, and the Depository may retain such Bonds. In the event of partial redemption of the Bonds, the Depository shall make an appropriate notation on the Bonds as to the amount of such partial redemption; provided that the Depository shall deliver to the Trustee, upon request, a written confirmation of such partial redemption and thereafter the records maintained by the Trustee shall be conclusive as to the amount of the Bonds of such Stated Maturity which have been redeemed. The Issuer, the Company and the Trustee shall not be liable for the failure of the Depository to properly indicate on the Bonds the payment of such principal or redemption price.

(e) All transfers of beneficial ownership interests in the Bonds when issued in Book-Entry Form shall be effected by procedures promulgated by the Depository with its Participants for recording and transferring the ownership of beneficial interest in each of such Bonds.

(f) The Issuer, the Company, the Bond Registrar, and the Trustee and any of their respective agents may treat the Depository (or its nominee) as the sole and exclusive Bondholder of the Bonds registered in its name for the purposes of payment of the principal of (premium, if any) or interest on the Bonds or redemption price with respect to the Bonds, selecting the Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Bondholders under this Indenture, registering the transfer of Bonds, obtaining any consent or other action to be taken by Bondholders and for all other purposes whatsoever; and the Issuer, the Company and the Trustee shall not be affected by any notice to the contrary.

(g) So long as the Bonds are registered in the name of the Depository or any nominee thereof, all notices required or permitted to be given to the Holders of such Bonds under this Indenture shall be given to the Depository. In connection with any notice or other communication to be provided to Holders pursuant to this Indenture by the Issuer, the Company or the Trustee with respect to any consent or other action to be taken by Holders, the Depository shall consider the date of receipt of notice requesting such consent or other action as the record date for such consent or other action, provided that the Issuer or the Trustee may establish a special record date for such consent or other action. The Issuer or the Trustee shall give the

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 Depository notice of such special record date not less than 15 calendar days in advance of such special record date to the extent possible.

(h) Any successor Trustee, in its written acceptance of its duties under this Indenture, shall agree to take any actions necessary from time to time to comply with the requirements of such Depository.

(i) The Depository may determine to discontinue providing its services with respect to the Bonds at any time by giving reasonable written notice to the Trustee and the Issuer and discharging its responsibilities with respect thereto under applicable law. Under such circumstance (if there is not a successor Depository), Bond certificates will be delivered as described elsewhere in Article II of this Indenture. Upon receipt of such notice from the Depository, the Trustee shall provide a copy of the notice to the Company. The Company, in its sole discretion, and without the consent of any other Person, may terminate the services of the Depository with respect to the Bonds if the Company determines that: (i) the Depository is unable to discharge its responsibilities with respect to the Bonds; or (ii) a continuation of the requirement that all of the Bonds be registered in the Bond Register in the name of the nominee of the Depository is not in the best interest of the Beneficial Owners. In the event that no substitute Depository is found by the Company or restricted registration is no longer in effect, Bond certificates will be delivered as described in Article II of this Indenture. Upon the termination of the services of the Depository with respect to the Bonds pursuant to this Section 211(i), after which no successor Depository willing to undertake the functions of the Depository hereunder can be found that, in the opinion of the Company, is willing and able to undertake such functions upon reasonable and customary terms, the Bonds shall no longer be restricted to being registered in the Bond Register in the name of the nominee of the Depository, but may be registered in the name or names and in such maturities and principal amounts as the Depository shall designate in writing to the Bond Registrar in accordance with the provisions elsewhere in Article II of this Indenture, but without any liability on the part of the Issuer or the Bond Registrar for the accuracy of such designation. Upon the termination of the services of the Depository with respect to the Bonds for any reason and the appointment of a successor Depository, all references in this Indenture to the Depository shall refer to such successor Depository. Whenever the Depository requests the Issuer, the Company and the Trustee to do so, the Issuer, the Company and the Trustee shall cooperate with the Depository in taking appropriate action after reasonable notice to arrange for another Depository to maintain custody of certificates evidencing the Bonds.

(j) So long as any Bonds are registered in the name of the nominee of the Depository, a legend prescribed by the Depository to that effect may be printed on such Bond certificate.

ARTICLE III

REDEMPTION OF BONDS

Section 301. Redemption. The Bonds shall be subject to redemption as set forth in the Forms of Bonds in Exhibits A-1 and A-2 hereto.
Section 302. **Election to Redeem; Notice to Trustee.** The election of the Company to redeem any Bonds shall be evidenced by a Board Resolution delivered to the Issuer. In case of any redemption at the election of the Company, the Company shall, at least 60 days prior to the redemption date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee in writing of such redemption date and of the principal amount of Bonds of each Stated Maturity to be redeemed.

Section 303. **Selection by Trustee of Bonds to be Redeemed.** If less than all of the Bonds of a particular Stated Maturity are called for redemption, the particular Bonds or portions thereof to be redeemed shall be redeemed by the Trustee in accordance with the written direction of the Company; provided, however, that portions of Bonds shall be redeemed in Authorized Denominations and that no redemption shall result in a Bond being held in less than an Authorized Denomination.

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, at least one (1) Business Day prior to any redemption date, the Company shall deposit with the Trustee or with a Paying Agent an amount of money sufficient to pay the
redemption price, premium, if any, and interest accrued thereon to the date fixed for redemption of all the Bonds which are to be redeemed on such date.

Section 306. **Bonds Payable on Redemption Date.** Notice of redemption having been given as aforesaid, and the deposit described in Section 305 having been made, and all conditions to such redemption having been fulfilled, the Bonds so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified and from and after such date such Bonds shall cease to bear interest. If, however, funds available to pay the redemption price have not been so deposited on the redemption date, the redemption will be cancelled. Upon surrender of any such Bond for redemption in accordance with said notice, such Bond shall be paid by the Issuer at the redemption price. Installments of interest whose Stated Maturity is on or prior to the redemption date shall be payable to the Holders of such Bonds registered as such on the relevant Record Dates according to their terms.

If any Bond called for redemption shall not be so paid upon surrender thereof for redemption, the principal shall, until paid, bear interest from the redemption date at the rate borne by the Bond.

Section 307. **Bonds Redeemed in Part.** Any Bond which is to be redeemed only in part shall be surrendered at a Place of Payment (with, if the Issuer or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Issuer and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing) and the Issuer shall execute and the Trustee shall authenticate and deliver to the Holder of such Bond without service charge, a new Bond or Bonds of the same interest rate and Stated Maturity and of any Authorized Denomination as requested by such Holder in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Bond so surrendered.

**ARTICLE IV**

**FUNDS AND INVESTMENTS**

Section 401. **Establishment of Funds; Source of Payment of the Bonds.** (a) The Issuer hereby establishes with the Trustee the Proceeds Fund, the Series 2009 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 or otherwise out of the Trust Estate. 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 “Raul Yzaguirre School for Success Education Revenue and Refunding Bonds Series 2009 Proceeds Fund” (herein referred to as the “Proceeds Fund”) and, within such Proceeds Fund, a Tax-Exempt Bond Proceeds Account and a Taxable Bond Proceeds Account. The proceeds of the sale of the Series 2009A Bonds shall be deposited into the Tax-Exempt Bond Proceeds Account of the Proceeds Fund and immediately applied by the Trustee to redeem the outstanding Series 2000A Bonds and otherwise transferred by the Trustee to the Series 2009 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 2009 Bonds. The proceeds of the sale of the Series 2009B Bonds shall be deposited into the Taxable Bond Proceeds Account of the Proceeds Fund and applied by the Trustee as specified in the Issuer Order to authenticate and deliver the Series 2009 Bonds.

Section 403. **Series 2009 Debt Service Fund.**

(a) There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated its “Raul Yzaguirre School for Success Education Revenue Bonds Series 2009 Debt Service Fund” (herein referred to as the “Series 2009 Debt Service Fund”) and, within such Series 2009 Debt Service Fund, a “Tax-Exempt Bonds Account” and a “Taxable Bonds Account.” The money deposited to the Series 2009 Debt Service Fund, together with all investments thereof and investment income therefrom, shall be held in trust and applied solely as provided in this Section and Section 706. The Trustee shall create a Capitalized Interest Subaccount within each of the Tax-Exempt Bonds Account and the Taxable Bonds Account of the Series 2009 Debt Service Fund. On the date of issuance of the Bonds, the Trustee shall deposit into each Capitalized Interest Subaccount any capitalized interest, accrued interest and additional proceeds on the Bonds as set forth in the respective Issuer Order, for the purpose of paying a portion of the interest coming due on the Bonds on the Interest Payment Date.

(b) The Trustee shall deposit to the credit of the corresponding account of the Series 2009 Debt Service Fund immediately upon receipt (1) amounts due and payable by the Company pursuant to Section 4.1(a) or (b) of the Agreement and the terms of the Tax-Exempt Master Note and the Taxable Master Note; (2) the amounts described in Section 404(b); and (3) any other amounts delivered to the Trustee specifically for deposit thereto.

(c) On each Interest Payment Date, the Trustee shall withdraw money first from the Capitalized Interest Subaccount then from the corresponding account of the Series 2009 Debt Service Fund in an amount sufficient to pay the Bondholders principal and interest on each series of 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 “Raul Yzaguirre School for Success Education Revenue Bonds
Series 2009 Debt Service Reserve Fund” and, within such Debt Service Reserve Fund, a Tax-Exempt Bonds Account and a Taxable Bonds Account. There shall initially be deposited with the Trustee in the Accounts of the Debt Service Reserve Fund from the proceeds of the Bonds an amount sufficient to cause the amount on deposit therein to equal the Reserve Fund Requirement, as specified in the Issuer Order to authenticate and deliver the Bonds. To the extent that additional amounts are required to be deposited in the Debt Service Reserve Fund, such moneys shall come from sources other than the proceeds of the Bonds as provided herein and in the Agreement. Except as otherwise provided herein, the Debt Service Reserve Fund at all times shall be maintained at an amount equal to the Reserve Fund Requirement.

(b) If there are insufficient funds in the Series 2009 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 Series 2009 Debt Service Fund amounts necessary to make such payments from the Series 2009 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 February 14, 2009; 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 allocable of the Series 2009A Bonds exceeds the lesser of (i) 10 percent of the stated principal amount of the Series 2009A 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 2009A Bonds), (ii) the maximum annual debt service on the Series 2009A Bonds, or (iii) 125 percent of the average annual debt service on the Series 2009A Bonds, within the meaning of Section 1.148-2(f)(2)(ii) of the Regulations, such excess shall be (i) transferred to the Series 2009 Debt Service Fund to make principal and interest payments on the Series 2009A Bonds or (ii) 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 reduction payments described in Section 1.148-5(c) of the Regulations. The Trustee has no responsibility for determining whether such a condition exists.

(d) Except with respect to a TCEP Guaranty, 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 Series 2009 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 Series 2009 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 404A. TCEP Guaranty. The Company expressly reserves the right at any time to satisfy all or any part of the Reserve Fund Requirement by obtaining for the benefit of the Debt Service Reserve Fund one or more TCEP Guaranties. In the event the Company elects to substitute at any time a TCEP Guaranty for any funded amounts in the Debt Service Reserve Fund, it may apply any bond proceeds thereby released, including investment earnings on bond proceeds, to any purposes for which the Bonds were issued and any other funds thereby released to any purposes for which such funds may lawfully be used. A TCEP Guaranty shall be in a principal amount equal to the portion of Reserve Fund Requirement to be satisfied. The cost of any such guaranty shall be paid from Bond proceeds or other funds of the Issuer or the Company lawfully available for such purpose. Any TCEP Guaranty shall be authorized by resolution and, if required by the laws of the State, submitted to the Attorney General for examination and approval.

In the event the Debt Service Reserve Fund contains one or more TCEP Guaranties, the Trustee shall not draw on a TCEP Guaranty unless no other cash or investments are otherwise available in the Debt Service Reserve Fund. If more than one TCEP Guaranty is held in the Debt Service Reserve Fund, the Trustee shall draw on such policies on a proportionate basis.

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 “Raul Yzaguirre School for Success Education Revenue
Bonds Series 2009 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 405.

(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 following such 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 “Raul Yzaguirre School for Success Education Revenue and Refunding Bonds Series 2009 Construction Fund” (herein referred to as the “Construction Fund”). The money deposited in the Construction Fund, including all money therein and all investments thereof, shall be held in trust and applied solely as provided in this Section. The Construction Fund shall contain a Project Account and a Costs of Issuance Account. The Project
Account will contain subaccounts for each Participating Campus: the Houston Campus Subaccount and the Brownsville Campus 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 directed by the Company 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.

(c) At Closing and without the consent of any Construction Consultant, the Trustee shall disburse an amount not to exceed [\$\ldots\$] from the Brownsville Campus Subaccount of the Construction Fund to pay for refinancing the acquisition costs incurred for the Brownsville Campus upon receipt of a Disbursement Request substantially in the form of Exhibit C to this Indenture.

(d) At Closing and without the consent of any Construction Consultant, the Trustee shall disburse an amount not to exceed [\$\ldots\$] from the Houston Campus Subaccount of the Construction Fund to pay for refinancing the acquisition costs incurred for the Houston Campus and to pay for the construction, expansion, renovations, improvements and equipment at the Houston Campus upon receipt of a Disbursement Request substantially in the form of Exhibit C to this Indenture.

(e) The Trustee shall disburse amounts in the Project Account of the Construction Fund to pay or reimburse the Company for all other Project Costs no later than three Business Days following receipt of and in accordance with a Disbursement Request in substantially the form of Exhibit C to this Indenture. The Trustee may rely fully on any Disbursement Request in substantially the form of Exhibit C to this Indenture, and shall not be required to make any investigation in connection therewith.

(f) Any funds remaining in the Construction Fund or any sub-account thereto after any Project is certified or deemed “complete” pursuant to Section 3.5 of the Agreement may be transferred to any other sub-account within the Project Account or shall be transferred to the Series 2009 Debt Service Fund to redeem Bonds pursuant to the procedures set forth in Exhibits A-1 and A-2 hereto regarding “Mandatory Redemption with Excess Proceeds.”

(g) The Trustee shall disburse amounts in the Costs of Issuance Account on or after the Closing Date upon receipt of a Requisition Certificate in substantially the form of Exhibit B to this Indenture. The Trustee may rely fully on any Requisition Certificate in substantially the form of Exhibit B to this Indenture, and shall not be required to make any investigation in connection therewith. Such amounts may be disbursed without the consent of any Construction Consultant.

(h) Any moneys remaining in the Costs of Issuance Account ninety (90) days after the Closing Date shall be transferred to the Participating Campus Subaccounts in the amounts as
directed by the Authorized Representative of the Construction Fund. Upon final disbursement and/or transfer, the Trustee shall close the Costs of Issuance Account.

(i) In furtherance and not in limitation of this Section 406 hereof, all payments made from the Project Account or the Costs of Issuance Account pursuant to a written requisition from the Company in the form required hereunder shall be presumed to be made properly and the Trustee shall not be required to see the application of any payments made from the 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.

(j) 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 Series 2009 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 Series 2009 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.

Section 407. Investment of Bond Proceeds. Pending the disbursement of any amounts deposited from the proceeds of the Series 2009 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 upon the written directions of the Company in a Company Order delivered to the Trustee.

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 the Wells Fargo Advantage 100% Treasury 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 Series 2009 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 Eligible Securities 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 Series 2009A 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 the revenues derived therefrom.

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

Section 502. **Money for Bond Payments to be Held in Trust; Appointment of Paying Agents.** The Issuer shall appoint a Paying Agent in each Place of Payment for the Bonds. Each such Paying Agent appointed by the Issuer shall be a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least $10,000,000 and subject to supervision or examination by federal or state authority. The Issuer will, prior to
each due date of the principal of (and premium, if any) or interest on any Bonds, deposit or cause to be deposited (but only from the sources provided herein) with a Paying Agent a sum sufficient to pay the principal (and premium, if any) or interest so becoming due, such sum to be held in trust for the benefit of the Holders of such Bonds. Each Paying Agent for the Bonds shall provide the CUSIP number for the Bond with each payment of interest on and the principal or the redemption price of any Bond, specifying the amount paid in respect of each CUSIP number. The Paying Agents shall make payment of interest or the redemption price of any Bond, upon written request of a registered Owner of at least $1,000,000 in principal amount of Bonds, by wire transfer (at the risk and expense of such registered Owner) in immediately available funds to an account in the United States designated by such registered Owner upon written notice to the Trustee prior to the record date.

The Issuer hereby appoints the Trustee as the initial Paying Agent for the Bonds. The Trustee shall accept such appointment by executing this Indenture in such capacity on the signature page hereto.

The Issuer will cause each Paying Agent other than the Trustee to execute and deliver to the Trustee and the Company an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will

(1) hold all sums held by it for the payment of principal of (and premium, if any) or interest on Bonds in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;

(2) give the Trustee notice of any default by the Issuer (or any other obligor upon the Bonds) in the making of any such payment of principal (and premium, if any) or interest; and

(3) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

The Issuer may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, by Issuer Order, direct any Paying Agent to pay to the Trustee all sums held in trust by such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Subject to applicable escheat laws of the State, any money deposited in trust with the Trustee or any Paying Agent in trust for the payment of the principal of (and premium, if any) or interest on any Bond and remaining unclaimed for the later of (i) the first anniversary of the Stated Maturity of the Bond or the installment of interest for the payment of which such money is held or (ii) two years after such principal (and premium, if any) or interest has become due and payable shall be paid to the Company on Company Request (which Request shall include the Company’s representation that it is entitled to such funds under applicable escheatment laws and
its agreement to comply with such laws) and the Holder of such Bond shall thereafter, to the extent of any legal right or claim, be deemed to be an unsecured general creditor, and shall look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Issuer, shall thereupon cease; provided, however, that the Trustee, or such Paying Agent, before being required to make any such repayment, shall, upon receipt of a Company Order and at 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. 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 hereeto 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.

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 grants hereby and by the Bond Documents.

Section 505. Corporate Existence. Subject to Article VI hereof, 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 2009A 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 2009A Bonds, whether or not such money was derived from the proceeds of the sale of the Series 2009A Bonds or from any other source, in a manner that would cause the Series 2009A 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 2009A Bonds being considered arbitrage bonds, the Issuer at the direction of the Company shall instruct the Trustee to take such action as is necessary to restrict or limit the yield on such investment or to use such moneys in accordance with such written direction.

(b) The Issuer will not knowingly use or direct the use of any proceeds of the Series 2009A Bonds or any other funds of the Issuer, in any manner, and will not itself take or knowingly permit to be taken any other action or actions, which would result in any of the Series 2009A 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 2009A Bonds, including any investment income earned on such proceeds, 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 of interest on the Series 2009A Bonds for federal income tax purposes, 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 2009A Bonds being treated as “federally guaranteed” within the meaning of Section 149(b)(2) of the Code.

(f) For purposes of this Section 507, the Issuer’s compliance shall be based solely on acts or omissions by the Issuer and no acts or omissions of, or directed by, the Company, the Trustee or any other Persons shall be attributed to the Issuer.

All officers, employees and agents of the Issuer are authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the Issuer as of the date of delivery of the Series 2009A Bonds. In complying with the foregoing covenants, the Issuer may rely from time to time upon certificates of the Company and 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 2009A Bonds to be excludable from gross income for federal income tax purposes, the Trustee and the Issuer will comply with such modifications at the expense of the Company, 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;
(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(a) hereof, the Holder of any Bond shall have no right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

(a) such Holder has previously given written notice to the Trustee of a continuing Event of Default;

(b) the Holders of not less than 25 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. Subject to Section 8.03 (herein), 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 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;

(j) 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;

(k) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty to take such action;

(l) 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

(m) 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.

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 Section 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, (i) 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, (ii) the Company may enter into or consent to amendments to the Agreement and (iii) the Company and the Master Trustee may enter into or consent to amendments to 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;

(6) to modify or supplement this Indenture in such manner as may be necessary or appropriate to cause each Rating Service then rating the Bonds to maintain an investment grade rating on the Bonds; or

(7) to modify, alter, amend or supplement the Deed of Trust to effect the sale of certain real property securing the Deed of Trust and the substitution of such property securing the Bonds so long as: (A) such new property has a fair market value equal to at least 110% of the value of the released property; (B) the Company provides to the Trustee a Phase I Environmental Site Assessment (“Assessment”) or the EPA’s “All Appropriate Inquiry” (“Inquiry”), if in effect, of the new property and any other survey that may be recommended by the Assessment or Inquiry, as the case may be; (C) the Company provides to the Trustee a Mortgagee Policy of Title Insurance issued by a title insurance company rated at least “Excellent (A or A-)” by A.M. Best Company, Inc. and an ALTA/ACSM land title survey with respect to the new property; and (E) any funds received from the sale of property initially acquired with the proceeds of the Series 2009 Bonds shall be deposited with the Trustee in the Construction Fund and disbursed to pay for the purchase of real property and any capital improvements on the new property or redemption of the Series 2009 Bonds.

Section 902. Supplemental Indentures and Amendatory Agreements With Consent of Holders of Bonds. With the consent of the Holders of not less than a majority in principal amount of the Outstanding Bonds affected by such supplemental indenture, by Act of such Holders delivered to the Issuer, the Company, the Trustee and the Rating Service, the Issuer, when authorized by a Board Resolution, and the Trustee, may, upon receipt of a Company Consent, enter into or consent to an indenture or indentures supplemental hereto (subject to Section 903 hereof), 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 or amendments to the Agreement or of modifying in any manner the rights of the Holders of the Bonds under this Indenture or the Agreement; provided, however, that no such supplemental indenture or amendment shall, without the consent of the Holder of each Bond affected thereby:

(1) change the Stated Maturity of the principal of, or any installment of interest on, any Bonds or any date for mandatory redemption thereof, or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, or change the coin or currency in which, any Bonds or the interest thereon is payable, or impair or subordinate the lien of this Indenture on the Trust Estate or impair the right to institute suit for the enforcement of any
such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the redemption date), or

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

(3) modify any of the provisions of this Section or Section 713, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Bond affected thereby.

It shall not be necessary for any act of Holders of Bonds under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such act of Holders of Bonds shall approve the substance thereof.

Section 903. Execution of Supplemental Indentures. In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture and in consenting to any amendment to the Agreement or to any indenture supplemental to this Indenture, the Trustee shall 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, amendment to the Agreement, 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.

Section 906. Substitution of Property Securing the Bonds. In connection with the substitution of property under the terms of the Deed of Trust and Section 901(7) hereof, the
Company shall deliver to the Trustee a certificate or opinion of an engineer, appraiser, or other expert as to the fair market value of the property proposed to be released (the “Released Tract”) and as to the fair market value of the property proposed to be substituted therefor (the “Substitute Property”), which opinion or certificate shall conclude that the Substitute Property has a fair market value of at least 110% of the fair market value of the Released Property. The Trustee may conclusively rely on the certificate or opinion so delivered to it. Upon the execution and delivery of any amendments to the Indenture, the Agreement, and the Deed of Trust which are required or necessary to effectuate the substitution of property, and the delivery to the Trustee of the (i) certificate or opinion of an engineer, appraiser, or other expert as to the fair market values of the Released Property and the Substitute Property, (ii) opinion of Bond counsel referred to in Section 903 of this Indenture, (iii) environmental survey or surveys with respect to the Substitute Property, and (iv) other documents that the Issuer and the Trustee may reasonably require, the Trustee shall release the Released Property from the Deed of Trust and accept the Substitute Property as part of the Trust Estate; provided, however, if the environmental studies have recommended that remedial action be taken with respect to the Substitute Property so that it will be in compliance with applicable environmental laws, the Trustee does not have an obligation or duty to accept the Substitute Property into the Trust Estate until such time as the remedial action has been completed and the Trustee has received assurances to its satisfaction that the Substitute Property is in compliance with applicable environmental laws.

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;
the Issuer or the Company has paid or caused to be paid all other sums payable by the Issuer or the Company hereunder and under the Agreement (except amounts due and payable by the Company pursuant to Section 4.1(a) or (b) of the Agreement and the terms of the Tax-Exempt Master Note and the Taxable Master Note); and

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 (i) has given to the Trustee irrevocable written instructions instructing the Trustee to effect the redemption of such Bonds on such date and to give notice of such redemption to Holders prior to said date as provided in Exhibits A-1 and A-2 to this Indenture, and (ii) has provided for a rating on the refunded Bonds; (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 and has provided for a rating on the refunded Bonds. The Trustee shall not be required to accept any deposit of Defeasance Obligations pursuant to clause (ii) or (iii) during the continuance of an Event of Default. For purposes of this Section, Government Obligations issued or held in the name of the Trustee in book-entry form on the books of the Department of Treasury of the United States of America shall be deemed to be deposited with the Trustee.

Any Defeasance Obligations deposited with the Trustee pursuant to this Section shall mature on such dates as shall be required for the aforesaid purpose. Such Defeasance Obligations shall not contain provisions permitting the redemption thereof at the option of the issuer thereof.

(b) Any release under this Section shall be without prejudice to the right of the Trustee to be paid reasonable compensation for all services rendered by it under this Indenture and all its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees, incurred on and about the administration of trusts created by this Indenture and the performance of its powers and duties under this Indenture.

Section 1003. Application of Trust Money. The Defeasance Obligations and money deposited with the Trustee pursuant to Section 1002 and principal or interest payments on any such Defeasance Obligations shall be held in trust, shall not be sold or reinvested, and shall be applied by it, in accordance with the provisions of the Bonds and this Indenture, to the payment, either directly or through any Paying Agent as the Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money or Defeasance Obligations were deposited; provided that, upon delivery to the Trustee of an Officer’s Certificate (accompanied by the report of an Independent certified public accountant setting forth the calculations upon which such Officer’s Certificate is based) establishing that the money and Defeasance Obligations on deposit following the taking of the proposed action will be sufficient for the purposes described in Section 1002(a), any money received from principal or interest payments on Defeasance Obligations deposited with the Trustee or the proceeds of any sale of such Defeasance Obligations, if not then needed for such purpose, shall, upon Company Request be reinvested in other Defeasance Obligations or disposed of as requested by the Company. For purposes of any calculation required by this Article, any Defeasance Obligation which is subject to redemption at the option of its issuer, the redemption date for which has not been irrevocably established as of the date of such calculation, shall be assumed to cease to bear interest at the earliest date on which such obligation may be redeemed at the option of the issuer thereof and the principal of such obligation shall be assumed to be received at its stated maturity.

ARTICLE XI

MISCELLANEOUS

Section 1101. Execution in Counterparts. This Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.
Section 1102. Final Agreement. This written Indenture represents the final agreement between the parties and may not be contradicted by evidence of prior, contemporaneous, or subsequent oral agreements of the parties. There are no unwritten oral agreements between the parties.
IN WITNESS WHEREOF, the Issuer and the Trustee have caused this Indenture to be signed on their behalf by their duly authorized representatives as of the date first written above.

CLIFTON HIGHER EDUCATION FINANCE CORPORATION

By:__________________________________________
    President
WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Trustee

By:__________________________________________  
   Letha Glover, Vice President
EXHIBIT A-1

FORM OF SERIES 2009A BONDS

EXCEPT AS MAY OTHERWISE BE PROVIDED HEREIN, THIS BOND OR ANY PORTION HEREOF MAY BE TRANSFERRED ONLY IN MINIMUM DENOMINATIONS OF $5,000 OR ANY INTEGRAL MULTIPLE THEREOF ("AUTHORIZED DENOMINATIONS").

1. Form of Definitive Series 2009A Bonds.

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United States of America
State of Texas
Clifton Higher Education Finance Corporation
Education Revenue and Refunding Bond
(Tejano Center for Community Concerns, Inc. – Raul Yzaguirre School for Success)
Series 2009A

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Clifton Higher Education 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 and 53A of the Texas Education Code, as amended, and particularly Sections 53.35(b) and 53.48 thereof (the “Act”), hereby promises to pay to the order of ______________________________, or registered assigns, at the principal payment office of Wells Fargo Bank, National Association, 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 January 15, 2009 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, INCLUDING THE CITY...
OF CLIFTON, TEXAS SHALL BE OBLIGATED TO PAY THE BONDS OR THE INTEREST THEREON AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, ANY STATE AGENCY, POLITICAL CORPORATION OR POLITICAL SUBDIVISION OF THE STATE, INCLUDING THE CITY OF CLIFTON, TEXAS IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

All obligations of the Issuer hereunder are limited, and are payable solely from and to the extent of money provided by or for the account of the Company, and it is a condition of each undertaking of the Issuer contained herein that, all such undertakings shall be performed at the expense of the Company. The Issuer shall not be required to advance its own funds in connection with the performance of any duty under this Bond.

THE PRINCIPAL of, premium, if any, and interest on this Bond are payable in lawful money of the United States of America. Amounts due on this Bond shall be paid by check drawn upon by Wells Fargo Bank, National Association (the “Trustee,” “Paying Agent” and “Bond Registrar” for this series of Bonds) and mailed to the Owner hereof at its address as it appears on the bond registration books of the Issuer, kept by the Bond Registrar (the “Bond Register Books”) 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 in the United States 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 February 15 and August 15, commencing August 15, 2009, 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 [$___________] for the purpose of financing the cost of certain educational facilities (as that term is defined in the Act) for Raul Yzaguirre School for Success (the “Company”) on its campuses located in the Cities of Houston and Brownsville, Texas and paying a portion of the costs of issuance of the Bonds, under and pursuant to authority conferred by the Act, a resolution adopted by the Governing Body of the Issuer, and a Trust Indenture, dated as of February 1, 2009 (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 February 1, 2009 (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 February 1, 2009, (the “Master Indenture”) as supplemented by Supplemental Master Trust Indenture No. 1, dated as of February 1, 2009 (the “Supplemental Indenture”), between the Company on behalf of itself and Wells Fargo Bank, National Association, Master Trustee.

