

OFFICIAL STATEMENT DATED December 7, 2004

THE DELIVERY OF THE BONDS IS SUBJECT TO THE OPINION OF VINSON & ELKINS L.L.P., BOND COUNSEL, TO THE EFFECT THAT INTEREST ON THE TAX-EXEMPT BONDS (described below) IS EXCLUDABLE FROM GROSS INCOME OF THE HOLDERS THEREOF FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW, AND IS AN ITEM OF TAX PREFERENCE THAT IS INCLUDABLE IN ALTERNATIVE MINIMUM TAX IMPOSED ON INDIVIDUALS. INTEREST ON THE TAXABLE BONDS IS NOT EXEMPT FROM FEDERAL INCOME TAX. SEE "TAX MATTERS" HEREIN FOR A DISCUSSION OF BOND COUNSEL'S OPINION, INCLUDING A DESCRIPTION OF ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS AND OTHER FEDERAL TAX CONSEQUENCES.

NEW ISSUE - BOOK-ENTRY-ONLY

S&P Rating: "BB"
(See "RATINGS" herein.)

\$9,070,000
TEXAS PUBLIC FINANCE AUTHORITY CHARTER SCHOOL FINANCE CORPORATION
CHARTER SCHOOL REVENUE BONDS
(SCHOOL OF EXCELLENCE IN EDUCATION PROJECT)

consisting of

\$8,775,000
TAX-EXEMPT, SERIES 2004-A

and

\$295,000
TAXABLE, SERIES 2004-B

Interest Accrues from Date of Initial Delivery

Due: October 1 as shown in inside cover

Interest on the "Texas Public Finance Authority Charter School Finance Corporation Tax-Exempt Charter School Revenue Bonds (School of Excellence in Education Project), Series 2004-A" (the "Tax-Exempt Bonds") in the aggregate principal amount of \$8,775,000 and on the "Texas Public Finance Authority Charter School Finance Corporation Taxable Charter School Revenue Bonds (School of Excellence in Education Project), Series 2004-B" (the "Taxable Bonds") in the aggregate principal amount of \$295,000 (collectively, the "Bonds"), is payable June 1, 2005, and each December 1 and June 1 thereafter until the earlier of maturity or redemption. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC"), New York, New York, pursuant to the Book-Entry-Only System described herein. DTC will act as securities depository. Beneficial ownership of the Bonds may be acquired in denominations of \$100,000 and integral multiples of \$5,000 in excess thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, redemption premium, if any, and interest on the Bonds will be payable by the Trustee, initially, Wells Fargo Bank, N.A., to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds. See "Book-Entry-Only System" herein.

The Bonds are being issued by, and are special and limited obligations of, the Texas Public Finance Authority Charter School Finance Corporation (the "Issuer"), and the proceeds thereof will be loaned to the School of Excellence in Education, a 501(c)(3) nonprofit corporation (the "Borrower") operating as an Open-Enrollment (as hereinafter described) charter school of the same name under the laws of the State of Texas (the "State"), particularly Chapter 12, Subchapter D, Texas Education Code, as amended, to finance and refinance certain educational facilities and facilities incidental, subordinate, or related thereto or appropriate in connection therewith, and the remodeling and equipping of such facilities for the Borrower on its campuses located in the City of San Antonio, Texas, as provided by Section 53.351, Texas Education Code, as amended.

THE BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM REVENUES RECEIVED BY THE ISSUER PURSUANT TO A LOAN AGREEMENT BY AND BETWEEN THE ISSUER AND THE BORROWER, AS FURTHER SECURED BY A DEED OF TRUST AND SECURITY AGREEMENT FROM THE BORROWER ON CERTAIN REAL AND PERSONAL PROPERTY AND ASSIGNMENTS OF LEASES OF THE BORROWER. THE BONDS ARE NOT OBLIGATIONS OF THE STATE OR ANY OTHER GOVERNMENTAL ENTITY. NEITHER THE STATE NOR ANY POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE IS OBLIGATED TO PAY THE BONDS OR THE INTEREST THEREON AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, NOR ANY OTHER POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

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

See inside cover page for maturity schedule, interest rates, initial yields, CUSIP Numbers, and Mandatory Redemption Schedule.

The Bonds are being placed by the Underwriter named below subject to prior sale when, as, and if issued by the Issuer, subject, among other things, to the approval of the initial Bonds by the Attorney General of Texas and the opinion of Vinson & Elkins L.L.P., Houston, Texas, Bond Counsel. Certain other legal matters will be passed upon on behalf of the Borrower by the Law Office of S. Jeffrey Gately, a Professional Corporation, San Antonio, Texas and Escamilla & Poneck, Inc., San Antonio, Texas; on behalf of the Trustee by Nathan Sommers Jacobs & Gorman, Houston, Texas; and on behalf of the Underwriter by Winstead Sechrest & Minick P.C., San Antonio, Texas. Delivery of the Bonds is expected on or about December 29, 2004, through DTC.

Kirkpatrick Pettis
A Mutual of Omaha Company

MATURITY SCHEDULE, INTEREST RATES, INITIAL YIELDS, AND CUSIP NUMBERS

\$8,775,000 SERIES 2004-A TAX-EXEMPT BONDS

\$8,775,000 Series 2004-A Term Bonds due December 1, 2034
Interest Rate: 7.000% Initial Yield: 7.1000% ___
CUSIP Number: 88276P AA 4

Mandatory Redemption Schedule 2004-A Tax-Exempt Term Bonds

<u>Maturity</u>	<u>Principa l Amount</u>	<u>Interest Rate</u>	<u>Initial Offering Yield</u>	<u>Maturity</u>	<u>Principa l Amount</u>	<u>Interest Rate</u>	<u>Initial Offering Yield</u>
2008	5,000	7.000 %	7.100%	2022	280,000	7.000 %	7.100%
2009	115,000	7.000	7.100	2023	300,000	7.000	7.100
2010	125,000	7.000	7.100	2024	320,000	7.000	7.100
2011	135,000	7.000	7.100	2025	345,000	7.000	7.100
2012	145,000	7.000	7.100	2026	370,000	7.000	7.100
2013	155,000	7.000	7.100	2027	395,000	7.000	7.100
2014	165,000	7.000	7.100	2028	425,000	7.000	7.100
2015	175,000	7.000	7.100	2029	450,000	7.000	7.100
2016	190,000	7.000	7.100	2030	485,000	7.000	7.100
2017	200,000	7.000	7.100	2031	520,000	7.000	7.100
2018	215,000	7.000	7.100	2032	555,000	7.000	7.100
2019	230,000	7.000	7.100	2033	595,000	7.000	7.100
2020	245,000	7.000	7.100	2034	1,370,000	7.000	7.100
2021	265,000	7.000	7.100			7.000	7.100

\$295,000 SERIES 2004-B TAXABLE BONDS

\$295,000 Series 2004-B Bonds due December 1, 2008
Interest Rate: 8.000%; Initial Yield: 8.500%
CUSIP Number: 88276P AB 2

Mandatory Redemption Schedule 2004-B Taxable Term Bonds*

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Offering Yield</u>
2006	90,000	8.000%	8.500%
2007	100,00	8.000%	8.500%
2008	105,000	8.000%	8.500%

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

Financing documents, resolutions, contracts, engineering, and other related reports referenced or described in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the Issuer at 300 West 15th Street, Suite 411, Austin, Texas 78701, telephone (512) 463-5544, or from the Underwriter at 429 Forbes Avenue, Pittsburgh, Pennsylvania, 15219, telephone (412) 456-2270.

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

This Official Statement contains forward-looking projections which may involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, and achievements to be different from the future results, performance, or achievements expressed or implied by such forward-looking statements. **Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.**

This Official Statement contains, in part, estimates, assumptions, and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions, or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder will, 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.

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission 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 School 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 will 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 jurisdictions.

QUALIFIED INSTITUTIONAL BUYER CERTIFICATION

Each Initial Purchaser of the Bonds will be required to sign a certification stating that such buyer is a "qualified institutional buyer" as defined in Rule 144A of Regulation D promulgated by the Securities and Exchange Commission under the Securities Act of 1933, as amended. A form of such certification is attached to this Official Statement as APPENDIX D.

RESTRICTION ON DENOMINATIONS

The purchase of the Bonds is suitable only for participants of substantial financial means who have no need for liquidity in their investment and who understand and can afford the financial and other risks of this investment. **To help prevent purchase of Bonds by investors who may not be appropriate investors, the Issuer has restricted denominations of the Bonds to \$100,000 and integral multiples of \$5,000 in excess thereof. Resale of the Bonds to beneficial owners in lesser denominations is not authorized under the terms of the Indenture (hereinafter defined).**

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OFFICIAL STATEMENT

\$9,070,000
TEXAS PUBLIC FINANCE AUTHORITY CHARTER SCHOOL FINANCE CORPORATION
CHARTER SCHOOL REVENUE BONDS
(SCHOOL OF EXCELLENCE IN EDUCATION PROJECT)

consisting of

\$8,775,000		\$295,000
TAX-EXEMPT, SERIES 2004-A	and	TAXABLE, SERIES 2004-B

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by the Texas Public Finance Authority Charter School Finance (the "Issuer") of its "Texas Public Finance Authority Charter School Finance Corporation Tax-Exempt Charter School Revenue Bonds (School of Excellence in Education Project), Series 2004-A" (the "Tax-Exempt Bonds"), in the aggregate principal amount of \$8,775,000, and its "Texas Public Finance Authority Charter School Finance Corporation Taxable Charter School Revenue Bonds (School of Excellence in Education Project), Series 2004-B" (the "Taxable Bonds"), in the aggregate principal amount of \$295,000 (collectively, the "Bonds").

The Bonds are being issued pursuant to a Trust Indenture, dated as of October 1, 2004 (the "Indenture"), by and between the Issuer and Wells Fargo Bank, N.A., as trustee (the "Trustee"), and a resolution of the Issuer (the "Resolution"). The proceeds from the sale thereof will be loaned to the School of Excellence in Education, a 501(c)(3) nonprofit corporation (the "Borrower," "SEE," or the "School") operating as an Open-Enrollment (as hereinafter described) charter school of the same name (the "School of Excellence in Education") under the laws of the State, particularly Chapter 12, Subchapter D, Texas Education Code, as amended, to finance and refinance certain educational facilities and facilities incidental, subordinate, or related thereto or appropriate in connection therewith, and the remodeling of such facilities for the Borrower on its campuses located in the City of San Antonio, Texas (the "Project"), as provided by Section 53.351, Texas Education Code, as amended.

The Bonds are limited obligations of the Issuer payable solely from revenues received by the Issuer pursuant to a "Loan Agreement," dated as of October 1, 2004 (the "Agreement"), by and between the Issuer and the Borrower, as evidenced by a note from the Borrower to the Issuer and endorsed by the Issuer to the Trustee (the "Note"). The payments under the Agreement will be further secured by a "Deed of Trust and Security Agreement," dated as of October 1, 2004 (the "Deed of Trust"), from the Borrower on the real property comprising the Oblate Campus and Basse Campus (described herein). See "RISK FACTORS – Value of Land and Improvements; Completion of Purchase."

This Official Statement includes descriptions of, among other items, the Bonds, the Indenture, the Resolution, the Agreement, the Note, the Deed of Trust, the Issuer, the Borrower, and the system of charter schools under State of Texas (the "State") law. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of the Resolution, the Note, the Indenture, Agreement, and Deed of Trust are available from the Kirkpatrick Pettis (the "Underwriter") at 429 Forbes Avenue, Pittsburgh, Pennsylvania, 15219, telephone (412) 456-2270. Any capitalized term used herein and not otherwise defined will have the meaning set forth for such term in the forms of Indenture and Agreement.

PLAN OF FINANCING

Purpose

The Borrower is a nonprofit corporation qualified under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), created and operating under the Texas Nonprofit Corporation Act and chartered as an Open-Enrollment charter school of the same name under Chapter 12, Texas Education Code, as amended. The Issuer is also a nonprofit charter school finance corporation created by the Texas Public Finance Authority (the "Authority") under Chapter 53, Texas Education

Code, as amended. The Issuer will issue the Bonds and loan the proceeds thereof to the Borrower to finance and refinance certain educational facilities and facilities incidental, subordinate, or related thereto or appropriate in connection therewith, and the remodeling and equipping of such facilities for the Borrower on its campuses located in the City of San Antonio, Texas (the "Project"), described further under "THE SCHOOL - The Project" but will not have any continuing responsibilities with respect to the Project or the Borrower.

Sources and Uses of Funds

The proceeds received from the sale of the Bonds are anticipated to be applied as follows:

	Sources	Tax Exempt	Taxable
Bond Proceeds		\$8,713,789.50	291,968.06
	Uses		
Construction Fund		2,003,206.70	
Acquisition Sub-Account		5,500,000.00	
Debt Service Reserve Fund		733,000.00	
Costs of Issuance Sub-Account			291,968.06
Capitalized Interest		306,150.86	
		<hr/>	
TOTAL		<u>\$8,713,789.50</u>	<u>291,968.06</u>

SECURITY AND SOURCES OF PAYMENT

Security for the Bonds

THE BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM REVENUES RECEIVED BY THE ISSUER PURSUANT TO THE AGREEMENT BY AND BETWEEN THE ISSUER AND THE BORROWER, AS FURTHER SECURED BY A DEED OF TRUST AND SECURITY AGREEMENT FROM THE BORROWER ON CERTAIN REAL AND PERSONAL PROPERTY SECURING PAYMENTS UNDER SUCH AGREEMENT. THE BONDS ARE NOT OBLIGATIONS OF THE STATE OR ANY OTHER GOVERNMENTAL ENTITY. NEITHER THE STATE NOR ANY POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE IS OBLIGATED TO PAY THE BONDS OR THE INTEREST THEREON AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, OR ANY OTHER POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

Perfection of Security

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

The Trust Estate

Under the Indenture, in order to secure the payment of the principal and redemption premium, if any, of and interest on the Bonds, and to secure the performance and observance by the Issuer of all the covenants and obligations expressed or implied therein and in the Bonds, the Issuer has granted, alienated, bargained, sold, conveyed, transferred, collaterally assigned, granted a security interest in, and pledged unto the Trustee in trust upon the terms set forth in the Indenture for the equal and ratable benefit, security, and protection of all present and future owners of the Bonds without privilege, priority, or distinction as to the lien or otherwise (except as in the Indenture expressly provided) of any of the Bonds over any of the other obligations, (1) all right, title, and interest of the Issuer in the Agreement (except the certain rights of the Issuer to payment of fees and indemnity thereunder), including the present and continuing right to make claim for, collect, receive, and make receipt for Loan Payments and any other amounts due and payable under the Agreement; (2) all right, title, and interest of the Issuer in and to the Note and the Deed of Trust; (3) all right, title, and interest of the Issuer in all money and securities from time to time held by the Trustee under the terms of the Indenture (except money held in the Rebate Fund, or money held by the Trustee for redemption of Bonds, notice of the redemption of which has been duly given); and (4) 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 "Trust Estate"). All capitalized terms used but not otherwise defined herein will have the meanings assigned to them in the Indenture. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document.

Funds Established Under the Indenture

The following funds are established under the Indenture: the Debt Service Fund, the Debt Service Reserve Fund, the Construction and Acquisition Fund, the Facility Revenue Fund, and the Rebate Fund.

