

OFFICIAL STATEMENT DATED JULY 2, 2014

NEW ISSUE — BOOK-ENTRY-ONLY

RATINGS: S&P “AAA” (Underlying “BBB”) (See “RATINGS” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein)

The delivery of the Bonds (defined below) is subject to the opinion of Bond Counsel to the effect that, assuming compliance with certain covenants and based on certain representations, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and is not includable in the alternative minimum taxable income of individuals. See “TAX MATTERS” herein for a discussion of the opinion of Bond Counsel, including the alternative minimum tax consequences for corporations.



CITY OF HOUSTON HIGHER EDUCATION FINANCE CORPORATION
\$101,555,000 EDUCATION REVENUE AND REFUNDING BONDS
(HARMONY PUBLIC SCHOOLS) SERIES 2014A

DATED: July 1, 2014 — Interest accrues from date of delivery

DUE: as shown on inside cover

The City of Houston Higher Education Finance Corporation (the “*Issuer*”), a non-profit corporation created and existing under Chapters 53, 53A and 53B of the Texas Education Code, as amended (the “*Act*”), is issuing its \$101,555,000 Education Revenue and Refunding Bonds (Harmony Public Schools) Series 2014A (the “*Bonds*”). The Bonds will be dated July 1, 2014, will be in authorized denominations of \$5,000 and integral multiples thereof, and will mature on February 15 of the years as shown on the inside cover page. The Bonds will accrue interest from their date of delivery payable semi-annually on February 15 and August 15 of each year, commencing February 15, 2015, until maturity or earlier redemption.

The Bonds are being issued pursuant to a Trust Indenture and Security Agreement dated as of July 1, 2014 (the “*Bond Indenture*”) between the Issuer and Regions Bank, as trustee (the “*Bond Trustee*”). The proceeds of the Bonds will be loaned by the Issuer to Harmony Public Schools, a Texas non-profit corporation (the “*Borrower*”) pursuant to the terms of a Loan Agreement dated as of July 1, 2014 (the “*Loan Agreement*”) between the Issuer and the Borrower.

The Bonds are special limited obligations of the Issuer, payable solely from (i) payments to be made by the Borrower pursuant to the Loan Agreement, (ii) a promissory note in an amount equal to the principal amount of the Bonds (the “*Series 2014A Note*”) delivered to the Issuer pursuant to the Loan Agreement and pursuant to the Master Trust Indenture and Security Agreement dated as of May 1, 2007, as supplemented (the “*Master Indenture*”) between the Borrower and Regions Bank, Houston, Texas, as master trustee (the “*Master Trustee*”), (iii) the money and investments held for the credit of the funds and accounts established by or under the Bond Indenture (except the Rebate Fund) and (iv) in certain circumstances, out of amounts secured by the exercise of remedies provided in the Loan Agreement, the Bond Indenture and the Master Indenture. An application has been filed by the Borrower with, and conditional approval has been received from, the Texas Education Agency for the Bonds to be guaranteed under the Bond Guarantee Program of the Permanent School Fund of the State of Texas. See “**THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.**”

The Series 2014A Note constitutes additional indebtedness under the Master Indenture and is issued on parity with certain other promissory notes (excluding promissory notes expected to be paid with proceeds of the Bonds) issued by the Borrower that are outstanding in the aggregate principal amount of \$185,480,000 (the “*Prior Master Notes*”) and, together with the Series 2014A Note and any additional promissory notes entitled to the benefit of the Master Indenture, the “*Master Notes*”). Neither the Bonds nor the Series 2014A Note is secured by any interest in real property or personal property other than Adjusted Revenues. See “**SECURITY FOR THE BONDS.**”

The Bonds are subject to redemption prior to maturity as described herein. See “**THE BONDS — Redemption Provisions.**”

The Borrower will use the Bond proceeds to (i) finance (a) the development of two new campuses, (b) the expansion and/or renovation of facilities at four existing campuses, (c) the addition of a gymnasium at one existing campus, and (d) the purchase of a building currently leased by the Borrower (collectively, the “*Projects*”); (ii) refinance certain bank loans; (iii) refund certain outstanding bonds issued for the benefit of the Borrower; (iv) fund capitalized interest; and (v) pay a portion of costs of issuance for the Bonds. See “**– The Projects**” below. See “**PLAN OF FINANCE.**” The Borrower currently operates forty open-enrollment charter schools throughout the State of Texas (the “*State*”) and plans to begin operations at three additional campuses in the fall of 2014 and two additional campuses in the fall of 2015 (collectively, the “*Charter Schools*”), all pursuant to seven open-enrollment charter contracts with the Texas State Board of Education. See “**APPENDIX B — THE BORROWER AND THE CHARTER SCHOOLS.**” The Borrower may not charge tuition and has no taxing authority.

NEITHER THE STATE OF TEXAS NOR A STATE AGENCY OR POLITICAL SUBDIVISION OF THE STATE, INCLUDING THE CITY OF HOUSTON, IS OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE BONDS AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR ANY STATE AGENCY OR POLITICAL SUBDIVISION OF THE STATE, INCLUDING THE CITY OF HOUSTON, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. HOWEVER, AN APPLICATION HAS BEEN FILED WITH, AND THE BORROWER HAS RECEIVED CONDITIONAL APPROVAL FROM, THE TEXAS EDUCATION AGENCY FOR THE PAYMENT OF THE BONDS TO BE GUARANTEED UNDER THE BOND GUARANTEE PROGRAM OF THE PERMANENT SCHOOL FUND OF THE STATE OF TEXAS. THE ISSUER HAS NO TAXING POWER.

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

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

The Bonds are offered when, as and if issued by the Issuer and received and accepted by the Underwriters and subject to the approval of certain matters by the Attorney General of the State and an opinion as to legality by Andrews Kurth LLP, Houston, Texas, Bond Counsel. Certain legal matters will be passed on by Bracewell & Giuliani LLP, as counsel to the Issuer; by Andrews Kurth LLP, Houston, Texas, as counsel to the Borrower; by Haynes and Boone, LLP, as special tax counsel to the Borrower; and by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, as counsel to the Underwriters. It is expected that the Bonds will be available for delivery through the facilities of DTC on or about July 15, 2014.

Raymond James

Jefferies

MATURITY SCHEDULE

CITY OF HOUSTON HIGHER EDUCATION FINANCE CORPORATION

\$101,555,000 EDUCATION REVENUE AND REFUNDING BONDS (HARMONY PUBLIC SCHOOLS) SERIES 2014A

\$66,915,000 Serial Bonds

<u>February 15</u>	<u>Principal Amount</u>	<u>Interest Rate (%)</u>	<u>Yield (%)</u>	<u>CUSIP No.⁽¹⁾</u>
2015	\$1,000,000	1.500	0.250	44237HAA3
2016	2,175,000	3.000	0.350	44237HAB1
2017	2,250,000	4.000	0.630	44237HAC9
2018	2,355,000	5.000	1.020	44237HAD7
2019	2,470,000	5.000	1.340	44237HAE5
2020	2,605,000	5.000	1.670	44237HAF2
2021	2,735,000	5.000	1.950	44237HAG0
2022	2,885,000	5.000	2.200	44237HAH8
2023	3,025,000	5.000	2.430	44237HAJ4
2024	3,190,000	5.000	2.600	44237HAK1
2025	3,350,000	5.000	2.740 ^C	44237HAL9
2026	3,500,000	5.000	2.840 ^C	44237HAM7
2027	3,455,000	5.000	2.940 ^C	44237HAN5
2028	3,890,000	5.000	3.050 ^C	44237HAP0
2029	4,100,000	5.000	3.130 ^C	44237HAQ8
2030	4,310,000	5.000	3.200 ^C	44237HAR6
2031	4,540,000	5.000	3.270 ^C	44237HAS4
2032	4,770,000	5.000	3.330 ^C	44237HAT2
2033	5,025,000	5.000	3.390 ^C	44237HAU9
2034	5,285,000	5.000	3.440 ^C	44237HAV7

\$34,640,000 Term Bonds

\$19,025,000	Term Bond due February 15, 2038;	Rate 4.000%;	Yield 4.040%;	CUSIP No. ⁽¹⁾ 44237HAZ8
\$15,615,000	Term Bond due February 15, 2044;	Rate 4.000%;	Yield 4.070%;	CUSIP No. ⁽¹⁾ 44237HBF1

^C Yield to the first call date at par.

⁽¹⁾ CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein has been provided by CUSIP Global Services managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services. CUSIP numbers have been assigned by an independent company not affiliated with the Issuer, the Borrower or the Underwriters and are included solely for the convenience of the holders of the Bonds. None of the Issuer, the Borrower or the Underwriters is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the Bonds.

NOTICE TO INVESTORS OF THE BONDS

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

- (a) The Bonds are special limited obligations of the Issuer payable solely from revenues to be derived by the Issuer under the Loan Agreement, the Series 2014A Note, and all money and investments held for the credit of the funds and accounts established by or under the Bond Indenture (except the Rebate Fund), and in certain events out of amounts secured through the exercise of the remedies provided in the Bond Indenture, the Loan Agreement and the Master Indenture. Neither the Bonds nor the Series 2014A Note is secured by any interest in real property or personal property other than Adjusted Revenues. See “**SECURITY FOR THE BONDS.**” The Bonds will never be payable out of any funds of the Issuer except with the revenues and in the amounts described above. NEITHER THE STATE OF TEXAS NOR A STATE AGENCY OR POLITICAL SUBDIVISION OF THE STATE IS OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE BONDS AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR ANY STATE AGENCY OR POLITICAL SUBDIVISION OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. HOWEVER, AN APPLICATION HAS BEEN FILED WITH, AND THE BORROWER HAS RECEIVED CONDITIONAL APPROVAL FROM, THE TEXAS EDUCATION AGENCY FOR THE PAYMENT OF THE BONDS TO BE GUARANTEED UNDER THE BOND GUARANTEE PROGRAM OF THE PERMANENT SCHOOL FUND OF THE STATE OF TEXAS. SEE “**THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.**” THE ISSUER HAS NO TAXING POWER.
- (b) Neither the Issuer nor any director, officer or employee thereof takes any responsibility for, and the purchaser must not rely upon any of such parties with respect to, the information appearing anywhere in this Official Statement, other than the information under the captions “**THE ISSUER,**” and “**LEGAL MATTERS — Pending and Threatened Litigation, Audits and Investigations — The Issuer**” (the “*Issuer’s Portion*” of the Official Statement). None of such parties have participated in the preparation of this Official Statement except with respect to the Issuer’s Portion of this Official Statement.
- (c) Each purchaser must review this entire Official Statement and the Appendices hereto, including the information relating to the sources of repayment of the Bonds, the Projects and the Borrower (including financial and operating data). This Official Statement is not guaranteed as to its accuracy or completeness.
- (d) Each purchaser must be able to bear the economic risk associated with a purchase of securities such as the Bonds and must have the knowledge and experience in business and financial matters, including the analysis of a participation in the purchase of similar investments, necessary so as to be capable of evaluating the merits and risks of an investment in the Bonds on the basis of the information and review described herein.