THE TRANSFER of this Bond may be registered by the owner hereof in person or by his attorney or legal representative at the corporate trust office or principal payment office of the
Bond Registrar as set forth in the Indenture, but only in the manner and subject to the limitations and conditions provided in the Indenture and upon surrender and cancellation of this Bond and execution of the Assignment hereon. Upon any such surrender for transfer of the Bond at the office or agency of the Trustee in a Place of Payment, the Issuer shall execute, the Trustee shall authenticate, and the Bond Registrar shall register and deliver, in the name of the designated transferee, one or more new Bonds of any Authorized Denomination, of a like aggregate principal amount, maturity and interest rate. The Issuer and the Bond Register shall not be required (1) to issue, transfer or exchange any Bonds during a period beginning at the opening of business 15 days before the day of mailing a notice of redemption of the Bonds selected for redemption under the Indenture and ending the close of business on the day of such mailing or (2) to transfer or exchange any Bond selected for redemption in whole or in part.

Subject to the limitations set forth in the Master Indenture, the Company may from time to time issue additional notes authorized by and entitled to the security of the Master Indenture for the purposes set forth in the Master Indenture (“Master Notes”), which shall rank equally and on a parity with the Note and all other Master Notes except as set forth in any supplemental master indenture authorizing issuance of any Master Note.

EXCEPT AS hereinafter set forth, the Bonds are not subject to redemption.

The Bonds are subject to mandatory redemption in part prior to maturity with funds from the Series 2009 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:

<table>
<thead>
<tr>
<th>$________ Series 2009A Term Bonds Maturing ______</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandatory Redemption Date (February 15)</td>
</tr>
<tr>
<td>Principal Amount to be Mandatorily Redeemed</td>
</tr>
</tbody>
</table>

*$

* Final Maturity
$________ Series 2009A Term Bonds Maturing _____

Mandatory Redemption Date (February 15) 

Principal Amount to be Mandatorily Redeemed $ 

*

$ 

* Final Maturity

The principal amount of the Bonds required to be redeemed pursuant to the operation of such mandatory redemptions shall be reduced by the principal amount of any Bonds of the same series and maturity date which, at least 60 days prior to the mandatory sinking fund redemption date (a) shall have been purchased and delivered to the Trustee for cancellation, (b) shall have been purchased and canceled by the Trustee with funds furnished for such purpose, in each case at a purchase price not exceeding the principal amount of such Bonds plus accrued interest to the date of purchase thereof or (c) shall have been redeemed pursuant to the optional redemption provision described below.

Optional Redemption. The Series 2009A Bonds are subject to optional redemption, in whole or in part, prior to scheduled maturity on February 15, ____ or on any date thereafter, at the option of the Company, at a price of par plus interest accrued thereon to the redemption date, upon written notice of the exercise of the option to redeem Bonds delivered to the Trustee by the Company not later than the 60th day prior to the date of redemption.

Mandatory Redemption Upon Determination of Taxability. The Bonds shall be redeemed in whole prior to maturity on a date selected by the Company which is not more than one hundred twenty (120) days following receipt by the Trustee of written notice of the occurrence of a Determination of Taxability (as hereinafter defined) at a redemption price equal to [103]% of the principal amount thereof plus interest to the redemption date.

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

**Mandatory Redemption With Excess Proceeds.** The Bonds shall be redeemed in whole or in part prior to maturity as a result of a deposit of amounts transferred from the Construction Fund to the Series 2009 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 Series 2009 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 Series 2009 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 solely 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, Supplemental Indenture No. 1 and the Loan Agreement, dated as of February 1, 2009 (the “Agreement”) by and between the Issuer and the Company, as evidenced by a tax-exempt master indenture note (the “Note”) issued by the Company to the Issuer pursuant to the Supplemental Indenture, and by an assignment by the Issuer to the Trustee of the Note to evidence the Company’s obligations to make Loan Payments under the Master Indenture, the Supplemental Indenture and the Agreement to the Trustee. The Company is unconditionally obligated (subject only to the provisions of the Agreement relating to merger, consolidation, and transfer of assets) to the Issuer and the Trustee to pay, or cause to be paid, without set off, recoupment, or counterclaim, to the Trustee each Loan Payment for deposit into the Series 2009 Debt Service Fund created for the benefit of the owners of 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 BOND is a limited obligation 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. This Bond shall never be payable out of any other funds of the Issuer except the Trust Estate and the revenues derived therefrom.

THE BONDS are secured by the Indenture whereunder the Trustee is custodian of the Series 2009 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 and Additional Bonds.

[To appear on Initial Series 2009A 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, Clifton Higher Education Finance Corporation has caused this Bond to be executed with the manual or facsimile signatures of its duly authorized officers and its facsimile seal to be hereunto affixed, all as of the date first set forth above.

CLIFTON HIGHER EDUCATION FINANCE CORPORATION

By: ____________________________
    President

ATTEST:

By: ____________________________
    Secretary

[SEAL]
2. **Form of Trustee’s Certificate of Authentication.**

**TRUSTEE’S CERTIFICATE OF AUTHENTICATION**

This Bond is one of the Bonds issued under the provisions of the within mentioned Indenture which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Trustee

By: ______________________________

Authorized Signature

Date of authentication:

______________________________
3. **Form of Assignment.**

**ASSIGNMENT**

For value received, the undersigned hereby sells, assigns and transfers unto __________________________

__________________________________________________________

Please insert Social Security or Taxpayer Identification number of Transferee______________________

__________________________________________________________

(Please print or typewrite name and address, including zip code of Transferee)

the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints ______

__________________________________________________________

attorney, to register the transfer of the within Bonds on the books kept for registration thereof, with full power of substitution in the premises.

Dated: ________________________________

Signature Guaranteed: ____________________

**NOTICE:** Signature(s) must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company that is a medallion guarantor. The assignor’s signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or any change whatsoever.

**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 2009A Bond.**

The initial Series 2009A Bond shall be in the form set forth in “Form of Series 2009A Bonds” above except for the following alterations:

(a) The Initial Series 2009A Bond shall be numbered IA-1 and shall be payable to the initial purchaser of the Series 2009A Bonds.

(b) immediately under the name of the Bond, the headings “INTEREST RATE” and “MATURITY DATE” shall both be completed with the words “As Shown Below” and the word “CUSIP” deleted;

(c) in the first paragraph of the Series 2009A 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 Initial Series 2009A Bond only.**

REGISTRATION CERTIFICATE OF
COMPTROLLER OF PUBLIC ACCOUNTS

OFFICE OF COMPTROLLER §

STATE OF TEXAS §

I HEREBY CERTIFY that this Bond has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and that this Bond has been registered by the Comptroller of Public Accounts of the State of Texas.

WITNESS my signature and seal this ______________________________.

________________________________________
Comptroller of Public Accounts
of the State of Texas

(COMPTROLLER’S SEAL)
EXHIBIT A-2

FORM OF SERIES 2009B BONDS

EXCEPT AS MAY OTHERWISE BE PROVIDED HEREIN, THIS BOND OR ANY PORTION HEREOF MAY BE TRANSFERRED ONLY IN MINIMUM DENOMINATIONS OF $5,000 OR ANY INTEGRAL MULTIPLE THEREOF ("AUTHORIZED DENOMINATIONS").

1. Form of Definitive Series 2009B Bonds.

REGISTERED

NO. RB-__

UNITED STATES OF AMERICA
STATE OF TEXAS
CLIFTON HIGHER EDUCATION FINANCE CORPORATION
TAXABLE EDUCATION REVENUE BOND
(TEJANO CENTER FOR COMMUNITY CONCERNS, INC. – RAUL YZAGUIRRE SCHOOL FOR SUCCESS)
SERIES 2009B

<table>
<thead>
<tr>
<th>Interest Rate</th>
<th>Maturity Date</th>
<th>Dated Date</th>
<th>CUSIP NO.</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>February 15, ___</td>
<td>January 15, 2009</td>
<td></td>
</tr>
</tbody>
</table>

CLIFTON HIGHER EDUCATION 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 and 53A of the Texas Education Code, as amended, and particularly Sections 53.35(b) and 53.48 thereof (the “Act”), hereby promises to pay to the order of _____________________________________________, or registered assigns, at the principal payment office of Wells Fargo Bank, National Association, in Houston, Texas (the “Place of Payment”) the aggregate principal amount of ____________________ DOLLARS ($[____________]) 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 January 15, 2009 or the most recent interest payment date set forth above, from January 15, 2009 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

All obligations of the Issuer hereunder are limited, and are payable solely from and to the extent of money provided by or for the account of the Company, and it is a condition of each undertaking of the Issuer contained herein that, all such undertakings shall be performed at the expense of the Company. The Issuer shall not be required to advance its own funds in connection with the performance of any duty under this Bond.

THE PRINCIPAL of, premium, if any, and interest on this Bond are payable in lawful money of the United States of America. Amounts due on this Bond shall be paid by check drawn upon by Wells Fargo Bank, National Association (the “Trustee,” “Paying Agent” and “Bond Registrar” for this series of Bonds) and mailed to the Holder hereof at its address as it appears on the bond registration books of the Issuer, kept by the Bond Registrar (the “Bond Register”) on the 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 in the United States 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 February 15 and August 15, commencing August 15, 2009, 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 $__________ for the purpose of financing certain costs of issuance of the Bonds under and pursuant to authority conferred by the Act, a resolution adopted by the Governing Body of the Issuer, and a Trust Indenture, dated as February 1, 2009 (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 February 1, 2009 (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 February 1, 2009, as supplemented by Supplemental Master Trust Indenture No. 1 dated as of February 1, 2009 (the “Master Indenture”), between the Company on behalf of itself and Wells Fargo Bank, National Association, as Master Trustee.

Subject to the limitations set forth in the Master Indenture, the Company may from time to time issue additional notes authorized by and entitled to the security of the Master Indenture.
for the purposes set forth in the Master Indenture (“Master Notes”), which shall rank equally and on a parity with the Note and all other Master Notes except as set forth in any supplemental master indenture authorizing issuance of any Master Note.

THE TRANSFER of this Bond may be registered by the owner hereof in person or by his attorney or legal representative at the corporate trust office or principal payment office of the Bond Registrar as set forth in the Indenture, but only in the manner and subject to the limitations and conditions provided in the Indenture and upon surrender and cancellation of this Bond and execution of the Assignment hereon. Upon any such surrender for transfer of the Bond at the office or agency of the Trustee in a Place of Payment, the Issuer shall execute, the Trustee shall authenticate, and the Bond Registrar shall register and deliver, in the name of the designated transferee, one or more new Bonds of any Authorized Denomination, of a like aggregate principal amount, maturity and interest rate. The Issuer and the Bond Register shall not be required (1) to issue, transfer or exchange any Bonds during a period beginning at the opening of business 15 days before the day of mailing a notice of redemption of the Bonds selected for redemption under the Indenture and ending the close of business on the day of such mailing or (2) to transfer or exchange any Bond selected for redemption in whole or in part.

EXCEPT AS hereinafter set forth, the Bonds are not subject to redemption.

[The Bonds are subject to mandatory redemption in part prior to maturity with funds from the Series 2009 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:

<table>
<thead>
<tr>
<th>$______Series 2009B Serial Bonds Maturing _____</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandatory Redemption</td>
</tr>
<tr>
<td>Date (___________)</td>
</tr>
<tr>
<td>$</td>
</tr>
</tbody>
</table>

* Final Maturity

The principal amount of the Bonds required to be redeemed pursuant to the operation of such mandatory redemptions shall be reduced by the principal amount of any Bonds of the same series and maturity date which, at least 60 days prior to the mandatory sinking fund redemption date (a) shall have been purchased and delivered to the Trustee for cancellation, (b) shall have been purchased and canceled by the Trustee with funds furnished for such purpose, in each case at a purchase price not exceeding the principal amount of such Bonds plus accrued interest to the date of purchase thereof or (c) shall have been redeemed pursuant to the optional redemption provision described below.]

Optional Redemption. The Series 2009B Bonds are not subject to optional redemption.
Mandatory Redemption With Excess Proceeds. The Bonds shall be redeemed in whole or in part prior to maturity as a result of a deposit of amounts transferred from the Construction Fund to the Series 2009 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 request of the Company, at a redemption price of par plus interest accrued thereon to the redemption date, without premium, on any date, in the event the Project is damaged, destroyed or condemned or threatened to be condemned, (i) in whole, if, in accordance with the terms of the Agreement, the Project is not reconstructed, repaired or replaced upon the change or destruction thereof, from insurance or condemnation proceeds transferred from the Construction Fund to the Series 2009 Debt Service Fund which, together with an amount required to be paid by the Company pursuant to the Agreement, will be sufficient to pay the Bonds in full, or (ii) in part, after reconstruction, repair or replacement of the Project in accordance with the terms of the Agreement, from excess insurance proceeds transferred from the Construction Fund to the Series 2009 Debt Service Fund for such purpose.

IF LESS THAN ALL of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed shall be redeemed by the Trustee in accordance with the written direction of the Company; provided, however, that portions of Bonds shall be redeemed in Authorized Denominations and provided, that no redemption shall result in a Bond being held in less than an Authorized Denomination.

IN CASE PART, but not all, of this Bond shall be selected for redemption, the owner hereof or his attorney or legal representative shall present and surrender this Bond to the Trustee for payment of the redemption price, and the Issuer shall cause to be executed, authenticated and delivered to or upon the order of such owner or his attorney or legal representative, without charge therefor, in exchange for the unredeemed portion of the principal amount of this Bond so surrendered, a Bond of the same maturity and bearing interest at the same rate.

AT LEAST 30 days prior to the date fixed for any redemption of the Bonds but not more than 60 days prior to any redemption date, the Trustee shall cause a written notice of such redemption to be mailed by first class mail, postage prepaid, to each Holder of the Bonds to be redeemed, at the address appearing on the Bond Register on the date such notice is mailed by the Trustee. Any notice mailed as provided herein shall be conclusively presumed to have been given, irrespective of whether received. By the date fixed for any such redemption, due provision shall be made with the Trustee and the Paying Agent for the payment of the appropriate redemption price, premium, if any, and interest accrued hereon. If such written notice of redemption is made, due provision for payment of the redemption price is made and all conditions to the redemption have been fulfilled, all as provided above and in the Indenture, the Bonds which are to be redeemed shall become due and payable at the redemption price and from and after such date shall cease to bear interest. If any Bond shall not be paid upon the surrender thereof for redemption, the principal shall, until paid, bear interest at the rate borne by this Bond.
IF THE DATE for any such payment on this Bond shall be a Saturday, a Sunday or a legal holiday or the equivalent for banking institutions generally (other than a moratorium) at the place where payment thereof is to be made, then such payment may be made on the next succeeding day which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment.

IT IS HEREBY CERTIFIED AND COVENANTED that this Bond has been duly and validly authorized, issued, and delivered; that all acts, conditions, and things required or proper to be performed, exist, and been 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 solely 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, and Supplemental Master Trust Indenture No. 1 and the Loan Agreement, dated as of February 1, 2009 (the “Agreement”) by and between the Issuer and the Company, as evidenced by a taxable master indenture note (the “Note”) issued by the Company to the Issuer pursuant to the Supplemental Indenture, and by an assignment by the Issuer to the Trustee of the Note to evidence the Company’s obligations to make Loan Payments under the Master Indenture, the Supplemental Indenture and the Agreement to the Trustee. The Company is unconditionally obligated (subject only to the provisions of the Agreement relating to merger, consolidation, and transfer of assets) to the Issuer and the Trustee to pay, or cause to be paid, without set off, recoupment, or counterclaim, to the Trustee each Loan Payment for deposit into the Series 2009 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 BOND is a limited obligation 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. This Bond shall never be payable out of any other funds of the Issuer except the Trust Estate and the revenues derived therefrom.

THE BONDS are secured by the Indenture whereunder the Trustee is custodian of the Series 2009 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 Holders of at least a majority in aggregate principal amount of the Outstanding Bonds.

[To appear on Initial Series 2009B 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, Clifton Higher Education Finance Corporation has caused this Bond to be executed with the manual or facsimile signatures of its duly authorized officers, and its facsimile seal to be hereunto affixed, all as of the date first set forth above.

CLIFTON HIGHER EDUCATION FINANCE CORPORATION

By: ________________________________
Title: ______________________________

ATTEST:

By: ________________________________
Title: ______________________________
2. **Form of Trustee’s Certificate of Authentication.**

TRUSTEE’S CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds issued under the provisions of the within mentioned Indenture which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Trustee

By: ____________________________
   Authorized Signature

Date of authentication:

______________________________
3. **Form of Assignment.**

**ASSIGNMENT**

For value received, the undersigned hereby sells, assigns and transfers unto ____________________________

Please insert Social Security or Taxpayer Identification number of Transferee ____________________________

(Please print or typewrite name and address, including zip code of Transferee)

the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints ______

_________________________, attorney, to register the transfer of the within Bonds on the books kept for registration thereof, with full power of substitution in the premises.

Dated: ____________________________

Signature Guaranteed: ____________________________

**NOTICE:** Signature(s) must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company that is a medallion guarantor. The assignor’s signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or any change whatsoever.

**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 2009B Bond.**

The initial Series 2009B Bond shall be in the form set forth in “Form of Series 2009B Bonds” above except for the following alterations:

(a) The Initial Series 2009B Bond shall be numbered IB-1 and shall be payable to the initial purchaser of the Series 2009B Bonds.

(b) immediately under the name of the Bond, the headings “INTEREST RATE” and “MATURITY DATE” shall both be completed with the words “As Shown Below” and the word “CUSIP” deleted;

(c) in the first paragraph of the Series 2009B 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]

REGISTRATION CERTIFICATE OF
COMPTROLLER OF PUBLIC ACCOUNTS

OFFICE OF COMPTROLLER

STATE OF TEXAS

I HEREBY CERTIFY that this Bond has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and that this Bond has been registered by the Comptroller of Public Accounts of the State of Texas.

WITNESS my signature and seal this ________________________________.

Comptroller of Public Accounts
of the State of Texas

(COMPTROLLER’S SEAL)
EXHIBIT B
FORM OF COSTS OF ISSUANCE REQUISITION CERTIFICATE

Date ___________________

Requisition No. _________

Wells Fargo Bank, National Association
MAC: T5017-241
1021 Main Street, Suite 2403
Houston, Texas 77002

Attention: Corporate Trust

REQUISITION CERTIFICATE

Ladies and Gentlemen:

This certificate is provided pursuant to the requirements of Section 3.3 of the Loan Agreement dated as of February 1, 2009 (the “Agreement”) by and between Clifton Higher Education Finance Corporation (the “Issuer”) and Tejano Center for Community Concerns, Inc. (the “Company”) for requesting payment as provided herein.

(a) (i) There has been expended, or is being expended concurrently with the delivery of this certificate, on account of Costs of Issuance, as defined in the Trust Indenture 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 total amount of this request is: $__________, all of which is to be withdrawn from the Series 2009 Costs of Issuance Subaccount of the Cost of Issuance Account of the Construction Fund. All amounts disbursed will be used to pay costs of issuance of the Series 2009 Bonds.

(v) Pay to the persons listed on Schedule A amounts not to exceed those set forth on Schedule A, upon receipt of individual invoices.

(vi) Such payment will constitute payment of or reimbursement for a properly incurred obligation, is a proper charge against the Construction Fund (as defined in the Agreement), is unpaid or not reimbursed to the Borrower, and has not been the basis of any previous withdrawal or payment.
(vii) Such payment, together with all previously requested payments, will not result in less than 95 percent of the proceeds of the Series 2009A Bonds being used for (i) Qualifying Costs (as defined in Section 5.3(s) of the Agreement) or (ii) more than 2 percent of the Sale Proceeds of the Series 2009A Bonds being used for Costs of Issuance.

(viii) The payment of the amount requested herein will not result in a breach of any covenant of the Borrower contained in the Agreement, including particularly the covenants contained in Section 5.3 thereof.

(b) [Insert wire instructions if applicable.]

(c) All other items required by the Agreement to be delivered to the Trustee in connection with this Disbursement have been delivered to the Trustee.
TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

By:______________________________
    Borrower Representative
EXHIBIT C
FORM OF PROJECT COSTS DISBURSEMENT REQUEST

Date ___________________
Requisition No. __________

Wells Fargo Bank, National Association
MAC: T5017-241
1021 Main Street, Suite 2403
Houston, Texas 77002

Attention: Corporate Trust

DISBURSEMENT REQUEST

Ladies and Gentlemen:

This certificate is provided pursuant to the requirements of Section 3.3 of the Loan Agreement dated as of February 1, 2009 (the “Agreement”) by and between Clifton Higher Education Finance Corporation (the “Issuer”) and Tejano Center for Community Concerns, Inc. (the “Company”) for requesting payment to the Company as provided herein.

(a) (i) There has been expended, or is being expended concurrently with the delivery of this certificate, on account of [Acquisition Account/Project Account] 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 total amount of this request is: $__________, of which $____________is to be withdrawn from the ______________ Campus Subaccount of the Series 2009 Project Costs Account of the Construction Fund. Of such amount, $_______ shall be held as retainage, resulting in a disbursement amount of $________.

(v) Pay to the persons listed on Schedule A amounts not to exceed those set forth on Schedule A, upon receipt of individual invoices.

(vi) Such payment will constitute payment of or reimbursement for a properly incurred obligation, is a proper charge against the Construction Fund (as
defined in the Agreement), is unpaid or not reimbursed to the Borrower, and has not been the basis of any previous withdrawal or payment.

(vii) Such payment, together with all previously requested payments, will not result in less than 95 percent of the proceeds of the Series 2009A Bonds being used for (i) Qualifying Costs (as defined in Section 5.3(s) of the Loan Agreement) or (ii) more than 2 percent of the Sale Proceeds of the Series 2009A Bonds being used for Costs of Issuance.

(viii) The payment of the amount requested herein will not result in a breach of any covenant of the Borrower contained in the Agreement, including particularly the covenants contained in Section 5.3 thereof.

(b) [Insert wire instructions if applicable.]

(c) To the best of the undersigned’s knowledge, there has not been filed with or served upon the Issuer or the Borrower notice of any lien, right or attachment upon, or claim affecting the right of any such Persons to receive payment of the respective amounts stated in this Disbursement, which has not been released or will not be released simultaneously with the payment of such obligation.

(d) We further certify that (A) obligations as stated on this Disbursement have been properly incurred, (B) such work was actually performed or such materials or supplies were actually furnished or installed in or about the Project, (C) if contested, bond has been made by the Company and (D) either such materials or supplies are not subject to any lien or security interest or any such lien or security interest will be released or discharged upon payment of this Requisition.

(e) All rights, title and interest to any and all personal property acquired with the proceeds of this Disbursement is vested in the Company.

(f) All third party independent inspections of the Project required by the Construction Consultant in connection with this Disbursement have been performed and copies of such reports provided to the Construction Consultant.

(g) All other items required by the Agreement to be delivered to the Trustee in connection with this Disbursement have been delivered to the Trustee.

(h) The amount held as retainage described in subsection (b)(iv) is proper and correct.
TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

By: ________________________________
    Borrower Representative

[CONSTRUCTION CONSULTANT’S APPROVAL]

By: ________________________________
Name: ________________________________
Title: ________________________________
(THIS PAGE LEFT BLANK INTENTIONALLY)
LOAN AGREEMENT

between

CLIFTON HIGHER EDUCATION FINANCE CORPORATION

and

TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

Relating to

[$23,825,000]

CLIFTON HIGHER EDUCATION FINANCE CORPORATION
EDUCATION REVENUE AND REFUNDING BONDS
(Tejano Center for Community Concerns, Inc. – Raul Yzaguirre School for Success)
SERIES 2009A

and

[$710,000]

CLIFTON HIGHER EDUCATION FINANCE CORPORATION
TAXABLE EDUCATION REVENUE BONDS
(Tejano Center for Community Concerns, Inc. – Raul Yzaguirre School for Success)
SERIES 2009B

____________________

Dated as of

February 1, 2009
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Exhibit A - Description of Project
Exhibit B - Form of Completion Certificate
LOAN AGREEMENT

THIS LOAN AGREEMENT (this “Agreement”), dated as of February 1, 2009, is between the CLIFTON HIGHER EDUCATION FINANCE CORPORATION, a non-profit, corporation created and existing under the Act (the “Issuer”), and TEJANO CENTER FOR COMMUNITY CONCERNS, INC., a Texas non-profit corporation (the “Company”).

WITNESSETH:

WHEREAS, the City of Clifton, Texas (the “City”), a political subdivision of the State of Texas (the “State”), has, pursuant to Chapter 53 and 53A of the Texas Education Code, as amended (collectively, the “Act”), approved and created the Issuer as a nonstock, nonprofit 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 City, is empowered to issue its revenue bonds in order to enable an accredited primary or secondary or authorized charter school to acquire, to construct, enlarge, extend, repair, renovate, or otherwise improve an educational or housing facility or any facilities incidental, subordinate, or related thereto or appropriate in connection therewith, or for acquiring land to be used for those purposes, or to create operating and debt service reserves for and to pay issuance costs related to the bonds or other obligations;

WHEREAS, in furtherance of the purposes of the Act, the Issuer proposes to issue its revenue bonds in the aggregate principal amount of [$24,535,000], which will be designated “Clifton Higher Education Finance Corporation Education Revenue and Refunding Bonds (Tejano Center for Community Concerns, Inc. – Raul Yzaguirre School for Success) Series 2009A” and “Clifton Higher Education Finance Corporation Taxable Education Revenue Bonds (Tejano Center for Community Concerns, Inc. – Raul Yzaguirre School for Success) Series 2009B” (collectively, the “Series 2009 Bonds”), the proceeds of which will be loaned to the Company to be used to finance or refinance the cost of a project consisting of the acquisition, improvement, construction, renovation and equipping of certain educational facilities on the campuses of the Company in the Cities of Houston and Brownsville, Texas, and to pay certain of the costs of issuing such Series 2009 Bonds; to fund a debt service reserve fund or obtain a TCEP Guaranty (as defined in the below-referenced Indenture); and to pay capitalized interest; and to pay certain of the costs of issuing such Series 2009 Bonds;

WHEREAS, contemporaneously with the execution and delivery of this Agreement, the Issuer has entered into the Trust Indenture and Security Agreement (the “Indenture”), and Supplemental Master Trust Indenture No. 1 dated as of February 1, 2009, between the Issuer and Wells Fargo Bank, National Association, as trustee (in such capacity, the “Trustee”) for the purposes of effecting the issuance of the Series 2009 Bonds, furthering the public purposes of the Act and securing to the Holders of the Series 2009 Bonds the payment of the Series 2009 Bonds;
WHEREAS, the Company is a party to that certain Master Trust Indenture and Security Agreement and Supplemental Master Trust Indenture No. 1, each dated as of February 1, 2009, between the Company, on behalf of itself and Wells Fargo Bank, National Association, as Master Trustee (the “Master Indenture”), which secures payment of certain Debt (as defined in the Master Indenture) of the Company including the Master Notes which evidence the Loan made hereby (the “Loan”);

WHEREAS, the Issuer shall issue the Series 2009 Bonds in order to loan the proceeds thereof to the Company and the Company agrees to repay the Loan on the terms set forth herein;

WHEREAS, pursuant to the provisions of this Agreement, the Company is executing and delivering to the Issuer Master Notes to evidence the loan of the proceeds of the Series 2009 Bonds to the Company and the obligation of the Company under this Agreement to repay the same, which notes are “Master Notes” under the Master Indenture;

WHEREAS, pursuant to the provisions of this Agreement, the Issuer is collaterally assigning to the Trustee all of the Issuer’s right, title and interest in the Series 2009 Notes and the Loan Payments (each as hereinafter defined) to be made by the Company pursuant to this Agreement; and

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

ARTICLE I

DEFINITIONS AND INTERPRETATIONS

Section 1.1 Construction of Terms; Definitions.

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

(1) “Agreement” means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more agreements supplemental hereto entered into pursuant to the applicable provisions hereof.

(2) All references in this instrument 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 or the Master 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.

“Brownsville Campus” means that campus located at 2255 North Coria, Brownsville, Texas 78520.

“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 Series 2009 Bonds or the execution and delivery of the Bond Documents, (b) the duties, activities, acts or omissions (even if negligent) of any Person in connection with the issuance of the Series 2009 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 Series 2009 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 for Houston Campus” means a construction consultant hired by the Company for the portion of the Project located on the Houston campus; initially, Miner Dederick.

“Debt” shall have the meaning assigned to such term in the Master Indenture.

“Extraordinary Optional Redemption” means a redemption as described in Exhibit A of the 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 from gross income of interest on the Series 2009A Bonds for federal income tax purposes.

“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.

“Houston Campus” means that campus located at 2950 Broadway, Houston, Texas 77017.

“Indenture” means the Trust Indenture and Security Agreement, dated as of the date of this Agreement, between the Issuer and Wells Fargo Bank, National Association, as trustee, securing the Series 2009 Bonds.

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

“Loan Payments” means the amounts described in Sections 4.1(a) and (b) of this Agreement.

“Losses” means losses, costs, damages, expenses, judgments, and liabilities of whatever nature (including, but not limited to, reasonable attorney’s, accountant’s and other professional’s fees, litigation and court costs and expenses, amounts paid in settlement and amounts paid to discharge judgments and amounts payable by an Indemnified Party to any other Person under any arrangement providing for indemnification of that Person) directly or indirectly resulting from arising out of or relating to one or more Claims.

“Opinion of Counsel” means a written opinion of counsel, who may (except as otherwise expressly provided) be counsel to any party to a Bond Document, and shall be satisfactory to the Trustee.

“Organizational Documents” of any corporation means the articles of incorporation, certificate of incorporation, corporate charter or other document pursuant to which such corporation was organized, and its bylaws, each as amended from time to time, and as to any other Person, means the instruments pursuant to which it was created and which govern its powers and the authority of its representatives to act on its behalf.