Debt Service Fund

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

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

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

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

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

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

Debt Service Reserve Fund

There will initially be deposited approximately \$733,000.00 in the Debt Service Reserve Fund from the proceeds of the Bonds which is an amount equal to 100% of the maximum annual debt service requirement for the Bonds (the "Debt Service Reserve Fund Requirement"). Except as otherwise provided in the Indenture, the Debt Service Reserve Fund at all times will be maintained at an amount equal to the Debt Service Reserve Fund Requirement. If there are insufficient funds in the Debt Service Fund to pay the Debt Service on the Bonds by 12:00 noon (Central Time) two Business Days prior to the day on which payment of the Debt Service on the Bonds is due, the Trustee will transfer from the Debt Service Reserve Fund to the Debt Service Fund amounts necessary to make such payments from the Debt Service Fund on the day on which payment of the Debt Service on the Bonds is due.

The Permitted Investments on deposit in the Debt Service Reserve Fund will be valued at market value by the Trustee semiannually on June 1 and December 1 (or the preceding Business Day if such day is not a Business Day). If the value of such Permitted Investments plus any money in the Debt Service Reserve Fund falls below the Debt Service Reserve Fund Requirement, the Trustee will immediately notify the Borrower. The Borrower, as provided in the Agreement, will, in 18 consecutive equal monthly installments, the first of which will be made within 30 days from the date of receipt of such notice, provide for an amount equal to such deficiency to the Trustee to be deposited in the Debt Service Reserve Fund to restore the amount in the Debt Service Reserve Fund to equal the Debt Service Reserve Fund Requirement. To the extent the value of such Permitted Investments plus any money in the Debt Service Reserve Fund exceeds the Debt Service Reserve Fund Requirement, such excess will be transferred to the Debt Service Fund and credited to the Payment Account and used to pay Debt Service. To the extent that the value of the Permitted Investments and any other amount in the Debt Service Reserve Fund exceeds the Debt Service Reserve Fund Requirement determined in accordance with section 148(d) of the Code, such excess will be invested as directed in writing by the Borrower at a yield which is not "materially higher" than the Yield on the Bonds, as provided in section 148(a) of the Code. Notwithstanding the foregoing, money in the Debt Service Reserve Fund may be applied to pay Debt Service during the 12 months immediately preceding and including the final maturity of the Bonds without violating the foregoing requirement to maintain the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Fund Requirement.

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

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

Construction and Acquisition Fund

There will initially be deposited approximately \$7,503,206.70 in the Construction and Acquisition Fund from the proceeds of the Bonds. The Trustee will apply the money in the Construction and Acquisition Fund only as provided in the Indenture and Agreement. The Construction and Acquisition Fund will have a separate account for each Series of Bonds from time to time authorized under the Indenture. Initially, the Fund will have two subaccounts: (1) Series 2004 Construction and Acquisition Account; and (2) the Cost of Issuance Account. On the Closing Date, the Trustee will disburse funds from: (a) the Cost of Issuance Account for the payment of the costs associated with issuance of the Bonds; and (b) the Series 2004 Construction and Acquisition Account for the payment of any outstanding mortgages, liens, notes, or obligations on the Project refinanced with the proceeds of the Bonds.

Upon completion of the Project, the Trustee will transfer unused proceeds from the Construction and Acquisition Fund to the Debt Service Fund as provided for in the Indenture. Repair and Maintenance Subaccount will be established and funded for the purpose of maintaining and repairing the facilities.

Facility Revenue Fund

The Facility Revenue Fund will be comprised of State Revenues deposited within two business days of receipt of an invoice of the Trustee, in equal monthly installments sufficient to provide for the payment of interest and principal or sinking fund payments on the Bonds which are next due for payment, or to reestablish the Debt Service Fund Requirement. (See "RISK FACTORS – Dependence of the Borrower – *No Payment of State Revenues to the Trustee.*")

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

On or before the first day of each month, the Indenture provides that the Trustee will invoice the Bonds for all funds due and payable to the Trustee for deposit in the Facility Revenue Fund for the then-current calendar month. The Trustee will withdraw and pay or deposit from the amount on deposit in the Facility Revenue Fund the following amounts in the order of priority indicated:

- FIRST, to the Trustee for payment of any fees or expenses which are then due and payable;
- SECOND, to the Debt Service Fund, an amount sufficient to make all deposits to the Debt Service Fund required to be made for such month under the Agreement which relate to the Debt Service on the Notes or which are necessary to remedy any prior deficiencies relating to previously required deposits to the Debt Service Fund under the Agreement;
- THIRD, to the Debt Service Reserve Fund, a proportionate amount sufficient to make the balance in the Debt Service Reserve Fund equal the Debt Service Reserve Fund Requirement for the Bonds;

FOURTH, to the Borrower, the balance of such money after making the payments or deposits required under the clauses above.

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

Rebate Fund

The Issuer will create a Rebate Fund for the purpose of rebating funds to the federal government as necessary for compliance with section 148(f) of the Code. Upon delivery of funds from the Borrower, the Trustee will deposit or transfer such amounts to the Rebate Fund. Within five days of receipt of funds to the Rebate Fund, the Trustee will withdraw the balance from the Rebate Fund and pay such funds to the United States of America.

Within the Rebate Fund, there will be a separate account for each series of Bonds from time to time authorized, authenticated, and delivered under the Indenture, including the 2004-A Rebate Account.

Loan Agreement

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

As security for repayment of the Notes and performance of the Borrower's other obligations under the Agreement, the Borrower pledges, sets over, assigns, and grants a security interest to the Issuer in all Revenues and all amounts at any time deposited in the Construction and Acquisition Fund, Facility Revenue Fund, Debt Service Fund, and Debt Service Reserve Fund created by the Indenture, to the extent owned by the Borrower, 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 Borrower has authorized and directed the Trustee to hold such amounts, investments, reinvestments, and proceeds as bailee and custodian for the Issuer in accordance with the provisions of Section 9.305 of the Texas Business and Commerce Code, as amended, and to invest and disburse such amounts and proceeds in accordance with the Indenture and the Agreement; provided, however, that any State Revenues that are remitted to the Borrower pursuant to the Indenture will be deposited and held by

the Borrower in accordance with the provisions of Section 12.107(a)(4), Texas Education Code, as amended.

Deed of Trust

At the closing, the Borrower will deliver the Deed of Trust for both the Oblate Campus and the Basse Campus to the mortgage trustee, and any substitute or successor mortgage trustee (the "Mortgage Trustee"), for the use and benefit of (1) the Trustee and (2) any holder of the Bonds (collectively the Trustee and such holders are referred to as the "Beneficiary"), to secure the indebtedness evidenced by the Notes and Bonds, any and all amounts, liabilities, and obligations for which or for the performance of which Borrower may become indebted or obligated under the terms of the Agreement or the Deed of Trust, including, but not limited to, the fees and expenses of the Beneficiary; any sum or sums constituting other indebtedness (whether now existing or hereafter arising) of the Borrower to the Beneficiary related to the Project, and any and all renewals, rearrangements, and extensions of the foregoing items of indebtedness and obligations.

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

Deposit Account Control Agreement

The Borrower, the Trustee, and the Borrower's depository bank (the "Depository Bank") will enter to a Deposit Account Control Agreement (the "Deposit Agreement"), pursuant to which the Trustee may issue a notice of exclusive control of certain School funds in the Depository Bank upon an Event of Default under the Agreement. (See "THE INDENTURE, THE AGREEMENT, AND THE DEED OF TRUST – Remedies Under the Agreement.")

Additional Indebtedness

The Issuer and the Borrower have reserved the right, subject to the restrictions stated in the Indenture and the Agreement, to issue Additional Indebtedness or any other notes, obligations, or instruments of indebtedness ("Additional Indebtedness") which, when issued and delivered, together with the premium, if any, and interest thereon, will be payable from the Debt Service Fund, and will be payable from and secured by an irrevocable lien on and pledge of the Revenues, in the same manner and to the same extent as, and be on a parity with, all then Outstanding Bonds and Additional Indebtedness.

Debt may be issued in one or more series of bonds, certificates, or other public securities and may be delivered by the Issuer pursuant to the Indenture for the purposes provided in the Agreement and/or for the purpose of refunding any Outstanding Bonds if the following conditions are met:

- (1) the Agreement is in effect and no Event of Default is then existing under the Agreement;
- (2) such Additional Indebtedness will be on a parity with respect to the Trust Estate and will be payable by the Issuer solely from the Revenues and other amounts derived pursuant to the Agreement

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

(3) the Revenues for the 12-month period next preceding the month of the date of the Additional Indebtedness then to be issued, or for the School's completed Fiscal Year next preceding the date of such Additional Indebtedness, are equal to at least 1.5 times the maximum annual principal and interest requirements of all Bonds to be Outstanding after the issuance of the Additional Indebtedness;

(4) the Revenues for the 12-month period next preceding the month of the date of the Additional Indebtedness then to be issued, or for the School's completed fiscal year next preceding the date of such Additional Indebtedness, are equal to at least 1.25 times the maximum annual principal and interest requirements of all Bonds to be Outstanding after the issuance of the Additional Indebtedness;

(5) the Net Revenues for the 12-month period next preceding the month of the date of the Additional Indebtedness then to be issued, or for the School's completed fiscal year next preceding the date of such Additional Indebtedness, are equal to at least 1.10 times the maximum annual principal and interest requirements of all Bonds to be Outstanding after the issuance of the Additional Indebtedness;

(6) the Projected Net Revenues for the 12-month period next following the month of the date of the Additional Indebtedness then to be issued, or for the School's full Fiscal Year next following the date of such Additional Indebtedness, are equal to at least 1.10 times the maximum annual principal and interest requirements of all Bonds to be Outstanding after the issuance of the Additional Indebtedness;

(7) in lieu of the requirements stated in (1) through (6) above, (A) the Series 2004 Bonds are rated "investment grade" by any Fitch, Moody's, or S&P and (B) the chief financial officer of the School certifies that the School has more than \$1,000,000 in unrestricted cash.

In the event the proceeds of such Additional Indebtedness are being issued for the purpose of completing the Project or any other project for which Additional Indebtedness are issued, such series of completion bonds may be issued in amounts not to exceed 20% of the debt that was originally incurred for such project upon certification of an Authorized Representative of the Borrower that such proceeds of Additional Indebtedness are required to fund the costs of completion.

Additional Indebtedness issued pursuant to the Indenture may be equally and ratably secured under the Indenture with respect to the Trust Estate and any Additional Security with Bonds and any other Additional Indebtedness, without preference, priority, or distinction of any bond over any other bonds.

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 from funds payable **solely** by the Borrower under the terms and conditions of the Agreement and as otherwise described herein. The obligations of the Issuer under the Indenture are not general obligations of the Issuer and neither the Trustee nor the registered or beneficial owners of the Bonds will have any

recourse to any property, funds, or assets of the Issuer (other than the property granted the Trustee as part of the Trust Estate) with respect to such obligations. See "SECURITY AND SOURCE OF PAYMENT."

Dependence of the Borrower

Dependence on Per Student Revenues. The Borrower derived approximately 84.1% of its revenues during the 2003-2004 school year from the State Revenues and/or by the public school district that a student would otherwise attend for each student in average daily attendance (the "ADA") at the School, 13.29% from federal programs, and 2.7% from local support (collectively, the "Revenues"). The timely payment of principal, redemption premium, if any, and interest on the Bonds, therefore, depends on operations of the School 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.

Growth of Student Population. The principal source of repayment of the Bonds is the State Revenues and annual amounts paid by the State and local public school district to the Borrower per student in average daily attendance. For 2004-2005, the amount to be received by the School will be in excess of \$4,637.50 per student in average daily attendance, but such amount will vary from year to year. See "THE SYSTEM OF CHARTER SCHOOLS IN TEXAS—State Funding" and "—Local Funding." The student population for the 2003 fiscal year ending August 31, 2004, was 1,048. Waiting lists of students wishing to enroll at the School exist; however, because of both building space capacity and Charter limitations, student enrollment is currently capped at 2,000. 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.

Accuracy of Borrower Projections of Growth. To pay projected operation's cost and debt service on the Bonds, the Borrower has projected increases in its student population to 1,500 by 2004. The bases for such projections are derived from the applications for admissions for the Borrower's current operation (grades Pre-K through 12). These projections 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 ADA are reasonable, such growth may or may not occur and may be affected by a variety of factors, including continued provision for funding of the School by the State at adequate levels, operations and maintenance expenses of the School, and competition from other public or private schools in the San Antonio area.**

Competition. 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 may be significantly less than revenues charged by many private schools in the San Antonio area. A potential investor should anticipate that operational difficulties may exist for the Borrower which may not exist for traditional public schools or for established private schools. Unlike public school districts, the Borrower must attract students from other schools, both public and private, within the San Antonio, Texas area. No students are required to attend the School, and students at the School may subsequently transfer to other public or private schools. There are numerous public and private schools in the San Antonio area, many of which may be closer to the homes of present or prospective students of the School. Failure by the Borrower to provide facilities or

academics at a level acceptable to students and their parents would presumably preclude the Borrower from attracting or maintaining students, and would negatively affect the ability of the Borrower to make Loan Payments in an amount sufficient to pay the Bonds. See APPENDIX B for the names and relative locations of the public school districts in Bexar County, Texas.

Risks Associated with Charter Schools. There are a number of factors affecting schools in general that could have an adverse effect on the School's financial position and ability to make Loan Payments. These factors include, but are not limited to, increasing costs of compliance with federal, State, or local regulatory laws or regulations, including, without limitation, laws or regulations concerning environmental quality, work safety, and accommodating persons with disabilities; any unionization of the School's work force with consequent impact on wage scales and operating costs of the School; the ability to attract a sufficient number of students; and changes in existing statutes pertaining to the powers and minimum funding levels for charter schools. Operation of charter schools also presents significant risks and operational and management issues not present in other enterprises. While State law provides that the School is immune from liability to the same extent as a public school district, and that its employees and volunteers are immune from liability to the same extent as employees and volunteers of a public school district, a potential investor should anticipate that, because the School provides services to children, any failure in the Borrower's operation and management of the School 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. The Borrower's only substantial asset is the School. If the School does not generate sufficient revenues to pay all of the Borrower's loan obligations and operating expenses, the Borrower will have no other significant source of funds to make such payments. Further, while the payments of Debt Service are prior to payments of the Borrower's operating expenses, a failure to make operating expenses would ultimately result in the inability of the Borrower to attract or maintain sufficient revenues for payment of its Loan Payments.

No Taxing Power. The Borrower has no taxing power.

No Payment of State Revenues to Trustee. State law prohibits the direct deposit of State Revenues into any account not held by the Borrower's depository bank. The Borrower will covenant and agree in the Agreement that, without demand by the Trustee, it will deliver or cause to be delivered to the Trustee the State Revenues to be so deposited. (See "SECURITY AND SOURCES OF PAYMENT – Facility Revenue Fund.") Further, the Borrower covenants in the Agreement that if and to the extent permitted by applicable law in the future, the Borrower will cause the State Revenues to be deposited by the Comptroller directly into the Facility Revenue Fund.

Changes in School Funding Method. Changes in the overall method of funding school districts in Texas are underway, and therefore, changes in the funding method for charter schools, may occur soon. In 2001, high-property-wealth school districts filed a lawsuit claiming that the State's education finance system violates the Texas Constitution. The district court of Travis County dismissed the case, in *West Orange-Cove Consolidated ISD v. Nelson*, which was affirmed by the Texas Court of Appeals in 2002, but overruled by the Texas Supreme Court in 2003 and remanded for trial. A second district court heard the case on remand and on November 30, 2004 held that the State's public school finance system is unconstitutional under the Texas Constitution.