[Remainder of page intentionally left blank]

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

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REGARDING USE OF THIS OFFICIAL STATEMENT

This Official Statement is being provided in connection with the sale of the Bonds referred to herein and may not be reproduced for use, in whole or in part, for any other purpose. The information set forth under the caption **“THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”** has been obtained from the Texas Education Agency. The information set forth herein under the captions **“THE ISSUER,”** and **“LEGAL MATTERS — Pending and Threatened Litigation, Audits and Investigations — The Issuer”** has been obtained from the Issuer. All other information set forth herein has been obtained from the Borrower and other noted sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness.

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

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

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

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

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

CITY OF HOUSTON HIGHER EDUCATION FINANCE CORPORATION
\$101,555,000 EDUCATION REVENUE AND REFUNDING BONDS (HARMONY PUBLIC SCHOOLS)
SERIES 2014A

INTRODUCTION

General

The purpose of this Official Statement is to provide certain information concerning the issuance and sale by the City of Houston Higher Education Finance Corporation (the “*Issuer*”) of its \$101,555,000 Education Revenue and Refunding Bonds (Harmony Public Schools) Series 2014A (the “*Bonds*”).

The Bonds are being issued pursuant to a Trust Indenture and Security Agreement dated as of July 1, 2014 (the “*Bond Indenture*”) between the Issuer and Regions Bank, as trustee (the “*Bond Trustee*”). The proceeds of the Bonds will be loaned by the Issuer to Harmony Public Schools, a Texas non-profit corporation (the “*Borrower*”) pursuant to the terms of a Loan Agreement dated as of July 1, 2014 (the “*Loan Agreement*”) between the Issuer and the Borrower.

The Bonds are limited obligations of the Issuer, payable solely from (i) payments to be made by the Borrower pursuant to the Loan Agreement, (ii) a promissory note in an amount equal to the principal amount of the Bonds (the “*Series 2014A Note*”) delivered to the Issuer pursuant to the Loan Agreement and pursuant to the Master Trust Indenture and Security Agreement dated as of May 1, 2007, as supplemented (the “*Master Indenture*”) between the Borrower and Regions Bank, Houston, Texas, as master trustee (the “*Master Trustee*”), (iii) the money and investments held for the credit of the funds and accounts established by or under the Bond Indenture (except the Rebate Fund) and (iv) in certain circumstances, out of amounts secured by the exercise of remedies provided in the Loan Agreement, the Bond Indenture and the Master Indenture. An application has been filed with, and the Borrower has received conditional approval from, the Texas Education Agency (the “*TEA*”) for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas. See “**THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.**”

The Series 2014A Note constitutes additional indebtedness under the Master Indenture, and is issued on parity with certain other promissory notes (excluding promissory notes expected to be repaid with proceeds of the Bonds) issued by the Borrower that are outstanding in the aggregate principal amount of \$185,480,000 (the “*Prior Master Notes*” and, together with the Series 2014A Note and any additional promissory notes entitled to the benefit of the Master Indenture, the “*Master Notes*”). Neither the Bonds nor the Series 2014A Note is secured by any interest in real property or personal property other than Adjusted Revenues. See “**SECURITY FOR THE BONDS.**”

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

Forward-Looking Statements

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

THE ISSUER

The City of Houston Higher Education Finance Corporation is a public non-profit corporation created by the City of Houston, Texas (the “*Sponsoring Entity*”), and existing as an instrumentality of the Sponsoring Entity pursuant to Chapters 53, 53A and 53B of the Texas Education Code, as amended (the “*Act*”). Pursuant to the Act, the Issuer is authorized to issue revenue bonds and to lend the proceeds thereof to accredited institutions of higher education, primary schools and secondary schools and to authorized charter schools for the purpose of aiding such schools in financing or refinancing “educational facilities” and “housing facilities” (as such terms are defined in the Act) and facilities which are incidental, subordinate, or related thereto or appropriate in connection therewith.

The Issuer is governed by its Board of Directors which consists of nine members, each of whom is nominated by the Mayor and confirmed by the City Council of the Sponsoring Entity. On April 28, 2014, the Issuer adopted a bond resolution authorizing the issuance of the Bonds.

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

The Issuer is receiving a fee of \$15,000 in connection with the issuance of the Bonds.

Except for the issuance of the Bonds, the Issuer is not in any manner related to or affiliated with the Borrower. The Borrower has agreed to indemnify the Issuer for certain matters under the Loan Agreement.

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

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

THE BORROWER

The Borrower is a Texas non-profit corporation which was incorporated in 1999 and an organization described under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “*Code*”). The Borrower is governed by a 6-member Board of Directors. The Borrower currently operates forty open-enrollment charter schools throughout the State and plans to begin operations at three additional campuses in the fall of 2014 and two additional campuses in the fall of 2015 (collectively, the “*Charter Schools*”). Table 1 following presents certain basic information concerning the Charter Schools currently in operation, under construction or expected to be financed with proceeds of the Bonds.

**TABLE 1:
CHARTER SCHOOLS**

CHARTER NAME/CAMPUS NAME	GRADES OFFERED ⁽¹⁾	CAMPUS ENROLLMENT ⁽¹⁾	YEAR OPENED ⁽²⁾	FREE/REDUCED LUNCH (LOW-INCOME) ⁽¹⁾
Harmony Science Academy (Houston) (101-846)				
1. Harmony Science Academy High School – Houston	9–12	557	2000–01	Approximately 74%
2. Harmony School of Innovation – Houston	4–8	602	2005–06	Approximately 74%
3. Harmony School of Ingenuity – Houston	3–12	613	2009–10	Approximately 76%
4. Harmony Science Academy – Houston	K–8	348	2010–11	Approximately 84%
5. Harmony School of Fine Arts and Technology – Houston	K–8	660	2010–11	Approximately 63%
6. Harmony School of Exploration – Houston	K–3	350	2013-14	Approximately 72%
Harmony School of Excellence (101-858)				
1. Harmony School of Excellence – Houston	K–8	903	2006–07	Approximately 29%
2. Harmony School of Excellence – Endeavor	K–8	565	2009–10	Approximately 72%
3. Harmony Science Academy – Bryan/College Station	K–12	438	2007–08	Approximately 67%
4. Harmony Science Academy – Houston Northwest	K–8	663	2006–07	Approximately 42%
5. Harmony School of Advancement High School – Houston	9–12	601	2010–11	Approximately 43%
6. Harmony School of Discovery – Houston	K–11	752	2010–11	Approximately 44%
Harmony School of Science (Houston) (101-862)				
1. Harmony School of Science – Houston	K–6	740	2008–09	Approximately 51%
2. Harmony School of Science – Sugar Land High School	7–11	701	2011–12	Approximately 54%
3. Harmony Science Academy – West Houston	K–10 ⁽³⁾	829	2011–12	Approximately 46%
4. Harmony Science Academy – Beaumont	K–12 ⁽⁴⁾⁽⁵⁾	551	2007–08	Approximately 52%
Harmony Science Academy (Waco) (161-807)				
1. Harmony Science Academy – Waco	K–12	713	2007–08	Approximately 80%
2. Harmony Science Academy – Dallas	K–12	1,200	2007–08	Approximately 79%
3. Harmony School of Innovation – Dallas	K–12	640	2009–10	Approximately 42%
4. Harmony Science Academy – Garland	K–11 ⁽⁴⁾	666	2010–11	Approximately 50%
5. Harmony School of Innovation – Garland	K–5 ⁽⁶⁾	N/A	2014-15	N/A
6. Harmony School of Business – Dallas	K–9	678	2012–13	Approximately 45%
7. Harmony Science Academy – Fort Worth	K–5 ⁽⁷⁾	663	2006–07	Approximately 49%
8. Harmony Science Academy – Grand Prairie	K–12 ⁽⁷⁾	528	2008–09	Approximately 59%
9. Harmony Science Academy – Euless	5–12 ⁽⁷⁾	634	2009–10	Approximately 50%
10. Harmony School of Nature and Athletics – Dallas	K–11 ⁽⁷⁾	694	2010–11	Approximately 46%
11. Harmony School of Innovation – Fort Worth	6–12 ⁽⁴⁾⁽⁷⁾	482	2012–13	Approximately 43%
12. Harmony School of Innovation – Euless	K–4 ⁽⁷⁾	640	2013-14	Approximately 50%
Harmony Science Academy (Austin) (227-816)				
1. Harmony Science Academy – Austin	K–7	364	2001–02	Approximately 79%
2. Harmony Science Academy – North Austin	8–12	612	2008–09	Approximately 52%
3. Harmony School of Excellence – Austin	K–12 ⁽⁴⁾	734	2009–10	Approximately 75%
4. Harmony School of Innovation – Austin	K–5	N/A	2014-15	N/A
5. Harmony School of Science – Austin	K–8	543	2006–07	Approximately 41%
6. Harmony School of Political Science and Communication – Austin	K–10	792	2011–12	Approximately 22%
Harmony Science Academy (El Paso) (071-806)				
1. Harmony Science Academy – El Paso	K–12	955	2006–07	Approximately 77%
2. Harmony School of Innovation – El Paso	K–12	756	2009–10	Approximately 70%
3. Harmony Science Academy – Lubbock	K–12 ⁽⁸⁾	427	2007–08	Approximately 79%
4. Harmony Science Academy – Odessa	K–8 ⁽⁸⁾	362	2010–11	Approximately 55%

TABLE 1: CHARTER SCHOOLS				
CHARTER NAME/CAMPUS NAME	GRADES OFFERED ⁽¹⁾	CAMPUS ENROLLMENT ⁽¹⁾	YEAR OPENED ⁽²⁾	FREE/REDUCED LUNCH (LOW-INCOME) ⁽¹⁾
Harmony Science Academy (San Antonio) (015-828)				
1. Harmony Science Academy – San Antonio	K–12	890	2006–07	Approximately 61%
2. Harmony School of Innovation – San Antonio	K–9	595	2010–11	Approximately 70%
3. Harmony Science Academy – Laredo	K–12 ⁽⁴⁾⁽⁹⁾	757	2008–09	Approximately 65%
4. Harmony School of Innovation – Laredo	K–5	N/A	2014-15	N/A
5. Harmony Science Academy – Brownsville	K–12 ⁽¹⁰⁾	449	2008–09	Approximately 81%
TOTAL ENROLLMENT		25,647		

⁽¹⁾ As of December 31, 2013.