“Participating Campuses” means, collectively, the charter school campuses of the Company so designated under any Supplemental Master Indenture.

“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 Series 2009 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 2009 Notes” means the Tax-Exempt Note and the Taxable Note.

“Sponsoring Entity” means the City of Clifton, Texas.

“Tax-Exempt Note” means the tax-exempt master indenture note in the form attached to the Supplemental Master Trust Indenture as Exhibit A, which is secured by the Master Indenture executed by the Company and dated the Closing Date in the principal amount of the Series 2009A Bonds.

“Taxable Note” means the taxable master indenture note in the form attached to the Supplemental Master Indenture as Exhibit B which is secured by the Master Indenture executed by the Company and dated the Closing Date in the principal amount of the Series 2009B Bonds.

(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 4.7, 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 Series 2009 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 Series 2009 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 Series 2009 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 Series 2009 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 Texas Non-Profit Corporation Act and 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 Series 2009 Bonds, to issue the Series 2009 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 Series 2009 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 Series 2009 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 (i) is a non-profit corporation duly organized, validly existing and in good standing under the Texas Nonprofit Corporation Act; (ii) 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 (iii) has full corporate power and authority to own its properties and to conduct its business as is 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 Series 2009 Bonds are true and correct in all material respects and do 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 that 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 Series 2009 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 that 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 Series 2009 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 Series 2009 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 Series 2009 Bonds in the Construction Fund to pay Project Costs. In addition, the Project will be located in its entirety within the boundaries of the State. The principal amount of the Series 2009 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 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) that is not excessive and is for personal services that 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 2009A Bonds to be includable in the income of the recipients thereof for federal income tax purposes;

(K) Taking into account the Issue Price (as defined in Section 5.3(s) of this Agreement) of the various maturities of the Series 2009A Bonds, the average term of the Series 2009A Bonds does not exceed 120 percent of the average reasonably expected economic life of the Project to be financed or refinanced by the Series 2009A 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(s) of this Agreement) of the Series 2009A 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 2009A 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 2009A 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 its opinion with respect to the exclusion from gross income of the interest on the Series 2009A 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 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 Series 2009 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 Disbursement Request. The Company shall retain copies of all Disbursement Requests, as defined in the Indenture, until the date that is six years from the first date on which no Series 2009A 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 Series 2009 Bonds upon receipt of a Requisition Certificate. The Company shall retain copies of all Requisition Certificates until the date that is six years from the first date on which no Series 2009 Bonds are Outstanding. Ninety (90) days following the Closing Date, the Costs of Issuance Subaccount for the applicable series of Bonds shall be closed and any funds remaining therein shall be transferred to the corresponding account in the Construction Fund for such series of Bonds and made available to pay any Project Costs relating to the Project for which such specific series of Bonds was issued.
(c) The Trustee may rely fully on any Requisition Certificate or 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 Series 2009 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 B 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 appropriate 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 Certificate signed by an Authorized Representative of the Company and approved by the appropriate Construction Consultant. 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 appropriate Construction Consultant, shall, upon delivery to the Trustee of a certificate executed by such Construction Consultant to such effect, be deposited to the Debt Service Fund and applied to the redemption of the Series 2009 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 a special separate account of the Construction Fund for the Series 2009 Bonds, and:

(1) The Company shall immediately request that the appropriate Construction Consultant prepare a report to determine (A) if the repair, reconstruction, restoration or replacement of the Project or a portion thereof damaged or taken is economically feasible and will restore the Project to the physical and operating condition as existed before and (B) if the Company will have sufficient funds from the insurance proceeds, business interruption insurance proceeds and other available funds to make the payments required hereunder when due, to pay the cost of repairing, reconstructing, restoring or replacing the portion of the Project affected by such loss, damage or condemnation (including without limitation architects’ and attorneys’ fees and expenses), to pay Company’s operating costs until completion of the repair, construction or replacement of such portion of the Project which report shall be delivered to the Trustee and any Holder owning at least ten percent (10%) in aggregate principal amount of any series of Outstanding Bonds, within thirty (30) days of the occurrence of such damage, destruction, condemnation or taking. If the report determines the foregoing conditions are satisfied, then within thirty (30) days after delivery thereof, the Company shall deliver to the Trustee:

(A) cash in an amount equal to the funds, if any, in excess of insurance proceeds and business interruption insurance proceeds required by the report delivered under clause (1) above for deposit in a special separate account of the Construction Fund; and

(B) such other documents and information as the Holders of a majority of the Outstanding Bonds may reasonably require; and

the Company shall promptly proceed to repair, reconstruct and replace the affected portion of the Project, including all fixtures, furniture and equipment and effects, to its original condition to the extent possible. Each request for payment shall comply with the requirements of the Indenture in Section 406 for payments from the Construction Fund.

(2) If the Construction Consultant’s report does not determine that the conditions are satisfied or fails to meet the requirements relating to repair or reconstruction or replacement in clause (1) above, the Company shall prepay the Loan and the Series 2009 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 Series 2009 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 Series 2009 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 Series 2009 Bonds pursuant to the Extraordinary Optional
Redemption provisions of the Series 2009 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 Series
2009 Bonds pursuant to the Extraordinary Optional Redemption provision of the Series 2009
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 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 Series 2009 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 Series 2009 Bonds, and notwithstanding the termination of this Agreement,
each such part of the Project will continue to be subject to the restrictions set out in clause (a) of
this Section for so long as it is owned by the Company, or any voluntary grantee of the
Company. Provided, however, that to any extent that a restriction or agreement set out in this
Section shall at any time not be required in order for the loan to the Company and all other transactions provided for in this Agreement to be made and effected in compliance with applicable constitutional provisions of the United States and the State, such restriction or agreement shall, to that extent and without necessary action by any party, be without any force or effect; and provided further, that in no event shall such restriction or agreement set out in this Section be more expansive than required by an applicable constitutional provision.

Section 3.11 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 Series 2009 Bonds and to pay any other payments required to be made by it under this Agreement at the times required. For purposes of this Section, “Force Majeure” means acts of God, strikes, lockouts or other industrial disturbances, acts of the public enemy, acts or orders of any kind of the government of the United States of America, or of any state or locality thereof, or any civil or military authority, terrorist acts, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, hurricanes, tornadoes, storms, floods, washouts, droughts, arrests, restraining of government and people, civil disturbances, explosions, nuclear accidents, wars, breakage or accidents to machinery, transmission pipes or canals, partial or entire failure of utilities, shortages of labor, material, supplies or transportation, or any other cause not reasonably within the control of the party claiming such inability.

Section 3.13 Insurance. So long as the Series 2009 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 5.11 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 Series 2009 Bonds evidenced by the Series 2009 Notes, the Company shall, subject to the limitations of Section 4.5 of this Agreement, make or cause to be made Loan Payments in immediately available funds in accordance with the Indenture and this Agreement directly to the Trustee as follows:

(i) on or before the earlier of the fifth (5th) Business Day prior to any Interest Payment Date or the 25th day of each month, in equal monthly installments, for deposit in the Debt Service Fund, amounts sufficient to provide for the payment of interest which is due on the next ensuing date for payment of such interest with respect to the Series 2009 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 Series 2009 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 Series 2009 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 Series 2009 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 Charters sufficient to satisfy the requirements under Section 12.107, Texas Education Code, as amended, then the Company shall only provide Loan Payments from any Charter in excess of its Pro-Rata share through a loan to any other Charter 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 Section 4.1 or limit the application of Section 4.4 hereof.

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 Series 2009 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 Series 2009 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 Series 2009 Bonds in whole or in part, neither the Loan made hereunder nor the Series 2009 Notes shall be prepayable. Any excess or unclaimed money held by the Trustee under the Indenture shall be paid by the Trustee to the Company in accordance with Article V or Article X of the Indenture, as applicable.

Section 4.3 Security Interests.

(a) As security for repayment of the Series 2009 Notes and performance of the Company’s obligations under this Agreement, the Company has executed and delivered the Deed of Trust and 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 2009 Notes, enforceable in accordance with the terms hereof; and (ii) the lien on the collateral granted hereunder, is and shall be prior to any judicial lien hereafter imposed on such collateral to enforce a judgment against the Company on a simple contract.

(b) The Company will (i) upon the execution and delivery of the Bond Documents and thereafter, from time to time cause any Bond Document and each amendment and supplement thereto (or financing statements or a memorandum with respect thereto or to such amendment or supplement) to be filed, registered and recorded and to be refiled, reregistered and rerecorded in such manner and in such places as may be required in order to publish notice of and fully to protect the liens, or to perfect or continue the perfection of the security interests, created thereby and (ii) 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 Series 2009 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 Series 2009 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 Series 2009 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 of 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 Series 2009 Bonds as provided in such Bond Documents. The Holders of the Series 2009 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 Series 2009 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 Series 2009 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 Series 2009 Bonds and the administration of the Bond Documents, (ii) all payments required to be paid by the Issuer with respect to the Series 2009 Bonds, (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, and (iv) a fee of $25,000.

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 Series 2009 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 Series 2009 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 Series 2009 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 Party, which firm shall be designated in writing by the Indemnified Party).

(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 Series 2009 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 Series 2009 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 Series 2009 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 2009A Bonds for federal income tax purposes, and, in the event of such action or omission, it will use all reasonable efforts to cure the effect of such action or omission. Certain terms used in this Section are defined in Section 5.3(s). With the intent not to limit the generality of the foregoing, the Company covenants and agrees that prior to the final Maturity of the Series 2009A 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 2009A Bonds will, at all times prior to final Maturity of the Series 2009A 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 2009A 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 2009A Bonds, within the meaning of Section 147(g) of the Code, will be expended to pay Costs of Issuance with respect to the Series 2009A 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 2009A 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 2009A 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 2009A 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), Revenue Procedure 2007-47, 2007-29 I.R.B. 08, and the Regulations promulgated under Section 141 of the Code, 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 2009A Bonds, directly or indirectly, to make or finance loans to persons who are not Exempt Persons. For purposes of the preceding sentence, (i) a loan to an organization described in Section 501(c)(3) of the Code for use with respect to an unrelated trade or business, determined according to Section 513(a) of the Code, does not constitute a loan to an Exempt Person and (ii) any transaction that constructively transfers ownership of property financed with Sale Proceeds of the Series 2009A Bonds for federal income tax purposes constitutes a loan of such Sale Proceeds.

(g) Rebate. The Company agrees to take all steps necessary to compute and pay any rebatable arbitrage in accordance with Section 148(f) of the Code, including:

(i) Delivery of Documents and Money on Computation Dates. The Company shall deliver to the Trustee, within 45 days after each Computation Date for the Series 2009A Bonds,

(A) a statement, signed by an officer of the Company, stating the Rebate Amount as of such Computation Date; and

(B) (1) if such Computation Date is an Installment Computation Date, an amount that, 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 2009A Bonds as of such Installment Computation Date, less any prior payments made to the United States for rebatable arbitrage in respect of the Series 2009A Bonds, (2) if such Computation Date is the Final Computation Date, an amount that, together with any amount then held for the credit of the Rebate Fund in respect of the Series 2009A 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 2009A Bonds, or (3) if such Computation Date is an Expenditure Date, an amount that, together with any amount then held for the credit of the Rebate Fund in respect of the Series 2009A Bonds, is equal to the Rebate Amount in respect of the Series 2009A 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) (i) 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 2009A 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 2009A 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 2009A Bonds or the first date on which no Series 2009A 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 2009A Bonds that is not purchased at fair market value or includes terms that the Company would not have included if the Series 2009A 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 2009 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 2009A 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 2009A 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 2009A Bonds, to the Yield of such issue, other than amounts (i) not subject to yield restriction due to any applicable temporary period under Section 148(c) of the Code, deposit in a Reasonably Required Reserve or Replacement Fund, the Rebate Fund, a bona fide debt service fund (including the Debt Service Fund), or as a minor portion, or (ii) invested at a restricted yield by virtue of being invested in obligations described in Section 103(a) of the Code that are not “specified private activity bonds” within the meaning of Section 57(a)(5) of the Code to the extent required by the Code or the Regulations.

(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 2009A Bonds such that the Series 2009A 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 2009A 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 2009A 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 2009A Bonds will be used to carry out the governmental purposes of the Series 2009A 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 2009A Bonds for Capital Expenditures incurred after August 5, 1997. Accordingly, the Series 2009A 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 2009A Bonds will not be used in a manner that deviates other than in an insubstantial degree from the Project described in the respective written notice of public hearing regarding the Series 2009A Bonds published by the Issuer on:
(q) Limitation on Maturity. The Company will not make any changes to the Project that would, at the time made, cause the Company to violate the covenant set forth in Section 2.2(i)(K).

(r) Limitation of Project Expenditures. Other than to the extent of preliminary expenditures (i.e. architectural, engineering, surveying, soil testing, bond issuance, and similar costs that are incurred prior to commencement of acquisition, construction or rehabilitation of the Project (other than land acquisition, site preparation and similar costs incident to commencement of construction)), no portion of the Proceeds of the Series 2009A Bonds will be disbursed to reimburse the Issuer, the Company or any “related person” (within the meaning of section 144(a)(3) of the Code) for any expenditures paid or incurred prior to the date that is 60 days before the Closing Date or the date the Company entered into a reimbursement resolution described in Section 1.150-2 of the Regulations.

(s) Qualified Tax-Exempt Obligations. The Company hereby designates the Series 2009A Bonds as “qualified tax-exempt obligations” for purposes of Section 265(b) of the Code. In connection therewith, the Company represents (a) that the aggregate amount of tax-exempt obligations issued by the Company during calendar year 2009, including the Series 2009A Bonds, which have been designated as “qualified tax-exempt obligations” under Section 265(b)(3) of the Code, does not exceed $30,000,000, and (b) that the reasonably anticipated amount of obligations that will be issued by the Company during calendar year 2009, including the Series 2009A Bonds, will not exceed $30,000,000. For purposes of this paragraph (s), the term “qualified tax-exempt obligation” does not include “private activity bonds” within the meaning of Section 141 of the Code, other than “qualified 501(c)(3) bonds” within the meaning of Section 145 of the Code.

(t) 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 2009A 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 any portion of the Series 2009A Bonds that 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 any bond issuance, (or any portions thereof elected by the Issuer in accordance with Section 148(f)(4)(C)(v) of the Code) where at least 75 percent of the Available Construction Proceeds, 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 2009A Bonds within the meaning of Section 147(g) of the Code as further described in Section 1.150-1(b) of the Regulations.

“Exempt Person” means a state or local governmental unit 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 2009A 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 2009A Bonds that is a Construction Bond Issue, an amount equal to (i) the penalty provided under Section 148(f) of the Code, or (ii) 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 2009A Bonds.

“Gross Proceeds” means any Proceeds and Replacement Proceeds of the Series 2009A 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 2009A 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 2009A Bonds is sold.

“Net Proceeds” means any Sale Proceeds (less any Sale Proceeds deposited in a Reasonably Required Reserve or Replacement Fund), Investment Proceeds and Transferred Proceeds of the Series 2009A Bonds.

“Nonpurpose Investments” means Investment Property acquired with the Gross Proceeds of the Series 2009A Bonds.

“Proceeds” means, any Sale Proceeds, Investment Proceeds and Transferred Proceeds of the Series 2009A Bonds.

“Qualifying Costs” means the Project Costs (excluding the costs for funding a debt service reserve fund or obtaining a TCEP Guaranty) 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), Revenue Procedure, 2007-47, 2007-29 I.R.B. 08 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 2009A Bonds invested at a Yield materially higher than the Yield on the Series 2009A Bonds does not exceed the lesser of (i) 10 percent of the stated principal amount of the Series 2009A 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); (ii) the maximum annual debt service on the Series 2009A Bonds; or (iii) 125 percent of the average annual debt service on the Series 2009A Bonds, within the meaning of Section 1.148-2(f)(2)(ii) of the Regulations.

“Rebate Amount” has the meaning ascribed in Section 1.148-3 of the Regulations and generally means the excess as of any date of the future value of all receipts on Nonpurpose Investments over the future value of all payments on Nonpurpose Investments, all as determined in accordance with Section 1.148-3 of the Regulations. In the case of any Temporary Period Issue, the “Rebate Amount” as of any Computation Date shall be limited to the “Rebate Amount” attributable to any Reasonably Required Reserve or Replacement Fund. For any Construction Bond Issue, the “Rebate Amount” as of any Computation Date shall be the Expenditure Delay Penalty plus (in the case of a Computation Date other than an Expenditure Date) the “Rebate Amount” attributable to any Reasonably Required Reserve or Replacement Fund.

“Rebate Analyst” means an independent certified public accountant, financial analyst or bond counsel, or any firm of the foregoing, or financial institution, experienced in making the
arbitrage and rebate calculations required pursuant to Section 148(f) of the Code, selected, retained and compensated by the Company pursuant to this Section 5.3(g) to make the computations and give the directions required under Section 405 of the Indenture.

“Replacement Proceeds” has the meaning set forth in Section 1.148-1(c) of the Regulations.

“Required Amount” means, with respect to the Series 2009A Bonds (or portion thereof) that is a Construction Bond Issue, (i) 10 percent of the Available Construction Proceeds on the Expenditure Date that falls on the six-month anniversary of the Closing Date, (ii) 45 percent of the Available Construction Proceeds on the Expenditure Date that falls on the one-year anniversary of the Closing Date, (iii) 75 percent of the Available Construction Proceeds on the Expenditure Date that falls on the 18-month anniversary of the Closing Date, and (iv) 100 percent of the Available Construction Proceeds on any Expenditure Date that falls on or after the two-year anniversary of the Closing Date.

“Sale Proceeds” means, any amounts actually or constructively received from the sale (or other disposition) of any Series 2009A 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 2009A 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 2009A 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 2009A Bonds that is a refunding issue, proceeds that have ceased to be proceeds of a refunded issue and are transferred proceeds of the refunding issue by reason of section 1.148-9 of the Regulations.

“Unexpended Required Amount” means, for any Construction Bond Issue, the Required Amount on any Expenditure Date less the percentage of Available Construction Proceeds actually expended on and prior to such Expenditure Date; provided, however, that in the case of any Expenditure Date that falls on or after the two-year anniversary of the Closing Date, Available Construction Proceeds actually expended shall include a reasonable retainage (not in excess of five percent of “available construction proceeds,” 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” of (i) the Series 2009A Bonds has the meaning set forth in Section 1.148-4 of the Regulations and of (ii) any investment has the meaning set forth in Section 1.148-5 of the Regulations.

To the extent that published rulings of the IRS, or amendments to the Code or the Regulations modify the covenants of the Company that are set forth in this Section 5.3 or that are necessary to preserve the excludability from gross income of interest on the Series 2009A 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 2009 Notes, the Master Indenture and the Indenture and the performance of the Company hereunder and thereunder, and has consulted with such officers and employees of the Company as he deemed appropriate and necessary for the purpose of delivering such certificate, and based on such review and consultation, no Event of Default and no event which, with the giving of notice or the passage of time or both, would constitute an Event of Default has occurred and is continuing under the aforementioned documents. The Trustee shall have no duty to examine or independently verify any such audit reports or the matters described in any such certificate other than to examine the certificate for compliance with the required statements therein, and shall have no duty to furnish such audits to any third party.

(b) The Company shall deliver to the Trustee, the SID and each NRMSIR, at the end of each calendar quarter commencing June 30, 2009, a copy of the financial reports customarily prepared for and provided to the Board of the Company during that calendar quarter.

(c) 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 2009 Notes, 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 Indenture and, with respect to the Company, the Master 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) (as used in this Section 5.6 collectively, “Losses”) that Indemnified Parties may incur as a result of or in connection with the assertion against Indemnified Parties, of any claim, civil, criminal or administrative, which:

(a) arises out of the actual, alleged or threatened discharge, dispersal, release, storage, treatment, generation, disposal or escape of any Regulated Chemical, including, but not limited to, any solid, liquid, gaseous or thermal irritant or contaminant, including, but not limited to, smoke, vapor, soot, fumes, acids, alkalis, chemicals, medical waste and waste (including materials to be recycled, reconditioned or reclaimed); or

(b) actually or allegedly arises out of the use of any Regulated Chemical, the existence or failure to detect the existence or proportion of any Regulated Chemical in the soil, air, surface water or groundwater, or the performance or failure to perform the abatement or removal of any Regulated Chemical or of any soil, water, surface water or groundwater containing any Regulated Chemical; or

(c) arises out of the actual or alleged existence of any Regulated Chemical on, in, under, or affecting all or a portion of the Project; or

(d) arises out of any misrepresentations of the Company concerning any matter involving Regulated Chemicals; or

(e) arises out of the Company’s failure to provide all information, make all submissions and filings, and take all steps required by appropriate government authority under any applicable environmental law, regulation, statute or program, whether federal, state or local, whether currently existing or hereinafter enacted.

The obligations under this Section 5.6 shall not be affected by any investigation by or on behalf of Indemnified Parties, or by any information which Indemnified Parties may have or obtain with respect thereto.

Notwithstanding anything to the contrary contained in this Section 5.6, no indemnification shall be required for any damages under this Section incurred solely as the result of the gross negligence or willful misconduct of the party seeking indemnification.

The indemnification of the Indemnified Parties as provided in this Section 5.6 shall remain in full force and effect if any such Losses directly or indirectly results from, arises out of, or relates to, or is asserted to have resulted from arisen out of or related to, the sole or contributory negligence of any of the Indemnified Parties.

Section 5.7 Continuing Disclosure Undertaking.

(a) Annual Reports. Until July 1, 2009, the Company shall provide annually to each NRMSIR and the SID, within six months after the end of each Fiscal Year, financial information and operating data with respect to the Company of the general type included in the final Official
Statement in Appendix A, in Tables 1 through 5, 7, 10 and 11 of Appendix H 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 each NRMSIR and the SID, and audited financial statements if and when and if the audit report on such statements becomes available. On and after July 1, 2009, the Company shall no longer provide such information to the SID or any other NRMSIR; rather, all such information and operating data shall be provided to the Municipal Securities Rulemaking Board (“MSRB”), in an electronic format, accompanied by identifying information, as prescribed by the MSRB.

If the Company changes its fiscal year prior to July 1, 2009, it will notify each NRMSIR and the SID of the change (and of the date of the new fiscal year end) prior to the next date by which the Company otherwise would be required to provide financial information and operating data pursuant to this Section. If the Company changes its fiscal year on or after July 1, 2009, 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.

Until July 1, 2009, 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. On and after July 1, 2009 such information and data may no longer be included by specific reference to documents that have been provided to each NRMSIR and the SID. The Rule, as amended, provides that on and after July 1, 2009, such information and data may either be set forth in full in one or more documents, or may be included by specific reference to documents available to the public on the MSRB Web site or filed with the SEC.

(b) **Material Event Notices.** Until July 1, 2009, the Company shall notify the SID and either each NRMSIR or the MSRB, in a timely manner, of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws:

A. Principal and interest payment delinquencies;
B. Non-payment related defaults;
C. Unscheduled draws on debt service reserves reflecting financial difficulties;
D. Unscheduled draws on credit enhancements reflecting financial difficulties;
E. 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 2009A Bonds;
G. Modifications to rights of holders of the Series 2009 Bonds;
H. Bond calls;
I. Defeasances;
J. Release, substitution, or sale of property securing repayment of the Series 2009 Bonds; and

K. Rating changes.

Until July 1, 2009, the Company shall notify the SID and either each NRMSIR or 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.

On and after July 1, 2009, the Company will no longer notify the SID or any other NRMSIR of material events described in this subsection or the 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. Rather, the Company will provide notice of such events to the MSRB in an electronic format and accompanied by identifying information, as prescribed by the MSRB.

(c) Quarterly Investor Calls. The Company agrees to conduct investor calls on the first Business Day of the month following the end of each calendar quarter until such time as the Company’s reported enrollment equals or exceeds 1,120 students. Such calls shall be initially scheduled at 2 p.m. Eastern Standard Time on April 1, 2009, July 1, 2009, October 1, 2009 and January 4, 2010 through the services of Digital Assurance Certification LLC. The dates and times of any investor call may be changed upon thirty (30) days’ written notice filed with the NRMSIR or the MSRB. Such quarterly investor calls shall resume on the first Business Day of the month following the end of the calendar quarter in which (i) the Company’s reported enrollment subsequently drops below 1,120 and (ii) the Trustee is required to apply funds in the Debt Service Reserve Fund to pay the Debt Service on the Bonds pursuant to Section 404(b) of the Indenture; provided that such quarterly investor calls shall no longer be required once the reported enrollment again equals or exceeds 1,120 students.

(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 Series 2009 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 the Series 2009 Bonds no longer to be outstanding.

The provisions of this Section are for the sole benefit of the holders and beneficial owners of the Series 2009 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 Series 2009 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 Series 2009
Bonds in the primary offering of the Series 2009 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 Series 2009 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
Series 2009 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 Series 2009 Bonds remain
Outstanding, the Company shall maintain its corporate existence and qualification to do business
in the State, and, if different, 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 Series 2009 Bonds and thereafter until the Series 2009 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, 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 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 included in the Deed of Trust, except as permitted by the Deed of Trust, including, without limitation, any mortgage or other lien on the property comprising the Company’s Brownsville 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 Series 2009 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 Enrollment Projections. The Company shall report to the Trustee on each September 1 and February 1, commencing on September 1, 2009, the aggregate enrollment at the Participating Campuses. The reported enrollment is projected to equal:

<table>
<thead>
<tr>
<th>School Year</th>
<th>Enrollment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009/2010 and thereafter</td>
<td>1,120</td>
</tr>
</tbody>
</table>

If, on any reporting date, the enrollment is less than the projection hereinabove, the Company shall, within sixty (60) days, provide evidence to the Trustee that the Board of the Company has, by official action, reserved an amount of general operating funds equal to the next twelve (12) months’ principal and interest payments for the sole purpose of ensuring that adequate funds are available to make debt service payments prior to accessing debt services reserve funds. Such amounts shall remain reserved until the Company’s enrollment meets or exceeds the projections set forth herein.

Section 5.13 Operating Reserves. Each Fiscal Year, the Company shall budget and maintain an amount equal to 45 days of budgeted Expenses commencing as of the end of the first Fiscal Year after the date of issuance of the Series 2009 bonds and thereafter until the Series 2009 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 or a default under any other payment obligation of the Company hereunder) are subject to the following limitations: If by reason of Force Majeure the Company is unable in whole or in part to carry out its agreements contained herein, other than the obligations on the part of the Company to make Loan Payments or other payments due hereunder, the Company shall not be deemed in default during the continuance of such inability. The Company agrees, however, to remedy with all reasonable dispatch the cause or causes preventing the Company from carrying out its agreements by reason of such Force Majeure.

Section 6.2 Remedies Upon An Event of Default. Whenever any Event of Default shall have happened and be continuing, the Issuer, or the Trustee as assignee of the Issuer, may, subject to Article VIII of the Indenture, take any one or more of the following remedial steps:

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

(b) From time to time take whatever actions at law or in equity as necessary or desirable to enforce the obligations of the Company under Sections 4.7, 5.1 and 6.6 hereof.

Section 6.3 No Remedy to be Exclusive. No remedy herein conferred upon or reserved to the Trustee or the Issuer is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Trustee or the Issuer to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice other than such notice as may be herein expressly required.

Section 6.4 No Additional Waiver Implied by One Waiver. In the event any provision, covenant, or agreement contained in this Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Section 6.5 Remedial Rights Assigned to the Trustee. Such rights and remedies as are given the Issuer hereunder (except the Issuer’s rights under Sections 4.7, 5.1 and 6.6 hereof) shall upon execution and delivery of the Indenture be assigned to the Trustee, and the Trustee shall have the right to exercise such rights and remedies, without the joinder or consent of the Issuer, in the same manner and under the limitations and conditions that the Trustee is entitled to exercise rights and remedies under the Indenture.
Section 6.6 Agreement to Pay Attorney’s Fees and Expenses. If the Company should default under any of the provisions of this Agreement and as a consequence the Issuer and/or the Trustee should employ attorneys or incur other expenses for the collection for amounts payable hereunder or the enforcement of performance or observance of any obligation or agreement on the part of the Company contained in this Agreement, the Company agrees that it will on demand therefor reimburse the Issuer and/or the Trustee for the reasonable fees of such attorneys and such other reasonable expenses so incurred. When the Trustee or the Issuer incurs expenses, attorneys’ fees, or renders services after an Event of Default specified in Section 601(c) or (d) of the Master Indenture occurs that is related to the dissolution or liquidation by the Company or the filing by the Company of a voluntary petition for relief, or the entry of an order or decree for relief in an involuntary case, or the entry of an order or decree for dissolution, liquidation or winding up of the affairs of the Company under any applicable bankruptcy, insolvency, or similar law, the expenses, attorneys’ fees and compensation for the services are intended to constitute post-petition expenses of administration under any bankruptcy law.

ARTICLE VII

MISCELLANEOUS

Section 7.1 Severability of Provisions of this Agreement. In the event any provision of this Agreement shall be held invalid or unenforceable by any court or competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 7.2 Execution of this Agreement in Counterparts. This Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 7.3 Captions and Preambles. The captions or headings in this Agreement are for convenience only and in no way define, limit, or describe the scope or intent of any provisions or sections of this Agreement. The preambles hereto are hereby incorporated herein and made a part of this Agreement for all purposes.

Section 7.4 No Pecuniary Liability of the Issuer. No provision, covenant, or agreement contained in this Agreement or breach thereof shall constitute or give rise to any pecuniary liability on the part of the Issuer or any charge upon its general credit. In making such provisions, covenants, or agreements, the Issuer has not obligated itself, except with respect to the Project and the application of the revenues of this Agreement, as hereinabove provided. It is recognized that the Issuer’s only source of funds with which to carry out its commitments under this Agreement will be from the proceeds of the sale of the Series 2009 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 (which is currently $25,000), costs of issuance reasonably incurred by the Issuer in
connection with the issuance of the Series 2009 Bonds, and other expenses, if any, incurred from time to time by the Issuer in connection with the Project or the Series 2009 Bonds.