The court declared that:

(1) the Texas school finance system is unconstitutional in that it violates Article VIII, section 1-e of the Texas Constitution, because the \$1.50 cap on Maintenance and

Operation tax rates has become both a floor and a ceiling, denying school districts “meaningful discretion” in setting their tax rates;

(2) the Texas school finance system is unconstitutional in that it violates the “general diffusion of knowledge” clause (or adequacy clause) set forth in Article VII, section 1 of the Texas Constitution, because the constitutional mandate of adequacy exceeds the maximum amount of funding that is available under the State’s current funding formulas;

(3) the State’s school finance system is financially inefficient, inadequate, and unsuitable, in violation of Article VII, section 1 of the Texas Constitution because the school finance system fails to recognize or cover the costs of meeting the constitutional mandate of adequacy, or the Legislature’s statutory definition of a comprehensive adequate program;

(4) the prohibition on the use of Tier 2 funds for facilities, combined with the Legislature’s failure to make the Instructional Facilities Allotment and/or Existing Debt Allotment programs statutorily permanent and the Legislature’s inadequate funding of the IFA program, means that property-poor districts do not have substantially equal access to facilities funding in violation of the efficiency and suitability provisions of Article VII, section 1 of the Texas Constitution; and

(5) the current funding capacity of the Texas school finance system fails to provide intervenor districts with sufficient access to revenue to provide for a general diffusion of knowledge to their students, in violation of the efficiency, suitability, and adequacy provisions of Article VII, section 1 of the Texas Constitution, particularly when taking into account (a) the inadequacy of the weight adjustments for bilingual, economically disadvantaged, and other special needs students and (b) the greater burden borne by intervenor districts of the inadequacy of those weights, given their student populations, which are disproportionately less English proficient and more economically disadvantaged.

Based on these findings, the court entered an injunction that State funding of public schools cease unless the Legislature conforms the school finance system to meet the constitutional standards. This injunction is effective on October 1, 2005. The Texas Attorney General has indicated his intent to appeal this ruling.

It is anticipated that ~~either through a special session or during~~ the 79th Legislative Session, beginning on January 1, 2005, the school finance system will be revised. The School cannot predict whether or what proposals and changes in the law might be enacted. It is conceivable that the Legislature could enact changes to the finance system the impact of which could be to the benefit or detriment of a charter school depending on a variety of factors, including the financial strategies the charter school has implemented in light of current financing systems.

If the financing system were to be revised while the Bonds are outstanding, either by court order or by statute, State funding could be reallocated, property taxes could be replaced with funding dependent on biennial appropriation, or other changes could occur that cannot yet be predicted. In the Texas Supreme Court's ruling in *Edgewood IV*, the court stated that any further determination of unconstitutionality of the school finance system “would . . . require the Legislature to cure the system's unconstitutionality in a way that is consistent with the Contract Clauses of the U.S. and Texas Constitutions (the 'Contract Clauses).” Consistent with the Contract Clauses, in the exercise of its police

powers, the State may make such modifications in the terms and conditions of contractual covenants related to the payment of the Bonds as are reasonable and necessary for the attainment of important public purposes.

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

Pledge and Assignment of Future Revenues

Pursuant to the Indenture, the Issuer has assigned and pledged to the Trustee the Revenues in order to make all payments due under the Indenture, all of which are pledged and assigned to the Trustee for the benefit of the owners of the Bonds under the Indenture and the Deed of Trust. Nevertheless, certain interests and claims of others may be on a parity with or prior to the pledge and assignment of the Revenues made in the Deed of Trust, and certain statutes and other provisions may limit the Issuer's right to make such pledges and assignments. Examples of such claims, interests, and provisions are:

- (1) statutory liens;
- (2) applicable State laws may not recognize a security interest in future revenues derived from the Project;
- (3) rights arising in favor of the United States of America or any agency thereof on failure of the Trustee, the Developer, or the Issuer to comply with federal or State statutes regarding the assignment of certain claims;
- (4) constructive trusts, equitable liens, or other rights impressed or conferred by any State or federal court in the exercise of its equitable jurisdiction;
- (5) federal bankruptcy laws as they affect amounts earned with respect to the Project within 90 days preceding and at all times after any effectual institution of bankruptcy proceedings by or against the Issuer;
- (6) as to those items in which a security interest, lien, or pledge can be perfected only by possession, including items converted to cash, the rights of third parties in such items not in the possession of the Trustee;
- (7) prohibitions against assignment contained in federal or State statutes;
- (8) the security interest of third party creditors in "proceeds" of property subject to a Permitted Encumbrance, which "proceeds" may be deemed to constitute revenues;
- (9) items not in possession of the Trustee, the records to which are located or moved outside the State, which are thereby not subject to or are removed from the operation of State law; and
- (10) the requirement that appropriate notices be filed in accordance with applicable State law as from time to time in effect.

Liquidation of Security May Not be Sufficient in the Event of a Default

In the event of a default by the Borrower under the Indenture, the Trustee and/or the Issuer must look to the Project, the Deed of Trust, and available Revenues to pay and satisfy the Bonds in accordance with their terms. See "SECURITY AND SOURCES OF PAYMENT." The owners of the Bonds are dependent entirely upon the success of the School and the value of its assets for the payment of the Bonds. In the event the Revenues are insufficient to pay the amounts due on the Bonds, then once the other security for the Bonds has been exhausted, the owners of the Bonds will have no person or entity to pursue for any deficiency which may exist. The practical use of the Project is limited to its use as a school. If it were necessary to foreclose the lien of the Deed of Trust on the Basse Campus and Oblate Campus, net proceeds received may be less than the principal amount of the Bonds outstanding.

Environmental Risks

The Borrower, as owner of the Oblate Campus and Basse Campus, and as lessee of the Blanco Campus, has potential liability under most State and federal environmental statutes, laws, and regulations. In addition to liability for release of hazardous substances at the School due to its own actions, the Borrower, as owner, could be held liable for releases of hazardous substances by previous owners/lessees of the School sites. No assurance can be given that environmental conditions do not now or will not in the future exist at the Project which could become the subject of enforcement actions by governmental agencies. However, in connection with this Risk Factor, the Borrower has obtained Phase I Environmental Site Assessments for the School's campuses. See "THE BORROWER AND THE SCHOOL – The Project."

Dependence on the State

State Revenues Subject to Biennial Appropriation. Repayment of Debt Service on the Bonds depends principally on receipt by the Borrower of the State Revenues and by the school district that the student would otherwise attend for each student in ADA. The Texas Legislature (the "Legislature") meets each odd-numbered year, and failure of the 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 System of Charter Schools. Continued operation could be adversely affected if the State makes future changes in the legislative provisions governing operation of charter schools. The system of charter schools in Texas was first enacted in 1995 and significant changes were made in 2001, and unforeseen operational or management issues could cause the State to significantly alter the statutory provisions governing charter schools in the future. See "THE SYSTEM OF CHARTER SCHOOLS IN TEXAS."

Revocation or Non-renewal of Charter. The School was granted an Open-Enrollment charter by the SBOE on May 29, 1998 for not to exceed 300 students. The SBOE granted the School charter increases in July 1998 to a maximum of 500; in November 1999 to a maximum of 620; in July 2000 to a maximum of 1,000; in September 2000, to a maximum of 1,500; and on June 1, 2004, the SBOE granted an increase to a maximum of 2,000 students.

The School's charter may be revoked or the State may refuse to renew the charter if the person operating the School commits a material violation of the charter, including failure to satisfy accountability provisions prescribed by the charter, failure to satisfy generally accepted accounting standards of fiscal management, or failure to comply with the provisions of the Texas Education Code, Chapter 12, or other applicable laws or rules. The State has periodically closed charter schools as a

result of oversight reviews, but the School believes that there is no current condition that would cause revocation or non-renewal of its charter. The School's charter was renewed in June, 2003 until July, 2013. See "THE SYSTEM OF CHARTER SCHOOLS IN TEXAS."

Risk of State Audit Exceptions

Enrollment at the School serves as the basis for receipt of funding from the State. Student ADA serves as the parameter for such disbursement of State funds. The ADA is subject to audit by the State and any variations or shortfalls are subject to recapture by the State. While the Borrower has implemented an enrollment control and tracking system to ensure accuracy and compliance with the State's ADA requirements, there can be no assurance that future audits will not require reimbursement to the State of some portion of funds previously received by the School.

Risk of Catastrophic Loss

In the event a natural or manmade disaster, such as a hurricane, fire, earthquake, tornado, or war destroys the School, or the School's campuses condemned by the government, 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 against such losses and in such amounts as is customary for persons engaged in the same business as the Borrower and operating facilities similar to its buildings and other facilities, including the Project. The Borrower has additionally covenanted in the Agreement to provide general liability, educators legal liability (excluding claims of bodily injury from corporal punishment), comprehensive automobile liability, workers' compensation, and business interruption insurance. The business interruption insurance is required to cover actual losses in gross revenues from the Project resulting directly from necessary interruption of the operation of the Borrower caused by damage to or destruction (resulting from fire and lightning, accident to a fire pressure vessel or machinery, and other perils as further set forth in the Agreement) to real or personal property constituting part of the Project, less charges and expenses that do not continue during the interruption, for such length of time as may be required with the exercise of due diligence and dispatch to rebuild, repair, or replace such properties as have been damaged or destroyed (but in no event not less than 12 months). In the event of the Borrower's receipt of insurance proceeds in an amount greater than \$250,000 from damage, destruction, or condemnation in an amount greater than \$250,000, the Agreement requires transfer of such amounts to the Trustee under the conditions set forth in the Agreement. See "SECURITY AND SOURCES OF PAYMENT – The Agreement." Nevertheless, there can be no assurance that a casualty loss will be covered by insurance (certain casualties are excepted), that the insurance company will fulfill its obligation to provide insurance proceeds, that insurance proceeds to rebuild the facilities of the School will be sufficient, or that a sufficient number of students would wish to attend the School following rebuilding. Even if insurance proceeds are available and the facilities of the School are rebuilt, there could be a lengthy period in which there would be little or no revenues.

Limited Remedies After Default

Remedies available to owners of Bonds in the event of a default by the Issuer in one or more of its obligations under the Bonds or the Indenture, including failure to make due and punctual payment of debt service on any Outstanding Bonds and failure to perform or observe the covenants and agreements specified therein, or the Borrower under the Agreement or the Note are limited to the terms of such instruments, and may prove to be expensive, time-consuming, and difficult to enforce. Further, as noted

above, the Bonds are limited obligations of the Issuer and the existence of any remedy does not guarantee sufficient assets of the Borrower pledged to payment of the Bonds to secure such payment.

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" below.

Ability to Sell or Lease the Property Under the Deed of Trust

In the event of a default in payment of principal or and interest on the Bonds, a remedy available to the Trustee or the Bondholders of the Outstanding Bonds is to foreclose on the Deed of Trust and attempt to sell the Oblate Campus and the Basse Campus or lease the campuses to another lessee. There can be no assurances that the Trustee or the Issuer will be able to find a willing purchaser or lessee for the campuses. The failure to sell or release the campuses for a sale price or rental rate that would generate amounts, after payment of certain costs and expenses, sufficient to pay principal and interest on the Bonds then outstanding will materially adversely affect the ability of the Trustee to pay the Bonds in full. Any sale or lease of the campuses may require compliance with the laws of the State. Compliance may be difficult, time-consuming, and expensive.

Restrictions on Blanco Campus Lease. Although not part of the Project, one of the School's elementary schools is located at the Blanco Campus. The Blanco Campus currently has 378 students and 50 staff members. This facility is leased, on a year-to-year holdover lease, from the Vineyard Foundation. Under the terms of the lease, no renewal may extend beyond the length of the School's charter and the only permitted use of the property is for the operation of a charter school. The lease is not assignable and upon any conveyance, sale, or exchange of the leased property or assignment of the lease, the Vineyard Foundation is relieved of all liability under the covenants and obligations of the lease. Events of default under the lease include: (1) general assignment for the benefit of creditors by the School, (2) cessation of use of premises as a charter school, and (3) assignment of School's interest in the lease by operation of law.

Pending Litigation

At this time, the School is involved in a lawsuit filed by a prospective employee who alleges that her employment negotiations with the Superintendent resulted in fraudulent misrepresentation, negligent misrepresentation, and a violation of her right to due process. The plaintiff claims she was offered the position of assistant athletic director and coach at the School with the intent that she would leave her position with her existing employer; but that, after she resigned her existing position, the School unilaterally changed the terms of her offer, reducing both the job title and the proposed salary. The plaintiff alleges that due to the School's misrepresentations she was forced to take a job for less salary in a school district far from her residence. The plaintiff further alleges that facts of her lawsuit represent a pattern of behavior for the School and, based on this theory, seeks punitive damages not to exceed \$1 million. The School denies these allegations and is vigorously defending itself against these claims. The School's insurance agent indicated that coverage would be denied without submitting the claim to the carrier, however a formal demand for defense has been filed.

The School has also received formal notice of claim by a former student alleging excessive force in disciplining the student. No suit has been filed to date on this claim, but the The School's insurance

policy in effect for this claim has an exception to coverage for claims made related to corporal punishment; however, the current policy does include coverage for corporal punishment which is not maliciously inflicted, administered in violation of the School's policy or regulation, or administered in violation of the law.

Risk of Bankruptcy

There is a risk that the Borrower may file for bankruptcy and afford itself the protection of the federal Bankruptcy Code. In that case, the Borrower receives the benefit of the automatic stay and creditors, such as the owners of the Bonds, cannot pursue their remedies against it without the permission of the Bankruptcy Court. The Borrower has a right to reorganize and adjust its debts with the approval of the Bankruptcy Court. While the Borrower is a nonprofit corporation, the 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 9 of the 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.

Risk of Increased Debt

The Issuer has reserved the right to issue Additional Indebtedness which are secured under the Indenture on an equal basis with the Bonds and subordinated debt. The issuance of Additional Indebtedness and subordinated debt may adversely affect the investment security of the Bonds. For a description of the circumstances under which Additional Indebtedness and subordinated debt may be issued, see "SECURITY AND SOURCE OF PAYMENT – Additional Indebtedness."

Risk of Failure to Comply with Certain Covenants

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

Limited Marketability of the Bonds

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

The purchase of the Bonds is suitable only for participants of substantial financial means who have no need for liquidity in their investment and who understand and can afford the financial and other risks of this investment. To help prevent purchase of Bonds by investors who may not be appropriate investors, the Issuer has restricted denominations of the Bonds to \$100,000 and integral multiples of \$5,000 in excess thereof. Resale of the Bonds to beneficial owners in lesser denominations is not authorized under the terms of the Indenture.

Tax-Exempt Status on the Bonds

The Internal Revenue Code of 1986, as amended (the "Code") imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Tax-Exempt 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 they will comply with such requirements. Failure to comply with the requirements stated in the Code and related regulations, rulings, and policies may result in the treatment of the interest on the Tax-Exempt Bonds as taxable. Such adverse treatment may be retroactive to the date of issuance. See also "TAX MATTERS."

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

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

Tax-Exempt Status of the Borrower

The tax-exempt status of the Tax-Exempt 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 Tax-Exempt Bonds and defaults in covenants regarding the Tax-Exempt Bonds and other obligations would likely be triggered. Loss of tax-exempt status by the Borrower could also result in substantial tax liabilities on its income. For these reasons, loss of tax-exempt status of the Borrower could have material adverse consequences on the financial condition of the Borrower.

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

transactions, the Borrower may be at risk for incurring monetary and other liabilities imposed by the IRS. These liabilities could be materially adverse.

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

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

State and Local Tax Exemption

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

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

Unrelated Business Income

The IRS and state, county and local tax authorities may undertake audits and reviews of the operations of tax-exempt organizations with respect to the generation of unrelated business taxable income (“UBTI”). The Borrower may participate in activities that generate UBTI. An investigation or audit could lead to a challenge that could result in taxes, interest and penalties with respect to UBTI and, in some cases, ultimately could affect the tax-exempt status of the Borrower as well as the exclusion from gross income for federal income tax purposes of the interest payable on the Tax-Exempt Bonds.