⁽²⁾ The year opened reflects the year in which the Borrower began operating a Charter School at such location.

⁽³⁾ Harmony Science Academy – West Houston was transferred from the Harmony Science Academy (El Paso) charter in order to be in better geographic alignment.

⁽⁴⁾ Upon opening of the new elementary schools, students in kindergarten through fifth grade are expected to transfer to the related new elementary school and the identified schools will no longer offer kindergarten through fifth grade.

⁽⁵⁾ Harmony Science Academy – Beaumont was transferred from the Harmony Science Academy (Houston) charter in order to be in better geographic alignment.

⁽⁶⁾ The Borrower will need to issue additional Debt in order to complete Harmony School of Innovation – Garland.

⁽⁷⁾ The Borrower agreed to transfer Harmony Science Academy – Fort Worth, Harmony Science Academy – Grand Prairie, Harmony Science Academy – Euless, Harmony School of Nature and Athletics – Dallas, Harmony School of Innovation – Fort Worth and Harmony School of Innovation – Euless from the Harmony Science Academy (Fort Worth) charter to the Harmony Science Academy (Waco) charter in order to obtain the approval of the TEA to the guarantee of the Bonds under the Bond Guarantee Program of the Permanent School Fund of the State of Texas. The Harmony Science Academy (Fort Worth) charter was subsequently returned to the TEA.

⁽⁸⁾ The Borrower agreed to transfer Harmony Science Academy – Lubbock and Harmony Science Academy – Odessa from the Harmony Science Academy (Lubbock) charter to the Harmony Science Academy (El Paso) charter in order to obtain the approval of the TEA to the guarantee of the Bonds under the Bond Guarantee Program of the Permanent School Fund of the State of Texas. The Harmony Science Academy (Lubbock) charter was subsequently returned to the TEA.

⁽⁹⁾ Harmony Science Academy – Laredo was transferred from the Harmony Science Academy (Laredo) charter to the Harmony Science Academy (San Antonio) charter in order to increase financial efficiency by consolidating some positions and improving cash flow restrictions. The Harmony Science Academy (Laredo) charter was subsequently returned to the TEA.

⁽¹⁰⁾ The Borrower agreed to transfer Harmony Science Academy – Brownsville from the Harmony Science Academy (Brownsville) charter to the Harmony Science Academy (San Antonio) charter in order to obtain the approval of the TEA to the guarantee of the Bonds under the Bond Guarantee Program of the Permanent School Fund of the State of Texas. The Harmony Science Academy (Brownsville) charter was subsequently returned to the TEA.

The Charter Schools operate (or, in the case of schools at the prospective campuses, are contemplated to operate) pursuant to seven open-enrollment charter contracts between the Borrower and the Texas State Board of Education (the “*State Board of Education*”) under Chapter 12 of the Texas Education Code, Section 12.001 *et seq.* (the “*Charter Schools Act*”).

In the second quarter of 2014, the Borrower applied to the TEA for the Bonds to be guaranteed under the Bond Guarantee Program of the Permanent School Fund of the State of Texas. The TEA declined the request for guarantee because the Borrower operated one charter district, Harmony Science Academy (Lubbock), which failed to meet standard under the State’s academic accountability ratings. In subsequent discussions, the TEA agreed to approve the Bonds for the Bond Guarantee Program of the Permanent School Fund of the State of Texas if the Borrower agreed to return three of its charter districts and consolidate the charter schools under such districts into other existing charter districts of the Borrower. The Borrower agreed to return such charter districts effective July 1, 2014. The description of the Borrower, the charter districts and the Charter Schools described herein reflect the structure of the Borrower, the charter districts and the Charter Schools after the effectiveness of the return of the three charter districts.

For more information regarding the Borrower and the Charter Schools, see generally “APPENDIX B — THE BORROWER AND THE CHARTER SCHOOLS.”

PLAN OF FINANCE

General

The Borrower will use the Bond proceeds to (i) finance (a) the development of two new campuses, (b) the expansion and/or renovation of facilities at four existing campuses, (c) the addition of a gymnasium at one existing campus, and (d) the purchase of a building currently leased by the Borrower (collectively, the “*Projects*”); (ii) refinance certain bank loans; (iii) refund certain outstanding bonds issued for the benefit of the Borrower; (iv) fund capitalized interest; and (v) pay the costs of issuance for the Bonds. See “— **The Projects**,” “— **Refinancing**” and “— **Refunding**” below and “**ESTIMATED SOURCES AND USES OF FUNDS**.”

The Projects

Set forth below is a brief description of the Projects:

Harmony School of Innovation – Austin. The Borrower intends to establish a new school to be known as Harmony School of Innovation – Austin, which will be located adjacent to Harmony School of Excellence – Austin. Proceeds of the Bonds will be used to convert a leased warehouse to a new school at a new campus. It is anticipated that the facility will house kindergarten through 5th grade (kindergarten through 5th grade students at the existing Harmony School of Excellence – Austin are expected to transfer to Harmony School of Innovation – Austin). Harmony School of Excellence – Austin will then house 6th through 12th grades. It is anticipated that the expansion will add student capacity for 400 students in the first two years after opening and will be completed in time for the 2014-15 school year.

Harmony Science Academy – Austin. Proceeds of the Bonds will be used to expand an existing school building at Harmony Science Academy – Austin. The expansion will replace existing modular buildings. It is anticipated that the expansion will add student capacity for 300 students in the first two years after opening and will be completed in time for the 2014-15 school year.

Harmony School of Innovation – Garland. The Borrower intends to establish a new school to be known as Harmony School of Innovation – Garland. Proceeds of the Bonds will be used to pay a portion of the costs of a new school at a new campus (which will be located on the same property as Harmony Science Academy – Garland). It is anticipated that Harmony School of Innovation – Garland will house kindergarten through 5th grade (kindergarten through 5th grade students at Harmony Science Academy – Garland are expected to transfer to Harmony School of Innovation – Garland). Harmony Science Academy – Garland will then house 6th through 12th grades. It is anticipated that the expansion will add student capacity for 400 students in the first two years after opening and will be completed in time for the 2014-15 school year. Costs not paid with proceeds of the Bonds are expected to be paid with additional Debt incurred in the next 12 months.

Harmony School of Innovation – Dallas. Proceeds of the Bonds will be used to add a new school building at Harmony School of Innovation – Dallas. The addition will replace existing modular buildings. It is anticipated that the addition will add student capacity for 250 students in the first two years after opening and will be completed in time for the 2015-16 school year.

Harmony School of Innovation – Fort Worth. The Borrower intends to expand an existing campus with the addition of a new building. Proceeds of the Bonds will be used to add a new facility at Harmony School of Innovation – Fort Worth. It is anticipated that the new facility will house kindergarten through 5th grade. It is anticipated that the addition will add student capacity for 400 students in the first two years after opening and will be completed in time for the 2015-16 school year.

Harmony School of Nature and Athletics – Dallas. Proceeds of the Bonds will be used to add a new gymnasium. It is anticipated that the project will be completed in time for the 2015-16 school year.

Harmony School of Exploration – Houston. Proceeds of the Bonds will be used renovate an existing building on the Borrower’s existing campus. It is anticipated that the project will add capacity for an additional 250 students and be completed in time for the 2014-15 school year.

Harmony School of Science – Houston. Proceeds of the Bonds will be used to acquire the existing leased facility.

For more information on the Projects, see “**APPENDIX B — THE BORROWER AND THE CHARTER SCHOOLS — The Projects**” and “**— Project Construction.**”

Refinancing

A portion of the proceeds of the Bonds will be utilized to refinance all the outstanding principal of an approximately \$3.95 million loan from Metro Bank, the proceeds of which were utilized for the acquisition of Harmony School of Discovery – Houston and an approximately \$3.3 million loan from Regions Bank, the proceeds of which were utilized to acquire Harmony Science Academy – Grand Prairie, to renovate Harmony School of Excellence – Endeavor and Harmony School of Innovation – El Paso and to acquire furniture and equipment for multiple locations. In addition, approximately \$10,000,000 of the proceeds of the Bonds will be used to refinance the outstanding principal amount of a bridge loan from Regions Bank, which was initially used for certain capital improvements and the acquisition of furniture and equipment for multiple locations.

Refunding

The Bonds will be used to refund the Texas Public Finance Authority Charter School Finance Corporation’s Education Revenue Bonds, Series 2007A (the “*Series 2007A Bonds*”) outstanding in the aggregate principal amount of \$26,700,000 and the La Vernia Higher Education Finance Corporation’s Education Revenue Bonds, Series 2008A (the “*Series 2008A Bonds*” and, together with the Series 2007A Bonds, the “*Refunded Bonds*”) outstanding in the aggregate principal amount of \$29,190,000.

The principal, interest, and redemption premium, if any, due on the Refunded Bonds are to be paid on their scheduled interest payment dates, maturities and the respective redemption dates described below, from receipts on government obligations to be purchased with funds deposited by the Borrower from proceeds of the Bonds and other sources deposited in escrow, pursuant to an Escrow Agreement to be dated as of July 1, 2014 (the “*Escrow Agreement*”) among the Borrower and Regions Bank, as escrow agent (the “*Escrow Agent*”). The Escrow Agreement will establish two separate accounts (the “*Escrow Funds*”), the first of which will be dedicated to the payment of the Series 2007A Bonds and the second of which will be dedicated to the payment of the Series 2008A Bonds. The government obligations will be verified as sufficient to pay interest on and accomplish the discharge and final payment of the Refunded Bonds on the applicable maturity and redemption dates. See “**VERIFICATION OF MATHEMATICAL COMPUTATIONS**” herein. Under the Escrow Agreement, each Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the applicable series of Refunded Bonds. Funds and investments held in the Escrow Funds will not be available to pay the Bonds.