Section 7.6  Status of the Parties’ Relationship. Nothing in this Agreement shall be construed to make either party the partner or joint venturer of or with the other party.

Section 7.7  Governing Law. The validity, interpretation, and performance of this Agreement shall be governed by the laws of the State.

Section 7.8  Final Agreement. THIS WRITTEN AGREEMENT AND THE OTHER BOND DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

Section 7.9  Third Party Beneficiary. The parties hereto expressly recognize that the Trustee is a third party beneficiary to this Agreement and may enforce any right, remedy, or claim conferred, given or granted hereunder.
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.

CLIFTON HIGHER EDUCATION FINANCE CORPORATION

By:____________________________
    President

[Remainder of page intentionally left blank]
TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

By: ________________________________
    President, Board of Directors
EXHIBIT A

TO

LOAN AGREEMENT

The Project consists of the following “educational facilities” (as defined in the Higher Education Authority Development Act):

• improvements to the School’s Houston campus at 2950 Broadway, Houston, Texas, 77017 (the “Houston Campus”) as follows: renovation and equipment of approximately 60,000 square feet of space in the main administration building and junior high school building, construction and equipment of approximately 131,000 square feet of new classroom space for primary school, junior high-school and college preparatory classes, a gymnasium and a parking garage, and demolition and removal of approximately 22,000 square feet of temporary classrooms and converted single-family residential units currently used for classrooms and offices to provide site improvements and additional greenspace (the “Houston Project”);

• refinancing two loans from Wells Fargo Bank, National Association in the aggregate original principal amount of $936,967, the proceeds of which were used for the acquisition of land and site improvements to the Brownsville campus located at 2255 North Coria, Brownsville, Texas 78520 (the “Brownsville Project” and collectively with the Houston Project, the “2009 Project”);

• refinancing a loan in the original principal amount of $450,000 from Local Initiatives Support Corporation, the proceeds of which were used to pay for the expansion of the Houston Campus, including the construction and equipping of approximately 244,000 square feet of space for administrative offices, a gymnasium and parking and green spaces;

• refinancing approximately $2,500,000 of Danbury Higher Education Authority, Inc. Tax-Exempt Education Revenue Bonds, Series 2000A (Tejano Center for Community Concerns, Inc. – Raul Yzaguirre School for Success) (the “Series 2000 Bonds”);

• funding a debt service reserve fund or obtaining a TCEP Guaranty;

• paying the costs of issuance of the Bonds; and

• paying capitalized interest on the Bonds.
EXHIBIT B

FORM OF COMPLETION CERTIFICATE

_____________, _____

Wells Fargo Bank, National Association
MAC: T5303-022
1445 Ross Avenue, 2nd Floor
Dallas, Texas 75202

Attention: Corporate Trust

Re: $[_____] CLIFTON HIGHER EDUCATION FINANCE CORPORATION REVENUE AND REFUNDING BONDS (Tejano Center for Community Concerns, Inc. – Raul Yzaguirre School for Success) SERIES 2009A and $[_____] CLIFTON HIGHER EDUCATION FINANCE CORPORATION TAXABLE EDUCATION REVENUE BONDS (Tejano Center for Community Concerns, Inc. – Raul Yzaguirre School for Success) SERIES 2009B (the “Bonds”)

Ladies and Gentlemen:

The undersigned, being the owner of the Project, as defined in that certain Loan Agreement dated as of February 1, 2009 (the “Loan Agreement”) by and among the undersigned and the Issuer hereby certifies to Wells Fargo Bank, National Association, as trustee (the “Trustee”) that “Completion” of the Project 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 ________ Campus 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 2009A Bonds were used for Qualifying Costs. If less than 95 percent of the Proceeds of the Series 2009A Bonds were used for Qualifying Costs, the Company has redeposited amounts into the Construction Fund such that the amount of proceeds disbursed for Qualifying Costs is equal to at least 95
percent of the Net Proceeds of the Series 2009A 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 2009A Bonds or the date 60 days after the retirement of the issue, if earlier. Moreover, not more than 2 percent of the Sale Proceeds of the Series 2009A Bonds were used for Costs of Issuance.

TEJANO CENTER FOR COMMUNITY CONCERNS, INC.

By: ____________________________________________
    Authorized Representative

APPROVED BY:

___________________________________________
as Construction Consultant for the
__________________________________________ Campus

By: ____________________________________________
    Authorized Representative
APPENDIX G
SUBSTANTIALLY FINAL FORM OF THE DEED OF TRUST
DEED OF TRUST AND SECURITY AGREEMENT

(With Assignment of Rents and Leases)

THE STATE OF TEXAS §
§
§
§
COUNTY OF __________ §

This instrument ("Deed of Trust") is a deed of trust from:

Mortgagor Name(s): TEJANO CENTER FOR COMMUNITY CONCERNS, INC.,
a Texas non-profit corporation
Address: 2950 Broadway Street
Houston, TX 77017

(called the "Mortgagor," "Debtor" and "Assignor," whether one or more) to:

Mortgage Trustee Name: ______________________
Address: _______________________

as trustee (called the "Mortgage Bond Trustee"), for the use and benefit of:

Mortgagee Name: WELLS FARGO BANK, NATIONAL ASSOCIATION (the
"Master Trustee") under that certain Master Trust Indenture dated
as of January 1, 2009 between Mortgagor and the Master Trustee
(as amended, supplemented, restated or replaced from time to time,
the "Master Indenture"), for the benefit of the Holders of Notes
issued thereunder from time to time.
Address: Wells Fargo Bank, National Association
1445 Ross Avenue
Dallas, Texas 75202
Attn: Corporate Trust Services

(the "Mortgagee," "Secured Party" and "Assignee"), a security agreement between Debtor and
Secured Party and an assignment of leases and rents from Assignor to Assignee.
Capitalized terms used but not defined herein shall have the meanings assigned to them in the Master Indenture.
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ARTICLE 1

IDENTIFICATION OF THE COLLATERAL AND ITS CONVEYANCE TO THE
MORTGAGE BOND TRUSTEE

Section 1.01 Mortgagor’s Conveyance of the Collateral to the Mortgage Bond Trustee
to Secure the Debt. To secure payment of principal, lawful interest and other elements of the
Debt described and defined in Article 2, in consideration of the uses and trusts (the “Trust”) established and continued by this Deed of Trust and in consideration of $10 and other valuable consideration paid before delivery of this Deed of Trust by each of Mortgage Bond Trustee and Mortgagee to Mortgagor, who hereby acknowledges its receipt and that it is reasonably equivalent value for this Deed of Trust and all other security and rights given by Mortgagor, Mortgagee hereby Grants, Sells, Conveys, Transfers, Assigns, Sets Over, Confirms and Delivers unto the Mortgage Bond Trustee and to his successors or substitutes in the Trust, the following property (collectively, the “Collateral”):

(a) Real Property. All of the real estate and premises described or referred to on
Exhibit A, together with (i) all of Mortgagor’s estate, right, title and interest in and to all
easements and rights of way for utilities, ingress or egress to or from said property and (ii) all
interests of Mortgagor in and to all streets, rights-of-way, alleys or strips of land adjoining said
property (collectively, the “Real Property”).

(b) Buildings and Improvements. All existing and all future buildings on the Real
Property and other improvements to it, all of which Mortgagor and Mortgagee hereby irrevocably declare to be real estate and part of the Real Property, including all water, sewage and drainage facilities, wells, treatment plants, supply, collection and distribution systems, paving, landscaping and other improvements (collectively, the “Improvements”).

(c) Fixtures, Equipment and Supplies. All fixtures, equipment and supplies (the
“Fixtures and Equipment”) now or hereafter attached to, used, intended or acquired for use for,
or in connection with, the construction, maintenance, operation or repair of the Real Property or
Improvements, or for the present or future replacement or replenishment of used portions of it,
and all related parts, filters and supplies, including, but not limited to, all heating, lighting,
cooling, ventilating, air conditioning, environment control, refrigeration, plumbing, incinerating,
water heating, cooking, pollution control, gas, electric, solar, nuclear, computing, monitoring,
measuring, controlling, distributing and other equipment and fixtures, and all renewals and
replacements of them, all substitutions for them and all additions and accessions to them, all of
which Mortgagor and Mortgagee hereby also irrevocably declare to be real estate and part of the
Real Property.

(d) Leases. All Leases (as such term is defined in Section 9.01 below).

(e) Utilities. All wastewater, fresh water and other utilities capacity and facilities (the
“Utilities Capacity”) available or allocable to the Real Property and Improvements or dedicated
to or reserved for them pursuant to any system, program, contract or other arrangement with any
public or private utility, and all related or incidental licenses, rights and interests, whether
considered to be real, personal or mixed property, including the right and authority to transfer or
relinquish any or all such rights and the right to any credit, refund, reimbursement or rebate for utilities facilities construction or installation or for any reservation fee, standby fee or capital recovery charge promised, provided or paid for by Mortgagor or any of Mortgagor’s predecessors or Affiliates (defined below), to the full extent now allocated or allocable to the Real Property or Improvements, plus all additional Utilities Capacity, if any, not dedicated or reserved to the Real Property or Improvements but which is now or hereafter owned or controlled by Mortgagor or by anyone (an “Affiliate,” whether a natural person or an entity) who directly or through one or more intermediaries controls, is controlled by or is under common control with Mortgagor, to the full extent that such additional Utilities Capacity is necessary to allow development, marketing and use of the Real Property or Improvements for their highest and best use.

(f) After-acquired Property. All estate, right, title and interest acquired by Mortgagor in or to the Real Property, Improvements, Fixtures and Equipment, Leases and Utilities Capacity after execution of this Deed of Trust.

(g) Appurtenances. Any and all rights and appurtenances (the “Appurtenances”) belonging, incident or appertaining to the Real Property, Improvements, Fixtures and Equipment, Leases, Utilities Capacity or any part of them.

(h) Oil and Gas. All existing and future minerals, oil, gas and other hydrocarbon substances in, upon, under or through the Real Property, if any.

(i) Reversions and Remainders. Any and all rights and estates in reversion or remainder to the Real Property, Improvements, Fixtures and Equipment, Leases, Utilities Capacity or Appurtenances or any part of them.

(j) Contractual Rights. All contracts (including contracts for the sale or exchange of all or any portion of the Real Property or the Improvements), franchises, licenses and permits whether executed, granted or issued by a private person or entity or a governmental or quasi-governmental agency, which are directly or indirectly related to or connected with the development or sale of the Real Property or the Improvements, whether now or at any time hereafter existing, and all amendments and supplements thereto and renewals and extensions thereof at any time made, and all rebates, refunds, escrow accounts and funds, or deposits and all other sums due or to become due under and pursuant thereto and all powers, privileges, options and Mortgagor’s other benefits thereunder.

(k) Deposit Accounts. The Company’s deposit accounts maintained by ______________________ as follows: each established pursuant to Section 12.107, Texas Education Code, as an official depository account for all State Revenues (collectively, the “Deposit Account”).

(l) Other Estates and Interests. All other estates, easements, interests, licenses, rights, titles, powers or privileges of every kind and character which Mortgagor now has, or at any time hereafter acquires, in and to any of the foregoing, including the proceeds from condemnation, or threatened condemnation, and the proceeds of any and all insurance covering any part of the foregoing; and all related parts, accessions and accessories to any of the foregoing
and all replacements or substitutions therefor, as well as all other Improvements, Fixtures and Equipment, Leases, Utilities Capacity and Appurtenances now or hereafter placed thereon or accruing thereto.

Section 1.02 Habendum and Title Warranty. TO HAVE AND TO HOLD the Collateral, together with every right, privilege, hereditament and appurtenance belonging or appertaining to it, unto the Mortgage Bond Trustee, his successors or substitutes in the Trust and his or their assigns, forever. Mortgagor represents that Mortgagor is the lawful owner of the Collateral with good right and authority to mortgage and convey it, and that the Collateral is free and clear of all liens, claims and encumbrances except only those expressly referred to or described in Exhibit B (the “Permitted Encumbrances”). Mortgagor hereby binds Mortgagor and Mortgagor’s successors and assigns to forever WARRANT and DEFEND the Collateral and every part of it unto the Mortgage Bond Trustee, his successors or substitutes in the Trust, and his or their assigns, against the claims and demands of every person whomsoever lawfully claiming or to claim it or any part of it (such warranty to supersede any provision contained in this Deed of Trust limiting the liability of Mortgagor), subject to the Permitted Encumbrances.

Other than as part of the Permitted Encumbrances, the Mortgagor 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 Mortgagor has not described such Collateral in a UCC financing statement that will remain effective on the Closing Date. The Mortgagor 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 Related Bond Documents. The lien of this Deed of Trust on the real property and fixtures described herein may not be avoided by any bona fide purchaser acquiring such property for value after the date hereof. 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 Mortgagor on a simple contract.

ARTICLE 2

THE DEBT SECURED

Section 2.01 Conveyance in Trust to Secure Designated Obligations. This conveyance to the Mortgage Bond Trustee is in trust to secure all of the following present and future debt and obligations:

(a) The Notes. All indebtedness now or hereafter evidenced and to be evidenced by (i) any and all Notes (as defined in the Master Indenture) issued pursuant to the Master Indenture, from time to time; and (ii) any and all past, concurrent or future modifications, extensions, renewals, rearrangements, replacements and increases of such Notes (collectively, the “Notes”).

(b) Master Indenture. All obligations and indebtedness of Mortgagor now or hereafter created or incurred under the Master Indenture.
(c) Other Specified Obligations. All other obligations, if any, described or referred to in any other place in this Deed of Trust.

(d) Advances and Other Obligations Pursuant to this Deed of Trust’s Provisions. Any and all sums and the interest which accrues on them as provided in this Deed of Trust which Mortgagee may advance or which Mortgagor may owe Mortgagee pursuant to this Deed of Trust on account of Mortgagor’s failure to keep, observe or perform any of Mortgagor’s covenants under this Deed of Trust.

(e) Obligations under Related Bond Documents. All present and future debts and obligations under or pursuant to (1) any papers (“Credit Documents”) now or in the future governing, evidencing, guaranteeing or securing or otherwise relating to payment of all or any part of the debt evidenced by the Notes or (2) all supplements, amendments, restatements, renewals, extensions, rearrangements, increases, expansions or replacements of them.

Section 2.02 Debt Defined. The term “Debt” means and includes every Note and all other debt and obligations described or referred to in Section 2.01. The Debt includes interest and other obligations accruing or arising after (a) commencement of any case under any bankruptcy or similar laws by or against Mortgagor or any other person or entity now or hereafter primarily or secondarily obligated to pay all or any part of the Debt (Mortgagor and each such other person or entity being herein called an “Obligor”) or (b) the obligations of any Obligor shall cease to exist by operation of law or for any other reason. The Debt also includes all reasonable attorneys’ fees and any other expenses incurred by Mortgagee in enforcing any of the Credit Documents. All liens, assignments and security interests created, represented or continued by this Deed of Trust, both present and future, shall be first, prior and superior to any lien, assignment, security interest, charge, reservation of title or other interest heretofore, concurrently or subsequently suffered or granted by Mortgagor or Mortgagor’s successors or assigns, except only statutory super priority liens for nondelinquent taxes and those other liens (if any) expressly identified and stated in this Deed of Trust to be senior.

ARTICLE 3
SECURITY AGREEMENT

Section 3.01 Grant of Security Interest. Without limiting any of the provisions of this Deed of Trust, Mortgagor, as Debtor, and referred to in this Article as “Debtor” (whether one or more) hereby grants to Mortgagee, as Secured Party, and referred to in this Article as “Secured Party” (whether one or more) in order to secure the Debt, a security interest in all of Debtor’s remedies, powers, privileges, rights, titles and interests (including all of Debtor’s power, if any, to pass greater title than it has itself) of every kind and character now owned or hereafter acquired, created or arising in and to (i) the Collateral (including both that now and that hereafter existing) to the full extent that the Collateral may be subject to the Uniform Commercial Code of the state or states where the Collateral is situated (the “UCC”), (ii) all equipment, accounts, general intangibles, fixtures, inventory, chattel paper, notes, documents and other personal property used, intended or acquired for use, on, or in connection with the use or operation of, the Collateral, or otherwise related to the Collateral, and all products and proceeds of it, including all security deposits under Leases now or at any time hereafter held by or for Debtor’s benefit, all
monetary deposits that Debtor has been required to give to any public or private utility with respect to utility services furnished to the Collateral, all funds, accounts, instruments, accounts receivable, documents, trademarks, trade names and symbols used in connection therewith, and notes or chattel paper arising from or by virtue of any transactions related to the Collateral, all permits, licenses, franchises, certificates, and other rights and privileges obtained in connection with the Collateral, and all guaranties and warranties obtained with respect to all improvements, equipment, furniture, furnishings, personal property and components of any thereof located on or installed at the Real Property, and (iii) the following described property:

(a) **Contracts.** All contracts now or hereafter entered into by and between Debtor and any Original Contractor (as such term is defined in Section 53.001(7) of the Texas Property Code) or between Debtor and any other party, as well as all right, title and interest of Debtor under any subcontracts, providing for the construction (original, restorative or otherwise) of any improvements to or on any of the Collateral or the furnishing of any materials, supplies, equipment or labor in connection with any such construction.

(b) **Plans.** All of the plans, specifications and drawings (including plot plans, foundation plans, floor plans, elevations, framing plans, cross-sections of walls, mechanical plans, electrical plans and architectural and engineering plans and architectural and engineering studies and analyses) heretofore or hereafter prepared by any architect, engineer or other design professional, in respect of any of the Collateral.

(c) **Design, etc. Agreements.** All agreements now or hereafter entered into with any person or entity in respect of architectural, engineering, design, management, development or consulting services rendered or to be rendered in respect of planning, design, inspection or supervision of the construction, management or development of any of the Collateral.

(d) **Lender or Investor Commitments.** Any commitment issued by any lender or investor other than Mortgagee to finance or invest in any of the Collateral.

(e) **Bonds.** Any completion bond, performance bond and labor and material payment bond and any other bond relating to the Collateral or to any contract providing for construction of improvements to any of the Collateral;

together with all substitutions for and proceeds of any of the foregoing received upon the rental, sale, exchange, transfer, collection or other disposition or substitution of it and together with all general intangibles now owned by Debtor or existing or hereafter acquired, created or arising (whether or not related to any of the foregoing Property). All the property described or referred to in Section 1.01 and this Section 3.01 is collectively referred to as the “Collateral.” The Collateral is also referred to as the “Property.” In the event of any express inconsistency between the provisions of this Section and Article 9 regarding any Lease, the provisions of Article 9, to the extent valid, enforceable and in effect, shall govern and control.

Section 3.02  **Debtor’s Covenants Concerning Personalty Subject to the UCC.** Debtor covenants and agrees with Secured Party that in addition to and cumulative of any other remedies granted in this Deed of Trust to Secured Party or the Mortgage Bond Trustee, upon or at any time after the occurrence of an Event of Default (defined in Article 6):
(a) Secured Party is authorized, in any legal manner and without breach of the peace, to take possession of the Collateral (Debtor hereby WAIVING all claims for damages arising from or connected with any such taking) and of all books, records and accounts relating thereto and to exercise without interference from Debtor any and all rights which Debtor has with respect to the management, possession, operation, protection or preservation of the Collateral, including the right to sell or rent the same for the account of Debtor and to deduct from such sale proceeds or such rents all costs, expenses and liabilities of every character incurred by Secured Party in collecting such sale proceeds or such rents and in managing, operating, maintaining, protecting or preserving the Collateral and to apply the remainder of such sales proceeds or such rents on the Debt in such manner as Secured Party may elect. Before any sale, Secured Party may, at its option, complete the processing of any of the Collateral and/or repair or recondition the same to such extent as Secured Party may deem advisable and any sums expended therefor by Secured Party shall be reimbursed by Debtor. Secured Party may take possession of Debtor’s premises to complete such processing, repairing and/or reconditioning, using the facilities and other property of Debtor to do so, to store any Collateral and to conduct any sale as provided for herein, all without compensation to Debtor. All costs, expenses, and liabilities incurred by Secured Party in collecting such sales proceeds or such rents, or in managing, operating, maintaining, protecting or preserving such properties, or in processing, repairing and/or reconditioning the Collateral if not paid out of such sales proceeds or such rents as hereinabove provided, shall constitute a demand obligation owing by Debtor and shall bear interest from the date of expenditure until paid at the Past Due Rate (as defined in Article 7 below), all of which shall constitute a portion of the Debt. If necessary to obtain the possession provided for above, Secured Party may invoke any and all legal remedies to dispossess Debtor, including specifically one or more actions for forcible entry and detainer. In connection with any action taken by Secured Party pursuant to this Section, Secured Party shall not be liable for any loss sustained by Debtor resulting from any failure to sell or let the Collateral, or any part thereof, or from other act or omission of Secured Party with respect to the Collateral unless such loss is caused by the willful misconduct and bad faith of Secured Party, nor shall Secured Party be obligated to perform or discharge any obligation, duty, or liability under any sale or lease agreement covering the Collateral or any part thereof or under or by reason of this instrument or the exercise of rights or remedies hereunder.

(b) Secured Party may, without notice except as hereinafter provided, sell the Collateral or any part thereof at public or private sale (with or without appraisal or having the Collateral at the place of sale) for cash, upon credit, or for future delivery, and at such price or prices as Secured Party may deem best, and Secured Party may be the purchaser of any and all of the Collateral so sold and may apply upon the purchase price therefor any of the Debt and thereafter hold the same absolutely free from any right or claim of whatsoever kind. Secured Party is authorized at any such sale, if Secured Party deems it advisable or is required by applicable law so to do, to disclaim and to refuse to give any warranty, and to impose such other limitations or conditions in connection with any such sale as Secured Party deems necessary or advisable in order to comply with applicable law. Upon any such sale Secured Party shall have the right to deliver, assign and transfer to the purchaser thereof the Collateral so sold. Each purchaser at any such sale shall hold the property sold absolutely free from any claim or right of whatsoever kind, including any equity or right of redemption, stay or appraisal which Debtor has or may have under any rule of law or statute now existing or hereafter adopted. To the extent notice is required by applicable law, Secured Party shall give Debtor written notice at the address
set forth herein (which shall satisfy any requirement of notice or reasonable notice in any applicable statute) of Secured Party’s intention to make any such public or private sale. Such notice (if any is required by applicable law) shall be personally delivered or mailed, postage prepaid, at least ten (10) calendar days before the date fixed for a public sale, or at least ten (10) calendar days before the date after which the private sale or other disposition is to be made, unless the Collateral is of a type customarily sold on a recognized market, is perishable or threatens to decline speedily in value. Such notice (if any is required by applicable law), in case of public sale, shall state the time and place fixed for such sale or, in case of private sale or other disposition other than a public sale, the time after which the private sale or other such disposition is to be made. Any public sale shall be held at such time or times, within the ordinary business hours and at such place or places, as Secured Party may fix in the notice of such sale. At any sale the Collateral may be sold in one lot as an entirety or in separate parcels as Secured Party may determine. Secured Party shall not be obligated to make any sale pursuant to any such notice. Secured Party may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at any time and place fixed for the sale, and such sale may be made at any time or place to which the same may be so adjourned. In case of any sale of all or any part of the Collateral on credit or for future delivery, the Collateral so sold may be retained by Secured Party until the selling price is paid by the purchaser thereof, but Secured Party shall incur no liability in case of the failure of such purchaser to take up and pay for the Collateral so sold, and in case of any such failure, such Collateral may again be sold upon like notice. Each and every method of disposition described in this Section shall constitute disposition in a commercially reasonable manner. Each Obligor, to the extent applicable, shall remain liable for any deficiency.

(c) Secured Party shall have all the rights of a secured party after default under the Uniform Commercial Code of Texas and in conjunction with, in addition to or in substitution for those rights and remedies:

(i) Secured Party may require Debtor to assemble the Collateral and make it available at a place Secured Party designates that is mutually convenient to allow Secured Party to take possession or dispose of the Collateral; and

(ii) it shall not be necessary that Secured Party take possession of the Collateral or any part thereof before the time that any sale pursuant to the provisions of this Article is conducted and it shall not be necessary that the Collateral or any part thereof be present at the location of such sale; and

(iii) before application of proceeds of disposition of the Collateral to the Debt, such proceeds shall be applied to the reasonable expenses of retaking, holding, preparing for sale or lease, selling, leasing and the like and the reasonable attorneys’ fees and legal expenses incurred by Secured Party, each Obligor, to the extent applicable, to remain liable for any deficiency; and

(iv) the sale by Secured Party of less than the whole of the Collateral shall not exhaust the rights of Secured Party hereunder, and Secured Party is specifically empowered to make successive sale or sales hereunder until the whole of the Collateral shall be sold; and, if the proceeds of such sale of less than the whole of the Collateral
shall be less than the aggregate of the indebtedness secured hereby, this Deed of Trust and the security interest created hereby shall remain in full force and effect as to the unsold portion of the Collateral just as though no sale had been made; and

(v) in the event any sale hereunder is not completed or is defective in the opinion of Secured Party, such sale shall not exhaust the rights of Secured Party hereunder and Secured Party shall have the right to cause a subsequent sale or sales to be made hereunder; and

(vi) any and all statements of fact or other recitals made in any bill of sale or assignment or other instrument evidencing any foreclosure sale hereunder as to nonpayment of any indebtedness or as to the occurrence of any default, or as to Secured Party having declared all of such indebtedness to be due and payable, or as to notice of time, place and terms of sale and the Collateral to be sold having been duly given, as to any other act or thing having been duly done by Secured Party, shall be taken as prima facie evidence of the truth of the facts so stated and recited; and

(vii) Secured Party may appoint or delegate any one or more persons as agent to perform any act or acts necessary or incident to any sale held by Secured Party, including the sending of notices and the conduct of sale, but in the name and on behalf of Secured Party; and

(viii) demand of performance, advertisement and presence of property at sale are hereby WAIVED and Secured Party is hereby authorized to sell hereunder any evidence of debt it may hold as security for the secured indebtedness. All demands and presentments of any kind or nature are expressly WAIVED by Debtor. Debtor WAIVES the right to require Secured Party to pursue any other remedy for the benefit of Debtor and agrees that Secured Party may proceed against any Obligor for the amount of the Debt owed to Secured Party without taking any action against any other Obligor or any other person or entity and without selling or otherwise proceeding against or applying any of the Collateral in Secured Party’s possession.

Section 3.03 UCC Rights are not Exclusive. Should Secured Party elect to exercise its rights under the UCC as to part of the personal property or fixtures described in this Deed of Trust, such election shall not preclude Secured Party or the Mortgage Bond Trustee from exercising any or all of the rights and remedies granted by the other Articles of this Deed of Trust as to the remaining personal property or fixtures.

Section 3.04 Deed of Trust is Also Financing Statement. Secured Party is hereby authorized by the Debtor to file, at Secured Party’s election, at any time after delivery of this Deed of Trust, an original of this Deed of Trust as a financing statement.

Section 3.05 No other Financing Statements on the Collateral. So long as any amount remains unpaid on the Debt, Debtor will not authorize and there will not be filed in any public office any financing statements affecting the Collateral other than financing statements in favor of Secured Party under this Deed of Trust and such protective filings related to the Permitted
Encumbrances as are permitted to be filed pursuant to the UCC, unless prior written specific consent and approval of Secured Party shall have been first obtained.

Section 3.06  Secured Party May File Financing and Continuation Statements.  Secured Party is authorized to file this Deed of Trust, a financing statement or statements and one or more continuation statements in any jurisdiction where Secured Party deems it necessary, and at Secured Party’s request, Debtor will join Secured Party in authorizing one or more financing statements, continuation statements or both pursuant to the UCC, in form satisfactory to Secured Party, and will pay the costs of filing or recording them, in all public offices at any time and from time to time whenever filing or recording of this Deed of Trust, any financing statement or any continuation statement is deemed by Secured Party or its counsel to be necessary or desirable.

[Section 3.06A  Deposit Account.  Pursuant to a certain Deposit Account Control Agreement executed of even date herewith by and among the Mortgage Bond Trustee, the Company, and _________________________, the Beneficiary shall have “control” (within the meaning of Section 9.104 of the Texas version of the Uniform Commercial Code as in effect on the date hereof) over that certain Deposit Account referred to in Section 1.01(d) above.]

Section 3.07  Fixtures.  Certain of the Collateral is or will become “fixtures” (as that term is defined in the UCC) on the Real Property, and when this Deed of Trust is filed for record in the real estate records of the county where such fixtures are situated, it shall also automatically operate as a financing statement upon such of the Collateral which is or may become fixtures.

Section 3.08  Assignment of Non-UCC Personal Property.  To the extent that any of the Collateral is not subject to the UCC of the state or states where it is situated, Debtor hereby assigns to Secured Party all of Debtor’s right, title and interest in the Collateral to secure the Debt.  Release of the lien of this Deed of Trust shall automatically terminate this assignment.

Section 3.09  Debtor’s Warranties Concerning Collateral.  Debtor warrants and represents to Secured Party that Debtor is the legal and equitable owner and holder of the Collateral free of any adverse claim and free of any security interest or encumbrance except only for the security interest granted hereby in the Collateral and those other security interests (if any) expressly referred to or described in this Deed of Trust (such warranty to supersede any provision contained in this Deed of Trust limiting the liability of Mortgagor).  Debtor agrees to defend the Collateral and its proceeds against all claims and demands of any person at any time claiming the Collateral, its proceeds or any interest in either, subject to the Permitted Encumbrances.  Debtor also warrants and represents that Debtor has not heretofore authorized the filing of any financing statement directly or indirectly affecting the Collateral or any part of it which has not been completely terminated of record, and no such financing statement is now on file in any public office except only those statements (if any) true and correct copies of which Debtor has actually delivered to Secured Party.