THE BONDS

Description

The Bonds will be issued in two series, the Tax-Exempt Bonds and the Taxable Bonds, described below, without coupons, and will accrue interest from the delivery date at the per annum rates shown in the inside cover. Interest on the Bonds will accrue from the Date of Initial Delivery and be calculated on the basis of a 360-day year of twelve 30-day months. Interest is payable on the dates set forth on the cover page of this Official Statement.

The Tax-Exempt Bonds are issued for the purpose of financing the Project. The Tax-Exempt Bonds consist of a single term bond maturing on December 1, 2034. The Taxable Bonds are issued for

the purpose of financing the cost of issuance of the Bonds. The Taxable Bonds consist of a single term bond maturing on December 1, 2008. See the inside cover page for terms of the Bonds.

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

The principal of, redemption premium, if any, and interest on the Bonds are payable in lawful money of the United States of America. Amounts due on the Bonds will be paid by check mailed to the owner thereof at its address as it appears on the Bond Registration Books on the fifteenth calendar day of the month next preceding such payment date (the "Record Date"). Upon written request of a registered owner of at least \$1,000,000 in principal amount of Bonds, all payments of principal, premium (if any), and interest on the Bonds will be paid by wire transfer at the risk and expense of such registered owner in immediately available funds to an account designated by such registered owner upon 15 days prior written notice to the Trustee. 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"), New York, New York, as described under "BOOK-ENTRY-ONLY SYSTEM." (See APPENDIX E – BOOK-ENTRY ONLY SYSTEM.)

Use of Certain Terms of this Official Statement. In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, as described in APPENDIX E, references in this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (1) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (2) except as described above, notices that are to be given to registered owners under the Indenture will be given only to DTC.

Redemption Provisions

Optional Redemption. The Bonds are subject to optional redemption prior to scheduled maturity, in whole or in part, on December 1, 2014 and on any date thereafter, at the option of the Borrower, upon written notice of the exercise of the option to redeem delivered to the Trustee by the Borrower not earlier than the 60th day nor later than the 30th day prior to the date of redemption at par, plus accrued interest to the date of redemption.

Mandatory Redemption Upon Determination of Taxability. The Tax-Exempt 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.

"Determination of Taxability" means a determination that the interest income on any of the Tax-Exempt Bonds does not qualify as interest excluded from gross income of the recipient thereof for the purpose of federal income taxation ("exempt interest") under section 103 of the Code (in the case of a private activity bond, for a reason other than that a registered owner is or a former registered owner was a substantial user within the meaning of section 147 of the Code), which determination will be deemed to have been made upon the first to occur of any of the following: (1) 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 Tax-Exempt Bonds qualifies as such exempt interest; or (2) the date on which any change in law or regulation becomes effective or on which the Internal Revenue Service issues any public or private ruling, technical advice memorandum or any other written communication or on which there will occur 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 (3) the date on which the Borrower will 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 Borrower or any owner or former owner of a Tax-Exempt Bond that the Internal Revenue Service has issued a notice of deficiency or similar notice which asserts that the interest on any of the Tax-Exempt Bonds does not qualify as such exempt interest.

Mandatory Redemption With Excess Proceeds. The Bonds will be redeemed in whole or in part prior to maturity as a result of a deposit of amounts transferred from the Construction Fund to the Debt Service Fund as excess proceeds upon completion of the Project to the extent of \$100,000 or \$5,000 increments. Bonds redeemed as described in this paragraph will be redeemed within 30 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 will be calculated on the basis of a 360-day year).

Extraordinary Optional Redemption. The Bonds are subject to extraordinary redemption, at the option of the Issuer upon request of a Borrower Representative, at a redemption price of par plus interest accrued thereon to the redemption date, without premium, on any date, in the event the sites related to the Project are damaged, destroyed, or condemned, or threatened to be condemned, (1) in whole, if, in accordance with the terms of the Agreement, the sites related to the Project are not reconstructed, repaired, or replaced, from insurance proceeds transferred from the Construction Fund to the Debt Service Fund which, together with an amount required to be paid by the Borrower pursuant to the Agreement, will be sufficient to pay the Bonds in full or (2) in part, after reconstruction, repair, or replacement of the sites related to the Project in accordance with the terms of the Agreement, from excess insurance proceeds transferred from the Construction Fund to the Debt Service Fund for such purpose.

Mandatory Sinking Fund. The Bonds are subject to mandatory redemption prior to maturity with funds from the Debt Service Fund, at a redemption price equal to the principal amount thereof and accrued interest to the date of redemption, and without premium, on October 1 in each of the years, and in the principal amounts, respectively, as set forth in the schedule on the inside cover.

The principal amount of the Bonds required to be redeemed pursuant to the operation of such mandatory sinking fund redemption will be reduced by the principal amount of any Bonds which, at least 45 days prior to the mandatory sinking fund redemption date (1) will have been purchased and delivered to the Trustee for cancellation, (2) will 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 (3) will have been redeemed pursuant to the optional redemption provisions for the Bonds.

Redemption in Part. If less than all of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed will be selected by the Trustee at random by lot or other customary method within a maturity; provided, however, that portions of Bonds will be redeemed in Authorized Denominations and that no redemption will result in a 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 but not more than 60 days prior to any redemption date, the Trustee will cause a written notice of such redemption to be sent to the Owners of the Bonds to be redeemed, at its address appearing on the Bond Registration Books on the date such notice is mailed by the Trustee. Any notice mailed will be conclusively presumed to have been given, irrespective of whether received. By the date fixed for any such redemption, due provision will be made with the Trustee and the Paying Agent for the payment of the appropriate redemption price. If such written notice of redemption is made and if due provision for payment of the redemption price is made, all as provided above and in the Indenture, the Bonds which are to be redeemed thereby automatically will be deemed to have been redeemed prior to their scheduled maturity, and they will not bear interest after the date fixed for redemption, and they will not be regarded as being Outstanding except for the right of the owner to receive the redemption price out of the funds provided for such payment. If any Bond is not paid upon the surrender thereof at the maturity or redemption date thereof, such Bond will continue to be Outstanding and will continue to bear interest until paid at the interest rate borne by such Bond.

THE INDENTURE, THE AGREEMENT, AND THE DEED OF TRUST

The Indenture, the Agreement, and the Deed of Trust are available from the Underwriter. Prospective purchasers should carefully review each of these documents for additional terms governing the Bonds and the security for the Bonds, including definitions (including the definitions of capitalized terms not otherwise defined herein), restrictions on registration and transfer, payment provisions for Loan Payments and Debt Service, additional terms for issuance of Additional Indebtedness, revenues and funds, discharge of the Indenture and the Agreement, events of default and remedies, amendments, and qualifications and replacement of the Trustee or agents. All descriptions and summaries herein of the provisions of the Indenture, the Agreement, and the Deed of Trust are subject to and qualified in their entireties by reference to the full and complete copies of each document.

Events of Default Under the Indenture

The following events are defined as and constitute an "Event of Default" under the Indenture:

- (1) Failure by the Issuer to make due and punctual payment of Debt Service on any Outstanding Bond, whether at stated maturity thereof, at the date fixed for redemption, upon proceedings for redemption, or otherwise upon the maturity thereof;
- (2) Failure by the Issuer to perform or observe any other of the covenants, agreements, or conditions to be performed or observed on its part contained in the Indenture or in the Outstanding Bonds, and continuance thereof for the period after notice as specified in the Indenture; or
- (3) The occurrence of an "Event of Default" under the Agreement.

Anything in the Indenture to the contrary notwithstanding, no default described above will constitute an Event of Default until actual notice of such default is given to the Issuer and the Borrower by the Trustee or by the Owners of not less than 25% in aggregate principal amount of all Bonds Outstanding, and the Issuer and the Borrower has had 60 days after the receipt of such notice to cure said default, but has failed to cure said default.

Remedies Under the Indenture

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

(1) by mandamus, or other suit, action, or proceeding at law or in equity, as the Trustee deems most effective to protect and enforce all rights of the Owners, require the Issuer and the Borrower to carry out their respective covenants, agreements, and obligations under the Indenture, the Agreement, the Bonds, the Notes, or the Act;

(2) bring suit upon the Indenture and the Bonds;

(3) bring suit upon the Agreement, the Bonds, and the Notes;

(4) by action, suit, or proceeding at law or in equity require the Issuer to account as if it were the trustee of an express trust for the Owners; or

(5) by action, suit, or proceeding at law or in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners.

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

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

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

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

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

Right of the Bond Owners to Direct Proceedings

The Owners of a majority in aggregate principal amount of Bonds then Outstanding have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings; provided, however, that (a) the Trustee is appropriately indemnified for its fees and expenses and such direction is not otherwise than in accordance with the provisions of law and of the

Indenture and (b) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

Appointment of Receivers

Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of legal proceedings to enforce the rights of the Trustee and of the Owners under the Indenture, the Trustee will be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate and of the revenues, issues, earnings, income, products, and profits thereof, pending such proceedings, with such powers as the court making such appointment will confer.

Waiver

Upon the occurrence of an Event of Default, to the extent that such rights may then lawfully be waived, neither the Issuer, nor any political corporation, subdivision, or agency thereof, nor anyone claiming through or under any of them, may claim or seek to take advantage of any appraisalment, valuation, stay, extension, or redemption laws now or hereafter in force, in order to prevent or hinder the enforcement of the Indenture, and the Issuer, for itself and all who may claim through or under it, waives, to the extent that it lawfully may do so, the benefit of all such laws.

Application of Money

All money received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture will first, be used to pay or reimburse the Trustee for all of its reasonable fees or expenses incurred to the date thereof, prior to any other payment to any other Person; second, be used to pay any other of the reasonable costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities, attorney's fees, and advances incurred or made by the Trustee in connection therewith; and third, be deposited in the Debt Service Fund and all moneys in the Debt Service Fund will be applied as provided for in the Indenture.

Remedies Vested in the Trustee

All rights of action (including the right to file proofs of claims) under the Indenture or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or proceedings related thereto, and any such suit or proceeding instituted by the Trustee will be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any Owner.

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition, or other judicial proceeding relative to the Issuer or the Borrower or the property of the Borrower, the Trustee (irrespective of whether the principal of the Bonds will then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee will have made any demand on the Issuer or the Borrower for any payment then due) will be entitled and empowered, by intervention in such proceeding or otherwise provided for in the Indenture

Rights and Remedies of the Bond Owners

No Owner will have any right to institute any suit, action, or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust hereof or for the appointment of a receiver or any other remedy, unless:

(1) a default has occurred of which the Trustee has been notified, or of which by said subsection it is deemed to have notice;

(2) such default has become an Event of Default and the Owners of not less than 25% in aggregate principal amount of Bonds then Outstanding have made written request to the Trustee and will have offered the Trustee reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit, or proceeding in the name or names of such Owners, and they have supplied to the Trustee indemnity as provided under the Indenture; and

(3) the Trustee thereafter fails or refuses to exercise the powers granted, or to institute such action, suit, or proceeding in its own name within 90 days after the receipt of the request and indemnification.

Events of Default Under the Agreement

The following are "Events of Default" under the Agreement:

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

(2) Any representation or warranty made or deemed made by the Borrower under the Bond Documents which is false, misleading, or erroneous in any material respect when made or deemed made, or failure by the Borrower to observe and perform any covenant, condition, or agreement on its part to be observed or performed under the Agreement or the Indenture, other than as provided for in the Agreement.

(3) The dissolution or liquidation by the Borrower or the filing by the Borrower of a voluntary petition for relief, or the entry of an order or decree for relief in an involuntary case, or the entry of an order or decree for dissolution, liquidation, or winding up of the affairs of the Borrower under any applicable bankruptcy, insolvency, or similar law now or hereafter in effect, and such order or decree will remain unstayed and in effect for a period of 60 consecutive days, or if the Borrower consents to or a competent court decrees or orders the appointment of and taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator, or other similar official of the Borrower, of any substantial part of its property or the Project, or if the Borrower makes any general assignment for the benefit of creditors or will fail generally to pay its debts as they become due or will take any corporate action in furtherance of any of the foregoing.

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

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

Remedies Under the Agreement

Whenever any Event of Default under the Agreement happens and is continuing, the Trustee as assignee of the Issuer may take any one or more of the following remedial steps:

(1) By written notice to the Borrower, the Trustee, as assignee of the Issuer, may declare all unpaid indebtedness to be immediately due and payable, whereupon the same will become immediately due and payable.

(2) The Trustee as assignee may take whatever action at law or in equity as necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement, or covenant of the Borrower under this Agreement.

(3) The Issuer may take whatever actions at law or in equity as necessary or desirable to enforce the obligations of the Borrower under the Agreement.

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

No remedy under the Agreement 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 will be cumulative and will 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 will impair any such right or power or will 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 the Agreement, it is not necessary to give any notice other than such notice as may be herein expressly required.

THE SYSTEM OF CHARTER SCHOOLS IN TEXAS

General

The Legislature adopted the charter school system in 1995 (the "Charter System") to offer choices to parents within the public school system. In 2001 the Legislature further modified the Charter System as described below. State law provides for three types of charters: home-rule school district charters, campus or campus program charters, and Open-Enrollment charters. The Borrower's charter school operates under an Open-Enrollment charter.

The apparent benefit for operating as an Open-Enrollment charter school is greater control and autonomy of educational programs at the school level. Under current statutes, the Charter System effectively provides the same per student public funding for education (but not for capital needs) as is available to other public schools.

The SBOE 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. An "eligible entity" includes certain institutions of higher education, certain private or independent institutions of higher education, an organization (such as the Borrower) that is exempt from taxation under section 501(c)(3) of the Code, or a governmental entity.

Limitation on Number of Charters Granted

Under current law, the SBOE is permitted to grant a total of not more than 215 charters for "Open-Enrollment" charter schools, and may grant unlimited additional charters for charter schools for which at least 75% of the prospective student population, as specified in the proposed charter, will be students who have dropped out of school or are at-risk of dropping out of school ("at-risk students"). An Open-Enrollment charter school may serve at-risk students, but a school granted a charter specifically to

serve at-risk students must maintain, as a condition of its charter, the required percentage of at-risk students.

The School has received its charter as one of the limited number of Open-Enrollment schools granted charters not subject to the condition that they maintain a required percentage of at-risk students. Currently, about 200 charters of this type are in effect.

**Texas Education Agency Division of Charter Schools
Summary of Charter Awards and Closures (April 19, 2004)**

<u>Generation</u>	<u>Total</u>
First Generation (1996)	20
Second Generation (1997)	41
Third Generation (1998-1999)	109
Fourth Generation (2000)	19
Fifth Generation (2000)	5
Sixth Generation (2000)	16
Seventh Generation (2001)	13
Eighth Generation (2002)	2
Ninth Generation (2003)	6
TOTAL AWARDED	231
Removed (Revoked, Returned, Rescinded, or Expired)	32
Active Status	199
Awarded, but not Operational	12
Operational Charter Schools	188

Authority Under Charter

An Open-Enrollment charter school provides instruction to students at one or more elementary or secondary grade levels as provided by the charter; is governed under the governing structure described by the charter; retains 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 laws and rules governing public schools, but is only subject to the Texas Education Code and rules adopted thereunder to the extent that the Texas Education Code or a rule adopted thereunder specifically provides. An Open-Enrollment charter school is subject to municipal zoning ordinances unless it is wholly or partially located in a municipality with a population of 20,000 or less.

An Open-Enrollment charter school has the powers granted to schools under Title 2, Texas Education Code ("Title 2"), which generally governs public primary and secondary education in Texas. An Open-Enrollment charter school is subject to (1) a provision of Title 2 establishing a criminal offense; (2) a prohibition, restriction, or requirement, as applicable, imposed by Title 2 or a rule adopted under Title 2, relating to specific provisions governing the Public Education Information Management System ("PEIMS"); criminal history records; certain reading instruments and programs; satisfactory performance on assessment instruments and accelerated instruction; intensive programs of study; 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 the requirement to report an educator's misconduct.