REDEMPTION OF REFUNDED BONDS

Series	Stated Maturities	Outstanding Principal Amount	Redemption Date	Redemption Price (%)
2007A	February 15, 2018 and 2037	\$26,700,000	February 15, 2015	100
2008A	February 15, 2017 and 2038	\$29,190,000	February 15, 2017	100

The Issuer will covenant in the Escrow Agreement to make timely deposits to the Escrow Fund of any additional amounts required to pay the principal of and interest on the Refunded Bonds if for any reason the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment. See also “**SCHEDULE I — SCHEDULE OF REFUNDED BONDS.**”

Subsequent Financing

In addition to the Series 2014A Note, the Borrower anticipates incurring additional indebtedness of approximately \$8,000,000 within the next twelve months. Such indebtedness is expected to be incurred for the reimbursement of expenditures at Harmony School of Innovation – Laredo and for the completion of Harmony School

of Innovation – Garland. Such indebtedness may be secured by Master Notes entitled to the benefit of the Master Indenture that are issued on parity with the Series 2014A Note and the other Master Notes issued under the Master Indenture.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth anticipated sources and uses of funds in connection with the plan of finance described above:

<u>SOURCES OF FUNDS</u>	<u>SERIES 2014A BONDS</u>
Par Amount	\$ 101,555,000
Reoffering Premium	9,860,968
Transfer from Prior Funds	3,774,754
TOTAL	\$ 115,190,722
 <u>USES OF FUNDS</u>	
Project Fund Deposit	\$ 32,000,000
Capitalized Interest	649,164
Payment of Bank Loans	18,206,926
Escrow Fund Deposit	62,822,085
Costs of Issuance ⁽¹⁾	1,512,547
TOTAL	\$ 115,190,722

⁽¹⁾ Includes Underwriters' discount, legal fees, printing fees and other costs of issuance.

RISK FACTORS

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

Enforceability and Constitutionality of the Permanent School Fund Guarantee

The Texas Constitution provides that the Legislature by law may provide for using the Permanent School Fund to guarantee bonds issued by school districts. In 2013, the Texas Legislature enacted a law providing a method for Texas charter schools to be designated as "charter districts" and to avail themselves of the guarantee of the Permanent School Fund. An application has been filed by the Borrower with, and conditional approval has been received from, the TEA for the Bonds to be guaranteed under the Bond Guarantee Program of the Permanent School Fund of the State of Texas. The guarantee of charter school bonds by the Permanent School Fund has not been reviewed for enforceability or constitutionality by any court of law, and no legal opinions from a court of law have been delivered with respect thereto. Although both the Attorney General of the State of Texas and Bond Counsel will deliver an opinion with respect to the validity of the Bonds, neither party will opine with respect to the enforceability of, or constitutionality of, the Permanent School Fund guarantee of the Bonds. Additionally, no other party, including the TEA, will give any opinions with respect to the enforceability or constitutionality of the guarantee of the Bonds.

Sufficiency of Revenues

The Bonds are payable solely from certain payments, revenues and other amounts derived by the Issuer pursuant to the Loan Agreement and the Series 2014A Note, and are secured only by such revenues and a pledge of certain funds and accounts created under the Bond Indenture. Based on present circumstances, the Borrower believes it will generate sufficient revenues for payment of debt service on the Bonds. However, the Borrower's various charter contracts may be revoked, or the bases of the assumptions used by the Borrower to formulate its beliefs may otherwise

change. No representation or assurance can be made that the Borrower will continue to generate sufficient revenues to make payments under the Master Notes representing debt service on the Bonds and other bonds issued for the benefit of the Borrower.

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

State charter schools, such as those operated by the Borrower, may not charge tuition and have no taxing authority. The Borrower has a relatively short operating history, commencing operation in 2000. Additionally, the Borrower continues to pursue an aggressive expansion plan. Payments from the State of Texas (the “State”) that the Borrower receives for educating students comprise the primary source of revenue generated by the Borrower (approximately 87% in the fiscal year ending June 30, 2013). The amount of such State payments the Borrower receives is based on a variety of factors, including the enrollment at the Charter Schools. The overall amount of education aid provided by the State in any year is also subject to appropriation by the State Legislature. The Legislature may base its decisions about appropriations on many factors, including the State’s economic performance. Further, because some public officials, their constituents, commentators and others have viewed charter schools as controversial, political factors may also come to bear on charter school funding, and such factors are subject to change. As a result, the Legislature may not appropriate funds, or may not appropriate funds in a sufficient amount, for the Borrower to generate sufficient revenue to meet its operating expenses and to make payments under the Master Notes and thus debt service on the Bonds and other bonds issued for the benefit of the Borrower. No liability would accrue to the State in such event, and the State would not be obligated or liable for any future payments or any damages. If the State were to withhold such State payments for any reason, even for a reason that is ultimately determined to be invalid or unlawful, the Borrower could be forced to cease operations.

Operating History; Projections

The Borrower’s ability to make payments under the Master Notes representing debt service payments on the Bonds and other bonds issued for the benefit of the Borrower depends on its receipt of payments from the State. The projections of revenues and expenses contained in **APPENDIX B** herein were prepared by the Borrower and have not been independently verified by any party. No feasibility studies have been conducted with respect to operations of the Borrower pertinent to the Bonds. The projections prepared by the Borrower are “forward-looking statements” and are subject to the general qualifications and limitations described under “**INTRODUCTION — Forward-Looking Statements**” with respect to such statements. The Underwriters have not independently verified such projections, and make no representation and give no assurances that such projections or the assumptions underlying them, are complete or correct. Further, the projections relate only to a limited number of fiscal years and consequently do not cover the entire period that the Bonds will be outstanding.

The projections are derived from the actual operations of the Borrower and from assumptions made by the Borrower about its future student enrollment and expenses. The projections assume increases in enrollment to 31,286 by the fiscal year ending June 30, 2018. The bases for such projections are the applications for admissions for the Borrower’s grades currently in operation, the addition of additional grades and the physical capacity of schools under construction. See “**APPENDIX B — THE BORROWER AND THE CHARTER SCHOOLS**” to review certain of the projections and to consider the various factors that could cause actual results to differ significantly from projected results. See “**INTRODUCTION — Forward-Looking Statements**” above for qualifications and limitations applicable to forward-looking statements.

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

THE PROJECTIONS ARE FROM THE BORROWER, AND NEITHER THE ISSUER NOR THE UNDERWRITERS 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 ARE REASONABLE, SUCH GROWTH MAY OR MAY NOT OCCUR AND MAY BE AFFECTED BY A VARIETY OF FACTORS. SEE **"APPENDIX B — THE BORROWER AND THE CHARTER SCHOOLS — Projected Revenues and Expenditures."**

Competition for Students

Potential purchasers should be aware that the Borrower faces constant competition for students and there can be no assurance that the Borrower will continue to attract and retain the number of students that are needed to generate revenues sufficient to pay the Master Notes and thus to make payment of debt service on the Bonds and other bonds issued for the benefit of the Borrower.

Nonrenewal or Revocation of Charter

The Borrower was granted its initial open-enrollment charter from the TEA to operate its initial school as an open-enrollment charter school on May 19, 2000. The Borrower currently holds seven open-enrollment charters from the TEA. Although all of the Borrower's charters have been renewed through at least July 31, 2015 (and some through as late as July 31, 2023), there can be no assurance that the Borrower's charters will continue to be renewed. SEE **"APPENDIX B — THE BORROWER AND THE CHARTER SCHOOLS — Charter Contracts."**

Once the Projects are complete, the Borrower will have the physical capacity to accommodate up to 53,922 students (although the charters currently limit the total number of students to 50,400 students).

Under Texas law, the Commissioner of Education (the "*Commissioner*") may revoke the charter of, or modify the governance of the holder of a charter, of an open-enrollment charter school, or reconstitute the governing body of the charter holder, if the Commissioner determines that the charter holder: (i) committed a material violation of the charter, including failure to satisfy accountability provisions prescribed by the charter; (ii) failed to satisfy generally accepted accounting standards of fiscal management; (iii) failed to protect the health, safety, or welfare of the students enrolled at the school; (iv) failed to comply with any applicable law or rule; (v) failed to satisfy the performance framework standards adopted under Section 12.1181 of the Texas Education Code; or (vi) is imminently insolvent as determined by the Commissioner in accordance with Commissioner Rule. The taking of any such actions by the Commissioner could have a material adverse effect on the ability of the Borrower to pay the Master Notes and thus to make payment of debt service on the Bonds and other bonds issued for the benefit of the Borrower.

SEE **"APPENDIX A — SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW — GENERAL — CHARTER REVISION, REVOCATION AND NON-RENEWAL"** and **"APPENDIX B — THE BORROWER AND THE CHARTER SCHOOLS — Charter Contracts — Revocation and Nonrenewal."** If the Borrower's charter contracts are revoked or if the charter contracts are not renewed in the future, the Borrower could be forced to cease operations.

Automatic Revocation

Texas law requires that if a charter holder has failed to meet academic or financial accountability ratings for any three of the five preceding school years, the charter holder's charter is required to be revoked. Harmony Science Academy (Lubbock), as a district, had an accountability rating in 2013 of "Improvement Required," but the charter schools under such district have since been consolidated with the Harmony Science Academy (El Paso) charter district. There can be no assurance that any charter operated by the Borrower will be able to satisfy the academic and/or financial accountability standards in the future. A failure to meet such requirements would result in the revocation of one or more of the Borrower's charters and would result in the inability of the Borrower to pay the Master Notes and thus the Bonds and any other bonds issued for the benefit of the Borrower. SEE **"APPENDIX A — SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW — GENERAL — CHARTER REVISION, REVOCATION AND NON-RENEWAL"** and **"APPENDIX B — THE BORROWER AND THE CHARTER SCHOOLS — Charter Contracts — Revocation and Nonrenewal."**

Project Approvals and Construction Process

The Borrower will use a portion of the proceeds of the Bonds to finance the construction and renovation of facilities. For more information including an estimated project breakdown, see “**PLAN OF FINANCE — The Projects**” and “**APPENDIX B — THE BORROWER AND THE CHARTER SCHOOLS — The Projects**.” The Borrower expects to obtain all necessary approvals, consents, certificates and permits as needed in order to complete such construction in a timely manner. Any failure by the Borrower to obtain such approvals, consents, certificates and permits could result in delay with respect to completion of construction, and any such delay could adversely affect the Borrower’s operations and its ability to generate revenues sufficient to pay the Master Notes and thus debt service on the Bonds and other bonds issued for the benefit of the Borrower. The risks associated with any such delay may be heightened by the fact that the Borrower is relying on campus expansion to accommodate growth at its existing campuses. See “**APPENDIX B — THE BORROWER AND THE CHARTER SCHOOLS — Enrollment**.”

The Borrower employs a construction staff of five for the purpose of overseeing the development of its construction projects. Generally, the Borrower’s construction staff is responsible for architectural design and management of its construction projects. The Borrower does not anticipate entering into fixed-price construction contracts with respect to the Projects. Rather, the Borrower assumes the risk of completing the Projects on budget. The Borrower has been advised by its architect that the proceeds of the Bonds, together with other available funds of the Borrower, will be sufficient for the completion of the Projects. If the proceeds are not sufficient, the Borrower may not be able to complete the Projects in a timely fashion or at all, which could adversely affect the ability of the Borrower to generate sufficient revenues to pay the Master Notes and thus debt service on the Bonds and other bonds issued for the benefit of the Borrower. Additionally, restrictions on the incurrence of additional Debt (as defined in the Master Indenture) contained in the Master Indenture could limit the ability of the Borrower to incur additional Debt in order to complete the Projects in the event of a shortfall.