Section 3.10  Certain Powers of Secured Party.  Debtor hereby authorizes and directs each account debtor and each other person or entity obligated to make payment in respect of any of the Collateral (each a “Collateral Obligor”) to pay over to Secured Party, its officers, agents or assigns, upon demand by Secured Party, all or any part of the Collateral without making any
inquiries as to the status or balance of the secured indebtedness and without any notice to or further consent of Debtor. Debtor hereby agrees to indemnify each Collateral Obligor and hold each Collateral Obligor harmless from all expenses and losses which it may incur or suffer as a result of any payment it makes to Secured Party pursuant to this paragraph. To facilitate the rights of Secured Party hereunder, Debtor hereby authorizes Secured Party, its officers, employees, agents or assigns:

(a) to notify Collateral Obligors of Secured Party’s security interest in the Collateral and to collect all or any part of the Collateral without further notice to or further consent by Debtor, and Debtor hereby constitutes and appoints Secured Party the true and lawful attorney of Debtor (such agency being coupled with an interest), irrevocably, with power of substitution, in the name of Debtor or in its own name or otherwise, to take any of the actions described in the following clauses (b), (c), (d), (e), (f) and (g);

(b) to ask, demand, collect, receive, receipt for, sue for, compound and give acquittance for any and all amounts that may be or become due or payable under the Collateral and to settle and/or adjust all disputes and/or claims directly with any Collateral Obligor and to compromise, extend the time for payment, arrange for payment in installments, otherwise modify the terms of, or release, any of the Collateral, on such terms and conditions as Secured Party may determine (without thereby incurring responsibility to or discharging or otherwise affecting the liability of Debtor to Secured Party under this Deed of Trust or otherwise);

(c) to direct delivery of, receive, open and dispose of all mail addressed to Debtor and to execute, sign, endorse, transfer and deliver (in the name of Debtor or in its own name or otherwise) any and all receipts or other orders for the payment of money drawn on the Collateral and all notes, acceptances, commercial paper, drafts, checks, money orders and other instruments given in payment or in part payment thereof and all invoices, freight and express bills and bills of lading, storage receipts, warehouse receipts and other instruments and documents in respect of any of the Collateral and any other documents necessary to evidence, perfect and realize upon the security interests and obligations of this Deed of Trust;

(d) in its discretion to file any claim or take any other action or proceeding which Secured Party may deem necessary or appropriate to protect and preserve the rights, titles and interests of Secured Party hereunder;

(e) to sign the name of Debtor to drafts against Collateral Obligors, assignments or verifications of any of the Collateral and notices to Collateral Obligors;

(f) to station one or more representatives of Secured Party on Debtor’s premises for the purpose of exercising any rights, benefits or privileges available to Secured Party hereunder or under any of the Credit Documents or at law or in equity, including receiving collections and taking possession of books and records relating to the Collateral; and

(g) to cause title to any or all of the Collateral to be transferred into the name of Secured Party or any nominee or nominees of Secured Party.

The powers conferred on Secured Party pursuant to this Section are conferred solely to protect Secured Party’s interest in the Collateral and shall not impose any duty or obligation on Secured
Party to perform any of the powers herein conferred. No exercise of any of the rights provided for in this Section shall constitute a retention of collateral in full or partial satisfaction of the indebtedness as provided for in the Uniform Commercial Code of Texas.

Section 3.11 Standard of Care. Secured Party shall be deemed to have exercised reasonable care in the custody and preservation of any of the Collateral in its possession if it takes such action for that purpose as Debtor requests in writing, but failure of Secured Party to comply with such request shall not of itself be deemed a failure to exercise reasonable care, and no failure of Secured Party to take any action not so requested by Debtor shall be deemed a failure to exercise reasonable care in the custody or preservation of any such Collateral.

Section 3.12 Change Terms, Release Collateral. Secured Party may extend the time of payment, arrange for payment in installments, otherwise modify the terms of, or release, any of the Collateral, without thereby incurring responsibility to Debtor or discharging or otherwise affecting any liability of Debtor. Secured Party shall not be required to take steps necessary to preserve any rights against prior parties to any of the Collateral.

ARTICLE 4

MORTGAGOR’S COVENANTS

Section 4.01 Covenants for the Benefit of Mortgagee. Subject to the terms and conditions of the Related Bond Documents, to better secure the Debt, Mortgagor covenants and agrees with the Mortgage Bond Trustee and his substitutes and successors in the Trust, for the use and benefit of Mortgagee and with the intent that the Mortgage Bond Trustee, Mortgagee or both may enforce these covenants, that:

(a) Liens, etc. and Remedies Cumulative. No lien, assignment, security interest, guaranty, right or remedy in favor of Mortgagee granted in, secured by or ancillary to this Deed of Trust shall be considered as exclusive, but each shall be cumulative of all others which Mortgagee or the Mortgage Bond Trustee may now or hereafter have.

(b) Mortgagor Waives Marshalling of Assets and Sale in Inverse Order of Alienation Rights. Mortgagor hereby irrevocably WAIVES all rights of marshalling of assets or sale in inverse order of alienation in the event of foreclosure of this or any other security.

(c) Mortgagor Will Correct Title Defects. Subject to the Permitted Encumbrances, if at any future time any defect should be found to exist in the title to any of the Property, Mortgagor agrees to promptly commence and thereafter diligently proceed to cure the defect and defend the title. If any lien or encumbrance junior, equal or superior in rank or priority to the lien of this Deed of Trust should be discovered or arise at any time in the future then, unless Mortgagee is the only holder of it, or Mortgagee has given specific prior written consent to it, Mortgagor agrees to promptly discharge and remove it from the Collateral. Mortgagor will notify Mortgagee in writing within five (5) days of the time that Mortgagor becomes aware of the filing of any mortgage, lien, security interest, financing statement or other security device whatsoever against the Property.
(d) **Mortgagee’s Rights to Collect Insurance Proceeds.** Mortgagor hereby assigns to Mortgagee the exclusive right to collect any and all monies that may become payable under any insurance policies covering any part of the Property, or any risk to or about the Property.

(e) **Effects of Foreclosure on Insurance Policies and Post-foreclosure Event Claims.** Foreclosure of this Deed of Trust shall automatically constitute foreclosure upon all policies of insurance insuring any part of or risk to the Property and all claims thereunder arising from post-foreclosure events. The successful bidder or bidders for the Property at foreclosure, as their respective interests may appear, shall automatically accede to all of Mortgagor’s rights in, under and to such policies and all post-foreclosure event claims, and such bidder(s) shall be named as insured(s) on request, whether or not the trustee’s deed or bill of sale to any such successful bidder mentions insurance.

(f) **Application of Insurance Proceeds Collected Before Foreclosure.** Subject to the provisions of any Related Loan Documents, unless an Event of Default has occurred and so long as Mortgagee is satisfied that the applicable proceeds (together with other funds deposited with Mortgagee by or on behalf of Mortgagor for the purpose of repair and restoration of the applicable damage or destruction) are sufficient to pay all costs of repair and restoration of the applicable damage or destruction, Mortgagee will hold all proceeds of insurance which was paid for by Mortgagor or by anyone other than Mortgagee or another holder of any of the Debt and which proceeds are actually received by Mortgagee before foreclosure (and such other funds deposited with Mortgagee) and will disburse the same as such repairs or restoration are made, upon such terms and conditions as Mortgagee may elect, and upon presentation of satisfactory evidence to Mortgagee that payment is being requested for permissable repair and restoration and without the imposition of any lien on the Property. Any insurance proceeds remaining if Mortgagor and Mortgagee do not agree to the terms of the advance of the funds for repair and restoration within thirty (30) days after the event producing such funds, or if an Event of Default occurs, or after completion of the repair and restoration shall be applied in payment of the Debt or, at the option of Mortgagee, shall be paid to Mortgagor or to such other person as is legally entitled to them.

(g) **Application of Insurance Proceeds Collected After Foreclosure.** Unless Mortgagee or Mortgagee’s representative reserves at the foreclosure sale the right to collect any uncollected insurance proceeds recoverable for events occurring before foreclosure (in which event the successful bidder at the sale, if not Mortgagee, shall have no interest in such proceeds and Mortgagee shall apply them, if and when collected, to the Debt in such order and manner as Mortgagee shall then elect and remit any remaining balance to Mortgagor or to such other person or entity as is legally entitled to them), all proceeds of all such insurance which are not so reserved by Mortgagee at the foreclosure sale and are not actually received by Mortgagee until after foreclosure shall be the property of the successful bidder or bidders at foreclosure, as their interests may appear, and Mortgagor shall have no interest in them and shall receive no credit for them.

(h) **Mortgagee Not Obligated to Require, Provide or Evaluate Insurance.** Mortgagee shall have no duty to Mortgagor or anyone else to either require or provide any insurance or to determine the adequacy or disclose any inadequacy of any insurance.
(i) **Mortgagee May Elect to Insure Only its Own Interests.** If Mortgagee elects at any time or for any reason to purchase insurance relating to the Property, it shall have no obligation to cause Mortgagor or anyone else to be named as an insured, to cause Mortgagor’s or anyone else’s interests to be insured or protected or to inform Mortgagor or anyone else that his or its interests are uninsured or underinsured.

(j) **Mortgagor Will Correct Defects, Provide Further Assurances and Papers.** Upon Mortgagee’s request, Mortgagor will promptly correct any defect which hereafter may be discovered in the text, execution or acknowledgment of the Notes, this Deed of Trust or any Credit Document or in the description of any of the Property, and will deliver such further assurances and execute such additional papers as in the opinion of Mortgagee or its legal counsel shall be necessary, proper or appropriate (1) to better convey and assign to the Mortgage Bond Trustee and Mortgagee all the Property intended or promised to be conveyed or assigned or (2) to properly evidence or give notice of the Debt or its intended or promised security.

(k) **Mortgagor Will Pay Taxes and Impositions and Furnish Receipts.** At Mortgagor’s own cost and expense, Mortgagor agrees to pay and discharge all taxes, assessments, maintenance charges, permit fees, impact fees, development fees, capital recovery charges, utility reservation and standby fees and all other similar and dissimilar impositions of every kind and character (“Impositions”) charged, levied, assessed or imposed against any interest in any of the Property, as they become payable and before they become delinquent. Mortgagor agrees to furnish due proof of such payment to Mortgagee promptly after payment and before delinquency.

(l) **Mortgagor to Pay Monthly Tax and Insurance Deposits on Request.** If and after Mortgagee requests it, Mortgagor agrees to pay the monthly tax and insurance premium deposits required by Article 8 and to provide Mortgagee any additional sums needed to pay the taxes and insurance premiums for the Property when due.

(m) **Mortgagor Will Maintain Property and Won’t Remove Improvements.** Mortgagor agrees to keep, preserve and maintain all elements of the Property in a good state of repair and condition and to keep all equipment and stores of supplies needed for its proper and full operation on the Property, well stocked and in good operating condition. Mortgagor will not tear down, damage or attempt to remove, demolish or materially alter or enlarge any elements of the Property, or construct any new Improvements, without Mortgagee’s prior written consent. Mortgagor shall have the right, without such consent, to remove and dispose of, free from the lien, assignments and security interests of this Deed of Trust, such Fixtures and Equipment as from time to time become worn out or obsolete, provided that either (a) simultaneously with or before such removal any such equipment shall be replaced with other equipment of a value at least equal to that of the replaced equipment and free from any title retention or security agreement or other encumbrance and from any reservation of title, and by such removal and replacement Mortgagor shall be deemed to have subjected such equipment to the lien, assignments and security interests of this Deed of Trust or (b) any net cash proceeds received from such disposition shall be paid over promptly to Mortgagee to be applied to the Debt in the order determined by Mortgagee in its sole discretion. Mortgagor shall not grant, join in or consent to any lien, security interest, easement, license, use or other charge or interest covering or affecting all or any part of the Property or initiate, join in and consent to the change in any
private restrictive covenant, zoning ordinance or other public or private restrictions limiting or defining the uses which may be made of the Property or any part thereof without the prior written consent of Mortgagee.

(n) **Mortgagor Will Protect Property from Mechanic’s Liens.** Mortgagor agrees to promptly pay all bills for labor and materials incurred in connection with the Property and to prevent the fixing of any lien against any part of the Property, even if it is inferior to this Deed of Trust, for any such bill which may be legally due and payable. Mortgagor agrees to furnish due proof of such payment to Mortgagee after payment and before delinquency.

(o) **Mortgagee’s Inspection and Discussion Rights.** Mortgagor agrees to permit Mortgagee and its agents, representatives and employees at all reasonable times to go upon, examine, inspect and remain on the Collateral, to assist and cooperate, and require Mortgagor’s employees, agents and contractors to cooperate, with Mortgagee and to furnish to Mortgagee on request all pertinent information concerning the physical and economic condition, development and operation of the Collateral. Mortgagee may discuss the Collateral directly with any of Mortgagor’s officers and managers.

(p) **Mortgagee May Grant Releases without Impairing Other Collateral or Rights.** At all times, Mortgagee shall have the right to release any part of the Property or any other security from this Deed of Trust or any other security instrument or device without releasing any other part of the Property or any other security, without affecting Mortgagee’s lien, assignment or security interest as to any property or rights not released and without affecting or impairing the liability of any maker, guarantor or surety on the Notes or other obligation.

(q) **Mortgagor Will Notify Mortgagee of Legal Proceedings and Defend Lien; Mortgagee May Act if Mortgagor Doesn’t.** Mortgagor will notify Mortgagee in writing promptly of the commencement of any legal proceedings affecting any part of the Property and will engage and pay legal counsel to answer and to defend and preserve Mortgagee’s liens, rights and interests and their rank and priority. If Mortgagor fails or refuses to promptly begin or to diligently continue any such acts, then Mortgagee may elect to do so and may take such action in behalf of Mortgagor, in Mortgagor’s name and at Mortgagor’s expense.

(r) **Vendor’s Lien and Purchase Money Security Interest.** Mortgagor agrees that to the full extent that any of the proceeds of the Notes have been or are paid or applied towards the purchase of any real or personal property, it shall be conclusively presumed to have been done at Mortgagor’s special instance and request, and Mortgagor hereby acknowledges and recognizes the existence of a vendor’s lien and a purchase money security interest in favor of Mortgagee against such property, as security for the Notes in addition to and cumulative of the lien, assignments and security interest of this Deed of Trust, in the same manner in the case of real property as if an express vendor’s lien and the superior title had been reserved in the deed from the seller of such property and expressly therein assigned by the seller to Mortgagee. Foreclosure under this Deed of Trust shall also constitute foreclosure of said vendor’s lien or purchase money security interest.

(s) **Legal Compliance, Governmental Notices.** Mortgagor will operate the Property and conduct its business in full compliance with all requirements of governmental and quasi-
governmental authorities having jurisdiction over Mortgagor or the Property and will comply with and punctually perform all of the covenants, agreements and obligations imposed upon it or the Property. Mortgagor will furnish to Mortgagee copies of notices and reports received or sent by Mortgagor to or from each governmental and quasi-governmental authority within three (3) days of the receipt or giving thereof.

(t) **Notice of Default to Mortgagee.** Immediately upon acquiring knowledge thereof, Mortgagor will notify Mortgagee by telephone (and confirm such notice in writing within two (2) days) of the existence of any Event of Default, specifying the nature and duration thereof and what action Mortgagor has taken, is taking and proposes to take with respect thereto. In no event shall silence by Mortgagee be deemed a waiver of a default or of an Event of Default. Mortgagor will take all such steps as are necessary or appropriate to remedy promptly any such default or Event of Default.

(u) **Notice of Condemnation and Other Proceedings.** Immediately upon obtaining knowledge of the institution of any proceedings for the condemnation of the Property or any portion thereof, or any other proceedings arising out of injury or damage to the Property, or any portion thereof, Mortgagor will notify Mortgagee in writing of the pendency of such proceedings. Mortgagee may participate in any such proceedings, and Mortgagor shall from time to time deliver to Mortgagee all instruments requested by it to permit such participation. Mortgagor shall, at its expense, diligently prosecute any such proceedings, and shall consult with Mortgagee, its attorneys and experts, and cooperate with them in the carrying on or defense of any such proceedings.

(v) **Manager.** Mortgagor will, or will cause its managers to, do and perform any and all acts and things relating to the management, upkeep and operation of the Property as are customarily performed by managing agents and owners of properties comparable to the Property, similarly situated, and shall otherwise operate the Property, or cause the Property to be operated, in a first-class efficient manner and in accordance with all legal requirements and the terms and conditions of this Deed of Trust and the other Credit Documents. No management agreement shall be executed with any manager unless the manager and management agreement are previously approved in writing by Mortgagee.

**Section 4.02 Mortgagor Agrees to Pay or Reimburse Mortgagee’s Expenses.** To the extent not prohibited by applicable law, Mortgagor will pay all costs and expenses and reimburse Mortgagee for any and all expenditures of every character incurred or expended from time to time, regardless of whether an Event of Default shall have occurred, in connection with:

(a) the preparation, negotiation, documentation, closing, renewal, revision, modification, increase, review or restructuring of any loan or credit facility secured by this Deed of Trust, including legal, accounting, and inspection services and disbursements, or in connection with collecting or attempting to enforce or collect the Notes or this Deed of Trust.

(b) Mortgagee’s evaluating, monitoring, administering and protecting the Property.

(c) Mortgagee’s creating, perfecting and realizing upon Mortgagee’s security interest in and liens on the Property, and all costs and expenses relating to Mortgagee’s exercising any of
its rights and remedies under this Deed of Trust or any Credit Document or at law, including all appraisal fees, consulting fees, filing fees, taxes, brokerage fees and commissions, title review and abstract fees, litigation report fees, UCC search fees, other fees and expenses incident to title searches, reports and security interests, escrow fees, attorneys’ fees, legal expenses, court costs, other fees and expenses incurred in connection with any complete or partial liquidation of the Property, and all fees and expenses for any professional services relating to the Property or any operations conducted in connection with it; provided, that no right or option granted by Mortgagor to Mortgagee or otherwise arising pursuant to any provision of this Deed of Trust, the Notes or any Credit Document shall be deemed to impose or admit a duty on Mortgagee to supervise, monitor or control any aspect of the character or condition of the Property or any operations conducted in connection with it for the benefit of Mortgagor or any person or entity other than Mortgagee. Mortgagor agrees to indemnify, defend and hold Mortgagee, its shareholders, directors, officers, agents, attorneys, advisors and employees (collectively “Indemnified Parties”) harmless from and against any and all loss, liability, obligation, damage, penalty, judgment, claim, deficiency, expense, action, suit, cost and disbursement of any kind or nature whatsoever (including interest, penalties, attorneys’ fees and amounts paid in settlement), imposed on, incurred by or asserted against the Indemnified Parties growing out of or resulting from any Credit Document or any transaction or event contemplated therein (except that such indemnity shall not be paid to any Indemnified Party to the extent that such loss, etc. directly results from the gross negligence or willful misconduct of that Indemnified Party). If any person or entity (including Mortgagor or any of its affiliates) ever alleges gross negligence or willful misconduct by an Indemnified Party, the full amount of indemnification provided for in this Section shall nonetheless be paid upon demand, subject to later adjustment or reimbursement at such time, if any, as a court of competent jurisdiction enters a final judgment as to the extent and effect of the alleged gross negligence or willful misconduct. Any amount to be paid under this Section by Mortgagor to Mortgagee shall be a demand obligation owing by Mortgagor to Mortgagee and shall bear interest from the date of expenditure until paid at the Past Due Rate.

THE INDEMNIFICATION OF AN INDEMNIFIED PARTY PROVIDED IN THIS SECTION 4.02(c) SHALL REMAIN IN FULL FORCE AND EFFECT NOTWITHSTANDING THE FACT THAT ANY CLAIM FOR LIABILITIES DIRECTLY OR INDIRECTLY RESULTS FROM, ARISES OUT OF, OR RELATES TO, OR IS ASSERTED TO HAVE RESULTED FROM, ARISEN OUT OF, OR RELATE TO, THE SOLE OR CONTRIBUTORY NEGLIGENCE (BUT NOT GROSS NEGLIGENCE) OF ANY SUCH INDEMNIFIED PARTY.

Section 4.03  Disposition of Portions of the Collateral.

(a) Sale of Collateral. Subject to the provisions of the Related Bond Indenture, the sale by Mortgagor, in one or a series of sales, of all or any portion of the Collateral which is a “Permitted Sale” as defined in the next sentence shall not constitute a default or Event of Default hereunder or thereunder. “Permitted Sale” shall mean the sale of all or any portion of the Collateral; provided, however, that Mortgagor shall receive in any such sale or series of sales consideration solely in the form of cash or cash equivalents and further provided, that Mortgagor shall not be in default under any of the Related Bond Documents at the time of such sale.
(b) **Release of Liens.** In connection with the closing of any Permitted Sale, the Related Bond Trustee shall execute, acknowledge and deliver a partial release of the liens and security interests created by this Deed of Trust concerning any part of the Collateral conveyed in such sale, such partial release to be prepared solely at Mortgagor’s expense. In connection with such sale or sales, Mortgagor shall certify to the Related Bond Trustee in a certificate signed by an Authorized Representative that Mortgagor is not in default under the Related Bond Documents and that the consideration received in connection with such sale or sales was only cash or cash equivalents and stating the amount of the consideration so received.

(c) **Deposit Into Construction Fund.** The proceeds of any Permitted Sale (such proceeds, the “Sale Proceeds”) shall be deposited into the Construction Fund established by the Related Bond Indenture and, together with interest, if any, earned upon such proceeds, shall be applied by the Related Bond Trustee as provided in Section 901(7) of the Related Bond Indenture.

(d) **Use of Sale Proceeds.** Mortgagor may use all or any portion of any Sale Proceeds to purchase real property located in ________ County, Texas, or in such other locations as it shall choose, and make permanent improvements thereto so long as such purchase conforms to the provisions of Section 901(7) of the Related Bond Indenture (any such purchase a “Permitted Purchase”). Mortgagor may not make a Permitted Purchase the consideration for which consists in any part of Sale Proceeds unless such purchase is for consideration in an amount as would likely be agreed upon between two parties acting at arm’s length.

(e) **Pledge of Acquired Property.** Mortgagor shall grant a lien and security interest upon any real and personal property acquired by Mortgagor pursuant to any Permitted Purchase (the “Acquired Property”) to secure payment and performance of the Debt. Such lien and security interest shall be subordinate to such matters that affect title when Mortgagor acquires such Acquired Property. Mortgagor shall take all action necessary to evidence or perfect the liens or security interests upon such Acquired Property, including, without limitation, the filing of amended or additional Deeds of Trust or financing statements covering such property.

**ARTICLE 5**

**MORTGAGOR’S REPRESENTATIONS AND WARRANTIES**

To induce Mortgagee to extend financial accommodations, including credit under the Notes, Mortgagor makes the warranties and representations set forth in this Article.

Section 5.01 **Mortgagor Solvent.** Mortgagor is now solvent, and no bankruptcy or insolvency proceedings are pending or contemplated by or, to Mortgagor’s knowledge, against Mortgagor. Mortgagor’s liabilities and obligations under this Deed of Trust and any other Credit Documents to which Mortgagor is a party do not and will not render Mortgagor insolvent, cause
Mortgagor’s liabilities to exceed Mortgagor’s assets or leave Mortgagor with too little capital to properly conduct all of its business as now conducted or contemplated to be conducted.

Section 5.02  No False Representation. No representation or warranty contained in this Deed of Trust or any other Credit Document to which Mortgagor is a party and no statement contained in any certificate, schedule, list, financial statement or other papers furnished to Mortgagee by or on behalf of Mortgagor contains, or will contain, any untrue statement of material fact, or omits, or will omit, to state a material fact necessary to make the statements contained herein or therein not misleading.

Section 5.03  Title. Mortgagor has good and marketable title to the Property, free and clear of any lien or security interest except only for liens and security interests which are either established or expressly permitted by this Deed of Trust or other Credit Documents. Except as otherwise expressly permitted by this Deed of Trust, the lien and security interest of this Deed of Trust will constitute valid and perfected first and prior liens and security interests on the Property, subject to no other liens, security interests or charges whatsoever. The Property is free from damage caused by fire or other casualty.

Section 5.04  Regulation U. Except as disclosed to Mortgagee in writing prior to the date of this Deed of Trust, none of the proceeds of the Notes or the other Debt will be used for the purpose of purchasing or carrying, directly or indirectly, any margin stock or for any other purpose which would make such credit a “purpose credit” within the meaning of Regulation U of the Board of Governors of the Federal Reserve System.

Section 5.05  ERISA. No event has occurred which could result in Mortgagor’s liability to the Pension Benefit Guaranty Corporation (“PBGC”). Mortgagor has met all requirements with respect to funding of each plan (a “Plan”) maintained for any of Mortgagor’s or the Notemaker’s employees subject to Title IV of the Employee Retirement Benefit Act of 1974, as amended, and related regulations (“ERISA”), if any exists. No event or condition has occurred that would permit any lien under ERISA to attach to any of the Property.

ARTICLE 6
DEFAULTS AND REMEDIES

Section 6.01  Release for Full Payment and Performance. Subject to the automatic reinstatement provisions of Section 10.17 below, this Deed of Trust shall terminate and be of no further force or effect (and shall be released on Mortgagor’s written request and at Mortgagor’s cost and expense) upon full payment of the Debt, complete performance of all of the obligations of the Obligors under the Credit Documents and final termination of Mortgagee’s obligations, if any, to make any further advances under the Notes or to provide any other financial accommodations to any Obligor.

Section 6.02  Events of Default. The occurrence of any of the following events shall constitute an Event of Default (herein so called) under this Deed of Trust:

(a) Mortgagor shall fail or refuse to pay all or any portion of the Debt when due, subject to any grace periods applicable to such payments in the documents evidencing such Debt
(b) Mortgagor shall fail to perform or to fulfill in a timely manner any other of the Debt, including specifically, but not limited to, the covenants and obligations of Mortgagor contained in this Deed of Trust, subject to any applicable grace periods contained in this Deed of Trust or the documents evidencing and securing the Debt.

(c) any warranty or representation of Mortgagor set forth in this Deed of Trust shall be false, misleading or erroneous in any material respect when made or deemed made.

(d) Mortgagor shall become insolvent, be the subject of an order for relief, or a custodian, receiver, or other such officer of its property be appointed, or should any liquidation, reorganization, arrangement, or other proceeding under any bankruptcy law or other law for the relief of debtors be requested by or instituted against Mortgagor and; in the case of any such proceeding that is involuntary as to Mortgagor, the same is not dismissed or discharged within ninety (90) days thereafter.

(e) any “Event of Default” as defined any Related Loan Documents or Related Indenture.

(f) except as otherwise permitted under the Related Loan Documents, any condemnation proceeding is commenced relating to all or, in the judgment of Mortgagee, any material part of, the Property.

(g) any substantial damage to or destruction of the Property occurs and insurance proceeds (together with other funds deposited with Mortgagee by or on behalf of Mortgagor for the purpose of repair and restoration of such damage or destruction, if any) are not sufficient to repair and restore the Property as determined by the procedures set forth in any Related Loan Documents, or if insurance proceeds are not paid within a reasonable time.

(h) the sale, encumbrance or abandonment (except as otherwise expressly agreed to in writing by Mortgagee) of the Property or the making of any levy, seizure or attachment of or on the Property.

(i) an event of default (however denominated) shall occur under any Credit Document, unless such default, event of default or similar event is fully cured within any applicable cure period agreed to in writing by Mortgagee.

Section 6.03 Remedies. Subject to Section 10.24 hereof, upon the occurrence of any Event of Default, and at any time thereafter:

(a) Debt Due. All Debt in its entirety shall, at the option of Mortgagee, become immediately due and payable without presentment, demand, notice of intention to accelerate or notice of acceleration, or other notice of any kind, all of which are hereby expressly WAIVED, and the liens and security interests created or intended to be created hereby shall be subject to foreclosure, repossession and sale in any manner provided for herein or provided for by law, as Mortgagee may elect, and Mortgagee may exercise any and all of its rights under this Deed of Trust, the Notes and any of the other Credit Documents.
(b) **Legal Proceedings.** Mortgage Bond Trustee and Mortgagee shall have the right and power to proceed by suit or suits in equity or at law, whether for the specific performance of any covenant or agreement of Mortgagor contained herein or in aid of the execution of the powers herein granted, or for foreclosure or the sale of the Property or any part thereof under the judgment or decree of any court of competent jurisdiction, or for the enforcement of any other appropriate legal or equitable remedy.

(c) **Mortgage Bond Trustee’s Sale.** It shall be the duty of the Mortgage Bond Trustee and of his successors and substitutes in the Trust, on Mortgagee’s request (which request is hereby presumed) to enforce the Trust by selling the Collateral as is provided in this Deed of Trust.