The school is entitled to the level of services provided to school districts by regional service centers and to representation on the board of directors of such centers. The State Commissioner of Education (the "Commissioner") may permit an Open-Enrollment charter school to voluntarily participate in any State program available to school districts, including a purchasing program, if the school complies with all terms of the program.

An Open-Enrollment charter school is part of the public school system of the State. With respect to its operations, (1) the governing bodies of the school and a charter holder are considered governmental bodies for purposes of Chapters 551 and 552, Texas Government Code, governing open meetings and public information and (2) the school is considered to be a local government for purposes of Subtitle C, Title 6, Texas Local Government Code and Subchapter J, Chapter 441, Texas Government Code, both governing local government records. Under State law, the records of a charter holder relating to an Open-Enrollment charter school and the records of the school are government records for all purposes. Once the school ceases to operate, its records are transferred by the Commissioner, subject to the qualifications provided in Section 12.1052(d), Texas Education Code.

For purposes of public purchasing and contracting, an Open-Enrollment charter school is (1) a government entity for purposes of Subchapter D, Chapter 2252, Texas Government Code, governing real property held in trust and Subchapter B, Chapter 271, Texas Local Government Code, governing bidding on public works contracts; and (2) a political subdivision for purposes of Subchapter A, Chapter 2254, Texas Government Code, governing professional services. A member of the governing body of a charter holder or an Open-Enrollment charter school or an officer of such school is considered to be a local public official for purposes of Chapter 171, Texas Local Government Code, governing conflict of interest. Such member or officer is considered to have a substantial interest in a business entity if a person related to the member or officer in the third degree by consanguinity or affinity, as determined under Chapter 573, Texas Government Code, governing degrees of relationships, has a substantial interest in the business entity under Section 171.002, Local Government Code. An employee of the school rated as academically acceptable or higher under Chapter 39, Texas Education Code, governing accountability of public school system, for at least two of the preceding three school years may serve as a member of the governing body of the charter holder or the Open-Enrollment charter school if such employees do not constitute a quorum of the governing body or any committee of the governing body subject to members' compliance with Sections 171.003-171.007, Texas Local Government Code. An Open-Enrollment charter school is subject to State law, or rule adopted under State law, relating to nepotism under Chapter 573, Texas Government Code; however, this chapter does not apply if the school is rated academically acceptable or higher under Chapter 39, Texas Education Code, for at least two of the preceding three school years.

An Open-Enrollment charter school is immune from liability to the same extent as a school district, its officers and the members of its governing body or of governing body of the charter holder, and its employees and volunteers are immune from liability to the same extent as school district employees and volunteers. An employee of an Open-Enrollment charter school who qualifies for membership in the Teacher Retirement System of Texas 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

A charter holder is entitled to receive funding under Chapter 42, Texas Education Code (citations under this heading are to the Texas Education Code), governing the Foundation School Programs, as if the Open-Enrollment charter school were a school district without a tier-one local share and without any local revenue for purposes of Sections 42.253 and 42.302 respectively. In determining funding for the school, the adjustments under Sections 42.102-42.105 and the district enrichment tax rate ("DTR") under Section 42.302 are based on the average adjustment and average DTR for the State. Such school is entitled to funds that are available to school districts from the TEA 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. Funds received by a charter holder (1) are considered to be public funds for all purposes under State law; (2) are held in trust by the charter holder for the benefit of the students of the school; (3) may be used only for a purpose for which a school may use local funds under Section 45.105(c); and (4) pending their use, must be deposited into a bank, as defined by Section 45.201, with which the charter holder has entered into a depository contract.

An Open-Enrollment charter school may not charge tuition to its students; however, the governing body of the school may require a student to pay any fee that the board of trustees of a school district may charge under Section 11.158(a), Texas Education Code. For example, fees may be charged for, among other things, membership dues in student organizations or clubs; deposits on materials, supplies, or equipment; athletic equipment or apparel; personal products a student may purchase (class rings, annuals, graduation announcements); parking; identification cards; driver training; and certain courses which are held off-site, taught by a non-staff member, or offered during summer school. (See "RISK FACTORS – *Changes in School Funding Method.*")

Provisions of Open-Enrollment Charters

Under State statute, the SBOE has the authority to select applicants to establish Open-Enrollment charter schools. The SBOE has adopted an application form and procedures for applications to operate an Open-Enrollment charter school, and the SBOE has also adopted criteria to use in awarding a charter. Upon receipt by the SBOE of an application for the school, a notice, in accordance with the provisions adopted by the Commissioner, must be provided to (1) the board of trustees of each school district from which the proposed school is likely to draw its students, as determined by the Commissioner and (2) each member of the Legislature that represents the geographic area to be served by the proposed school, as determined by the Commissioner.

Each charter granted describes the educational program to be offered, which must (1) include the required curriculum as provided by statute; (2) specify the period for which the charter or any charter renewal is valid; (3) 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; (4) establish the level of student performance that is considered acceptable; (5) 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; (6) prohibit discrimination in admission policy on the basis of sex, national origin, ethnicity, religion, disability, academic or artistic or athletic ability, or the district the student would otherwise attend in accordance with the Texas Education Code; (7) specify the grade levels to be offered; (8) describe the governing structure of the program; (9) specify the powers or duties of the governing body of the school; (10) specify the manner in which the school will distribute to parents information related to the qualifications of each professional employee of the program; (11) describe the process by which the person providing the program will adopt an annual budget; (12) describe the manner in which an annual audit of the financial and programmatic operations of the program is to be

conducted, including the manner in which the person providing the program will provide information necessary for the school district in which the program is located to participate, as required by the Texas Education Code or by SBOE rule, in PEIMS; (13) describe the facilities to be used; (14) describe the geographical area served by the program; and (15) specify any type of enrollment criteria to be used. The charter may provide for the exclusion of a student who has a documented history of a criminal offense, a juvenile court adjudication, or certain discipline problems.

A charter for an Open-Enrollment charter school will be in the form of a written contract signed by the chair of the SBOE and the chief operating officer of the school. A revision of a charter of an Open-Enrollment charter school may be made only with the approval of the Commissioner.

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

The Commissioner may modify, place on probation, revoke, or deny renewal of the charter of an Open-Enrollment charter school if the Commissioner determines that the charter holder (1) committed a material violation of the charter, including failure to satisfy accountability provisions prescribed by the charter; (2) failed to satisfy generally accepted accounting standards of fiscal management; (3) failed to protect the health, safety, or welfare of the students enrolled at the school; or (4) failed to comply with any applicable law or rule. An action the Commissioner takes with respect to modification, probation, revocation, or denial of renewal of a charter must be based on the best interest of the school's students, the severity of the violation, and any previous violation the school has committed. The Commissioner has adopted rules regarding modifying, placing on probation, revoking, or denying renewal of the charter of an Open-Enrollment charter school. Such rules are located in Title 19 of the Texas Administrative Code, Part 2, Chapter 100.

Upon revocation or denial of the renewal of a charter of an Open-Enrollment charter school, the school generally ceases to operate and receive State funds, subject to limitations and requirements of Section 12.1161, Texas Education Code. Additionally, the Commissioner may temporarily withhold funding, suspend the authority of a school, or take any other reasonable action to protect the health, safety, or welfare of the students if the Commissioner determines that a school has (1) materially violated the charter; (2) failed to satisfy generally accepted accounting principles of fiscal management; or (3) failed to comply with any provisions of Subchapter D, Chapter 12, Texas Education Code.

The Commissioner may audit the records of an Open-Enrollment charter school, a charter holder, and a management company, provided that the audit is limited to matters related to the operation of the school.

Annual Evaluation of Open-Enrollment Charter School Program

The Commissioner has designated an impartial organization, the Texas Center for Educational Research, to conduct an annual evaluation of the Open-Enrollment charter school program. The evaluation must include consideration of student scores on assessment instruments, attendance, and grades; incidents involving student discipline, socioeconomic data on students' families, parents' satisfaction with their children's schools; and students' satisfaction with their schools. The evaluation of Open-Enrollment charter schools must also include an evaluation of: the costs of instruction, administration, and transportation incurred by Open-Enrollment charter schools, the effect of Open-Enrollment charter schools on public school districts and on teachers, students, and parents in those districts and any other issues, as determined by the Commissioner.

Recent Legislation

Because of amendments to the Texas Education Code, certain funding changes became effective in the 2001-2002 school year in the manner described hereafter. For the 2001-2002 and 2002-2003 school years, the School received funding according to the previous law. For the 2003-2004 school year, it received 90% of its funding according to the previous law and 10% of its funding according to the law effective as of 2001. For the 2004-2005 school year, the School will receive 80% of its funding under the previous law and 20% under the law effective as of September 2001. For each succeeding school year, funding under the previous law will be reduced by 10% and funding provided under the law, effective as of September 2001, will increase by 10%. By the 2012-2013 school year, the School will receive 100% of its funding, according to the 2001 law.

THE BORROWER

History

The School was created in 1998. At that time, the laws of the State had just been amended to provide for the Charter System. The original founders of the School, Rick Hawkins, Todd Burchett, and Will Norris, organized the School, borrowed "seed" money, and arranged for space with the Family Praise Center (the "Church"). Dr. Linda Britton was employed as its first superintendent. The School's mission is to provide opportunities for students to learn and acquire necessary skills resulting in greater numbers of economically literate, skillful, and empowered citizens who possess an enhanced understanding of business operations and who have the knowledge and the ability to contribute to the economic health of our community. The School began operations in leased locations at 1950 Bandera Road and 5703 Blanco Road, in San Antonio, Texas (the "Alpha I Campus"). By 2002, the Alpha I Campus had grown, through the addition of portable buildings, to 46,992 square feet, consisting of 33 classrooms, two resource centers, six administrative offices, a workroom, a woodworking area, a cafeteria, and a band/assembly hall. Since its organization, the School has grown to three campuses and continues to grow as described herein.

Management

The Board of Directors (the "Board") serves as the governing body of the non-profit corporation which operates the School. The Board is comprised of no less than three and no more than seven members who have five-year terms of service. Currently, the Board has five members.

<u>Name</u>	<u>Board Title</u>	<u>Occupation</u>	<u>Term Expires</u>
Sgt. Greg Richardson	Chairman	Military	September, 2006
Ms. Joy McGhee	Vice Chairman	IT Professional	October, 2006
Mr. Jay Graber	Secretary/Treasurer	Computer Software Training	August, 2005
Mr. La Vergie Washington	Member	Educator	January, 2008
Mr. Ja Nay Y. Queen	Member	Admin Education	August, 2005

Advisors

The Board receives professional consultation from the following advisors:

Bruce S. Henderson, External Business Advisor
S. Jeffrey Gately, Outside General Counsel
Randy L. Walker, CPA, Outside Auditor

(See "CERTAIN RELATIONSHIPS – Consultant to the School" and "- Counsel to the School.")

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

Mr. Ricky Hooker	Superintendent
Mrs. Cheryl Stewart	Assistant Superintendent for Academics
Mr. Robert Woodall	Assistant Superintendent of Business Operations
Ms. Dayne Denning	High School Principal and Middle School Principal
Mrs. Alma Garza	Elementary Principal
Ms. Valarie Walker	Elementary Principal

Educational Programs

The mission of the School is to graduate all students with a "recommended" or "distinguished" diploma which will prepare them for higher education. The School concentrates on going above and beyond past achievements. Teachers encourage students to search for their purposes and to strive for excellence in every area of their lives. All courses offered follow the State TAKS standards, in addition to the regular curriculum of reading, language, fine arts, advanced placement, athletics, and a variety of technology courses. An added focus to the School this year is the "PLATO" credit recovery program, an internationally recognized program which offers high school students a chance to make up credit hours and obtain their high school diplomas within four years.

All of the core content teachers are considered to be highly qualified by the TEA. SEE recruits highly qualified teachers from throughout the City of San Antonio and the State to provide a strong foundation in all subject areas. The professional and committed faculty ensures that each student receives the attention he needs to be a productive member of the student body.

Extracurricular activities include, but are not limited to, the engineering club, soccer, basketball, volleyball, student council, track and field, student patrols, and a Peer Assistance Leader program.

Teaching Staff

The School currently employs 63 teachers. Degreed faculty are as follows:

FACULTY	Year 1 (1998 – 1999)		Year 2 (1999 – 2000)		Year 3 (2000 – 2001)		Year 4 (2001-2002)		Year 5 (2002-2003)		Year 6 (2003-2004)	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Number of Teachers	25		31		48		58		49		63	
No Degree	3	12%	5	16%	6	12%	5	9%	6	12%	9	14%
Bachelor's	14	56%	19	61%	28	58%	48	83%	41	84%	48	76%
Master's	4	16%	3	10%	8	18%	4	7%	2	4%	6	10%
Doctorate	2	8%	1	3%	1	2%	1	1%	0	0%	0	0%
Technical (degree not required)	1	4%	1	3%	1	2%	0	0%	0	0%	0	0%
Teacher Deficiency Plan	1	4%	2	7%	4	8%	0	0%	0	0%	0	0%
Retained	13	62%	23	74%	38	79%	NA	NA	36	73%	63	100%

Existing School Facilities

Dr. James Burch Elementary School (the "Blanco Campus")

The School's campus at 5703 Blanco Road, which was leased in August 2000 from the Vineyard Foundation (the "Lessor"), has about 21 classrooms, a play ground, and a gymnasium/cafeteria. The facility has the current capacity for approximately 450 students and approximately 50 staff members. Current enrollment for this campus for the 2004-2005 school year is outlined below. See "RISK FACTORS – Ability to Sell or Lease the Property Under the Deed of Trust – *Restrictions on Blanco Campus Lease.*"

It is the School's desire to purchase the Blanco Campus. The School has approached the Lessor regarding the potential purchase of the campus and has received favorable feedback. The School has an excellent relationship with the Lessor, an entity recognized as being supportive of education and, specifically, charter schools. However, if the School should lose its interest in this property, it is the School's belief that the students currently housed at the Blanco Campus could be absorbed by the Oblate Campus and the Basse Campus.

<u>Burch Elementary</u>	
<u>Grade</u>	<u>2004-2005 Enrollment</u>
Kinder	75
1 st	70
2 nd	91
3 rd	65
4 th	77
TOTAL	378

Harmon Kelley Elementary School (the "Oblate Campus")

The School's campus at 802 and 803 Oblate, which was purchased in June 2002, is comprised of approximately 59,267 square feet of facilities with about three tracts of land containing a total of 3.5742 acres. The school building includes a 10,000 square foot auditorium and about 9,000 square feet of administrative space. The facility has current capacity for approximately 650 students and approximately 75 staff members. Current enrollment for this campus for the 2004-2005 school year is outlined below.

<u>Kelley Elementary</u>	
<u>Grade</u>	<u>2004-2005 Enrollment</u>
PreK	40
Kinder	57
1 st	58
2 nd	49
3 rd	43
4 th	44
5 th	111
6 th	153
TOTAL	555

Paul Saenz Middle School and Rick Hawkins High School (the "Basse Campus")

The School's campus, comprised of 1826 Basse Road, 1830 Basse Road, 3711 Capitol Avenue, and 255 Venice, includes 10.9 acres of land, 70,226 square feet of permanent facilities, and seven portable buildings. The campus hosts an industrial kitchen, gymnasium, weight room, dark room, band

hall, maintenance building, and science labs. In addition, the Basse Campus has a football field, a baseball field, and a lunchroom/auditorium which can feed up to 400 students. Altogether, the campus has 13 buildings, enabling the School to separate the facilities into distinct middle and high school campuses. The facility currently has the capacity for approximately 850 students and approximately 100 staff members, which includes most of the School's administrative staff. The portion of the Basse Campus located at 3711 Capitol Avenue is currently under lease to Christ Our Savior Lutheran Church (the "Lessee") for the purposes of a day care center. The Lessee pays \$1,105.00 in monthly rent and the Lease continues through April, 2005. Current enrollment for this campus for the 2004-2005 school year is outlined below.