Construction Costs and Completion of Construction

If plans regarding the new construction component of the Project result in construction costs that exceed the amount available to pay such costs, the Borrower’s construction plans would have to be modified to lower construction costs, and there is a risk that the construction would not be completed or would not be completed as planned. In addition, unforeseen factors (entailing unforeseen costs) may arise, such as an overrun of allowance items, unexpected site problems, or delays due to the fault of the Borrower, the selected contractor(s), or others that the Borrower retains in connection with the Projects. Therefore, there is a risk that construction will not be completed on time or as planned. See “**APPENDIX B — THE BORROWER AND THE CHARTER SCHOOLS — Project Construction**.” This risk may be heightened by the fact that the Borrower is relying on campus expansion to accommodate growth at its existing campuses. See “**APPENDIX B — THE BORROWER AND THE CHARTER SCHOOLS — History, Growth Strategy and Other Information Relating to the Borrower and the Charter Schools**” and “**— Enrollment**.”

Factors Associated with Education

There are a number of factors affecting schools in general, including the Borrower’s schools, which could have an adverse effect on the Borrower’s financial position and the ability of the Borrower to generate sufficient revenues to pay the Master Notes and thus debt service on the Bonds and other bonds issued for the benefit of the Borrower. These factors include, but are not limited to, the Borrower’s ability to successfully execute its growth strategy; the Borrower’s ability to attract and retain a sufficient number of students; increasing costs of compliance with federal or State regulatory laws or regulations, including, without limitation, laws or regulations concerning environmental quality, work safety and accommodating persons with disabilities; increasing operating costs of the Borrower; changes in existing statutes pertaining to the powers of the Borrower and legislation or regulations which may affect funding. The Borrower cannot assess or predict the ultimate effect of these factors on its operations or financial results of operations.

Failure to Provide Ongoing Disclosure

The Borrower has previously entered into, and, in connection with the issuance of the Bonds will enter into, a Continuing Disclosure Agreement pursuant to Securities and Exchange Commission Rule 15c2-12 (17 CFR Part 240, § 240.15c2-12) (the “*Rule*”). Failure to comply with the Continuing Disclosure Agreement, similar prior

undertakings, or the Rule in the future may adversely affect the liquidity for the Bonds and their market price in the secondary market. See “**CONTINUING DISCLOSURE AGREEMENT**” and “**APPENDIX E — FORM OF CONTINUING DISCLOSURE AGREEMENT**.”

State Financial Difficulties

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

Any future decreases in State revenues or increases in State expenditures may adversely affect education appropriations made by the Legislature. Neither the Borrower nor any other party to the bond transaction can predict how State revenues or State education funding will vary over the entire term of the Bonds.

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

Future Changes to Charter School Laws

The law applicable to charter schools in Texas has frequently changed. For example, there were changes to the school funding system that affected open-enrollment charter schools (such as the Borrower) in 2006, 2009, 2011 and 2013. See “**STATE FUNDING FOR TRADITIONAL SCHOOL DISTRICTS**” and “**STATE OPEN-ENROLLMENT CHARTER SCHOOL FUNDING**” below. The law affecting charter schools is subject to additional changes. Changes to applicable law by the State Legislature could be adverse to the financial interests of the Borrower and could adversely affect the ability of the Borrower to generate sufficient revenues to pay the Master Notes and thus debt service on the Bonds and other bonds issued for the benefit of the Borrower. There can be no assurance that the Legislature will not change such laws in the future in a manner which is adverse to the interests of the registered owners of the Bonds. Adverse State budget considerations could increase the likelihood that the State Legislature would change the laws governing charter schools, and in particular charter school funding provisions. Further, State budget considerations may adversely affect appropriations for charter school funding.

Foreclosure under Existing Deeds of Trust, Leasehold Mortgages and Security Agreements

The Borrower previously executed certain Deeds of Trust and Security Agreements, as supplemented (the “*Deeds of Trust*”) and certain Leasehold Mortgages, as supplemented (the “*Leasehold Mortgages*”) encumbering certain property of the Borrower in favor of the Master Trustee for the benefit of the holders of the Master Notes issued prior to the Series 2014A Note (***and not the Series 2014A Note***). In addition, the Borrower has granted a security interest in certain fixtures and personal property pursuant to certain security agreements in favor of the Master Trustee (the “*Security Agreements*”) for the benefit of the holders of the Master Notes issued prior to the 2014A Note (***and not the Series 2014A Note***). Subject to the provisions of the Master Indenture, the Holders of the 2014A Note expressly relinquish any right to the Deed of Trust, the Leasehold Mortgages and the Security Agreements and agree that the 2014A Note will not be secured by a lien created by such collateral pledged to the Trust Estate and executed in connection with any Debt issued and secured pursuant to the Master Indenture and no proceeds of any sale of any property subject to such collateral, whether made under any power of sale granted pursuant to the Master Indenture or pursuant to judicial proceedings (“*Foreclosure Proceeds*”) collected by the Master Trustee pursuant to the Master Indenture, may be paid by the Master Trustee to the Bond Trustee. If the foregoing collateral were to be foreclosed on, the Borrower would not have sufficient revenues to make payments on the Series 2014A Note representing debt service on the Bonds. **NEITHER THE BONDS NOR THE SERIES 2014A NOTE IS SECURED BY ANY**

INTEREST IN REAL PROPERTY OR PERSONAL PROPERTY OTHER THAN ADJUSTED REVENUES. See “SECURITY FOR THE BONDS.”

Acceleration Provisions

Pursuant to the legislation authorizing the use of the Permanent School Fund to guarantee bonds, the Bonds may not be accelerated as a remedy upon an event of default under the Bond Indenture or Loan Agreement. However, the Series 2014A Note is subject to acceleration upon an Event of Default under the Master Indenture. In such an event, the ratable portion of any foreclosure proceeds attributable to the Trust Estate collateral then securing the Bonds shall be paid by the Master Trustee to the Bond Trustee to purchase Defeasance Obligations for deposit with the Bond Trustee to defease all or portions of the Bonds in inverse order of maturity through the earlier to occur of maturity or the first optional redemption date as set forth in the form of Bond. Since, as described above, the Series 2014A Note is not secured by any interest in real property or personal property other than Adjusted Revenues, any such proceeds would be expected to be minimal. See “**THE BONDS — Redemption Provisions.**”

Key Personnel

The Borrower’s creation, curriculum, educational philosophy and operations have depended on the vision and commitment of a few, key personnel who comprise the senior leadership of the Borrower. Loss of any such key personnel could adversely affect the Borrower’s growth plans, operations, ability to attract and retain students and ultimately its financial results. Of particular importance to the Borrower are Dr. Soner Tarim, Mr. Yalcin Akyildiz, Dr. Ozgur Ozer and Mr. Erdal Caglar the Borrower’s Superintendent of Schools and Associate Superintendent/Chief Financial Officer, Associate Superintendent/Chief Academic Officer and Associate Superintendent/Chief Operating Officer, respectively, whose contributions to the Borrower’s development and whose ongoing responsibilities are significant. For more information regarding the Borrower’s key personnel, see “**APPENDIX B — THE BORROWER AND THE CHARTER SCHOOLS — Senior Leadership and Succession Planning.**”

Special Limited Obligations

The Bonds are special limited obligations of the Issuer payable solely from revenues to be derived by the Issuer under the Loan Agreement, the Series 2014A Note, all money and investments held for the credit of the funds and accounts established by or under the Bond Indenture (except the Rebate Fund), and in certain circumstances, out of amounts secured through the exercise of the remedies provided in the Bond Indenture, the Loan Agreement and the Master Indenture. Neither the Bonds nor the Series 2014A Note is secured by any interest in real property or personal property other than Adjusted Revenues. See “**SECURITY FOR THE BONDS.**”

The Bonds will never be payable out of any funds of the Issuer except with such revenues and in such amounts described above. NEITHER THE STATE OF TEXAS NOR A STATE AGENCY OR POLITICAL SUBDIVISION OF THE STATE, INCLUDING THE CITY OF HOUSTON, IS OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE BONDS AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR ANY STATE AGENCY OR POLITICAL SUBDIVISION OF THE STATE, INCLUDING THE CITY OF HOUSTON, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. HOWEVER, AN APPLICATION HAS BEEN FILED WITH, AND THE BORROWER HAS RECEIVED CONDITIONAL APPROVAL FROM, THE TEXAS EDUCATION AGENCY FOR THE PAYMENT OF THE BONDS TO BE GUARANTEED UNDER THE BOND GUARANTEE PROGRAM OF THE PERMANENT SCHOOL FUND OF THE STATE OF TEXAS. THE ISSUER HAS NO TAXING POWER.

Pledge of State Revenues

The Master Indenture provides that all of the Borrower’s Adjusted Revenues will be deposited into one or more deposit accounts pledged to the Master Trustee pursuant to Deposit Account Control Agreements (unless such Adjusted Revenues or portion thereof are required to be deposited to the Revenue Fund). Upon the occurrence of an Event of Default under the Master Indenture, the Master Trustee is entitled, at the direction of the holders of not less than 25% in principal amount of the Notes Outstanding to (i) issue a Notice of Exclusive Control under the Deposit Account Control Agreements and (ii) collect and receive all of the Borrower’s Adjusted Revenues to be applied as specified in the Master Indenture. While the Holders of not less than 25% in principal amount of Notes Outstanding

are entitled to direct the Master Trustee in the exercise of remedies following an Event of Default, such percentage may be composed wholly or partially of the holders of Master Notes other than the Series 2014A Note.

Damage or Destruction of the Facilities

The Master Indenture requires that the Borrower's educational facilities be insured against certain risks. See **"APPENDIX F — EXCERPTS OF THE MASTER INDENTURE, THE BOND INDENTURE AND THE LOAN AGREEMENT — MASTER INDENTURE"** and **"APPENDIX B — THE BORROWER AND THE CHARTER SCHOOLS — Insurance Coverage."** There can be no assurance that the amount of such insurance required to be obtained or actually obtained will be adequate, or that the cause of any damage or destruction to the Borrower's educational facilities will be as a result of a risk which is insured. Further, there can be no assurance with respect to the ongoing creditworthiness of the insurance companies from which the Borrower obtains insurance policies.