Section 6.04 **Time and Place of Sale and Notices.** The sale shall be a public sale at auction held between 10 A.M. and 4 P.M. of the first Tuesday of a month. The sale shall take place at the county courthouse in the county in which the Real Property is located, or if it is located in more than one county, the sale will be made at the courthouse in one of those counties. The sale shall occur at the area at that courthouse which the commissioners’ court of that county has designated as the place where such sales are to take place by designation recorded in the real property records of that county, or if no area is so designated, then the notice of sale shall designate the area at the courthouse where the sale covered by that notice is to take place, and the sale shall occur in that area. Notice of the sale shall include a statement of the earliest time at which the sale will occur and shall be given at least twenty-one (21) days before the date of the sale (1) by posting at the courthouse door of each county in which the Real Property is located a written notice designating the county in which the Real Property will be sold, (2) by filing in the Office of the County Clerk of each county in which the Real Property is located a copy of the notice posted under subsection (1) above and (3) by the holder of the Debt to which the power of sale is related serving written notice of the sale by certified mail on each debtor who, according to the records of a holder of the Debt, is obligated to pay that Debt. The sale shall begin at the time stated in the notice of sale or not later than three (3) hours after that time. If and to the extent that Texas Property Code Section 51.001 requires it, if any of the Real Property to be sold is used as a debtor’s residence, a holder of the Debt shall serve that debtor with written notice by certified mail stating that debtor is in default under this Deed of Trust, and that debtor shall have at least twenty (20) days to cure the default before the entire Debt is due and notice of sale is given. Service of any notice under this Section by certified mail is complete when the notice is deposited in the United States mail, postage prepaid and addressed to the debtor entitled to it at that debtor’s last known address as shown by the records of a holder of the Debt. The affidavit of a person knowledgeable of the facts to the effect that service was completed is prima facie evidence of service. After such written notice shall have been posted and filed, as aforesaid, and such notice shall have been served upon such debtor or debtors, as aforesaid, the Mortgage Bond Trustee (or his successor or substitute then acting) shall perform his duty to enforce the Trust by selling the Collateral, either as an entirety or in parcels as the Mortgage Bond Trustee acting may elect, all rights to a marshalling of assets or sale in inverse order of alienation being waived, as aforesaid to the highest bidder or bidders for cash, and make due conveyance to the purchaser or purchasers, with general warranty, and the title to such purchaser or purchasers, when so made by the Mortgage Bond Trustee acting, Mortgagor binds itself, its successors and assigns, to warrant and forever defend against the claims and demands of every person whomsoever lawfully claiming or to claim the same or any part thereof (such warranty to supersede any
provision contained in this Deed of Trust limiting the liability of Mortgagor). The provisions of this Deed of Trust with respect to posting and giving notices of sale are intended to comply with the provisions of Section 51.002 of the Texas Property Code, and in the event the requirement for any notice under such Section 51.002 shall be eliminated or the prescribed manner of giving it shall be modified by future amendment to, or adoption of any statute superseding, such Section 51.002, the requirement for such particular notice shall be deemed stricken from or modified in of this Deed of Trust in conformity with such amendment or superseding statute, effective as of its effective date. The manner prescribed in this Deed of Trust for serving or giving any notice, other than that to be posted or caused to be posted by the Mortgage Bond Trustee acting, shall not be deemed exclusive but such notice or notices may be given in any other manner permitted by applicable law. Said sale shall forever be a bar against Mortgagor, its heirs, legal representatives, successors and assigns, and all other persons claiming under it. It is expressly agreed that the recitals in each conveyance to the purchaser shall be full evidence of the truth of the matters therein stated, and all lawful prerequisites to said sale shall be conclusively presumed to have been performed. Mortgage Bond Trustee may require minimum bids at any foreclosure sale and may cancel and abandon the sale if no bid is received equal to or greater than any such minimum bid.

Section 6.05 Application of Foreclosure Sale Proceeds. The proceeds of any sale of the Collateral, and any rents and other amounts collected by Mortgagee from Mortgagee’s holding, leasing, operating or making any other use of the Collateral, shall be applied by Mortgagee (or by the receiver, if one is appointed) to the extent that funds are available therefrom in the following order of priority:

(a) To Expenses and Senior Obligation Payments. First, to the payment of the costs and expenses of taking possession of the Collateral and of holding, maintaining, using, leasing, repairing, equipping, manning, improving, marketing and selling it, including (i) trustees’ and receivers’ fees, (ii) court costs, (iii) reasonable attorneys’ and accountants’ fees, (iv) costs of advertisement and brokers’ commissions and (v) payment of any and all Impositions, liens, security interests or other rights, titles or interests superior to the lien and security interest of this Deed of Trust, whether or not then due and including any prepayment penalties or fees and any accrued or required interest (except, in the case of foreclosure proceeds, those senior liens and security interests, if any, subject to which the Collateral was sold at such trustee’s sale, and without in any way implying Mortgagee’s consent to the creation or existence of any such prior liens);

(b) To Other Obligations Owed to Mortgagee. Second, to the payment of all amounts, other than the principal balance and accrued but unpaid interest, which may be due to Mortgagee under the Notes or any other Credit Document, together with interest thereon as provided therein;

(c) To Accrued Interest on the Debt. Third, to the payment of all accrued but unpaid interest due on the Debt;

(d) To Debt Principal. Fourth, to the payment of the principal balance on the Debt and the principal owing under this Deed of Trust and any other Credit Document, irrespective of
whether then matured, and if it is payable in installments and not matured, then to the installments in such order as Mortgagee shall elect;

(e) To Junior Lienholders. Fifth, to the extent funds are available therefor out of the sale proceeds or any rents and, to the extent known by Mortgagee, to the payment of any debt or obligation secured by a subordinate deed of trust on or security interest in the Collateral; and

(f) To Mortgagor. Sixth, to Mortgagor, its successors and assigns, or to whomsoever may be lawfully entitled to receive such proceeds.

Section 6.06 Mortgagee May Require Abandonment and Recommencement of Sale. If the Mortgage Bond Trustee or his substitute or successor should commence the sale, Mortgagee may at any time before the sale is completed direct the Mortgage Bond Trustee to abandon the sale, and may at any time or times thereafter direct the Mortgage Bond Trustee to again commence foreclosure; or, irrespective of whether foreclosure is commenced by the Mortgage Bond Trustee, Mortgagee may at any time after an Event of Default institute suit for collection of the Debt or foreclosure of this Deed of Trust. If Mortgagee should institute suit for collection of the Debt or foreclosure of this Deed of Trust, Mortgagee may at any time before the entry of final judgment dismiss it and require the Mortgage Bond Trustee to sell the Collateral in accordance with the provisions of this Deed of Trust.

Section 6.07 Multiple Sales; Deed of Trust Continues in Effect. No single sale or series of sales by the Mortgage Bond Trustee or by any substitute or successor and no judicial foreclosure shall extinguish the lien or exhaust the power of sale under this Deed of Trust except with respect to the items of property sold, nor shall it extinguish, terminate or impair Mortgagor’s contractual obligations under this Deed of Trust, but such lien and power shall exist for so long as, and may be exercised in any manner by law or in this Deed of Trust provided as often as the circumstances require to give Mortgagee full relief under this Deed of Trust, and such contractual obligations shall continue in full force and effect until final termination of this Deed of Trust.

Section 6.08 Mortgagee May Bid and Purchase. Mortgagee shall have the right to become the purchaser at any sale made under this Deed of Trust, being the highest bidder, and credit given upon all or any part of the Debt shall be the exact equivalent of cash paid for the purposes of this Deed of Trust.

Section 6.09 Successor or Substitute Mortgage Bond Trustee. In case of absence, death, inability, refusal or failure of the Mortgage Bond Trustee in this Deed of Trust named to act, or in case he should resign (and he is hereby authorized to resign without notice to or consent of Mortgagor), or if Mortgagee shall desire, upon the prior consent of the Majority Insurers, or shall if directed by the Majority Insurers, with or without cause, to replace the Mortgage Bond Trustee in this Deed of Trust named, or to replace any successor or substitute previously named, Mortgagee or any agent or attorney-in-fact for Mortgagee may name, constitute and appoint a successor and substitute trustee (or another one) without other formality than an appointment and designation in writing, which need not be acknowledged, filed or recorded to be effective, except only in those circumstances, if any, where acknowledgment, filing and/or recording is required by applicable law and such law also precludes Mortgagor from
effectively waiving such requirement. Upon such appointment, this conveyance shall automatically vest in such substitute trustee, as Mortgage Bond Trustee, the estate in and title to all of the Collateral, and such substitute Trustee so appointed and designated shall thereupon hold, possess and exercise all the title, rights, powers and duties in this Deed of Trust conferred on the Trustee named and any previous successor or substitute Mortgage Bond Trustee, and his conveyance to the purchaser at any such sale shall be equally valid and effective as if made by the Mortgage Bond Trustee named in this Deed of Trust. Such right to appoint a substitute Mortgage Bond Trustee shall exist and may be exercised as often and whenever from any of said causes, or without cause, as aforesaid, Mortgagee or Mortgagee’s agent or attorney-in-fact elects to exercise it.

Section 6.10 Right to Receiver. Upon the occurrence of an Event of Default or at any time after commencement of a Mortgage Bond Trustee’s foreclosure sale or any legal proceedings under this Deed of Trust, Mortgagee may, at Mortgagee’s election and by or through the Mortgage Bond Trustee or otherwise, make application to a court of competent jurisdiction for appointment of a receiver of the Property, as a matter of strict right, without notice to Mortgagor and without regard to the adequacy of the value of the Property for the repayment of the Debt, and Mortgagor hereby irrevocably consents to such an appointment. Any receiver shall have all the usual powers and duties of receivers in similar cases, including the full power to possess, rent, maintain, repair and operate the Property upon such terms and conditions as may be approved by the court, and shall apply the rents realized in the same manner and order as foreclosure proceeds in accordance with Section 6.05.

Section 6.11 Tenants at Will. Mortgagor agrees for itself and its heirs, legal representatives, successors and assigns, that if any of them shall hold possession of the Property or any part thereof subsequent to foreclosure hereunder, Mortgagor, or the parties so holding possession, shall become and be considered as tenants at will of the purchaser or purchasers at such foreclosure sale; and any such tenant failing or refusing to surrender possession upon demand shall be guilty of forcible detainer and shall be liable to such purchaser or purchasers for rental on said premises, and shall be subject to eviction and removal, forcible or otherwise, with or without process of law, all damages which may be sustained by any such tenant as a result thereof being hereby expressly waived.

Section 6.12 Lifting of Automatic Stay. In the event that Mortgagor or any other Obligor is the subject of any insolvency, bankruptcy, receivership, dissolution, reorganization or similar proceeding, federal or state, voluntary or involuntary, under any present or future law or act, Mortgagee is entitled to the automatic and absolute lifting of any automatic stay as to the enforcement of its remedies under the Credit Documents against the security for the Debt, including specifically the stay imposed by Section 362 of the United States Federal Bankruptcy Code, as amended. Mortgagor hereby consents to the immediate lifting of any such automatic stay, and will not contest any motion by Mortgagee to lift such stay. Mortgagor expressly acknowledges that the security for the Debt is not now and will never be necessary to any plan of reorganization of any type.

ARTICLE 7

MORTGAGEE’S RIGHT TO PERFORM MORTGAGOR’S OBLIGATIONS
Section 7.01  Mortgagee May Elect to Perform Defaulted Obligations.  If Mortgagor should fail to comply with any of its agreements, covenants or obligations under this Deed of Trust, the Notes, or any other Credit Document, then Mortgagee (in Mortgagor’s name or in Mortgagee’s own name) may perform them or cause them to be performed for Mortgagor’s account and at Mortgagor’s expense, but shall have no obligation to perform any of them or cause them to be performed. Any and all expenses thus incurred or paid by Mortgagee shall be Mortgagor’s obligations to Mortgagee due and payable on demand, or if no demand is sooner made, then they shall be due on or before four (4) years after the respective dates on which they were incurred, and each shall bear interest from the date Mortgagee pays it until the date Mortgagor repays it to Mortgagee, at the maximum nonusurious rate of interest from time to time permitted by whichever of applicable Texas or federal law from time to time permits the higher nonusurious interest rate (the “Ceiling Rate”), or, only if applicable law imposes no maximum nonusurious rate, then at the same rate as is provided for in the Notes for interest on past due principal (the “Past Due Rate”). At all times, if any, as the Texas Finance Code shall establish the Ceiling Rate for any purpose under this Deed of Trust, the Ceiling Rate shall be the “weekly ceiling” as defined in the Texas Finance Code from time to time in effect. Upon making any such payment or incurring any such expense, Mortgagee shall be fully and automatically subrogated to all of the rights of the person, corporation or body politic receiving such payment. Any amounts owing by Mortgagor to Mortgagee pursuant to this or any other provision of this Deed of Trust shall automatically and without notice be and become a part of the Debt and shall be secured by this and all other instruments securing the Debt. The amount and nature of any such expense and the time when it was paid shall be fully established by the affidavit of Mortgagee or any of Mortgagee’s officers or agents or by the affidavit of any original, substitute or successor Mortgage Bond Trustee acting under this Deed of Trust. Without notice to Mortgagor or any other person or entity, the Ceiling Rate and the Past Due Rate shall automatically fluctuate upward and downward as and in any amount by which the maximum nonusurious rate of interest permitted by such applicable law and the rate of interest as provided for in the Notes for interest on past due principal fluctuate, respectively.

Section 7.02  Exercise of Rights is not Waiver or Cure of Default. The exercise of the privileges granted to Mortgagee in this Article shall in no event be considered or constitute a cure of the default or a waiver of Mortgagee’s right at any time after an Event of Default to declare the Debt to be at once due and payable, but is cumulative of such right and of all other rights given by this Deed of Trust, the Notes and the Credit Documents and of all rights given Mortgagee by law.

ARTICLE 8

TAX AND INSURANCE DEPOSITS

In addition to the Debt payments, subject to the provisions of any Related Loan Documents, if Mortgagor fails to pay its insurance payments when due, promptly after Mortgagee requests it, Mortgagor agrees to deposit with Mortgagee each month an amount equal to one twelfth (1/12) of the aggregate of (i) the next succeeding premiums (or payments in respect of them, if premiums are financed) on all insurance policies which Mortgagor is required by or pursuant to this Deed of Trust and the Credit Documents to maintain on the Property, and (ii) the amount of the next succeeding annual tax payments, assessment installments,
maintenance charges and other Impositions to become due and payable with respect to the Property, as estimated by Mortgagee, plus, with the first of such monthly deposits, an additional month’s share (a twelfth) of such premiums and taxes for each month less than twelve remaining before the next payment thereof falls due. At least fifteen (15) days before the date on which any such insurance premium (or payment in respect of it, if premiums are financed) or any of the Impositions must be paid to avoid delinquency, promptly after Mortgagee’s request, Mortgagor agrees to deliver to Mortgagee a statement or statements showing the amount of the premium (or payment in respect of it, if premiums are financed) or Impositions required to be paid and the name and mailing address of the concern or authority to which it is payable and, at the same time, Mortgagor agrees to deposit with Mortgagee such amounts as will, when added to the amount of such deposits previously made and then remaining available for the purpose, be sufficient to pay such insurance obligations or Impositions. Mortgagee shall have the right to and will, if, as and when requested by Mortgagor to do so, apply such deposits in payment of such insurance obligations and Impositions.

ARTICLE 9
ASSIGNMENT OF RENTS

Section 9.01 Assignment of Rents, Revenues, Income and Profits. Mortgagor hereby assigns and transfers to Mortgagee all rents, revenues, income and profits (“Rental”) payable under each Lease (hereinafter defined) now or at any time hereinafter existing, such assignment being upon the terms set forth in Section 9.02 below. The term “Lease” or “Leases” means any oral or written agreement between Mortgagor and another person or entity to use or occupy all or any portion of the Property, together with any guaranties or security for the obligations of any tenant, lessee, sublessee or other person or entity having the right to occupy, use or manage any part of the Property under a Lease. Each time Mortgagor enters into a Lease, such Lease shall automatically become subject to this Article without further action.

Section 9.02 Assignment is Absolute; Grant of Revocable License to Mortgagor to Collect Rental before an Event of Default. The transfer of Rental to Mortgagee shall be upon the following terms: (a) until receipt from Mortgagee of notice of the occurrence of an Event of Default, Mortgagor shall have the right under a retained and reserved license (but limited as provided herein) to collect Rental and each tenant may pay Rental directly to Mortgagor; but after an Event of Default, Mortgagor’s license shall automatically terminate and be revoked and to the extent Mortgagor collects any Rental thereafter accruing or paid, Mortgagor covenants to hold all such Rental in trust for the use and benefit of Mortgagee; (b) upon receipt from Mortgagee of notice that an Event of Default exists, each tenant is hereby authorized and directed to pay directly to Mortgagee all Rental thereafter accruing or payable and receipt of Rental by Mortgagee shall be a release of such tenant to the extent of all amounts so paid; (c) Rental so received by Mortgagee shall be applied by Mortgagee, first to the expenses, if any, of collection and then in accordance with Section 6.05 hereof; (d) without impairing its rights hereunder, Mortgagee may, at its option, at any time and from time to time, release to Mortgagor Rental so received by Mortgagee, or any part thereof; (e) Mortgagee shall not be liable for its failure to collect or its failure to exercise diligence in the collection of Rental, but shall be
accountable only for Rental that it shall actually receive; and (f) the assignment contained in this Article shall terminate upon the release of this Deed of Trust, but no tenant shall be required to take notice of termination until a copy of such release shall have been delivered to such tenant. The assignment contained in this Article is intended to be absolute, unconditional and presently effective. It shall never be necessary for Mortgagee to institute legal proceedings of any kind whatsoever to enforce the provisions of this Article. It is agreed that any Rental retained and reserved by Mortgagor pursuant to the aforementioned license will not constitute a payment by the Mortgagor to Mortgagee of any portion of the Debt (and hence will not be credited to the Debt) until the Rental is actually paid to the Mortgagee and retained by the Mortgagee and then, in such event, the Rental so received shall be applied in accordance with Section 9.03.

Section 9.03 Remedies. Subject to Section 10.24 hereof, should an Event of Default occur, Mortgagor agrees to deliver to Mortgagee possession and control of all Rental held by Mortgagor in trust for the benefit of Mortgagee. Mortgagor specifically agrees that Mortgagee may upon the occurrence of any Event of Default or at any time thereafter, personally or through an agent selected by Mortgagee, take, or have the Mortgage Bond Trustee take, possession and control of all or any part of the Property and may receive and collect all Rental theretofore accrued and all thereafter accruing therefrom until the final termination of this Deed of Trust or until the foreclosure of the lien of this Deed of Trust, applying so much thereof as may be collected before sale of the Property by the Mortgage Bond Trustee or judicial foreclosure of this Deed of Trust first to the expenses of Mortgagee incurred in obtaining the Rental and then applying the Rental so received in accordance with the provisions of Section 6.05 hereof. Any such action by Mortgagee shall not operate as a waiver of the Event of Default in question, or as an affirmation of any Lease or of the rights of any tenant in the event title to that part of the Property covered by the Lease or held by the tenant should be acquired by Mortgagee or other purchaser at foreclosure sale. Mortgagee, Mortgagee’s agent or the Mortgage Bond Trustee may use against Mortgagor or any other person such lawful or peaceable means as the person acting may see fit to enforce the collection of any such Rental or to secure possession of the Property, or any part of it and may settle or compromise on any terms as Mortgagee, Mortgagee’s agent or the Mortgage Bond Trustee sees fit, the liability of any person or persons for any such Rental. In particular, Mortgagee, Mortgagee’s agent or the Mortgage Bond Trustee may institute and prosecute to final conclusion actions of forcible entry and detainer, or actions of trespass to try title, or actions for damages, or any other appropriate actions, in the name of Mortgagee, Mortgagor, or the Mortgage Bond Trustee, and may settle, compromise or abandon any such actions as Mortgagee, Mortgagee’s agent or the Mortgage Bond Trustee may see fit; and Mortgagor binds itself and its successors and assigns to take whatever lawful or peaceable steps Mortgagee, Mortgagee’s agent or the Mortgage Bond Trustee may ask of it or any such person or concern so claiming to take for such purposes, including the institution and prosecution of actions of the character above stated. However, neither Mortgagee, Mortgagee’s agent nor the Mortgage Bond Trustee shall be obligated to collect any such Rental or be liable or chargeable for failure to do so. Upon any sale of the Property or any part thereof in foreclosure of the lien or security interest created by this Deed of Trust, such Rental so sold which thereafter accrues shall be deemed included in such sale and shall pass to the purchaser free and clear of the assignment made in this Article. Nothing in this Section is intended to require the Mortgagee to institute any legal proceedings or engage in any self help remedies in order to make the absolute assignment of the Rental to Mortgagee operative.
Section 9.04 Mortgagee in Possession; No Liability of Mortgagee. Mortgagee’s acceptance of this assignment shall not, before entry upon and taking possession of the Property by Mortgagee, be deemed to constitute Mortgagee a “mortgagee in possession,” nor obligate Mortgagee to appear in or defend any proceeding relating to any of the Leases or to the Property, take any action hereunder, expend any money, incur any expenses or perform any obligation or liability under the Leases, or assume any obligation under the Leases including the obligation to return any deposit delivered to Mortgagor by any tenant. Mortgagee shall not be liable for any injury or damage to person or property in or about the Property. Neither the collection of Rental due under the Leases herein described nor possession of the Property by Mortgagee shall render Mortgagee liable with respect to any obligations of Mortgagor under any of the Leases.

Section 9.05 Additional Covenants, Warranties and Representations Concerning Leases and Rental. Mortgagor covenants, warrants and represents that:

(a) Neither Mortgagor nor any previous owner has entered into any prior oral or written assignment, pledge or reservation of the Rental, entered into any prior assignment or pledge of Mortgagor’s landlord interests in any Lease or performed any act or executed any other instruments which might prevent or limit Mortgagee from operating under the terms and conditions of this Article;

(b) Mortgagor has good title to the Leases and Rental hereby assigned and the authority to assign same, and no other person or entity has any right, title or interest in and to the landlord’s interests therein;

(c) All existing Leases are valid, unmodified and in full force and effect, except as indicated herein, and no default exists thereunder;

(d) No Rental has been, nor does Mortgagor anticipate that any Rental will be, waived, released, discounted, set off or compromised, except as disclosed to Mortgagee in writing before the date hereof;

(e) Except as disclosed to Mortgagee in writing before the date hereof, Mortgagor has not received any funds or deposits from any tenant for which credit has not already been made on account of accrued Rental;

(f) Mortgagor shall (i) perform all of the terms and conditions of the Leases, (ii) upon Mortgagee’s request, execute an additional assignment to Mortgagee of all Leases then affecting the Property and all Rental and other sums due thereunder by assignment(s) in form and substance satisfactory to Mortgagee and (iii) at the request of Mortgagee, record such Leases and the assignment(s) thereof to Mortgagee. Mortgagor will not, without the prior written consent of Mortgagee, amend, modify, extend, renew, terminate, cancel or surrender any Lease or suffer or permit any of the foregoing, orally or in writing;

(g) Mortgagor shall not execute any Lease unless the form of the Lease has been approved by Mortgagee and the tenant under such Lease and the terms of such Lease shall comply with leasing standards for the Property from time to time approved by Mortgagee in writing;
(h) Mortgagor shall give immediate notice to Mortgagee of any notice Mortgagor received from any tenant or subtenant under any Leases specifying any claimed default by any party under such Leases;

(i) Mortgagor shall enforce the tenants’ obligations under the Leases;

(j) Mortgagor shall defend, at Mortgagor’s expense, any proceeding pertaining to the Leases, including, if Mortgagee so requests, any such proceeding to which Mortgagee is a party;

(k) Mortgagor shall neither create nor permit any encumbrance upon its interest as landlord under the Leases, except for this Deed of Trust and any other encumbrances permitted by this Deed of Trust;

(l) Mortgagor shall not encumber or assign, or permit the encumbrance or assignment of, any Leases or Rental without the prior written consent of Mortgagee;

(m) Mortgagor shall not waive or release any obligation of any tenant under the Leases without prior written consent of Mortgagee;

(n) Each Lease executed after the date hereof shall contain a statement signed by the Mortgagor that such Lease is subject to this Deed of Trust;

(o) Mortgagor shall from time to time furnish to Mortgagee, within thirty (30) days after demand therefor, true, correct and complete copies of all Leases or any portion of the Leases specified by Mortgagee; and

(p) Mortgagor shall not in any event collect any Rental more than one (1) month in advance of the time it will be earned (and if Mortgagor does so, in addition to any other rights or remedies available by reason of such Event of Default, all Rental so collected more than one (1) month in advance of the time it is earned shall be delivered to Mortgagee to be applied to the Debt).

Section 9.06 Merger. There shall be no merger of the leasehold estates created by the Leases with the fee or any other estate in the Property without the prior written consent of Mortgagee.

Section 9.07 Reassignment. By Mortgagee’s acceptance of this Deed of Trust, it is understood and agreed that a full and complete release of this Deed of Trust shall operate as a full and complete reassignment to Mortgagor of the Mortgagee’s rights and interests under this Article (subject to the automatic reinstatement provisions of Section 10.17 below).

Section 9.08 Subordination of Deed of Trust to Leases. It is agreed and understood that Mortgagee hereby reserves the right and shall have the right, at any time and from time to time, but without the consent or joinder of any other party, to subordinate this Deed of Trust and the liens, assignments and security interests created by this Deed of Trust to all or any of the Leases regardless of the respective priority of any of such Leases and this Deed of Trust. Upon doing so and filing evidence of such subordination in the real property records in the county or counties where the Real Property is located, a foreclosure of Mortgagee’s liens, assignments and security
interests under this Deed of Trust shall be subject to and shall not operate to extinguish any of said Leases as to which such subordination is operative.

ARTICLE 10

GENERAL AND MISCELLANEOUS PROVISIONS

Section 10.01 Debt May be Changed without Affecting this Deed of Trust. Any of the Debt may be extended, rearranged, renewed, increased or otherwise changed in any way, and any part of the security described in this Deed of Trust or any other security for any part of the Debt may be waived or released without in anyway altering or diminishing the force, effect or lien of this Deed of Trust, and the lien, assignment and security interest granted by this Deed of Trust shall continue as a prior lien, assignment and security interest on all of the Property not expressly so released, until the final termination of this Deed of Trust.

Section 10.02 Security is Cumulative. No other security now existing or hereafter taken to secure any part of the Debt or the performance of any obligation or liability whatever shall in any manner affect or impair the security given by this Deed of Trust. All security for any part of the Debt and the performance of any obligation or liability shall be taken, considered and held as cumulative.

Section 10.03 Usury Not Intended; Savings Provisions. Notwithstanding any provision to the contrary contained in any Credit Document, it is expressly provided that in no case or event shall the aggregate of any amounts accrued or paid pursuant to this Deed of Trust which under applicable laws are or may be deemed to constitute interest ever exceed the maximum nonusurious interest rate permitted by applicable Texas or federal laws, whichever permit the higher rate. In this connection, Mortgagor and Mortgagee stipulate and agree that it is their common and overriding intent to contract in strict compliance with applicable usury laws. In furtherance thereof, none of the terms of this Deed of Trust shall ever be construed to create a contract to pay, as consideration for the use, forbearance or detention of money, interest at a rate in excess of the maximum rate permitted by applicable laws. Mortgagor shall never be liable for interest in excess of the maximum rate permitted by applicable laws. If, for any reason whatever, such interest paid or received during the full term of the applicable indebtedness produces a rate which exceeds the maximum rate permitted by applicable laws, Mortgagee shall credit against the principal of such indebtedness (or, if such indebtedness shall have been paid in full, shall refund to the payor of such interest) such portion of said interest as shall be necessary to cause the interest paid to produce a rate equal to the maximum rate permitted by applicable laws. All sums paid or agreed to be paid to Mortgagee for the use, forbearance or detention of money shall, to the extent required to avoid or minimize usury and to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of the applicable indebtedness so that the interest rate thereon does not exceed the Ceiling Rate. The provisions of this Section shall control all agreements, whether now or hereafter existing and whether written or oral, between Mortgagor and Mortgagee.

Section 10.04 Mortgagor Waives All Stay, Extension, Appraisement and Redemption Rights. Mortgagor will not at any time insist upon or plead or in any manner whatever claim or take the benefit or advantage of any stay or extension law now or at any time hereafter in force in
any locality where the Property or any part thereof may or shall be situated, nor will Mortgagor
claim, take or insist on any benefit or advantage from any law now or hereafter in force
providing for the valuation or appraisement of the Property or any part thereof before any sale or
sales thereof to be made pursuant to any provision of this Deed of Trust, or to decree of any court
of competent jurisdiction, nor after any such sale or sales made pursuant to any provision of this
Deed of Trust, or to decree of any court of competent jurisdiction, nor after any such sale or sales
will Mortgagor claim or exercise any right conferred by any law now or at any time hereafter in
force to redeem the property so sold or any part of it, and Mortgagor hereby WAIVES all benefit
and advantage of any such law or laws and WAIVES the appraisement of the Property or any
part of it and covenants that Mortgagor will not hinder, delay or impede the execution of any
power in this Deed of Trust granted and delegated to the Mortgage Bond Trustee or Mortgagee,
but that Mortgagor will suffer and permit the execution of every such power as though no such
law or laws had been made or enacted.

Section 10.05 Subrogation to Liens Discharged. Mortgagor hereby agrees that
Mortgagee shall be subrogated to all rights, titles, interests, liens, benefits, remedies, equities,
superior title and security interests (the “Subrogated Liens”) owned, claimed or held as security
for any debt or other obligation (the “Discharged Obligations”) directly or indirectly satisfied,
discharged or paid with money or other property advanced by Mortgagee. Irrespective of any
formal or informal acknowledgment of partial or complete satisfaction or release of the
Discharged Obligations, the Subrogated Liens shall be continued, renewed, extended, brought
forward and rearranged as security for the Debt in addition to and cumulative of the lien and
security interest of this Deed of Trust. Foreclosure under this Deed of Trust shall constitute
foreclosure of the Subrogated Liens.