<u>Saenz Middle School</u>		<u>Hawkins High School</u>	
<u>Grade</u>	<u>2004-2005 Enrollment</u>	<u>Grade</u>	<u>2004-2005 Enrollment</u>
7 th	150	9 th	133
8 th	135	10 th	75
TOTAL	285	11 th	41
		12 th	26
		TOTAL	275

The Project

The School is seeking financing through the issuance of the Bonds for the purpose of refinancing the real property and improvements on both the Oblate Campus and the Basse Campus and for the improvements on these campuses (the "Project"). At this time, the School has an outstanding obligation of \$2,350,000 with Interbay Funding, LLC on the Oblate campus secured by a deed of trust, and an outstanding obligation of \$2,400,000 with Wallis State Bank on the Basse campus secured by a deed of trust and an outstanding obligation of \$300,000 with the Community Development Loan Fund.

Uses of Funds

	<u>Oblate Campus</u>	<u>Basse Campus</u>	<u>Total</u>
Refinancing	\$ 2,350,000.00	\$ 2,700,000.00	\$ 5,050,000.00
Remodeling	<u>880,000.00</u>	<u>1,120,000.00</u>	<u>\$ 2,000,000.00</u>
Reimbursements			<u>\$ 4,500,000.00</u>
TOTAL	<u>\$ 3,230,000.00</u>	<u>\$ 3,820,000.00</u>	<u>\$ 7,500,000.00</u>

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Oblate Campus

Renovations and remodeling of the Oblate Campus will add additional restrooms and bring the campus up to modern accessibility standards. As well, the addition of restroom facilities will provide for greater efficiency in the use of existing space on the campus. The estimated costs of such renovations are as follows:

	\$
Drywall	169,600.00
Wall Finishes	37,100.00
Electrical	36,570.00
Milwork	3,663.35
Plumbing	158,470.00
Fire Protection	42,400.00
Heating, Ventilation	31,196.65
Elevators	201,400.00
Performance	106,000.00
Construction	63,600.00
Contingency	<u>30,000.00</u>
TOTAL	<u>\$ 880,000.00</u>

Basse Campus

The remodeling and renovations on the Basse Campus will bring facilities up to code compliance standards and increase the efficiency in the use of the buildings. Classrooms and restrooms will be added. Upon completion of the Project, the Lunchroom, which can currently feed up to 130 students, will be moved to another building that will house up to 400 students. The estimated costs of such renovations are as follows:

Remodeling of 4 Story Building	\$	770,000.00
Roof Repairs		69,000.00
Structural Repairs		35,000.00
Fire Alarm System		69,000.00
Project Management		89,000.00
Contingency		<u>88,000.00</u>
TOTAL	\$	<u>1,120,000.00</u>

Appraisals

Complete, self-contained appraisal were completed by Patrick O'Connor & Associates, LP, at the request of the School for the benefit of the Underwriter in August 2004 on both the Oblate Campus (the "Oblate Appraisal") and the Basse Campus (the "Basse Appraisal"). Both appraisal reports were prepared in compliance with the Uniform Standards of Professional Appraisal Practice, the Code of Professional Ethics of the Appraisal Institute, the Standards of Professional Appraisal Practice of the Appraisal Institute, and FIRREA guidelines.

The Oblate Appraisal concludes that the "as is" market value of the Oblate Campus is \$3,550,000. The proposed market value of the campus "as renovated" under the terms proposed in the Project is \$3,700,000. The Basse Appraisal concludes that the "as is" market value of the Basse Campus is \$3,025,000. The prospective market value of the campus "as renovated" under the terms proposed in the Project is \$4,200,000.

Environmental Assessments

Studies and reports have been recently conducted for the purpose of ascertaining existing environmental conditions at the School's respective Project sites. The material findings of the reports are set forth in the following paragraphs.

Oblate Campus

STC Environmental Services, Inc. ("STC") performed a Phase I Environmental Site Assessment at the Oblate Campus in 1999. In 2003, this assessment was updated and the findings reported in "Phase I Environmental Site Assessment School of Excellence in Education 802 Oblate San Antonio, Texas 78216," prepared for the School on October 6, 2003 (the "Oblate Assessment"). In the Original Oblate Assessment, STC concluded that the Oblate Campus was subject to the normal low potential for environmental concern and that there was no physical evidence of an environmental impact to the subject site as a result of on-site or off-site activities. In the Oblate Assessment, the following conclusions were made:

- (1) no evidence of existing water wells, distressed vegetation as a result of an environmental impact, sludge pits, or holding ponds on-site;
- (2) no evidence of a commercial pipeline crossing or adjacent to the site;
- (3) transformers on or abutting the site are in good condition with no evidence of PCB;
- (4) other than normal housekeeping and maintenance supplies, no other potentially regulated substances were discovered on-site;
- (5) compliance with the Texas Asbestos Health Protection Act and the National Emission Standards for Hazardous Air Pollutants;
- (6) two sump pumps installed in the lower level mechanical room;
- (7) low potential for environmental concern for the site;
- (8) no evidence of existing oil or gas leaks on or adjacent to the site; and
- (9) no evidence of radon as an environmental concern.

Accordingly, STC concluded that there was no physical evidence of an environmental impact to the subject site as a result of on-site or off-site activities.

Basse Campus

In February 2004, STC completed a Phase I Environmental Site Assessment of the Basse Campus (the "Basse Assessment"). These findings were reported in "Phase I Environmental Site Assessment Lutheran High School 1826 Basse Road San Antonio, Texas 78201" prepared for the School in conjunction with its purchase of the site on March 3, 2004. The Basse Assessment made the following findings:

- (1) no evidence of distressed vegetation as the result of an environmental impact and no evidence of sludge pits or holding ponds on site;
- (2) no evidence of any UST or AST storage tank systems on site;
- (3) transformers located on and bordering site are in good condition with no visible evidence of leakage and no PCB-containing transformers in the area;
- (4) other than normal housekeeping and maintenance supplies, no potentially regulated substances on site;
- (5) no evidence of sump pumps or other conveyances on site;
- (6) low potential for environmental concerns is considered to exist for the site;
- (7) no evidence of existing oil or gas wells on site;
- (8) no water wells located on site; and
- (9) no environmental concern related to radon.

Accordingly, STC concluded that the Basse Assessment revealed no evidence of recognized environmental conditions in connection with the Basse Campus and that only a low potential for environmental concern exists for the campus.

In March 2004, STC provided an update of the 1998 Three Year AHERA (Asbestos Hazard Emergency Response Act) Re-inspection of Lutheran High School (now the Basse Campus). This report concluded that “[n]o unsafe environmental conditions as a result of asbestos materials [on site were] noted. Furthermore, no repairs were noted to be required.” “The materials remain in good condition, as they were in the 1998 re-inspection.” The current asbestos program is being properly administered.

Enrollment History and Applications

	Year 1 (1998 - 1999)	Year 2 (1999 - 2000)	Year 3 (2000-2001)	Year 4 (2001-2002)	Year 5 (2002-2003)	Year 6 (2003-2004)	Year 7 (2004-2005)
ENROLLMENT DATA							
Pre-Kindergarten	27	34	39	92	78	91	40
Kindergarten	19	52	76	90	71	106	132
1 st Grade	35	38	73	93	64	106	128
2 nd Grade	35	38	86	95	75	85	140
3 rd Grade	37	38	70	82	55	125	108
4 th Grade	23	43	74	87	54	88	121
5 th Grade	35	37	70	78	49	74	111
6 th Grade	65	62	72	90	63	99	153
7 th Grade	60	65	72	89	62	79	150
8 th Grade	53	53	76	96	44	65	135
9 th Grade		43	69	77	29	52	133
10 th Grade			48	69	16	34	75
11 th Grade			1	56	17	23	41
12 th Grade					14	21	26
TOTALS	389	503	826	1094	691	1048	1493

	Year 1 (1998 - 1999)	Year 2 (1999 - 2000)	Year 3 (2000-2001)	Year 4 (2001-2002)	Year 5 (2002-2003)	Year 6 (2003-2004)
ENROLLMENT DATA						
Grade Levels	PK-8	PK-9	PK-10	PK-11	PK-12	PK-12
# Total Enrollment	389	503	800	1062	685	1048
# Total ADA	362	459	751	1008	649	1001
ETHNICITY DATA						
% Native American	0	0	0	0	0	
% African American	5	10	8	11	10	23
% Asian or Pacific Islander	1	1	1	1	1	0
% Hispanic	73	76	76	76	79	68
% White	11	12	13	12	10	9
% Male	50	51	50	57	56	56
% Female	50	49	50	43	44	44
% Special Education	5	8	5	6	6	9
% Limited Eng Prof	3	0	0	0	11	12
% Gifted/Talented	0	11	10			
ATTENDANCE DATA						
% Rate Attendance	93	96	95	94.9	94.5	95.5
DROPOUT DATA						
# Total Dropouts	1	0	0	0	0	0

The School has experienced a steady increase in enrollment. In 1998-1999, the School had 389 students with additional applications equal to approximately 50% of its student capacity. In 1999-2000, 503 students were enrolled; in 2000-2001, 800 students were enrolled; in 2001-2002, 1,062 students were enrolled; in 2002-2003, 685 students were enrolled; and in 2003-2004, 1,048 were enrolled. Under its charter, the School's enrollment is currently capped at 2,000 students.

As noted above, the School had a drop in enrollment in the 2002-2003 school year. This enrollment change was caused mainly by campus relocation from 1950 Bandera Road to 802 Oblate.

Because the School is a school of choice, the distance of seven miles between the Bandera site and the Oblate Campus created an obstacle for some of the families attending the Bandera site. In addition to the relocation, another school (no longer in operation) moved into the Bandera site and leased the facilities, giving these same families an alternative to moving to the new location. As well, under agreement with the City, the School was only allowed to occupy about 60% of the Oblate Campus building until scheduled remodeling was complete. The remodeling was finished in January, 2003.

Despite the temporary drop in enrollment, the relocation greatly improved the facilities for classrooms and helped to reduce the School's debt service obligations.

The School may not deny entry to any student who completes the entry process provided that space is available under the School's charter limitations. The School does identify students who are a questionable fit for the rigors of the School's program, and some of these students choose not to attend the School.

The School currently has a waiting list of approximately 178 students for enrollment.

Assessment Testing and Accountability Ratings

As a public school, under State law, the School must follow TEA guidelines regarding standardized tests and end-of-course examinations. Prior to 2002, Texas students were assessed by the Texas Assessment of Academic Skills test (the "TAAS"). This assessment was administered in both English and Spanish to students in grades 3 through 8. An exit-level assessment was given in the 10th grade in the areas of reading, writing, and math. In 2002, the Texas Assessment of Knowledge and Skills test (the "TAKS") was implemented, replacing the TAAS, with scoring becoming effective the following school year. TAKS is given in 3rd through 10th grades in the areas of reading, writing, math, science, and social studies. An exit-level exam is given when in 11th grade. Satisfactory performance on the TAKS exit-level tests is prerequisite to a high school diploma. There is also promotional criteria attached to the 3rd, 5th, and 8th grade assessments.

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TAAS/TAKS (% Passing/Avg. Texas Learning Index)

DATA ELEMENT	TAAS				TAKS	
	Year 1 (1998 - 1999)	Year 2 (1999 - 2000)	Year 3 (2000-2001)	Year 4 (2001-2002)	Year 5* (2002-2003)	Year 6 (2003-2004)
Grade 3 Reading	41/67.3	64/72.8	65/72.2	62.2/87.4	92.5/89.6	80
Grade 3 Math	35/59.6	38/63.5	56/69.4	50.7/85.3	89.7/90.8	70
Grade 4 Reading	76/74.9	63/76.7	78/79.6	75.2/91.7	83.3/85.9	79
Grade 4 Math	36/60.8	68/70.9	59/72.1	66.6/ 88.2	80.6/88.0	69
Grade 4 Writing	74/1,528	88/1,602	78/1,574	69.8/89.5	72.5/86.5	87
Grade 5 Reading	63/74.8	78/78.8	64/75.5	75.6/91.5	66.7/80.0	85
Grade 5 Math	77/73.8	73/77.6	73/75.4	77.1/95.4	59.5/86.3	75
Grade 6 Reading	69/77.1	63/74.8	77/79.1	77.6/86.9	76.6/86.2	82
Grade 6 Math	55/71.1	68/72.8	75/76.8	79.1/92.6	46.8/79.3	62
Grade 7 Reading	52/69.4	71/76.7	80/81.2	78.8/90.4	77.3/88.0	83
Grade 7 Math	50/67.6	75/75.5	86/78.6	79.5/90.9	36.4/73.4	54
Grade 8 Reading	68/75.7	74/79.1	77/80.9	81.3/93.1	91.4/88.7	91
Grade 8 Math	78/74.9	58/71.1	79/77.7	79.4/92.3	37.1/73.2	34
Grade 8 Writing	71/1,550	74/1,584	73/1,588	77.2/85.6	n/a	n/a
Grade 8 Social Studies	55/1,517	44/1,488	56/1,519	52.8/80.4	94.3/93.1	78
Grade 8 Science	85/1,590	68/1,547	81/1,591	84.4/92.4	n/a	n/a
Grade 10 Reading Exit Level	n/a	n/a	80	75.6/92.3	90.0/72.8	63
Grade 10 Math Exit Level	n/a	n/a	78	64.9/90.8	50.0/74.2	38
Grade 10 Writing Exit Level	n/a	n/a	93	87.2/90.2	n/a	n/a
SCHOOL TAAS/TAKS						
CAMPUS RATING*	n/a	Acceptable	Acceptable	Low Performing	n/a**	Acceptable/Recognized***

* Dropout rates are considered, along with performance on standardized tests, to determine the campus rating by the TEA.

** Schools in the State of Texas were not rated for the 2002-2003 school year due to the introduction of the TAKS.

*** James L. Burch Elementary was designated a "Recognized" campus.

Individual schools, including charter schools, are currently evaluated by the TEA on TAKS results and dropout rates. The four levels of standard ratings for schools are "Exemplary," "Recognized," "Acceptable," and "Low Performing." Charter schools are not rated in their first year of operation, which is considered a benchmark year.

The TAKS includes an exit-exam for eleventh grade students as a requirement for high school graduation. The exit-exam tests for competencies in English language arts, mathematics, social studies, and science. In May 2003, 18% of the students from the School who took the exam met the standard in all subjects, and in August 2003, 47% of those students taking this exam met the standard in all subjects.

501(c)(3) Status

The Borrower received a determination letter from the Internal Revenue Service (the "Service") dated April 28, 1998, stating that it was an organization qualified under section 501(c)(3) of the Code. Since that time the Borrower has not received any adverse correspondence from the Service and has timely filed all legally required information.