Compliance with the No Child Left Behind Act of 2001

The TEA submitted a waiver request to the United States Department of Education on February 28, 2013. The waiver included a request to use the new state accountability system (performance indexes and system safeguards) to evaluate campuses and districts in place of federal Adequate Yearly Progress evaluations. The waiver was granted for the 2013-14 school year. Now, the State is required to provide interventions to improve identified low performing schools. Harmony Science Academy – Bryan/College Station and Harmony Science Academy – Lubbock were listed as priority schools. See **"APPENDIX B — THE BORROWER AND THE CHARTER SCHOOLS — AYP Status."**

Environmental Regulation

The Borrower's facilities are and will be subject to various federal, State and local laws and regulations governing health and the environment. In general, these laws and regulations could result in liability for remediating adverse environmental conditions on or relating to such facilities, whether arising from pre-existing conditions or conditions arising as a result of activities conducted in connection with the ownership of and operations at such facilities. Costs incurred with respect to environmental remediation or liability could adversely affect the Borrower's financial condition and its ability to generate revenues sufficient to pay debt service on the Bonds.

Potential Effects of Bankruptcy

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

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

Additional Debt

The Master Indenture permits the issuance of additional debt on a parity with the Master Notes if certain conditions are met. See **"SECURITY FOR THE BONDS — Additional Debt"** and **"APPENDIX F — EXCERPTS OF THE MASTER INDENTURE, THE BOND INDENTURE, AND THE LOAN AGREEMENT**

— **MASTER INDENTURE.**” The Borrower previously issued Master Notes that remain outstanding in the aggregate principal amount of \$185,480,000 (excluding Master Notes being refunded with proceeds of the Bonds and the Series 2014A Note. It is highly likely that the Borrower will issue additional promissory notes in the future, including approximately \$8,000,000 within the next twelve months, to finance additional expansion and new campus projects, subject to compliance with its covenants in the Master Indenture. Such promissory notes may or may not be on parity with the Master Notes. See “**APPENDIX B — THE BORROWER AND THE CHARTER SCHOOLS — History, Growth Strategy and Other Information Relating to the Borrower and the Charter Schools — Prior and Future Financings.**” Such additional debt may or may not be guaranteed by the Permanent School Fund. The issuance of additional debt may adversely affect the investment security of the Bonds.

Enforcement of Remedies

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

Tax-Exempt Status of the Bonds

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

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

If a Determination of Taxability (as defined in the Bond Indenture) were to occur, the Bonds would be subject to mandatory redemption, as a whole and not in part, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date not more than 120 days following receipt of notice by the Bond Trustee of such determination, subject to certain conditions and notice requirements. See “**THE BONDS — Redemption Provisions — The Bonds — Mandatory Redemption Upon Determination of Taxability.**”

Proposed Tax Legislation

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or state income taxation, or otherwise prevent the beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal income tax purposes of interest on all state and local obligations, including the Bonds. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

Tax-Exempt Status of the Borrower

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

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

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

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

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

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

Risk of Failure to Comply with Certain Covenants

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

State and Local Tax Exemption

The State has not been as active as the IRS in scrutinizing the tax-exempt status of non-profit organizations. It is possible that legislation may be proposed to strengthen the role of the Attorney General of the State in supervising non-profit organizations. It is likely that the loss by the Borrower of federal tax exemption also would trigger a

challenge to the State or local tax exemption of the Borrower. Depending on the circumstances, such event could be adverse and material.

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

Unrelated Business Income

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

Secondary Market

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

Risk of Loss from Nonpresentment upon Redemption

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

Risk of Amendment

Most of the provisions of the Master Indenture may be amended with the consent of the holders of a majority in principal amount of Outstanding Master Notes. If Master Notes are issued in an amount greater than the previously Outstanding Master Notes, such new Master Notes could cause the Master Indenture to be amended in material ways. Additionally, such amendment could result if the underwriter for the new bonds were to vote such bonds to direct the related bond trustee to vote such new Master Notes to amend the Master Indenture prior to their further distribution to the general public.

Negative Publicity

The Borrower has been subject to a substantial amount of negative publicity including allegations that: (a) the Charter Schools teach religion, (b) the Borrower is affiliated with the Gülen movement, a historical civil society movement, inspired by the teachings of Turkish Islamic theologian Fethullah Gülen, (c) the Borrower requires that its employees contribute to the Gülen movement, (d) the Borrower gives business to followers of the Gülen movement instead of other more qualified providers, and (e) the Borrower brings in foreign workers for positions that could be filled by American workers. The Borrower does not teach religion in its Charter Schools, is not affiliated with the Gülen movement and does not require that its employees contribute to the Gülen movement. Additionally, the Borrower follows Texas law with respect to its contracting procedures and retains the bidder providing the lowest responsible bid. See “**APPENDIX B — THE BORROWER AND THE CHARTER SCHOOLS — Project Construction — Construction Process.**” While the Borrower has brought in foreign workers to teach at its schools, it has done so as a result of difficulty in finding qualified teachers in math, science and computer science. Additionally, over time, the percentage of foreign workers has steadily declined. For example, the percentage fell from approximately 20% in 2011 to 16.7% in 2012 to 8.4% in 2013. The Borrower expects that the percentage of foreign workers will decline further in the future based on programs they have put in place to expand the number of local qualified math, science and computer science teacher. Such allegations could negatively impact the trading value of the Bonds.

Support Service Agreements

The Borrower has entered into a number of support services agreements and licensing agreements with other charter school operators in multiple states. See “**APPENDIX B — THE BORROWER AND THE CHARTER SCHOOLS — History, Growth Strategy and Other Information Relating to the Borrower and the Charter Schools — Support Service Agreements.**” In exchange for its services, in most cases, the Borrower is paid on an hourly basis for various services and a fixed licensing fee. In June 2011, a charter school operated by Pelican Foundation subject to a Support Services Agreement was closed by the Louisiana Department of Education (the “*LDOE*”) based on the safety and welfare of the students and amidst allegations that a bribe was offered to an official of the LDOE in order to keep the school open. Although no charges were ever brought against the school, its officials or its representatives, the particular school was closed. In addition, the Kenilworth Science and Technology Charter School in Baton Rouge also operated by the Pelican Foundation, was raided by state and federal agents in December 2013. The purpose of the raid has not been publicly disclosed. If other schools subject to Support Service Agreements are closed, for whatever reason, it could result in a loss of revenues to the Borrower. See “**APPENDIX B — THE BORROWER AND THE CHARTER SCHOOLS — History, Growth Strategy and Other Information Relating to the Borrower and the Charter Schools — Support Services Agreement.**”

THE BONDS

Description

The Bonds will be issued in the aggregate principal amounts, will mature on the dates and in the amounts, and will bear interest at the rates per annum set forth on the inside cover page of this Official Statement. Interest on the Bonds will accrue from the date of delivery and will be calculated on the basis of a 360-day year of twelve 30-day months payable on February 15, 2015, and on each August 15 and February 15 thereafter until the earlier of maturity or redemption.

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

The principal of, premium, if any, and interest on the Bonds are payable in lawful money of the United States of America. Amounts due on the Bonds will be paid by check mailed to the owner thereof at its address as it appears on the bond registration books on the first day of the calendar month in which such payment date occurs (the “*Record Date*”). Upon written request of a registered owner of at least \$1,000,000 in principal amount of Bonds, all payments of principal, premium, if any, and interest on Bonds will be paid by wire transfer (at the risk and expense of such registered owner) in immediately available funds to an account in the United States designated by such registered owner upon 15 days prior written notice to the Bond Trustee. Notwithstanding the foregoing, while the Bonds are held in book-entry only form, interest, principal, and redemption premium, if any, will be paid through The Depository Trust Company (“*DTC*”) as described under “**APPENDIX G — BOOK-ENTRY ONLY SYSTEM.**”

Permanent School Fund Guarantee

In connection with the sale of the Bonds, an application has been filed by the Borrower with, and the Borrower has received conditional approval from, the TEA for guarantee of the Bonds under the Charter District Bond Guarantee Program (Chapter 45, Subchapter C, of the Texas Education Code). See “**THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM**” herein. In the event of default, registered owners will receive all payments due from the Permanent School Fund.

Redemption Provisions

The Bonds are subject to redemption as described below:

Optional Redemption. The Bonds maturing on or after February 15, 2025, are subject to optional redemption prior to scheduled maturity, in whole or in part, on February 15, 2024, and on any date thereafter, at the option of the Borrower at a redemption price of par, plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption. The Bonds are subject to mandatory sinking fund redemption in part prior to maturity with funds from the Bond Debt Service Fund, at a redemption price equal to the principal amount thereof plus interest accrued thereon to the redemption date, on the dates, and in the principal amounts shown in the following schedules:

TERM BOND MATURING FEBRUARY 15, 2038		TERM BOND MATURING FEBRUARY 15, 2044	
Principal Amount	February 15	Principal Amount	February 15
\$5,565,000	2035	\$2,350,000	2039
5,800,000	2036	2,445,000	2040
4,975,000	2037	2,545,000	2041
2,685,000 ⁽¹⁾	2038	2,650,000	2042
		2,755,000	2043
		2,870,000 ⁽¹⁾	2044

⁽¹⁾ Paid at stated maturity.

The principal amount of the Bonds required to be redeemed pursuant to the operation of such mandatory redemptions is required to be reduced by the principal amount of any Bonds of the same maturity date which, at least 60 days prior to the mandatory sinking fund redemption date (a) have been purchased and delivered to the Bond Trustee for cancellation, (b) have been purchased and canceled by the Bond Trustee with funds furnished for such purpose, in each case at a purchase price not exceeding the principal amount of such Bonds plus accrued interest to the date of purchase thereof or (c) have been redeemed pursuant to the optional redemption provisions described above.

Mandatory Redemption Upon Determination of Taxability. The Bonds will be redeemed in whole prior to maturity on a date selected by the Borrower which is not more than 120 days following receipt by the Bond Trustee of written notice of the occurrence of a Determination of Taxability at a redemption price equal to 100% of the principal amount thereof plus interest to the redemption date; *provided that* such redemption of the Bonds will not be payable from the Permanent School Fund.