Section 10.06 Due on Sale. Subject to the provisions of any Related Loan Documents
and the provisions of this Deed of Trust (including, without limitation, Section 10.24 and 10.25
hereof), Mortgagor agrees that if, without Mortgagee’s prior written consent, (a) any part of the
Property or any interest either in the Property or in the beneficial equity ownership of any
Mortgagor which is not a natural person (an “Equity Interest”) should be directly or indirectly
transferred, conveyed or mortgaged, voluntarily or involuntarily, absolutely or as security, or (b)
Mortgagor should enter into any contractual arrangement to transfer, convey or mortgage any
part of the Property or any interest either in the Property or in an Equity Interest, Mortgagee shall
have the right and option (except only in those circumstances, if any, where the exercise of such
right is expressly prohibited by applicable law and such law also precludes Mortgagor from
effectively waiving such prohibition) to declare the Notes or the entire amount of the Debt to be
due and payable. Mortgagee shall have such right and option absolutely and irrespective of
whether or not the transfer, conveyance or mortgage would or might (i) diminish the value of any
security for the Debt, (ii) increase the risk of default under this Deed of Trust, (iii) increase the
likelihood of Mortgagee’s having to resort to any security for the Debt after default or (iv) add or
remove the liability of any person or entity for payment of the Debt or performance of any
covenant or obligation under this Deed of Trust. To exercise such right and option, Mortgagee
shall give written notice to Mortgagor and to the person or entity to whom such property was
transferred, conveyed or mortgaged that the Notes or Debt has been declared due and payable
and that Mortgagee demands that its maker pay it. If Mortgagee’s consent to a proposed transfer,
conveyance or mortgaging is requested, Mortgagee shall have the right (in addition to its
absolute right to refuse to consent to any such transaction) to condition its consent upon
satisfaction of any one or more of the following requirements: (1) that the interest rate(s) on all or any part of the Debt be increased to a rate which is then acceptable to Mortgagee; (2) that a reasonable transfer fee, in an amount determined by Mortgagee, be paid; (3) that a principal amount deemed appropriate by Mortgagee be paid against the Debt to reduce the ratio that the outstanding balance of the Debt bears to the value of the Property as determined by Mortgagee to a level which is then acceptable to Mortgagee; (4) that Mortgagor and each proposed transferee execute an assumption agreement and such other instruments as Mortgagee or its counsel shall reasonably require and in form and substance satisfactory to Mortgagee and its counsel; (5) that the proposed transferee’s creditworthiness and experience in owning and operating similar properties be demonstrable and proven to Mortgagee’s reasonable satisfaction to be at least as good as Mortgagor’s and Mortgagor’s managers’ at the time the Notes were first funded; (6) that the liability to Mortgagee of Mortgagor and all makers and guarantors of all or any part of the Debt will be confirmed by them in writing to be unaffected and unimpaired by such transfer, conveyance or mortgaging and (7) that any existing or proposed junior mortgagee expressly subordinate to all liens and security interests securing the Debt as to both lien and payment right priority and consent to the proposed transaction in a writing addressed to Mortgagee.

Section 10.07 Condemnation. Subject to the terms and conditions of the Related Bond Documents, if before final termination of this Deed of Trust, all or a portion of the Property is taken for public or quasi public purposes, either through eminent domain or condemnation proceedings, by voluntary conveyance under threat of condemnation with Mortgagee’s express written consent and joinder or otherwise, Mortgagor hereby agrees that any and all sums of money awarded or allowed as damages, payments in lieu of condemnation awards or otherwise to or for the account of the owner of the Property or any portion of it on account of such taking shall be paid and delivered to Mortgagee, and they are hereby assigned to Mortgagee, and shall be paid directly to Mortgagee. All proceeds of condemnation awards or proceeds of sale in lieu of condemnation with respect to the Property and all judgments, decrees and awards for injury or damage to the Property shall be applied, first, to reimburse Mortgagee or the Mortgage Bond Trustee for all costs and expenses, including reasonable attorneys’ fees, incurred in connection with collection of such proceeds and, second, the remainder of said proceeds shall be applied, at the discretion of Mortgagee, to the payment of the Debt in the order set forth in the Master Indenture, or paid out to repair or restore the Property so affected by such condemnation, injury or damage in the same manner as provided in Section 4.01(f) above. Mortgagor agrees to execute such further assignments of all such proceeds, judgments, decrees and awards as Mortgagee may request. Mortgagee is hereby authorized, in the name of Mortgagor, to execute and deliver valid acquittances for, and to appeal from, any such judgment, decree or award. Mortgagee shall not be, in any event or circumstances, liable or responsible for failure to collect, or exercise diligence in the collection of, any such proceeds, judgments, decrees or awards.

Section 10.08 Appraisals and Reports to be Provided. Mortgagee (by its officers, employees, directors or agents) at any time and from time to time after the occurrence of an Event of Default hereunder, and at Mortgagor’s sole cost and expense (to the extent not prohibited by applicable law), may contract for the services of an appraiser approved by Mortgagee in its sole discretion to perform a written appraisal of the Property (or such parts of it as are designated in Mortgagee’s request). Any such appraisal may be performed at any time or times upon reasonable notice to Mortgagor, as long as it does not unreasonably interfere with Mortgagor’s use of the Property. Specifically, any such appraiser is authorized to enter upon,
and Mortgagor shall allow such appraiser access to, the Property as may be necessary in the opinion of such appraiser to perform its professional services. Mortgagor will also furnish such appraiser such historical and operational information regarding the Property as may be reasonably requested by such appraiser to facilitate preparation of an appraisal and will make available for meetings with such appraiser appropriate personnel having knowledge of such matters. Mortgagor will permit Mortgagee and its agents, independent contractors, representatives, employees and officers at all reasonable times to go upon, examine, inspect and remain on the Property for any lawful purpose and will furnish to Mortgagee on request all pertinent information in regard to the development, operation, use and status of the Property. Promptly upon Mortgagee’s request, Mortgagor agrees, at Mortgagor’s sole cost and expense (to the extent not prohibited by applicable law):

(a) to cause an inspection and written appraisal of the Property (or such parts of it as are designated in Mortgagee’s request) to be made by a qualified appraiser approved by Mortgagee; and

(b) to cause to be conducted or prepared any other written report, summary, opinion, inspection, review, survey, audit or other professional service relating to the Property or any operations in connection with it (all as designated in Mortgagee’s request), including any accounting, architectural, consulting, engineering, design, legal, management, pest control, surveying, toxic or hazardous materials survey, inspection, removal or cleanup work, title abstracting or other technical, managerial or professional service relating to the Property or its operations.

Mortgagee may elect to deliver any such request orally, by telegram, telex or telefax, by mail or by hand delivery addressed to Mortgagor as provided in the Introduction to this Deed of Trust or by any other legally effective method, and it may be given at any time and from time to time before the complete and final release and discharge of this Deed of Trust. Any amount to be paid under this Section by Mortgagor to Mortgagee shall be a demand obligation owing by Mortgagor to Mortgagee and shall bear interest from the date of expenditure at the Past Due Rate.

Section 10.09 Notices. Except where certified or registered mail notice is required by applicable law, service of any notice to Mortgagor required or permitted under this Deed of Trust shall be completed upon deposit of the notice, enclosed in a first class postage prepaid wrapper, properly addressed to Mortgagor at Mortgagor’s address designated in the Introduction to this Deed of Trust (or if no address is so designated, or such address has changed, to Mortgagor’s most recent address as shown by the records of Mortgagee) in a post office or official depository under the care and custody of the United States Postal Service, and the affidavit of any person having knowledge of the facts concerning such mailing shall be conclusive evidence of the fact of such service. Such method of giving notice shall not be exclusive, but instead any notice may be given to Mortgagor in any manner permitted or recognized by law.

Section 10.10 Mortgagee and Mortgagor. The term “Mortgagee” as used in this Deed of Trust shall mean and include the holder or holders of the Debt from time to time, and upon acquisition of the Debt by any holder or holders other than the named Mortgagee, effective as of the time of such acquisition, the term “Mortgagee” shall mean all of the then holders of the Debt,
to the exclusion of all prior holders not then retaining or reserving an interest in the Debt from time to time, whether such holder acquires the Debt through succession to or assignment from a prior Mortgagee. The term “Mortgagor, its successors and assigns” shall also include the heirs and legal representatives of each Mortgagor who is a natural person and the receivers, conservators, custodians and trustees of each Mortgagor, provided that no Mortgagor may assign or delegate any of its or his rights, interests or obligations under this Deed of Trust, the Notes or any Credit Document without Mortgagee’s express prior written consent, and any attempted assignment or delegation without it shall be void or voidable at Mortgagee’s election.

Section 10.11 Article, Section and Exhibit References, Numbers and Headings. References in this Deed of Trust to Articles, Sections and Exhibits refer to Articles, Sections and Exhibits in and to this Deed of Trust unless otherwise specified. The Article and Section numbers, Exhibit designations and headings used in this Deed of Trust are included for convenience of reference only and shall not be considered in interpreting, applying or enforcing this Deed of Trust.

Section 10.12 Exhibits Incorporated. All exhibits, annexes, appendices and schedules referred to any place in the text of this Deed of Trust are hereby incorporated into it at that place in the text, to the same effect as if set out there verbatim.

Section 10.13 “Including” is not Limiting. Wherever the term “including” or a similar term is used in this Deed of Trust, it shall be read as if it were written, “including by way of example only and without in any way limiting the generality of the clause or concept referred to.”

Section 10.14 Gender. The masculine and neuter pronouns used in this Deed of Trust each includes the masculine, feminine and neuter genders.

Section 10.15 Severability. If any provision of this Deed of Trust is held to be illegal, invalid or unenforceable under present or future laws, the legality, validity and enforceability of the remaining provisions of this Deed of Trust shall not be affected thereby, and this Deed of Trust shall be liberally construed so as to carry out the intent of the parties to it. Each waiver in this Deed of Trust is subject to the overriding and controlling rule that it shall be effective only if and to the extent that (a) it is not prohibited by applicable law and (b) applicable law neither provides for nor allows any material sanctions to be imposed against Mortgagee for having bargained for and obtained it.

Section 10.16 Any Unsecured Debt is Deemed Paid First. If any part of the Debt cannot lawfully be secured by this Deed of Trust, or if the lien, assignments and security interest of this Deed of Trust cannot be lawfully enforced to pay any part of the Debt, then and in either such event, at the option of Mortgagee, all payments on the Debt shall be deemed to have been first applied against that part of the Debt.

Section 10.17 Payments Returned. Mortgagor agrees that, if at any time all or any part of any payment previously applied by Mortgagee to the Debt is or must be returned by Mortgagee--or recovered from Mortgagee--for any reason (including the order of any bankruptcy court)), this Deed of Trust shall automatically be reinstated to the same effect as if the prior
application had not been made, and, in addition, Mortgagor hereby agrees to indemnify Mortgagee against, and to save and hold Mortgagee harmless from any required return by Mortgagee—or recovery from Mortgagee—of any such payment because of its being deemed preferential under applicable bankruptcy, receivership or insolvency laws, or for any other reason.

Section 10.18 Noun, Pronoun and Verb Numbers. When this Deed of Trust is executed by more than one person, corporation, partnership, joint venture, trust or other legal entity, it shall be construed as though “Mortgagor” were written “Mortgagors” and as though the pronouns and verbs in their number were changed to correspond, and in such case, (a) each of Mortgagors shall be bound jointly and severally with one another to keep, observe and perform the covenants, agreements, obligations and liabilities imposed by this Deed of Trust upon the “Mortgagor,” (b) a release of one or more persons, corporations or other legal entities comprising “Mortgagor” shall not in any way be deemed a release of any other person, corporation or other legal entity comprising “Mortgagor” and (c) a separate action hereunder may be brought and prosecuted against one or more of the persons, corporations or other legal entities comprising “Mortgagor” without limiting any liability of or impairing Mortgagee’s right to proceed against any other person, corporation or other legal entity comprising “Mortgagor.”

Section 10.19 Amendments in Writing. This Deed of Trust shall not be changed orally but shall be changed only by agreement in writing signed by Mortgagor and Mortgagee provided that, no such prior consent shall be required for any amendment related to the release, substitution or supplement as permitted under the Master Indenture. Any waiver or consent with respect to this Deed of Trust shall be effective only in the specific instance and for the specific purpose for which given. No course of dealing between the parties, no usage of trade and no parole or extrinsic evidence of any nature shall be used to supplement or modify any of the terms or provisions of this Deed of Trust. Notwithstanding the foregoing, without the consent of each Holder of the Bonds to be affected by such amendment, no such amendment shall:

(a) modify the definitions of the term “Event of Default” as such term is defined, herein (except to add additional events of default);

(b) reduce, amend or modify any indemnities (except to add additional indemnities) in favor of the Holders of any Bonds;

(c) adversely affect the Project or the lien of this Deed of Trust thereon except as permitted in Section 703 of the Master Indenture; or

(d) reduce any percentage in aggregate principal amount of the Bonds Outstanding, as the case may be, specified herein the Holders of which are empowered under the provisions hereof to take any action hereunder or to permit or compel either Debtor or Mortgagee to take, suffer or omit any action;

provided, however, that without the written consent of each Holder of any Bonds, no such amendment shall permit the creation of any lien on the Project or any portion thereof, or deprive the Holder of any Bonds then outstanding of the lien of this Deed of Trust on the Project. Any supplemental deed of trust or other agreement, instrument or action made, entered into or taken
in a manner inconsistent with or contrary to the provisions of this Section 10.19 shall be void and of no effect. The Mortgagee shall mail, by certified mail, postage prepaid, any amendment entered into pursuant to this Section 10.19 to each Holder of any Bonds at its address shown in the Bond register.

Section 10.20 Mortgagee’s Offset Rights. Mortgagee is hereby authorized at any time and from time to time, without notice to any person or entity (and Mortgagor hereby WAIVES any such notice) to the fullest extent permitted by law, to set-off and apply any and all monies, securities and other properties of Mortgagor now or in the future in the possession, custody or control of Mortgagee, or on deposit with or otherwise owed to Mortgagor by Mortgagee--including all such monies, securities and other properties held in general, special, time, demand, provisional or final accounts or for safekeeping or as collateral or otherwise (but excluding those accounts clearly designated as escrow or trust accounts held by Mortgagor for others unaffiliated with Mortgagor)--against any and all of Mortgagor’s obligations to Mortgagee now or hereafter existing under this Deed of Trust, irrespective of whether Mortgagee shall have made any demand under this Deed of Trust. Mortgagee agrees to use reasonable efforts to promptly notify Mortgagor after any such set-off and application, provided that failure to give--or delay in giving--any such notice shall not affect the validity of such set-off and application or impose any liability on Mortgagee. Mortgagee’s rights under this Section are in addition to other rights and remedies (including other rights of set-off) which Mortgagee may have.

Section 10.21 Venue. This Deed of Trust is performable in Dallas County, Texas, and Brazos County, Texas, which shall be a proper place of venue for suit on or in respect of this Deed of Trust. Mortgagor irrevocably agrees that any legal proceeding in respect of this Deed of Trust shall be brought in the district courts of Dallas County, Texas, Brazos County, Texas or the United States District Court for the Southern District of Texas (collectively, the “Specified Courts”). Mortgagor hereby irrevocably submits to the nonexclusive jurisdiction of the state and federal courts of the State of Texas. Mortgagor hereby irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to any Credit Document brought in any Specified Court, and hereby further irrevocably waives any claims that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. Mortgagor further irrevocably consents to the service of process out of any of the Specified Courts in any such suit, action or proceeding by the mailing of copies thereof by certified mail, return receipt requested, postage prepaid, to Mortgagor at its address as provided in this Deed of Trust or as otherwise provided by Texas law. Nothing herein shall affect the right of Mortgagee to commence legal proceedings or otherwise proceed against Mortgagor in any jurisdiction or to serve process in any manner permitted by applicable law. Mortgagor agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. THIS DEED OF TRUST SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE APPLICABLE LAWS OF THE STATE OF TEXAS EXCEPT TO THE EXTENT THAT THE LAWS OF THE UNITED STATES OF AMERICA AND ANY RULES, REGULATIONS, OR ORDERS ISSUED OR PROMULGATED THEREUNDER, APPLICABLE TO THE AFFAIRS AND TRANSACTIONS ENTERED INTO BY MORTGAGEE, OTHERWISE PRE-EMPT TEXAS LAW, IN WHICH EVENT SUCH FEDERAL LAW SHALL CONTROL.
Section 10.22  **Entire Agreement.** This Deed of Trust embodies the entire agreement and understanding between Mortgagor and Mortgagee with respect to its subject matter and supersedes all prior conflicting or inconsistent agreements, consents and understandings relating to such subject matter. Mortgagor acknowledges and agrees that there is no oral agreement between Mortgagor and Mortgagee which has not been incorporated in this Deed of Trust.

Section 10.23  **Release of Claims.** Mortgagor hereby releases, discharges and acquits forever Mortgagee and Mortgage Bond Trustee and their officers, directors, trustees, agents, employees and counsel (in each case, past, present or future) from any and all Claims existing as of the date hereof (or the date of actual execution hereof by Mortgagor, if later). As used herein, the term “Claim” shall mean any and all liabilities, claims, defenses, demands, actions, causes of action, judgments, deficiencies, interest, liens, costs or expenses (including court costs, penalties, attorneys’ fees and disbursements, and amounts paid in settlement) of any kind and character whatsoever, including claims for usury, breach of contract, breach of commitment, negligent misrepresentation or failure to act in good faith, in each case whether now known or unknown, suspected or unsuspected, asserted or unasserted or primary or contingent, and whether arising out of written documents, unwritten undertakings, course of conduct, tort, violations of laws or regulations or otherwise. To the maximum extent permitted by applicable law, Mortgagor hereby waives all rights, remedies, claims and defenses based upon or related to Sections 51.003, 51.004 and 51.005 of the Texas Property Code, to the extent the same pertain or may pertain to any enforcement of this Deed of Trust.

Section 10.24  **Subordinate Liens.** Notwithstanding anything in this Deed of Trust to the contrary (including, without limitation, the provisions of Sections 2.02 and 10.06), Mortgagor shall have the right to incur short term debt, subordinate debt or otherwise encumber the Collateral to the extent permitted pursuant to the Related Loan Documents.

Section 10.25  **Development Encumbrances.** Notwithstanding anything in this Deed of Trust to the contrary (including, without limitation, the provisions of Sections 2.02 and 10.06), in connection with the development of the Real Property, without the consent of Mortgagee, and without such actions constituting a breach or violation of this Deed of Trust, Mortgagor may impose upon the Real Property such reasonable easements and similar encumbrances to title as are customarily created or imposed in connection with the development of real property that is similar or comparable to the Real Property (“Customary Development Encumbrances”), e.g., utility easements and similar rights of way, and easements, building setback lines, and the like created by the platting or re-platting of the Real Property. In addition, the liens and security interests covering or encumbering the Real Property created by this Deed of Trust shall at all times be subordinate and inferior to the easements and other similar encumbrances against title to the Real Property created in connection with any future Customary Development Encumbrances; provided, however, such liens and security interests of this Deed of Trust shall not be inferior or subordinate to any monetary liens created pursuant to any such future Customary Development Encumbrances, and all liens and security interest created by the said Deed of Trust shall be superior and prior to any and all such monetary liens created by any such future Customary Development Encumbrances.
Section 10.26 Conflict with Related Loan Documents. Other than with respect to those provisions in this Deed of Trust relating to the grant of liens and security interests hereby, and the enforcement of same (including without limitation, those provisions relating to the foreclosure of such liens and security interests), in the event of any conflict between the terms and provisions of this Deed of Trust, on the one hand, and the terms and provisions of the Related Loan Documents, on the other hand, the terms and provisions of the Related Loan Documents shall govern and control.

ARTICLE 11

ENVIRONMENTAL MATTERS

Section 11.01 Certain Definitions. When used in this Article, the following capitalized terms shall have the meanings set forth below:

(a) “Aboveground Storage Tank” means a nonvehicular device constructed of nonearthen materials located above the ground surface or above the floor of a structure that is below the ground and is designed to contain liquids.

(b) “ACM” means asbestos or any material containing more than one percent (1%) asbestos (as determined under Environmental Laws) that is friable or which bears a risk of becoming friable if not abated.

(c) “CERCLA” means the Comprehensive Environmental Response Compensation and Liability Act, 42 U.S.C. § 9601 et. seq.

(d) “Costs” means all liabilities, losses, costs, damages, punitive damages, expenses, claims, loss of lien priority, diminution in value, reasonable attorneys’ fees, experts’ fees, and consultants’ fees, penalties, fines, obligations, judgments and disbursements, as well as expenses of Remediation and any other remedial, removal, response, abatement, cleanup, legal, investigative, monitoring, or record keeping costs and all expenses related thereto.

(e) “Disposal” (or “disposed”) shall have the meaning specified in RCRA.

(f) “Environmental Audit” means a comprehensive analysis prepared by consultants reasonably acceptable to Mortgagee, the form, scope, and substance of which shall be reasonably acceptable to Mortgagee in its sole discretion, based on existing or reasonably suspected conditions or events at the Property of (i) Mortgagor’s compliance with Environmental Laws, and (ii) Mortgagor’s activities or any activities conducted at the Property for the purpose of determining whether there exists any condition that could give rise to any material Environmental Claim against Mortgagor, the Property or any operator thereof.

(g) “Environmental Claim” means any claim; demand; action; cause of action; suit; loss; cost; damage; punitive damage; fine, penalty, expense, liability, criminal liability, judgment, governmental or private investigation relating to Remediation or compliance with Requirements of Environmental Laws; proceeding; lien; personal injury, or property damage,
whether threatened, sought, brought or imposed, that is related to or that seeks to recover Costs related to, or seeks to impose liability regarding Mortgagor, the Property or operations conducted at the Property for (i) improper use or treatment of wetlands, pinelands or other protected land or wildlife; (ii) noise; (iii) radioactive materials (including naturally occurring radioactive materials); (iv) explosives; (v) pollution, contamination, preservation, protection, remediation or clean-up of the air, surface water, ground water, soil or wetlands; (vi) solid, gaseous or liquid waste generation, handling, discharge, release, threatened release, treatment, storage, disposal or transportation; (vii) exposure of persons or property to Hazardous Substances and the effects thereof; (viii) the manufacture, processing, distribution in commerce, use, treatment, storage, disposal or Remediation of Hazardous Substances; (ix) injury to, death of or threat to the health or safety of any person or persons caused in whole or in part by Hazardous Substances; (x) destruction caused in whole or in part by Hazardous Substances or the release of any Hazardous Substance on any property (whether real or personal); (xi) the implementation of spill prevention and/or disaster plans relating to Hazardous Substances; (xii) community right-to-know and other disclosure laws or (xiii) maintaining, disclosing or reporting information to governmental authorities under any Environmental Law. The term “Environmental Claim” also includes any Costs incurred in responding to efforts to require Remediation with respect to the Property or as a result of operations at the Property, and any claim based upon any asserted or actual breach or violation of any Requirements of Environmental Law, or upon any event, occurrence or condition with respect to the Property, or as a result of operations at the Property, as a consequence of which, pursuant to any Requirements of Environmental Law, (y) any owner, operator or person having any interest in the Property, including any mortgagee of the Property or the beneficiary of any deed of trust of the Property, shall be liable with respect to any Environmental Claim or otherwise suffer any loss or disability or (z) the Property shall be subject to any restriction on use, ownership or transferability. An “Environmental Claim” further includes a proceeding to issue, modify, revoke or terminate an Environmental Permit, or to adopt or amend a regulation to the extent that such a proceeding or occurrence attempts to redress violations of any applicable Environmental Permit or will materially impair the value of any security for the Debt, the prospects for timely repayment of the Debt, Mortgagor’s current financial condition or Mortgagor’s ability to conduct its business operations or to continue in business as a going concern.

(h) “Environmental Laws” means the laws described on Exhibit C attached hereto and incorporated herein for all purposes and any and all other applicable laws, rules, regulations, ordinances, or orders now or hereafter in effect of any federal, state or local executive, legislative, judicial, regulatory or administrative agency, board or authority or any judicial or administrative decision relating thereto that relate to (i) wetlands, pinelands or other protected land or wildlife species; (ii) noise; (iii) radioactive materials (including naturally occurring radioactive materials); (iv) explosives; (v) pollution, contamination, preservation, protection, or clean-up of the air, surface water, ground water, soil or wetlands; (vi) solid, gaseous or liquid waste generation, handling, discharge, release, threatened release, treatment, storage, disposal or transportation; (vii) exposure of persons or property to Hazardous Substances and the effects thereof; (viii) injury to, death of or threat to the safety or health of employees and any other persons; (ix) the manufacture, processing, distribution in commerce, use, treatment, storage, disposal or Remediation of Hazardous Substances; (x) destruction, contamination of, or release onto any property (whether real or personal) in connection with Hazardous Substances; (xi) the implementation of spill prevention and/or disaster plans relating to Hazardous Substances; (xii)
community right-to-know and other disclosure laws or (xiii) maintaining, disclosing or reporting information to governmental authorities under any Environmental Law.

(i) “Environmental Permits” means any permit, license, registration, waste identification number, approval or other authorization relating to Mortgagor, Mortgagor’s business or operations, or the Property required by any Environmental Law.

(j) “Hazardous Substances” means (i) those substances included within the statutory and/or regulatory definitions of “hazardous substance,” “hazardous waste,” “extremely hazardous substance,” “regulated substance,” “contaminant,” “hazardous materials” or “toxic substances,” under any Environmental Law, (ii) those substances listed in 49 C.F.R. 172.101 and in 40 C.F.R. Part 302; (iii) any material, waste or substance which is (A) petroleum, oil or a fraction thereof, (B) ACM, (C) polychlorinated biphenyls, (D) formaldehyde, (E) designated as a “hazardous substance” pursuant to 33 U.S.C. § 1321 or listed pursuant to 33 U.S.C. § 1317; (F) explosives or (G) radioactive materials (including naturally occurring radioactive materials); (iv) Solid Wastes that pose imminent and substantial endangerment to health or the environment; (v) any material, waste or substance designated, classified or regulated as a “hazardous material,” “hazardous substance,” “toxic substance” or as a “Class I” or “Class II” waste under Title 30 of the Texas Administrative Code, or under any other applicable Texas law or under any applicable regulation promulgated under any such laws; (vi) radon gas in an ambient air concentration exceeding four picocuries per liter (4 pCi/l); (vii) such other substances, materials, or wastes that are or become classified or regulated as hazardous or toxic under any applicable federal, state or local law or regulation and (viii) any Underground Storage Tank. For the purposes of this definition, Hazardous Substances shall not include any substance of a nature, quantity or concentration that is customarily used, stored or disposed as part of or incidental to the operation and maintenance of the Property in the ordinary course of Mortgagor’s business currently conducted (or contemplated to be conducted following completion of construction of improvements, if applicable) at the Property so long as (x) such use, storage or disposal complies fully with applicable Environmental Laws and good and safe business practice, (y) any disposal takes place in accordance with applicable Environmental Laws at disposal facilities and locations other than the Property and which are fully permitted in accordance with Environmental Laws and (z) such use, storage or disposal does not require Mortgagor, any agent or employee of Mortgagor or any operator of the Property to have a hazardous waste generator identification number or any other Environmental Permit based primarily on or related primarily to the Hazardous Substance in question.

(k) “Mortgagee Indemnitees” means Mortgagee, any subsequent holder or owner of the Notes or any interest in them, any affiliate, successor, assign or subsidiary of Mortgagee and each of their shareholders, directors, officers, employees, counsel, agents and contractors, and the Mortgage Bond Trustee and all successor or substitute trustees, as well as their respective heirs and personal and legal representatives.


(m) “Release” (or “released”) shall have the meaning specified in CERCLA.
(n) “Remediation” means any action necessary to ensure compliance with the Requirements of Environmental Law, including without limitation (i) the removal and disposal or containment (if containment is practical under the circumstances and is permissible within Requirements of Environmental Law) or monitoring of any and all Hazardous Substances at the Property; (ii) the taking of reasonably necessary precautions to protect against the release or threatened release of Hazardous Substances at, on, in, about, under, within or near the air, soil, surface water, groundwater or soil vapor at the Property or any public domain affected by the Property or any surrounding areas thereof; (iii) any action necessary to mitigate the usurpation of wetlands, pinelands or other protected land or reclaim the same or to protect and preserve wildlife species; or (iv) any action necessary to meet the requirements of an Environmental Permit.

(o) “Requirements of Environmental Law” means all requirements, conditions, restrictions or stipulations of Environmental Laws imposed upon or related to Mortgagor, the Property and/or any operation conducted on the Property.

(p) “Solid Waste” shall have the meaning ascribed to it in RCRA.

(q) “Underground Storage Tank” shall have the meaning ascribed to it in RCRA.

Notwithstanding the foregoing, if any Environmental Law is amended so as to broaden the meaning of any term defined in it, such broader meaning shall apply subsequent to the effective date of such amendment. Where a defined term in this Article derives its meaning from a statutory reference, for the purposes of this Article any regulatory definition promulgated pursuant to the applicable statute shall be deemed to be applicable to the extent its definition is broader than the statutory reference and any reference or citation to a statute or regulation shall be deemed to include any amendments to that statute or regulation and judicial and administrative interpretations of it. To the extent that the laws or regulations of the State of Texas establish a meaning for a term defined in this Article through reference to federal Environmental Law that is broader than the meaning specified in such federal Environmental Law, such broader meaning set forth in the state Environmental Law shall apply. Any specific references to a law shall include any amendments to it promulgated from time to time.

Section 11.02 Environmental Representations and Warranties. Mortgagor represents and warrants that, except as disclosed by an Environmental Audit:

(a) Presence of Hazardous Substances. There do not exist any Hazardous Substances on the Property;

(b) On-site Release of Hazardous Substances. There has been no Release or, to the best of Mortgagor’s knowledge, threatened Release or disposal of Hazardous Substances that have occurred or are presently occurring on or, to the best of Mortgagor’s knowledge, onto the Property from any adjacent properties;

(c) Off-site Release of Hazardous Substances. There has been no Release or, to the best of Mortgagor’s knowledge, threatened Release or disposal of Hazardous Substances that has occurred or is presently occurring (i) on any tract neighboring the Property or (ii) off the Property as a result of any construction on or operation or use of the Property;
(d) **Environmental Claims.** There are no presently existing or, to the best of Mortgagor’s knowledge, threatened Environmental Claims.