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FINANCIAL INFORMATION

Debt Service Requirements for the Bonds

\$9,070,000
Revenue Bonds

Date	Principal	Interest	Total Debt Service	Debt Service Reserve Fund	Capitalized Interest (to 6/1/05)	Net Debt Service	Annual Net D/S
06/01/2005		318,925	318,925		318,925		
12/01/2005		318,925	318,925	12,827.50		306,097.50	306,097.50
06/01/2006		318,925	318,925	12,827.50		306,097.50	
12/01/2006	90,000	318,925	408,925	12,827.50		396,097.50	702,195.00
06/01/2007		315,325	315,325	12,827.50		302,497.50	
12/01/2007	100,000	315,325	415,325	12,827.50		402,497.50	704,995.00
06/01/2008		311,325	311,325	12,827.50		298,497.50	
12/01/2008	110,000	311,325	421,325	12,827.50		408,497.50	706,995.00
06/01/2009		306,950	306,950	12,827.50		294,122.50	
12/01/2009	115,000	306,950	421,950	12,827.50		408,122.50	703,245.00
06/01/2010		302,925	302,925	12,827.50		290,097.50	
12/01/2010	125,000	302,925	427,925	12,827.50		415,097.50	705,195.00
06/01/2011		298,550	298,550	12,827.50		285,722.50	
12/01/2011	135,000	298,550	433,550	12,827.50		420,722.50	706,445.00
06/01/2012		293,825	293,825	12,827.50		280,997.50	
12/01/2012	145,000	293,825	438,825	12,827.50		425,997.50	706,995.00
06/01/2013		288,750	288,750	12,827.50		275,922.50	
12/01/2013	155,000	288,750	443,750	12,827.50		430,922.50	706,845.00
06/01/2014		283,325	283,325	12,827.50		270,497.50	
12/01/2014	165,000	283,325	448,325	12,827.50		435,497.50	705,995.00
06/01/2015		277,550	277,550	12,827.50		264,722.50	
12/01/2015	175,000	277,550	452,550	12,827.50		439,722.50	704,445.00
06/01/2016		271,425	271,425	12,827.50		258,597.50	
12/01/2016	190,000	271,425	461,425	12,827.50		448,597.50	707,195.00
06/01/2017		264,775	264,775	12,827.50		251,947.50	
12/01/2017	200,000	264,775	464,775	12,827.50		451,947.50	703,895.00
06/01/2018		257,775	257,775	12,827.50		244,947.50	
12/01/2018	215,000	257,775	472,775	12,827.50		459,947.50	704,895.00
06/01/2019		250,250	250,250	12,827.50		237,422.50	
12/01/2019	230,000	250,250	480,250	12,827.50		467,422.50	704,845.00
06/01/2020		242,200	242,200	12,827.50		229,372.50	
12/01/2020	245,000	242,200	487,200	12,827.50		474,372.50	703,745.00
06/01/2021		233,625	233,625	12,827.50		220,797.50	
12/01/2021	265,000	233,625	498,625	12,827.50		485,797.50	706,595.00
06/01/2022		224,350	224,350	12,827.50		211,522.50	
12/01/2022	280,000	224,350	504,350	12,827.50		491,522.50	703,045.00
06/01/2023		214,550	214,550	12,827.50		201,722.50	
12/01/2023	300,000	214,550	514,550	12,827.50		501,722.50	703,445.00
06/01/2024		204,050	204,050	12,827.50		191,222.50	
12/01/2024	320,000	204,050	524,050	12,827.50		511,222.50	702,445.00
06/01/2025		192,850	192,850	12,827.50		180,022.50	
12/01/2025	345,000	192,850	537,850	12,827.50		525,022.50	705,045.00
06/01/2026		180,775	180,775	12,827.50		167,947.50	
12/01/2026	370,000	180,775	550,775	12,827.50		537,947.50	705,895.00
06/01/2027		167,825	167,825	12,827.50		154,997.50	
12/01/2027	395,000	167,825	562,825	12,827.50		549,997.50	704,995.00
06/01/2028		154,000	154,000	12,827.50		141,172.50	
12/01/2028	425,000	154,000	579,000	12,827.50		566,172.50	707,345.00
06/01/2029		139,125	139,125	12,827.50		126,297.50	
12/01/2029	450,000	139,125	589,125	12,827.50		576,297.50	702,595.00
06/01/2030		123,375	123,375	12,827.50		110,547.50	
12/01/2030	485,000	123,375	608,375	12,827.50		595,547.50	706,095.00
06/01/2031		106,400	106,400	12,827.50		93,572.50	
12/01/2031	520,000	106,400	626,400	12,827.50		613,572.50	707,145.00
06/01/2032		88,200	88,200	12,827.50		75,372.50	
12/01/2032	555,000	88,200	643,200	12,827.50		630,372.50	705,745.00
06/01/2033		68,775	68,775	12,827.50		55,947.50	
12/01/2033	595,000	68,775	663,775	12,827.50		650,947.50	706,895.00
06/01/2034		47,950	47,950	12,827.50		35,122.50	
12/01/2034	1,370,000	47,950	1,417,950	745,827.50		672,122.50	707,245.00
	9,070,000	13,497,300	22,567,300	1,489,822.50	318,925	20,758,552.50	20,758,552.50

Statement of Activities for the Years Ended August 31, 1999 – 2003

The following is derived from the Borrower's audited financial statements for fiscal years 1999-2000, 2000-2001, 2001-2002, 2002-2003, and unaudited statements for fiscal year 2003-2004 up to June 30, 2004. The auditors have consented to inclusion of the audited financial information.

STATEMENT OF ACTIVITIES

	Year ended <u>8/31/1999</u>	Year ended <u>8/31/2000</u>	Year ended <u>8/31/2001</u>	Year ended <u>8/31/2002</u>	Year ended <u>8/31/2003</u>	Year ended <u>6/30/2004*</u>
Support and Revenue:						
Support:						
State Revenues	\$1,754,249	\$2,331,232	\$3,921,223	\$5,187,341	\$4,177,821	\$4,771,279
Contributions	164,362	98,201	670	362	1,214	697
Cost Reimbursements -- Federal Program	109,248	117,861	276,570	418,954	653,235	800,109
Total Grants and Contributions	\$2,027,859	\$2,547,294	\$4,198,463	\$5,606,657	\$4,832,270	\$5,572,085
Fees and Other Revenue:						
Food Service Activity	\$ 52,149	\$ 155,121	\$ 60,235	\$ 56,450	\$ 40,484	\$ 33,898
Investment Income	2,856	11,373	11,818	11,016	8,408	95,500
Other Income	21,465	40,997	78,565	113,164	86,314	74,950
Net Assets Released from Temporary Restrictions	-0-	-0-	-0-	-0-	-0-	-0-
Total Support and Revenue	<u>\$2,104,329</u>	<u>\$2,813,050</u>	<u>\$4,349,081</u>	<u>\$5,787,287</u>	<u>\$4,967,476</u>	<u>\$5,766,433</u>
Expenses:						
Program Expenses:						
General School Operations	\$1,161,133	\$1,219,646	\$3,118,106	\$3,514,160	\$3,074,728	\$3,518,348
Other School Programs	100,874	527,458	54,582	36,580	124,758	132,832
National School Breakfast and Lunch Program	104,704	207,881	367,334	410,185	313,232	408,964
Student Support Services	<u>155,091</u>	<u>276,440</u>	<u>72,783</u>	<u>91,180</u>	<u>132,561</u>	<u>296,769</u>
Total Program Expenses	<u>\$1,521,802</u>	<u>\$2,231,425</u>	<u>\$3,612,805</u>	<u>\$4,052,105</u>	<u>\$3,645,279</u>	<u>\$4,356,913</u>
General and Administrative Expenses	<u>\$ 191,665</u>	<u>\$ 190,763</u>	<u>\$ 430,013</u>	<u>\$ 911,681</u>	<u>\$1,088,631</u>	<u>\$1,159,335</u>
Total Expenses	<u>\$1,713,467</u>	<u>\$2,422,188</u>	<u>\$4,042,818</u>	<u>\$4,963,786</u>	<u>\$4,733,910</u>	<u>\$5,516,248</u>
Loss on Abandoned Assets				<u>(\$ 252,269)</u>		
Net assets:						
Beginning of year	\$ -0-	\$ 390,862	\$ 723,459	\$1,029,722	\$1,600,954	\$1,834,160
End of year	<u>\$ 390,862</u>	<u>\$ 723,459</u>	<u>\$ 1,029,722</u>	<u>\$1,600,954</u>	<u>\$1,834,160</u>	<u>\$2,094,145</u>

* Unaudited financial statement; includes temporarily restricted revenues. For a breakdown of restricted and unrestricted assets, see APPENDIX C.

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Statements of Functional Expenses for the Years Ended August 31, 1999 through 2003, and Period Ending June 30, 2004

The following is derived from the Borrower's audited financial statements for fiscal years 1999, 2000, 2001, 2002, and 2003, and unaudited statements for the period ending June 30, 2004. For a breakdown of program services and support services, see APPENDIX C.

FUNCTIONAL EXPENSES						
	Year Ended <u>8/31/99</u>	Year Ended <u>8/31/00</u>	Year Ended <u>8/31/01</u>	Year Ended <u>8/31/02</u>	Year Ended <u>8/31/03</u>	Year End <u>6/30/04</u>
Salaries and wages	\$1,005,646	\$1,340,801	\$2,386,736	\$2,943,240	\$3,000,061	\$3,112,722
Employee benefits	74,536	107,083	148,211	218,376	270,292	264,110
Payroll taxes	<u>27,313</u>	<u>60,328</u>	<u>37,787</u>	<u>45,070</u>	<u>46,760</u>	<u>38,448</u>
Total salaries and related expenses	<u>\$1,107,495</u>	<u>\$1,508,212</u>	<u>\$2,572,864</u>	<u>\$3,206,686</u>	<u>\$3,317,112</u>	<u>\$3,415,280</u>
Books and supplies	\$ 5,230	\$ 20,826	\$ 91,032	\$ 50,482	\$ 73,331	\$ 157,196
Fees and dues	250	366	230	240	-	-
Insurance	6,886	12,358	17,307	31,027	102,709	121,590
Interest	1,873	2,237	-	21,014	150,832	200,084
Maintenance	4,068	7,731	30,110	42,766	37,870	86,782
Operating leases and rental	-	-	452,826	498,295	116,414	105,870
Postage	1,744	6,393	8,073	9,432	6,697	6,062
Professional development	12,230	20,539	6,063	13,711	12,079	17,389
Professional fees	51,413	62,391	85,210	163,209	61,759	127,665
Rent expense	313,602	151,124	876	2,692	1,470	901
Small equipment purchase	-	-	-	-	-	-
Student activity and supp. exp.	167,500	276,440	27,721	33,562	25,006	12,822
Telephone	4,459	6,001	26,070	34,928	19,453	42,905
Travel and transportation	15,578	20,414	28,605	35,843	22,540	64,693
Utilities	5,812	18,721	43,954	58,544	107,488	127,786
Miscellaneous expenses	<u>149,673</u>	<u>257,884</u>	<u>530,885</u>	<u>640,463</u>	<u>518,542</u>	<u>*869,736</u>
Total expenses other than salaries and related expenses	<u>\$ 581,165</u>	<u>\$ 863,425</u>	<u>\$1,348,962</u>	<u>\$1,636,218</u>	<u>\$1,256,340</u>	<u>\$1,940,981</u>
Total expenses before depreciation and amortization	\$1,688,660	\$2,371,637	\$3,921,646	\$4,842,904	\$4,573,453	\$5,356,261
Depreciation and amortization	<u>24,807</u>	<u>50,551</u>	<u>82,987</u>	<u>120,882</u>	<u>160,457</u>	<u>159,987</u>
Loss on Abandoned Assets				<u>252,629</u>		
Total expenses	<u>\$1,713,467</u>	<u>\$2,422,188</u>	<u>\$4,004,633</u>	<u>\$5,216,415</u>	<u>\$4,733,910</u>	<u>\$5,516,248</u>

* Miscellaneous Expenses, 2004, include

Food	\$340,746
General Supplies	345,403
Advertising	64,806
Fuel	15,475
Food Items for Resale	19,114
Staff Tuition/Fees	22,308
Educ. Serv. Ctr. Fees	14,675
Other	42,209

Audited Financial Information

Audited financial statements for the Borrower for fiscal year ended August 31, 2003 are included herein as APPENDIX C.

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

The Borrower has projected revenues for the period from 2003-2004 through 2009-2010 which include substantial increases in enrollment and revenues. See "RISK FACTORS—Dependence on the Borrower—Growth of Student Population" and "—Accuracy of Borrower Projections of Growth." The increase in revenues contained in the Borrower's projections are based on both stability in the Charter System, continued state funding at current levels, and growth in student populations. See "RISK FACTORS—Dependence on the Borrower" and "—Dependence on the State" and "THE SYSTEM OF CHARTER SCHOOLS IN TEXAS."

The average debt service on the Bonds is ~~\$720,000~~752,540.68 and maximum debt service is ~~\$720,000 (2006)~~1,465,900.00 (2034). For the 2004 school year, assuming the School's projected operating expenditures (less any contingencies and surplus included in projections of expenses by the School) student attendance of 1,500 or greater will support the maximum annual debt service and operating expenses. The projections by the Borrower assume State and local funding of \$4,637.50 per student. Such projections are based on historical information and do not consider future school finance funding mechanisms. See "RISK FACTORS – Changes in School Funding Method."

Part of House Bill 6, Acts of the 77th Legislature of the State, Regular Session, 2001, requires that the funding formula for charter schools be changed so that the charter school receives the state average ADA per student. Currently charter schools receive the ADA of the student's home district, and this results in three or more multipliers. The new funding formula will be implemented over a ten-year period.

Previous calculations of the effect of this funding change on the School indicate that there would be an increase of \$60,000 per year. However, since the State will implement this program for charter schools over a ten-year period, the School will conceivably receive only an additional \$6,000 per year for the next ten years. Therefore, one would surmise that the effect of this funding change would be minimal. (See "RISK FACTORS – Changes in School Funding Method.")

THE ISSUER

Creation and Authority

The Issuer is a public non-profit corporation created by the Authority and existing as an instrumentality of the Authority pursuant to Section 53.351, Texas Education Code, as amended (the "Act"). Pursuant to the Act, the Issuer is authorized to issue revenue bonds for Open-Enrollment charter school facilities and to lend the proceeds thereof to authorized charter schools for the purpose of acquiring, constructing, repairing, or renovating educational facilities of those schools.

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

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

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

The Issuer is receiving a fee of approximately \$25,000 in connection with the issuance of the Bonds, which amount will be paid to the Authority and may be used by the Authority for any lawful purpose.

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

LEGAL MATTERS

Legal Proceedings

Delivery of the Bonds is subject to the receipt of an 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, and based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the approval of certain matters by Vinson & Elkins, L.L.P., Houston, Texas, Bond Counsel, to a like effect and to the effect that (i) interest on the Bonds is excludable from gross income of the holders for federal tax purposes under existing law, and (ii) the Bonds are not "specified private activity bonds" under the Internal Revenue Code of 1986 (the "Code") and interest on the Bonds will not be subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustments for corporations. A copy of the form of opinion of Bond Counsel is attached hereto as APPENDIX F.

Bond Counsel has not, however, independently verified any of the factual or financial information contained in this Official Statement nor has it conducted an investigation of the affairs of the Issuer or the Borrower for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

However, Bond Counsel has reviewed the information appearing in this Official Statement under the captions "SECURITY AND SOURCE OF PAYMENT," "THE BONDS," "LEGAL MATTERS," "TAX MATTERS RELATING TO THE TAX-EXEMPT BONDS," "CERTAIN FEDERAL INCOME TAX CONSIDERATIONS RELATED TO THE TAXABLE BONDS," and "LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS" solely to determine whether such information fairly summarizes matters of law and the provisions of the documents referred to therein and is correct as to matters of law. Bond Counsel has also reviewed APPENDICES D, E, and F solely to determine whether the document included in each conforms to the document to be delivered upon the issuance of the Bonds. Certain other matters will be passed upon on behalf of the Borrower by The Law

Office of S. Jeffrey Gately, A Professional Corporation and the Law Office of Escamilla & Poneck, Inc., San Antonio, Texas; the Trustee by Nathan Sommers Jacobs & Gorman, Houston, Texas, and the Underwriter by Winstead Sechrest & Minick P.C., San Antonio, Texas.