“Determination of Taxability,” as used herein, means a determination that the interest income on any of the Bonds does not qualify as interest excluded from gross income of the recipient thereof for the purpose of federal income taxation (“*exempt interest*”) under Section 103 of the Code (in the case of a private activity bond, for a reason other than 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: (a) the date on which the Trustee is notified that an opinion of counsel is unable to be delivered to the effect that the interest on the Bonds qualifies as such exempt interest; or (b) the date on which the Bond Trustee is notified by or on behalf of the Issuer that a change in law or regulation has become effective or that the Internal Revenue Service has issued any public or private ruling, or technical advice memorandum or that there has occurred a ruling or decision of a court of competent jurisdiction with or to the effect that the interest income on any of the Bonds does not qualify as such exempt interest; or (c) the date on which the Borrower receives notice from the Bond Trustee in writing that the Bond 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 Bond that the Internal Revenue Service has issued a final determination (after the Issuer has exhausted all administrative appeal remedies and has determined not to pursue any remedies in a court of competent jurisdiction) which asserts that the interest on any of the Bonds does not qualify as such exempt interest.

Extraordinary Optional Redemption. The Bonds are subject to extraordinary redemption, at the option of the Issuer upon the request of the Borrower, at a redemption price of par plus interest accrued thereon to the redemption date, without premium, on any date, in the event the Projects are damaged, destroyed, or condemned or threatened to be condemned, (i) in whole, if, in accordance with the terms of the Loan Agreement, the Projects are not reconstructed, repaired or replaced upon the change or destruction thereof, from insurance or condemnation proceeds transferred from the Construction Fund established pursuant to the Bond Indenture to the Debt Service Fund established pursuant to the Bond Indenture which, together with an amount required to be paid by the Borrower pursuant to the Loan

Agreement, will be sufficient to pay the Bonds in full, or (ii) in part, after reconstruction, repair, or replacement of the Projects in accordance with the terms of the Loan Agreement, from excess insurance or condemnation proceeds transferred from the Construction Fund established pursuant to the Bond Indenture to the Debt Service Fund established pursuant to the Bond Indenture for such purpose.

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

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

Notice of Redemption. At least 30 days prior to the date fixed for any redemption of the Bonds, but not more than 60 days prior to any redemption date, the Bond Trustee will cause a written notice of such redemption to be mailed by first class mail, postage prepaid, to the holders of the Bonds to be redeemed, at such holder's address appearing on the bond registration books on the date such notice is mailed by the Bond Trustee. Any redemption may be conditioned upon the occurrence of events occurring after the mailing of the notice of redemption. Any notice mailed as provided herein will be conclusively presumed to have been given, irrespective of whether or not received. By the date fixed for any such redemption, due provision is required to be made with the Bond Trustee for the payment of the redemption price, premium, if any, and interest accrued thereon. If such written notice of redemption is made, due provision for payment of the redemption price is made, and all conditions to the redemption have been fulfilled, all as provided above and in the Bond Indenture, the Bonds which are to be redeemed will become due and payable at the redemption price and after such date will cease to bear interest. Such Bonds 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 for redemption, such Bond will continue to be Outstanding under the Bond Indenture and will continue to bear interest until paid at the interest rate borne by such Bond.

Defeasance. The Bonds may be discharged, or advance refunded in advance of their optional redemption date in any manner now or hereafter permitted by law. Upon any discharge, defeasance or refunding of all or a portion of the Bonds, such Bonds shall no longer be regarded to be outstanding or unpaid; *provided, however*, the Issuer will remain obligated for all payments, including the contribution of additional money or securities to any defeasance escrow or trust account, if necessary to provide sufficient amounts to satisfy the payment obligations (but only from the sources described herein). The Permanent School Fund Guarantee will terminate with respect to Bonds defeased in the manner provided above. The Borrower must notify the commissioner of the TEA in writing within ten days of the defeasance of any Bonds.

SECURITY FOR THE BONDS

General

The Bonds are special limited obligations of the Issuer payable solely from revenues to be derived from the Loan Agreement, the Series 2014A Note, the money and investments held for the credit of the funds and accounts established by or under the Bond Indenture (except the Rebate Fund); and in certain events out of amounts secured through the exercise of the remedies provided in the Bond Indenture, the Loan Agreement and the Master Indenture.

The Borrower previously executed certain Deeds of Trust and Security Agreements, as supplemented (the "*Deeds of Trust*") and certain Leasehold Mortgages, as supplemented (the "*Leasehold Mortgages*") encumbering certain property of the Borrower in favor of the Master Trustee for the benefit of the holders of the Master Notes issued prior to the Series 2014A Note (***and not the Series 2014A Note***). In addition, the Borrower has granted a security interest in certain fixtures and personal property pursuant to certain security agreements in favor of the Master Trustee (the "*Security Agreements*") for the benefit of the holders of the Master Notes issued prior to the Series 2014A Note (***and not the Series 2014A Note***). Subject to the provisions of the Master Indenture, the Holders of the 2014A

Note expressly relinquish any right to the Deed of Trust, the Leasehold Mortgages and the Security Agreements and agree that the 2014A Note will not be secured by a lien created by such collateral pledged to the Trust Estate and executed in connection with any Debt issued and secured pursuant to the Master Indenture and no proceeds of any sale of any property subject to such collateral, whether made under any power of sale granted pursuant to the Master Indenture or pursuant to judicial proceedings (“*Foreclosure Proceeds*”) collected by the Master Trustee pursuant to the Master Indenture, may be paid by the Master Trustee to the Bond Trustee. **SUCH DEEDS OF TRUST, LEASEHOLD MORTGAGES AND SECURITY AGREEMENTS ARE NOT SECURITY FOR THE SERIES 2014A NOTE OR THE BONDS, AND THE HOLDERS OF THE SERIES 2014A NOTE AND THE BONDS WILL NOT REALIZE ANYTHING FROM THE FORECLOSURE OF THE DEEDS OF TRUST, LEASEHOLD MORTGAGES AND SECURITY AGREEMENTS. NEITHER THE BONDS NOR THE SERIES 2014A NOTE IS SECURED BY ANY INTEREST IN REAL PROPERTY OR PERSONAL PROPERTY OTHER THAN ADJUSTED REVENUES. ADDITIONALLY, THE BONDS ARE NOT ENTITLED TO THE BENEFIT OF A DEBT SERVICE RESERVE FUND.**

An application has been filed with, and the Borrower has received conditional approval from, the TEA for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas.

NEITHER THE STATE OF TEXAS NOR A STATE AGENCY OR POLITICAL SUBDIVISION OF THE STATE, INCLUDING THE CITY OF HOUSTON, IS OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE BONDS AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR ANY STATE AGENCY OR POLITICAL SUBDIVISION OF THE STATE, INCLUDING THE CITY OF HOUSTON, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. HOWEVER, AN APPLICATION HAS BEEN FILED WITH, AND THE BORROWER HAS RECEIVED CONDITIONAL APPROVAL FROM, THE TEXAS EDUCATION AGENCY FOR THE PAYMENT OF THE BONDS TO BE GUARANTEED UNDER THE BOND GUARANTEE PROGRAM OF THE PERMANENT SCHOOL FUND OF THE STATE OF TEXAS. THE ISSUER HAS NO TAXING POWER.

Permanent School Fund

The Borrower has applied for and has received from the TEA conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State. See “**THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.**”

Master Notes and the Master Indenture

General

To evidence its obligations under the Loan Agreement, the Borrower will execute and deliver to the Bond Trustee, as the assignee of the Issuer, the Series 2014A Note in principal amount equal to the principal amount of the Bonds. Payments under the Series 2014A Note are scheduled to be made at the times and in the amounts required to pay debt service on the Bonds and will be credited against the Loan Payments required to be made by the Borrower under the Loan Agreement.

The Series 2014A Note is a duly authorized promissory note of the Borrower issued pursuant to and secured by the Master Indenture. The Series 2014A Note constitutes additional indebtedness under the Master Indenture, and, excluding Master Notes being refinanced with proceeds of the Bonds, are issued on parity with (i) the promissory notes (the “*Series 2010 Notes*”) issued by the Borrower to evidence its obligations with respect to the City of Houston Higher Education Finance Corporation’s \$50,090,000 Education Revenue Bonds (Cosmos Foundation, Inc.), Series 2010A and \$39,910,000 Taxable Education Revenue Bonds (Cosmos Foundation, Inc.), Series 2010Q (Qualified School Construction Bonds — Direct Pay) (collectively, the “*Series 2010 Bonds*”), which are currently outstanding in the aggregate principal amount of \$90,000,000, (ii) the promissory notes (the “*Series 2011 Notes*”) issued by the Borrower to evidence its obligations with respect to the City of Houston Higher Education Finance Corporation’s \$58,930,000 Education Revenue Bonds (Cosmos Foundation, Inc.), Series 2011A and \$5,085,000 Taxable Education Revenue Bonds (Cosmos Foundation, Inc.), Series 2011Q (Qualified School Construction Bonds – Direct Pay) (collectively, the “*Series 2011 Bonds*”) which are currently outstanding in the aggregate principal amount of \$63,410,000, and (iii) the promissory note (the “*Series 2012 Note*”) issued by the Borrower to evidence its obligations with respect to the City of Houston Higher Education Finance Corporation’s \$31,350,000 Education Revenue Bonds

(Cosmos Foundation, Inc.) Series 2012A (the “*Series 2012 Bonds*”) which is currently outstanding in the aggregate principal amount of \$30,820,000.

In addition to the Master notes relating to Bonds described above, the Borrower has issued a promissory note to induce a bridge loan from Regions Bank in the amount of \$25,000,000 (the “*Bridge Loan*”). As of May 31, 2014, \$9,378,327.46 was outstanding on the Bridge Loan. It is anticipated that the outstanding amount of the Bridge Loan will be paid with proceeds of the Bonds.

In addition to the foregoing, the Borrower has issued a promissory note in the amount of \$1.9 million (the “*LISA Note*”) to evidence its obligations under a guaranty relating to the debt of LISA Academy, a non-profit corporation operating charter schools in Little Rock, Arkansas. The LISA Note is entitled to the benefit of the Master Indenture.