(e) **Compliance with Requirements of Environmental Law.** There has been no failure by Mortgagor or, to the best of Mortgagor’s knowledge, any predecessor in interest to Mortgagor, to comply with all applicable Requirements of Environmental Laws relating to Mortgagor, Mortgagor’s operations, the Property and Mortgagor’s generation, use, storage or disposal of any Hazardous Substance and Mortgagor is not aware of any facts or circumstances which could materially impair such compliance with all applicable Environmental Laws.

(f) **Environmental Permits.** Mortgagor is not currently and, to the best of Mortgagor’s knowledge, no predecessor in interest to Mortgagor, was required to obtain any Environmental Permit to construct, demolish, renovate, occupy, operate or use any buildings, improvements, fixtures or equipment forming a part of the Property that have not been obtained and fully disclosed to Mortgagee.

(g) **Disclosure to Governmental Authority.** The present and, to the best of Mortgagor’s knowledge, past uses of the Property satisfy all Requirements of Environmental Laws and Mortgagor is aware of no fact or circumstance which upon disclosure to any governmental authority would render this representation to be false or misleading in any respect.

(h) **ACM, Underground Storage Tanks and Aboveground Storage Tanks.** Except as disclosed to Mortgagee in writing, there is no ACM, Aboveground Storage Tank or Underground Storage Tank located on, in (including, with respect to ACM, within building materials) or about the Property nor has any ACM, Aboveground Storage Tank or Underground Storage Tank at any time been removed from the Property. Each Aboveground Storage Tank and Underground Storage Tank located on, in or about the Property has been registered with the Texas Commission on Environmental Quality, if required by Environmental Laws, all registration/facility fees for each such Aboveground Storage Tank and Underground Storage Tank have been fully paid if required by Environmental Laws and any release or leak with respect to each such Aboveground Storage Tank and Underground Storage Tank has been reported to and confirmed by the Texas Commission on Environmental Quality, if required by Environmental Laws.

(i) **Notice of Environmental Claim.** There are no liens affecting Mortgagor, the Property or, to the best of Mortgagor’s knowledge, any real property contiguous to the Property arising out of or in connection with an Environmental Claim and Mortgagor has not received any summons, directive, citation, notice, letter or other communication, written or oral, from any governmental authority or any other person concerning any intentional or unintentional action or omission by Mortgagor or any other person which may result in an Environmental Claim or a breach of any Requirement of Environmental Law with regard to Mortgagor or the Property.

**Section 11.03 Environmental Covenants.** Mortgagor agrees and covenants as follows:

(a) **Notice to Mortgagee.** Mortgagor shall notify Mortgagee in writing within three (3) business days upon receipt by Mortgagor from any person of any inquiry, notice, claim, charge, cause of action or demand relating to Requirements of Environmental Laws or an
Environmental Claim, including any notice of inspection or assertion of noncompliance with Requirements of Environmental Laws, stating the basis of such inquiry or notification. Mortgagor shall promptly deliver to Mortgagee any and all documentation or records as Mortgagee may request in connection with such notice or inquiry, and shall keep Mortgagee advised of any subsequent developments on a timely basis.

(b) Compliance with Permits. Mortgagor will obtain, comply with and properly maintain all Environmental Permits required for the Property and any operations conducted thereon.

(c) Compliance with Requirements of Environmental Laws. Mortgagor will not do or permit anything that will cause Mortgagor or the Property to be in violation of any Requirements of Environmental Laws, or do or permit anything to be done that might reasonably and foreseeably subject Mortgagor or the Property to any Remediation obligations that would materially and adversely affect the financial condition of Mortgagor or the value or marketability of the Property or to any enforcement actions under any Environmental Laws or any other Environmental Claim.

(d) Remediation. If any release of Hazardous Substances should exist or occur at the Property or if Mortgagor should be ordered or directed by any governmental authority or any other person to undertake Remediation of any Hazardous Substances at the Property or take any other action to satisfy Requirements of Environmental Law, Mortgagor, at no cost or expense to the Mortgagee Indemnitees, shall comply with all Environmental Laws, conduct and complete all required sampling, testing and monitoring and undertake such Remediation promptly upon discovery or notice thereof and thereafter diligently and continuously pursue such Remediation, completing each element, phase or stage of it within each applicable period established by any person, agency or bureau empowered to enforce any applicable Environmental Law (or if no such period or schedule is established, in accordance with a reasonable schedule consistent with prudent business practice taking into account potentially adverse effects to the environment and individuals’ health and safety), but in any case before any lien is created on the Property. If Mortgagor undertakes any Remediation, or causes it to be undertaken, Mortgagor shall conduct and complete such Remediation (i) in compliance with Requirements of Environmental Laws, (ii) in accordance with the directives and orders of all appropriate federal, state and local governmental authorities and (iii) in accordance with sound business practice taking into account potentially adverse effects to the environment and individuals’ health and safety.

(e) Prospective Obligations. If any Remediation fails to comply with Requirements of Environmental Laws because of changes to said Environmental Laws, Mortgagor shall promptly undertake such Remediation and other work as is necessary to comply with the then-current Environmental Laws in the manner set forth in this Section.

(f) Environmental Audits. (i) Prior to the occurrence and continuation of an Event of Default, upon Mortgagee’s request, at any time and from time to time, Mortgagor will provide, at no cost or expense to the Mortgagee Indemnitees, an Environmental Audit; provided, that unless required by any governmental authority, Mortgagee may not request more than one (1) Environmental Audit in any twelve (12) calendar month period. Any fundings remaining to be made of the Debt shall be expressly conditioned upon receipt and approval of the Environmental
Audit and Mortgagee being reasonably satisfied that it has disclosed no fact or circumstance which causes Mortgagor to be in default under this Article. If Mortgagor fails to provide an Environmental Audit within thirty (30) days after Mortgagee’s written request, Mortgagee may order one, and Mortgagor grants to Mortgagee and its agents, employees, contractors and consultants reasonable access to the Property and a license to perform such inspections and tests as are reasonable under the circumstances. At Mortgagee’s option, the cost of such inspections and tests actually incurred by Mortgagee shall be payable by Mortgagor to Mortgagee upon demand.

(ii) Upon the occurrence and continuation of an Event of Default, the Mortgagee (by its officers, employees and agents) at any time, and from time to time, may contract for the services of consultants (the “Site Reviewers”) to perform Environmental Audits. The Site Reviewers are authorized to enter upon all or any part of the Real Property to conduct Environmental Audits. The Site Reviewers are further authorized to perform both above and below the ground testing for environmental damage or the presence of Hazardous Substances and such other test on the Real Property as the Site Reviewers and/or the Mortgagee may deem necessary. The Mortgagee shall not be responsible for any negligence or misconduct of any Site Reviewer. The Mortgagor agrees to supply to the Site Reviewers such historical and operational information regarding the Real Property as may be reasonably requested to facilitate the Environmental Audits and will make available for meetings with the Site Reviewers appropriate personnel having knowledge of such matters. The cost of performing Environmental Audits shall be paid by Mortgagor. The Mortgagee shall not have a duty, however, to visit or observe the Real Property or to conduct tests, and no site visit, observation, or testing by the Site Reviewer engaged by it shall impose any liability the Mortgagee. In no event shall any site visit, observation or testing by any Site Reviewer be a representation the Mortgagee that hazardous substances are or are not present in, on or under the Real Property, or that there has been or shall be compliance with Environmental Laws. The Mortgagee does not owe a duty of care to protect Mortgagor or any other party against, or to inform Mortgagor or any other party of, any Hazardous Substances or any other adverse condition affecting the Real Property. The Site Reviewer may, in its discretion, disclose to Mortgagor or any other party any report or findings made as a result of, or in connection with, any site visit, observation or testing by the Site Reviewer engaged by it. Mortgagor understands and agrees that the Mortgagee makes any representation or warranty to Mortgagor or any other party regarding the truth, accuracy, or completeness of any such report or findings that may be disclosed in an Environmental Audit. Mortgagor also understands that, depending on the results of Environmental Audits which are disclosed to Mortgagor, Mortgagor may have a legal obligation to notify one or more environmental agencies of the results and that such reporting requirements are site-specific. The Mortgagee may disclose any Environmental Audit to potential buyers in connection with default proceedings hereunder and the Mortgagor acknowledges that any such disclosure, depending upon the results of an Environmental Audit, may affect the amount of money that may be realized in such default proceedings.

(g) Asbestos Containing Materials. Mortgagor will not install any ACM or permit any ACM to be installed in or introduced onto the Property; and if any ACM exists in or on the Property, whether installed by Mortgagor or others, Mortgagor will, at no cost or expense to the
Mortgagee Indemnitees, remove it (or if removal is prohibited by law or in Mortgagor’s reasonable judgment is impractical, take whatever action is required by law or reasonably necessary to mitigate adverse impact to the environment and individuals’ health and safety, including encapsulation of the ACM or implementation of an operation and maintenance program).

Section 11.04 Environmental Indemnity.

(a) Scope of Indemnity. Mortgagor hereby agrees unconditionally, absolutely and irrevocably, to indemnify, defend and hold harmless each Mortgagee Indemnitee from and against any Costs which at any time or from time to time may be claimed, suffered or incurred in connection with any Environmental Claim, the violation of any Requirements of Environmental Law, the breach of any representation or warranty of Mortgagor set forth herein or the failure of Mortgagor to perform any obligation herein required to be performed by Mortgagor. Such indemnification obligations are herein called the “Environmental Indemnifications.”

(b) Survival of Indemnity. The Environmental Indemnifications and the other provisions of and undertakings set out in this Article shall survive foreclosure of this Deed of Trust or acceptance of the Property by Mortgagee in lieu of foreclosure, the payment of the Debt and satisfaction and release of this Deed of Trust and shall thereafter continue to be the personal liability, obligation and indemnification of Mortgagor, binding upon Mortgagor.

(c) Mortgagor’s Liability. Mortgagor’s liability under the Environmental Indemnification provisions contained in this Article shall accrue upon the earlier of an Environmental Claim being asserted against any Mortgagee Indemnitee or upon a Mortgagee Indemnitee’s receipt of written notice of any of the events specified in Section (a). In no event shall any Mortgagee Indemnitee be required to make any expenditure or bring any cause of action to enforce Mortgagor’s obligations and liability under and pursuant to the indemnifications set forth in this Article. In addition, actual threatened action by governmental authority is not a condition or prerequisite to Mortgagor’s obligations under this Agreement. Within five (5) days after notification from Mortgagee supported by reasonable documentation setting forth the nature of the Environmental Claim, Mortgagor, at no cost or expense to Mortgagee Indemnitees, shall diligently commence resolution of the Environmental Claim in a manner reasonably acceptable to Mortgagee and shall diligently and timely prosecute such resolution to completion. Provided, however, with respect to those claims that may be satisfied by payment of a liquidated sum of money, Mortgagor shall promptly pay the amount so claimed (to the extent supported by reasonable documentation); provided, however, Mortgagor shall have the right to withhold such payment to the extent it is lawfully disputing on Mortgagee Indemnitees’ behalf, Mortgagee Indemnitees’ liability or degree of liability in accordance with all laws. In the event such a dispute is unsuccessful, Mortgagor shall then promptly pay the sum demanded, plus all additional costs, judgments, expenses or claims arising out of Mortgagor’s dispute. If Remediation is required, the provisions of Section (d) shall control and if litigation or any administrative proceeding is commenced the provisions of Section (g) shall control.

(d) Burden of Proof. Notwithstanding any provision contained to the contrary in this Deed of Trust or any of the other Credit Documents, Mortgagor shall bear the burden of proof by
preponderance of the evidence that the indemnification contained in this Article is inapplicable to any claim or assertion made hereunder.

(e) **Inconsistent Provisions.** The provisions of this Article shall govern and control over any inconsistent provision of the Credit Documents, including any exculpatory or non-recourse provisions contained in any of them.

(f) **Payment of Attorneys’ Fees.** If at any time any Mortgagee Indemnitee employs counsel for advice or other representation (i) with respect to this Article; (ii) except as otherwise expressly provided herein, to represent any such Mortgagee Indemnitee in any litigation, contest, dispute, suit or proceeding (whether instituted by a Mortgagee Indemnitee, Mortgagor or any other party) in any way or respect relating to this Article; (iii) to evaluate the existence of an Environmental Claim hereunder; (iv) to defend an Environmental Claim or (v) to enforce Mortgagor’s obligations hereunder, then and in any of such events, all of such Mortgagee Indemnitee’s reasonable attorneys’ fees and expenses arising from such services and all expenses, costs and charges in any way or respect arising in connection therewith or relating thereto shall be paid by Mortgagor to Mortgagee on demand.

(g) **Appointment of Counsel.** If any Environmental Claim shall be brought against any Mortgagee Indemnitee, then after notification to Mortgagor thereof as provided in Section (c), Mortgagor shall be entitled to participate in all related proceedings and negotiations and to assume the defense thereof at the expense of Mortgagor with counsel reasonably acceptable to Mortgagee and to settle and compromise any such claim or action; provided, that Mortgagee may elect to be represented by separate counsel, at Mortgagor’s expense, and if Mortgagee so elects, any settlement or compromise shall be effected only with the written consent of Mortgagee, which consent shall not be unreasonably withheld. Mortgagor’s right to participate in the defense or response to any Environmental Claim should not be deemed to limit or otherwise modify its obligations under this Article.

(h) **Payment on Demand.** Mortgagor shall make any payment required to be made under this Article on demand.

(i) **Interest on Indemnified Sums.** Any Costs and other payments required to be paid by Mortgagor under this Article which are not paid within five (5) business days of receipt by Indemnitor of Mortgagee’s demand therefor shall thereafter be deemed “Delinquent.” In addition to all other rights and remedies of Mortgagee against Mortgagor provided herein, under the other Credit Documents or under any applicable law, Mortgagor shall pay to Mortgagee immediately upon demand interest at the Past Due Rate from the date such payment becomes Delinquent to the date of payment of such Delinquent sums.

(j) **Subrogation of Indemnity Rights.** Mortgagee shall be subrogated to any rights Mortgagor may have under any indemnifications from any present, future or former owners, tenants or other occupants or users of the Property or any other person relating to the matters covered by this Article.

(k) **Merger, Consolidation or Sale of Assets.** Without limiting any other provision of this Deed of Trust, in the event of a dissolution of Mortgagor or the disposition of all or
substantially all of Mortgagor’s assets to one or more persons or entities, the surviving entity or transferee of assets as the case may be shall deliver to Mortgagee an acknowledged instrument in recordable form specifically assuming all obligations, covenants and responsibilities of Mortgagor under this Article.

(l) Survival of Provisions. The representations, warranties and covenants and indemnities of Mortgagor set forth in this Article shall continue in effect and, to the extent permitted by law, shall survive the transfer of the Property pursuant to foreclosure proceedings (whether judicial or nonjudicial), by deed in lieu of foreclosure or otherwise. Mortgagor acknowledges and agrees that its covenants and obligations under this Article are separate and distinct from its other obligations under the Credit Documents.

Section 11.05 Releases. Notwithstanding anything to the contrary contained in this Deed of Trust, in the event that any Underground Storage Tank located on the Property or any of the Collateral (exclusive of any real property interest or fixtures deemed to be a part of any realty) contains or releases any Hazardous Substance, Mortgagee may from time to time and at any time, and without the necessity for any notice to or consent by Mortgagor or any other person or entity, release such Underground Storage Tank and/or such Collateral from the lien and security interests of this Deed of Trust.
EXECUTED effective as of _____________________________, 2009.

TEJANO CENTER FOR COMMUNITY CONCERNS, INC., a Texas non-profit corporation

By: ______________________________
Name: ______________________________
Title: _______________________________

Attached:
Exhibit A – Real Property Description
Exhibit B – Permitted Encumbrances
Exhibit C – Environmental Laws

NOTICE PURSUANT TO TEX. BUS. & COMM. CODE §26.02

THIS DEED OF TRUST AND THE OTHER CREDIT DOCUMENTS TOGETHER CONSTITUTE A WRITTEN LOAN AGREEMENT AND 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.

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: ______________________________
Name: ______________________________
Title: _______________________________

TEJANO CENTER FOR COMMUNITY CONCERNS, INC., a Texas non-profit corporation

By: ______________________________
Name: ______________________________
Title: _______________________________

THE STATE OF TEXAS

§

COUNTY OF HARRIS

§

This instrument was acknowledged before me on this _____ day of ____________, 2009, by _______________________, _______________________ of TEJANO CENTER FOR COMMUNITY CONCERNS, INC., a Texas non-profit corporation, on behalf of said corporation.

Notary Public, State of Texas

[SEAL]
EXHIBIT A

Real Property Description
EXHIBIT B

Permitted Encumbrances
EXHIBIT C

Environmental Laws


Clean Air Act, 42 U.S.C. § 7401 et seq.


Texas Water Code

Texas Health and Safety Code

Texas Natural Resources Code

Statewide Rules for Oil, Gas and Geothermal Operations (promulgated by the Railroad Commission of Texas).

The laws cited above shall be deemed to include any amendments to them and regulations promulgated under them from time to time.
APPENDIX H
CAMPUS DATA

TABLE 1 — STUDENTS’ RESIDENT DISTRICTS

Brownsville Campus – District Name
Brownsville Independent School District

Houston Campus – District Name
Houston Independent School District

[The remainder of this page intentionally left blank.]
### Table 2 — Texas Assessment of Knowledge and Skills (TAKS) Testing Data

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<td>TAKS Science</td>
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<td></td>
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<td>63</td>
<td>32</td>
<td>65</td>
<td>53</td>
<td>41</td>
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<tr>
<td>African American</td>
<td>—</td>
<td>37</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Hispanic</td>
<td>63</td>
<td>39</td>
<td>65</td>
<td>52</td>
<td>41</td>
</tr>
<tr>
<td>White</td>
<td>—</td>
<td>28</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Economically Disadvantaged</td>
<td>63</td>
<td>38</td>
<td>65</td>
<td>53</td>
<td>41</td>
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<tr>
<td>District Student Composition</td>
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</tr>
<tr>
<td>African American</td>
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</tr>
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<td>White</td>
<td>—</td>
<td>—</td>
<td>0.70</td>
<td>1.20</td>
<td>1.10</td>
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<td>—</td>
<td>97.60</td>
<td>95.60</td>
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TABLE 4 — AREA CHARTER SCHOOLS

<table>
<thead>
<tr>
<th>MAP LEGEND</th>
<th>SCHOOL</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Houston Can! Academy – Hobby</td>
</tr>
<tr>
<td>2</td>
<td>KIPP Liberation College Preparatory</td>
</tr>
<tr>
<td>3</td>
<td>KIPP Spirit College Preparatory</td>
</tr>
<tr>
<td>4</td>
<td>YES College Preparatory School – East End</td>
</tr>
<tr>
<td>5</td>
<td>YES College Preparatory School – Southeast</td>
</tr>
<tr>
<td>6</td>
<td>Houston Gateway Academy</td>
</tr>
</tbody>
</table>

TABLE 5 — FACULTY

As of September 1, 2008, the Borrower employed a total of 64 teachers. An additional 17 teachers were added for the 2007-2008 school year to increase the number of courses that the School is able to teach at the high school level. Please refer to APPENDIX B to see the impact of this increase on the Borrower’s cashflows.

The faculty’s experience for the two most recently completed school years was as follows:

<table>
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<tr>
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</thead>
<tbody>
<tr>
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<tr>
<td>1-5 Years Experience</td>
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<td>6-10 Years Experience</td>
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<td>11-20 Years Experience</td>
<td>13</td>
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<tr>
<td>Greater than 20 Years Experience</td>
<td>3</td>
<td>1</td>
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### TABLE 6 — ENROLLMENT HISTORY (BY GRADE)

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<td>Early Childhood Education</td>
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<td></td>
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<td></td>
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</tr>
<tr>
<td>Pre-K</td>
<td>124</td>
<td>160</td>
<td>193</td>
<td>161</td>
<td>154</td>
<td>162</td>
<td>74</td>
</tr>
<tr>
<td>Kindergarten</td>
<td>97</td>
<td>92</td>
<td>69</td>
<td>71</td>
<td>61</td>
<td>64</td>
<td>49</td>
</tr>
<tr>
<td>1st</td>
<td>76</td>
<td>69</td>
<td>76</td>
<td>52</td>
<td>56</td>
<td>54</td>
<td>58</td>
</tr>
<tr>
<td>2nd</td>
<td>59</td>
<td>65</td>
<td>61</td>
<td>59</td>
<td>61</td>
<td>55</td>
<td>54</td>
</tr>
<tr>
<td>3rd</td>
<td>75</td>
<td>59</td>
<td>59</td>
<td>54</td>
<td>59</td>
<td>50</td>
<td>53</td>
</tr>
<tr>
<td>4th</td>
<td>58</td>
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<td>53</td>
<td>55</td>
<td>49</td>
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<td>5th</td>
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<tr>
<td>6th</td>
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<tr>
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<td>75</td>
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<td>50</td>
<td>61</td>
<td>67</td>
<td>88</td>
<td>66</td>
<td>61</td>
<td>69</td>
</tr>
<tr>
<td>10th</td>
<td>47</td>
<td>42</td>
<td>46</td>
<td>43</td>
<td>43</td>
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<td>43</td>
<td>21</td>
</tr>
<tr>
<td>12th</td>
<td>22</td>
<td>15</td>
<td>29</td>
<td>28</td>
<td>29</td>
<td>18</td>
<td>30</td>
</tr>
<tr>
<td>Total</td>
<td>932</td>
<td>943</td>
<td>961</td>
<td>925</td>
<td>895</td>
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<td>737</td>
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</table>

### TABLE 7 - NEW ENROLLMENT BY CAMPUS

<table>
<thead>
<tr>
<th>Grade</th>
<th>New Students - Brownsville</th>
<th>New Students - Houston</th>
<th>2008-2009</th>
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<tbody>
<tr>
<td>Pre-K(a)</td>
<td>160</td>
<td>47</td>
<td>34</td>
</tr>
<tr>
<td>Kindergarten</td>
<td>92</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>1st</td>
<td>69</td>
<td>3</td>
<td>5</td>
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<td>2nd</td>
<td>65</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>3rd</td>
<td>59</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>4th</td>
<td>64</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>5th</td>
<td>62</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>6th(a)</td>
<td>90</td>
<td>1</td>
<td>46</td>
</tr>
<tr>
<td>7th</td>
<td>67</td>
<td>12</td>
<td>80</td>
</tr>
<tr>
<td>8th</td>
<td>58</td>
<td>9</td>
<td>60</td>
</tr>
<tr>
<td>9th(a)</td>
<td>61</td>
<td>17</td>
<td>50</td>
</tr>
<tr>
<td>10th</td>
<td>42</td>
<td>6</td>
<td>47</td>
</tr>
<tr>
<td>11th</td>
<td>39</td>
<td>11</td>
<td>32</td>
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<tr>
<td>12th</td>
<td>15</td>
<td>0</td>
<td>22</td>
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</tbody>
</table>

(a) Due to class size constraints and the desired student teacher ratio, new enrollments are maximized at the Pre-K, 6th and 9th grade levels, which are the starting grades at the primary, junior and college preparatory academies, respectively.
### TABLE 8 - HISTORICAL WAITING LIST

The School’s academic success has generated substantial interest from prospective students. Its waiting list has ranged between 360 – 570 students at various times during the year. The volatility in the waiting list figures corresponds with cycles in the typical school year. Most students are added to waiting lists in the Spring for the following school year.

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</thead>
<tbody>
<tr>
<td></td>
<td># of Students</td>
<td>% of Total</td>
<td># of Students</td>
</tr>
<tr>
<td>Pre-K</td>
<td>65</td>
<td>18</td>
<td>70</td>
</tr>
<tr>
<td>Kindergarten</td>
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<td>7</td>
<td>56</td>
</tr>
<tr>
<td>1st</td>
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<td>50</td>
</tr>
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<td>32</td>
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</tr>
<tr>
<td>3rd</td>
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<td>4</td>
<td>13</td>
</tr>
<tr>
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<td>6</td>
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</tr>
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<tr>
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<td>4</td>
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<tr>
<td>(Not Defined)</td>
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</tr>
<tr>
<td>Grand Total</td>
<td>361</td>
<td>100</td>
<td>565</td>
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</table>

### TABLE 9 — STUDENT DEMOGRAPHICS

<table>
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<tbody>
<tr>
<td>Hispanic</td>
<td>98.8</td>
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<td>98.3</td>
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<tr>
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<td>0.7</td>
<td>0.7</td>
<td>1.2</td>
<td>1.1</td>
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<tr>
<td>African-American</td>
<td>0.1</td>
<td>0.1</td>
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<td>—</td>
<td>—</td>
</tr>
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<td>Asian/Pacific Islander</td>
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<td>0.3</td>
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</tr>
<tr>
<td>% Rate Attendance</td>
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<td>95.5</td>
<td>96.0</td>
<td>96.5</td>
<td>96.5</td>
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<tr>
<td>% Economically Disadvantaged</td>
<td>95.0</td>
<td>97.6</td>
<td>95.6</td>
<td>100.0</td>
<td>95.9</td>
</tr>
<tr>
<td>% Dropouts (7-12)</td>
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<td>6.2</td>
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<td>2.0</td>
<td>1.4</td>
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<td>% At Risk</td>
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<td>74.4</td>
<td>74.2</td>
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<td>2006/07 School Year</td>
<td>2005/06 School Year</td>
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</tr>
<tr>
<td>------------</td>
<td>---------------------------</td>
<td>---------------------------</td>
<td>---------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
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<td>Academically Acceptable</td>
<td>Academically Acceptable</td>
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<tr>
<td>Houston</td>
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<td>Academically Acceptable</td>
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</table>

**NO CHILD LEFT BEHIND RATINGS**

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<th>Campus</th>
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<th>2006/07 School Year</th>
<th>2005/06 School Year</th>
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</thead>
<tbody>
<tr>
<td>Brownsville</td>
<td>Adequate Yearly Progress</td>
<td>Adequate Yearly Progress</td>
<td>Adequate Yearly Progress</td>
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<tr>
<td>Houston</td>
<td>Adequate Yearly Progress</td>
<td>Adequate Yearly Progress(^{(a)})</td>
<td>Adequate Yearly Progress</td>
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</tbody>
</table>

\(^{(a)}\) The School met the Adequate Yearly Progress standard in 2006-2007, although the Houston Campus was notified that it did not meet Reading Participation standards.
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APPENDIX I

EXECUTIVE SUMMARIES OF PROPERTY APPRAISALS
### SUMMARY OF IMPORTANT FACTS

<table>
<thead>
<tr>
<th>Intended User:</th>
<th>Tejano Center for Community Concerns</th>
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</thead>
<tbody>
<tr>
<td>Attention:</td>
<td>Mr. Richard Farias</td>
</tr>
<tr>
<td>Project Name:</td>
<td>Raul Yzaguirre School for Success</td>
</tr>
<tr>
<td>Address:</td>
<td>2950 Broadway Boulevard</td>
</tr>
<tr>
<td></td>
<td>Houston, Texas 77017</td>
</tr>
<tr>
<td>Location:</td>
<td>Southeast Houston</td>
</tr>
<tr>
<td>Highest &amp; Best Use:</td>
<td>Commercial</td>
</tr>
<tr>
<td>Gross Building Area:</td>
<td>162,878 SF-Total</td>
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<tr>
<td></td>
<td>Including Parking Garage</td>
</tr>
<tr>
<td></td>
<td>50,023 SF-Existing</td>
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<tr>
<td></td>
<td>71,132 SF-Proposed</td>
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<td></td>
<td>41,723 SF-Proposed</td>
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<td>Parking Garage</td>
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<td>Condition:</td>
<td>Good/Proposed</td>
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<tr>
<td>Land Area:</td>
<td>5.3890 Ac</td>
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<tr>
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<td>234,746 SF</td>
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<td>Land To Bldg. Ratio as Proposed</td>
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<td>Sales Comparison Approach</td>
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<td>$4,250,000</td>
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<td>Date of Value:</td>
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<td>February 5, 2011</td>
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<td></td>
<td>&quot;As Complete-prospective&quot;</td>
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<tr>
<td>Date of Report:</td>
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<tr>
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</tr>
<tr>
<td></td>
<td>Joseph S. Garrett III</td>
</tr>
<tr>
<td></td>
<td>TX 1323969 G</td>
</tr>
<tr>
<td></td>
<td>TX 1322575 G</td>
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<tr>
<td>Reference:</td>
<td>29-6718</td>
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All values stated above are subject to the assumptions and limiting conditions set forth in this report.
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<thead>
<tr>
<th><strong>SUMMARY OF IMPORTANT FACTS</strong></th>
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<tr>
<td><strong>Intended User:</strong></td>
</tr>
<tr>
<td><strong>Attention:</strong></td>
</tr>
<tr>
<td><strong>Project Name:</strong></td>
</tr>
</tbody>
</table>
| **Address:**                 | 2255 N. Coria St  
Brownsville, Texas 78520 |
| **Location:**                | Brownsville |
| **Highest & Best Use:**      | Commercial |
| **Gross Building Area:**     | 17,260 SF-Total |
| **Condition:**               | Good |
| **Land Area:**               | 2.1212 Ac  
92,400 SF |
| **Land To Bldg. Ratio:**     | 5.35 to 1 |
| **Indicated Value by:**      |  
Cost Approach: NA  
Income Approach: $920,000  
Sales Comparison Approach: $860,000 |
| **Final Value Estimate:**    | **$900,000** |
| **Projected Exposure Period:** | 12 Months |
| **Date of Value:**           | January 23, 2009 |
| **Date of Report:**          | February 6, 2009 |
| **Appraisers:**              | Edward B. Miller III  
Joseph S. Garrett III  
TX 1323969 G  
TX 1322575 G |
| **Reference:**               | 29-6718-1 |

All values stated above are subject to the assumptions and limiting conditions set forth in this report.