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

No-Litigation Certificates

The Issuer will furnish the Underwriter a certificate, executed by both the President and Secretary of the Issuer, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the collection of Loan Payments for the payment thereof, or the organization of the Issuer, or the title of the officers thereof to their respective offices, and that no Additional Indebtedness or other indebtedness have been issued since the date of the statement of indebtedness or nonencumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

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

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, (1) interest on the Tax-Exempt Bonds is excludable from gross income for federal income tax purposes under existing law, (2) certain "original issue discount" is excludable from gross income for federal income tax purposes under existing law as described more fully under "TAX ACCOUNTING TREATMENT OF TAX-EXEMPT ORIGINAL ISSUE DISCOUNT BONDS", and (3) the Tax-Exempt Bonds are "qualified 501(c)(3) bonds" under the Code, and interest on the Tax-Exempt Bonds is not an item of tax preference that is includable in the alternative minimum taxable income for purposes of determining the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Tax-Exempt Bonds, to be excludable from gross income for federal income tax purposes. These requirements include a requirement that the Borrower be a tax-exempt organization described in section 501(c)(3) of the Code, limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States

and a requirement that the Issuer file an information report with the IRS. The Borrower and the Issuer have covenanted in the Indenture and the Agreement that they will comply with these requirements.

For purposes of their opinion that the Tax-Exempt Bonds are "qualified 501(c)(3) bonds," Bond Counsel will rely upon representations of the Issuer, Borrower, and the Underwriter in the Tax Certificates, the Indenture, and the Agreement and will assume continuing compliance with the covenants of the Tax Certificates, the Indenture, and the Agreement pertaining to those sections of the Code which affect the status of the Borrower, as an organization described in section 501(c)(3) of the Code and the exclusion from gross income of interest on the Tax-Exempt Bonds for federal income tax purposes. In addition, Bond Counsel will rely on representations by the Issuer, the Borrower and the Underwriter with respect to matters solely within the knowledge of the Issuer, the Borrower, and the Underwriter, respectively, which Bond Counsel has not independently verified.

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

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

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Tax-Exempt Bonds, received or accrued during the year.

Except as stated above, and as stated below in "TAX ACCOUNTING TREATMENT OF TAX-EXEMPT ORIGINAL ISSUE DISCOUNT BONDS" AND "TAX ACCOUNTING TREATMENT OF TAX-EXEMPT ORIGINAL ISSUE PREMIUM," 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.

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.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no

duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the IRS. Rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions as of the date of the opinion and the representations and covenants of the Issuer and the Borrower that it deems relevant to such opinions. The IRS has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurances can be given whether or not the IRS will commence an audit of the Tax-Exempt Bonds. If an audit is commenced, in accordance with its current published procedures, the IRS is likely to treat the Issuer as the taxpayer. Bond Counsel observes that the Borrower has covenanted in the 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.

Tax Accounting Treatment of Tax-Exempt Original Issue Discount Bonds

The initial offering price to be paid for certain Tax-Exempt Bonds (the "Tax-Exempt Original Issue Discount Bonds") may be less than the principal amount thereof. In the opinion of Bond Counsel, under existing law and based upon the assumptions hereinafter stated:

(1) The difference between (a) the amount payable at the maturity of each Tax-Exempt Original Issue Discount Bond, and (b) 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; and

(2) 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.

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. (Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the caption "Tax Exemption" generally applies, except as otherwise provided below, to original issue discount on a Tax-Exempt Original Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering of the Bonds, and should be considered in connection with the discussion in this portion of the Official Statement.)

The foregoing opinion is based on the assumptions that (1) the Underwriter has purchased the Bonds for contemporaneous sale to the public and (2) all of the Tax-Exempt Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof. Neither the Borrower nor Bond Counsel warrants that

the Tax-Exempt Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original discount on each Tax-Exempt Original Issue Discount Bonds accrued daily to the stated maturity thereof (in amounts calculated as described below for a six-month period ending on the date before the semi-annual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such 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 (1) 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 (2) 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 Tax-Exempt Original Issue Discount Bonds which are not purchased in the initial offering price may be determined according to rules which differ from those described above. All owners of Tax-Exempt Original Issue Discount Bonds could consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale, or other disposition of such 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 such Tax-Exempt Original Issue Discount Bonds.

Tax Accounting Treatment of Tax-Exempt Original Issue Premium

The initial offering price for certain of the Tax-Exempt Bonds may exceed the stated redemption price payable at maturity of such Tax-Exempt Bonds. Such Tax-Exempt Bonds (the "Tax-Exempt Premium Bonds") will be considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Tax-Exempt Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Tax-Exempt Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Tax-Exempt Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes, however, for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Tax-Exempt Premium Bond which is amortizable each year (or shorter period in the event of a sale or disposition of a Tax-Exempt Premium Bond) is determined using the yield to maturity on the Tax-Exempt Premium Bond based on the initial offering price of such Tax-Exempt Premium Bond.

The federal income tax consequences of the purchase, ownership, and redemption, sale, or other disposition of Tax-Exempt Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Tax-Exempt Premium Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Tax-Exempt Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption, or other disposition of such Tax-Exempt Premium Bonds.

Taxable Bonds

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

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

For purposes of this discussion, a “U.S. person” means (1) an individual who, for U.S. federal income tax purposes, is a citizen or resident of the United States, (2) a corporation, partnership, or other entity created or organized in or under the laws of the United States or any political subdivision thereof, (3) an estate the income of which is subject to U.S. federal income taxation regardless of its source or (4) 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 decision of the trust.

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

In General

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

Payments of Interest

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

Original Issue Discount

Certain Taxable Bonds may be sold at a discount below their principal amount. As provided in the Code and the OID Regulations, the excess of the “stated redemption price at maturity” (as defined below) of each such Taxable Bond over its “issue price” (defined as the initial offering price to the public, excluding bond houses and brokers, at which a substantial amount of the Taxable Bonds have been sold) will be original issue discount if such excess equals or exceeds a de minimis amount (i.e., one quarter of 1% of such 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 OID Bonds will include any de minimis original issue discount in income, as capital gain, on a pro rata basis as principal payments are made on the Taxable Bond. The stated redemption price at maturity of a Taxable Bond includes all payments on the Taxable Bonds other than the stated interest amounts, which are based on a fixed rate and payable unconditionally at the end of each six-month accrual period.

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

The foregoing summary is based on the assumptions that (1) the Underwriter has purchased the Taxable Bonds for contemporaneous sale to the general public and not for investment purposes, (2) all of the Taxable Bonds have been offered, and a substantial amount of each maturity thereof has been sold to the general public in arm’s-length transactions for a cash price (and with no other consideration being included) equal to the initial offering prices thereof stated on the cover page of this Official Statement, and (3) the respective initial offering prices of the Taxable Bonds to the general public are equal to the fair market value thereof. Neither the Borrower nor Bond Counsel warrants that the Taxable Bonds will be offered and sold in accordance with such assumptions.

Acquisition Premium

In the event that an Owner purchases a Taxable Bond at an acquisition premium (i.e. at a price in excess of its “adjusted issue price but less than or equal to its stated redemption price at maturity”), the amount includible in income in each taxable year as original issue discount is reduced by that portion of the acquisition premium properly allocable to such year. (For Taxable Bonds that are purchased at a price in excess of the stated redemption price at maturity, see the discussion below under the heading “TAX MATTERS – Amortizable Premium.”) The adjusted issue price is defined as the sum of the issue price of the Taxable Bond and the aggregate amount of previously accrued original issue discount, less any prior payments of amounts included in its stated redemption price at maturity. Unless an owner makes the accrual method election described below, acquisition premium is allocated on a pro rata basis to each accrual of original issue discount (i.e. to each six-month accrual period), so that the Owner is allowed to reduce each accrual of original issue discount by a constant fraction.

Market Discount

An Owner that purchases a Taxable Bond at a “market discount” will be subject to provisions in the Code that convert certain capital gains on the redemption, sale, exchange, or certain other

dispositions of the Taxable Bond into ordinary income. A Taxable Bond will have market discount to the extent the "revised issue price" (as defined in section 1278 of the Code) of such Taxable Bond exceeds, by more than a de minimis amount, the Owner's tax basis in the Taxable Bond immediately after the Owner acquires the Taxable Bond. The "revised issue price" generally equals the issue price of the Taxable Bond plus the amount of the original issue discount (computed without regard to any "acquisition premium" described above) that had accrued on the Taxable Bond as the date the owner acquired the Taxable Bond and reduced by the stated interest previously paid with respect to the Taxable Bond as of such date.

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

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

Amortizable Premium

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

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

Accrual Method Election

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

Disposition or Retirement

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

Information Reporting and Backup Withholding

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

Interest paid to an Owner of a Taxable Bond ordinarily will not be subject to withholding of federal income tax if such Owner is a U.S. person. Backup withholding of federal income tax at a rate of 31% may apply, however, to payments made in respect of the Taxable Bonds, as well as payments of proceeds from the sale of Taxable Bonds, to registered holders or Owners that are not "exempt recipients" and that fail to provide certain identifying information. This withholding generally applies if the Owner of a Taxable Bond (who is not an exempt recipient) (1) fails to furnish to the Corporation such Owner's social security number or other taxpayer identification number ("TIN"), (2) furnishes the Corporation an incorrect TIN, (3) fails to properly report interest, dividends, or other "reportable payments" as defined in the Code, or (4) under certain circumstances, fails to provide the Corporation or such Owner's broker with a certified statement, signed under penalty of perjury, that the TIN provided to the Corporation is correct and that such Owner is not subject to backup withholding. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt

recipients. To prevent backup withholding, each prospective holder will be requested to complete an appropriate form.

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

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

SALE AND DISTRIBUTION OF THE BONDS

The Underwriter

Kirkpatrick Pettis, as Underwriter, is placing the Bonds, pursuant to a Bond Purchase Agreement with the Issuer, with certain "qualified institutional buyers" (within the meaning of Rule 144A of Regulation D of the Securities and Exchange Commission (the "SEC")) who are also "Institutional Investors" within the meaning of applicable state securities law. The Underwriter will receive a fee of approximately 2% of the par amount of the Bonds.

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" does not include any person who is a bond house, broker, or similar person acting in the capacity of Underwriter or wholesaler. Otherwise, the Issuer has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

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

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

Securities Laws

No registration statement relating to the offer and sale of the Bonds has been filed with the SEC under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein, nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The Issuer assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds will 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 (Chapter 1201, Texas Government Code), 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 the State which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. The Bonds have been assigned a rating of below "A" by a national rating agency. See "RATINGS" 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 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.

CONTINUING DISCLOSURE OF INFORMATION

The Borrower is exempt from rule 15c2-12 of the SEC (the "Rule") under 15c2-12(d)(1) because the Bonds are being issued in denominations of \$100,000 and such Bonds will be sold to no more than 35 persons, each of whom the Underwriter believes (1) has knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of the prospective investment; and (2) is not purchasing for more than one account or with a view to distributing the securities. Pursuant to the Rule, in the absence of an exemption, underwriters of securities would be required to undertake with an issuer or Obligated Person (as that term is defined in the Rule) in a written agreement or contract for the benefit of the holders of such securities to provide to various information repositories certain annual financial information and operating data, audited financial statements (if and when available), and notices of certain material events. No such undertaking has been made with respect to the Bonds. The Borrower has covenanted in the Agreement; however, that for so long as the Bonds are Outstanding, the Borrower will furnish to the Trustee the following information:

(1) Within 120 days after the end of the Fiscal Year, a copy of the annual audit of its books and accounts made by an independent certified public accountant; a certificate signed by the Superintendent or the President of the Board of Directors acknowledging his review of the Obligations under the

Agreement and Stating that 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;

(2) Not later than October 1 in each year, a summary of all enrollment information, prepared by grade, for the then-current school year, and, not later than February 1 in each year, an updated summary of all enrollment information for such year;

(3) Notice of the occurrence of any of the following events, to the extent such event is material to a decision to purchase and sell the Bonds: (a) principal and interest payment delinquencies; (b) nonpayment related defaults; (c) unscheduled draws on the Debt Service Reserve Fund reflecting financial difficulties; (d) unscheduled draws on credit enhancements reflecting financial difficulties; (e) substitution of any credit or liquidity facility providers, or their failure to perform; (f) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (g) modification to the rights of holders of the Bonds; (h) Bond calls; (i) defeasances; (j) release, substitution, or sale of property securing repayment of the Bonds; and (k) rating changes; and

(4) Certain financial information and operating data which is customarily prepared by the Borrower and is publicly available to any person upon written request to the Borrower; provided, however, that the Borrower reserves the right at anytime to commence filing such information with the SID in lieu of providing such information upon individual requests. The information to be annually updated includes all quantitative financial information and operating data with respect to the Borrower of the general type included in this Official Statement, including the appendices.

The Borrower has covenanted in the Agreement to notify the NRMSIR and the SID of the following, so long as the Bonds are Outstanding:

(1) A change in the Borrower's fiscal year prior to the next date by which the Borrower otherwise would be required to provide financial information and operating data pursuant to the Agreement;

(2) In a timely manner, any failure by the Borrower to provide financial information or operating data in the manner and time required by the Agreement; and

(3) Items (a) through (k) listed in Section (3) of "CONTINUING DISCLOSURE OF INFORMATION" above.

Any filing under this Official Statement may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004

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

RATINGS

Standard & Poors Ratings Group, a division of the McGraw Hill Companies ("S&P"), has provided the Tax-Exempt Bonds with a rating of "BB" and provided the Taxable Bonds with a rating of

“BB.” These ratings reflect only the views of S&P and neither the Issuer nor the Underwriter makes any representation as to the appropriateness of these ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by S&P, in its judgment, if circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price and/or the marketability of each series of the Bonds.

PREPARATION OF LIMITED OFFERING MEMORANDUM

Sources and Compilation of Information

The financial data and other information contained in this Official Statement has been obtained primarily from the Borrower. The Borrower is 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, engineering, 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.

Forward-Looking Statements

The statements contained in this Official Statement, and in any other information provided by the Issuer or the Borrower that are not purely historical, are forward-looking statements, including statements regarding the Issuer's or the Borrower's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Issuer or the Borrower on the date hereof, and the Issuer assumes no obligation to update any such forward-looking statements. It is important to note that the Issuer's or the Borrower's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Issuer or the Borrower. Any such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

FINANCIAL ADVISOR

Public Financial Management, Inc. is employed as financial advisor (the “Financial Advisor”) to the Issuer in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance delivery of the Bonds. The Financial Advisor has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any legal documents

with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending, or future actions taken by any legislative or judicial bodies.

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

CERTAIN RELATIONSHIPS

Consultant to the School

Mr. Bruce S. Henderson of Dual Promotions, LLC, has advised the School in connection with the issuance of the Bonds, and will receive a fee of \$75,000 for such services. He has worked with the School to prepare all necessary documents for this Project. Mr. Henderson is a former member of the School's Board of Directors, in which capacity he served as financial advisor to the Board for approximately five years. He has worked with the School in the acquisitions of both the Oblate Campus and Basse Campus. He has served as the Subcommittee Chair of the Budget Committee and the Owners' Representative in regards to all school construction/remodel projects.

Counsel to the School

Mr. S. Jeffrey Gately of the Law Office of S. Jeffrey Gately, a Professional Corporation acts as outside counsel to the School. As well, Mr. Gately represents Dual Promotions, LLC in its legal matters. On July 8, 2002, Mr. Gately obtained a conflict waiver from the School and from Dual Promotions, LLC acknowledging the potential for conflicts in the joint representation.

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 and the Board of Trustees of the Borrower, as of the date shown on the cover page.

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