Finally, the Borrower may issue additional Master Notes to reimburse expenditures made for Harmony School of Innovation – Laredo and to complete Harmony School of Innovation – Garland in the amount of approximately \$8,000,000 within 12 months of the issuance of the Series 2014A Note. See “**PLAN OF FINANCE.**”

All of the outstanding Master Notes will be equally and ratably secured by the pledge of a security interest in the Trust Estate established under the Master Indenture. See “**APPENDIX F — EXCERPTS OF THE MASTER INDENTURE, THE BOND INDENTURE, AND THE LOAN AGREEMENT — THE MASTER INDENTURE — Granting Clauses,**” and “**— Issuance and Form of Notes — Section 210. Security for Notes.**” Under the Master Indenture the Trust Estate consists of:

- (i) all Adjusted Revenues (defined below) of the Borrower except items which by their terms or by reason of applicable law would be void or voidable if granted by the Borrower, or which cannot be granted without the consent of other parties whose consent is not secured, or without subjecting the Master Trustee to liability not otherwise contemplated by the provisions of the Master Indenture, or which otherwise may not be lawfully and effectively granted, pledged, and assigned by the Borrower;
- (ii) all money and securities, if any, at any time held by the Master Trustee in the Revenue Fund and any other fund or account established under the terms of the Master Indenture, or held by other banks or fiduciary institutions which are collaterally assigned to the Master Trustee as security for the Master Notes including the depository account specified in the Deposit Account Control Agreement and all securities, financial assets and securities entitlements and, with respect to book-entry securities, in the applicable Federal Book Entry Regulations, carried in or credited to such fund or account;
- (iii) all accounts, bank accounts, general intangibles, contract rights and related rights of the Borrower, whether now owned or hereafter assigned or arising and wherever located;
- (iv) any and all other property of every kind and nature conveyed, pledged, assigned or transferred as additional security under the Master Indenture by the Borrower or by anyone on its behalf to the Master Trustee, subject to the terms thereof, including, without limitation, funds of the Borrower held by the Master Trustee as security for the Master Notes;
- (v) the lien of the Deeds of Trust and the Leasehold Mortgages (provided, however, that such Deeds of Trust and Leasehold Mortgages are not security for the Series 2014A Note or the Bonds, and the holders of the Series 2014A Note and the Bonds will not realize anything from the foreclosure of the Deeds of Trust and Leasehold Mortgages); and
- (vi) proceeds of the foregoing.

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

“*Adjusted Revenues*” means, for any period of calculation, the total of all operating and non-operating revenues of the Borrower, including but not limited to State Revenues, federal and local funds for school lunches and other food programs, special education, and transportation, including accounts receivable and rights to receive the same plus investment and other income of the Borrower for such period; *provided, however*, Adjusted Revenues exclude (i) income derived from Defeasance Obligations that are irrevocably deposited in escrow to pay the principal of or interest on Debt, or Related Bonds, (ii) any gains or losses resulting from the early extinguishment of Debt, the sale, exchange or other disposition of property not in the ordinary course of business, or the reappraisal, reevaluation of write-up of assets, or any other extraordinary gains or losses, (iii) gifts, grants (excluding grants from the State), bequests or donations and income thereon restricted as to use by the donor or grantor for a purpose inconsistent with the payment of debt service on Debt or related bonds or Master Notes (*i.e.* unrelated to the purposes for which such obligations were issued), (iv) net unrealized gain (losses) on investments and financial products agreements and (v) proceeds of borrowing.

Revenue Fund

The Master Indenture provides for the creation of a Revenue Fund, which contains a principal account and an interest account. Upon an Event of Default under the Master Indenture, the Borrower is required to deposit to the Revenue Fund, within five business days of receipt, all of its Adjusted Revenues, including without limitation, amounts subject to the Deposit Account Control Agreement for which a notice of exclusive control has been delivered (except as otherwise provided in the Master Indenture), as well as any insurance and condemnation proceeds, beginning on the first day of such Event of Default until no payment default exists. The Master Indenture provides that the Master Trustee shall immediately withdraw and pay or deposit from the amounts on deposit in the Revenue Fund the following amounts in the order of priority indicated:

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

- FIFTH: to the Holder of any Master Note entitled to maintain a reserve fund for the payment of such Master Note, an amount sufficient to cause the balance on deposit in such reserve fund to equal the required balance in 12 equal monthly installments or as otherwise required by the applicable bond documents; and
- SIXTH: to the Borrower, the amount specified in a request of the Borrower as the amount of ordinary and necessary expenses of the Borrower for its operations for the following month.

The Master Indenture provides that any balance remaining in the Revenue Fund on the day following the end of the month in which all Events of Default under the Master Indenture relating to the payment of the principal of, premium, if any, or interest or any other amount due on any Master Note have been cured or waived, will be paid to the Borrower at its depository bank upon request for deposit in a deposit account of the Borrower that is subject to a Deposit Account Control Agreement to be used for any lawful purpose.

Additional Debt

Under the Master Indenture, Additional Debt payable from the Adjusted Revenues of the Borrower may be delivered pursuant to the Master Indenture to pay the costs associated with such additional Debt and/or for the purpose of refunding any Outstanding Debt if the following conditions have been met:

- (i) an Officer's Certificate is delivered stating that the Master Indenture is in effect and no Event of Default exists under the Master Indenture or any Debt Outstanding or any agreement entered into in conjunction with such Debt;
- (ii) the additional Debt is secured on parity with respect to the Trust Estate and is payable by the issuer solely from the Adjusted Revenues and other amounts derived from the loan agreement relating to such debt (except to the extent paid out of money attributable to the proceeds derived from the sale of the additional Debt or to income from the temporary investment thereof);
- (iii) (A) an Officer's Certificate is delivered stating that, for either the Borrower's most recently completed fiscal year or for any consecutive 12 months out of the most recent 18 months immediately preceding the issuance of the additional Debt, the Available Revenues equal at least 1.10x the Maximum Annual Debt Service on all Debt then Outstanding prior to the issuance of the additional Debt; and (B) an Independent Management Consultant selected by the Borrower and approved by each Bond Insurer provides a written report setting forth projections which indicate that the estimated Available Revenues are equal to at least 1.20x the Maximum Annual Debt Service for all Debt then Outstanding, including the proposed additional Debt, in the fiscal year immediately following the completion of the Project being financed;
- (iv) Instead of the requirements described in **clause (iii)** above, the Borrower may deliver an Officer's Certificate stating that, based on the audited results of the operations for the most recently completed fiscal year, the Available Revenues equal at least 1.10x the Maximum Annual Debt Service on all Debt then Outstanding as well as the additional Debt;
- (v) Bond Counsel must render an opinion to the Master Trustee to the effect that the issuance of the proposed additional Debt will not cause the interest on the Related Bonds Outstanding issued as tax-exempt bonds to be includable in the gross income of the Owners thereof for purposes of federal income taxation;
- (vi) The Borrower must obtain and provide to the Master Trustee on or prior to the closing date of the proposed additional Debt, an Opinion of Counsel addressed to the Master Trustee to the effect that the security interest in fixtures and equipment and personal property granted under the Deeds of Trust has been created and perfected under the Uniform Commercial Code as currently in effect in the State, including but not limited to, Article 9, as amended **(it should be noted that such Deeds of Trust are not security for the Series 2014A Note or the Bonds, and the holders of the Series 2014A Note and the Bonds will not realize anything from the foreclosure of the Deeds of Trust)**; and

- (vii) So long as the Trust Estate contains the lien of the Deeds of Trust upon any real property of the Borrower, the Borrower shall obtain and provide to the Master Trustee an endorsement of the title insurance policy, if permitted by the laws of the State, issued in connection with the Debt increasing the coverage thereunder by an amount equal to the aggregate principal amount of the additional Debt *(it should be noted that such Deeds of Trust are not security for the Series 2014A Note or the Bonds, and the holders of the Series 2014A Note and the Bonds will not realize anything from the foreclosure of the Deeds of Trust).*

Under the Master Indenture, if additional Debt is being issued for the purpose of refunding any Outstanding Debt, the report required by **clauses (iii) and (iv)** above will not apply so long as both the total and Maximum Annual Debt Service Requirements on all Outstanding Debt after issuance of the additional Debt will not exceed both the total and the Maximum Annual Debt Service Requirements on all Outstanding Debt prior to the issuance of such additional Debt.

If additional Debt is being issued or incurred for the purpose of completing any Project (as that term is defined in connection with the issuance of additional Debt) for which additional Debt is issued or incurred, such series of completion bonds may be issued in amounts not to exceed 10% of the principal amount of the Debt originally issued for such Project upon delivery of an Officer's Certificate that such additional Debt is required to fund the costs of completion, *provided that* such additional Debt must comply with any applicable requirements imposed by the Bond Indenture and Related Loan Documents (as defined in the Master Indenture).

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

Additionally, the Borrower may incur subordinate Debt in any amount that is subordinate to any Debt secured under the Master Trust Indenture.

The Bond Indenture

General

Under the Bond Indenture, the Issuer will grant to the Bond Trustee for the equal and ratable benefit of the holders of the Bonds, all of the Issuer's right, title, and interest in and to, among other things, the following: (i) the Loan Agreement, including all amounts payable thereunder, including but not limited to the Loan Payments thereunder, the Series 2014A Note, any and all security granted or held for the payment thereof, and the present and continuing right to bring actions and proceedings under the Loan Agreement or for the enforcement thereof and to do any and all things which the Issuer is or may become entitled to do thereunder, but excluding certain amounts agreed to be paid by the Borrower noted in the Loan Agreement (the "*Issuer's Unassigned Rights*"), (ii) all money and investments held for the credit of the funds and accounts established by or under the Bond Indenture (except the Rebate Fund) as described in the Bond Indenture, and (iii) any and all property that may by delivery or by writing of any kind, be subjected to the lien and security interest of the Bond Indenture by the Issuer or by anyone on its behalf, subject to the limitations provided in the Bond Indenture. See "**APPENDIX F — EXCERPTS OF THE MASTER INDENTURE, THE BOND INDENTURE, AND THE LOAN AGREEMENT — THE BOND INDENTURE — Granting Clauses.**"

Debt Service Fund

The Bond Indenture establishes a Debt Service Fund for the Bonds. The money deposited into the Debt Service Fund, together with all investments thereof and investment income therefrom, will be held in trust and applied solely as provided in the Bond Indenture. The Bond Trustee is required to establish a Capitalized Interest Subaccount within the Debt Service Fund. On the date of issuance of the Bonds, the Bond Trustee is required to deposit into the Capitalized Interest Subaccount any capitalized interest, accrued interest and additional proceeds on the Bonds as may be set forth in an order of the Issuer, for the purpose of paying a portion of the interest coming due on the Bonds on the interest payment date therefor. The Bond Trustee is required to deposit to the credit of the Debt Service Fund immediately upon receipt: (i) amounts due and payable by the Borrower pursuant to the terms of the Loan Agreement and the Series 2014A Note, (ii) any other amounts required by the Bond Indenture and (iii) any other amounts delivered to the Bond Trustee for deposit thereto. On each Interest Payment Date, the Bond Trustee will withdraw money first

from the Capitalized Interest Subaccount then from the Debt Service Fund to pay the principal and interest due on the Bonds.

The Loan Agreement

General

The Bonds are payable from and secured in part by a pledge and assignment to the Bond Trustee of the Issuer's rights under the Loan Agreement and the rights of the Issuer to receive loan payments thereunder (excluding certain fees and expenses and certain indemnity payments payable to the Issuer). Pursuant to the Loan Agreement, the Borrower agrees to make Loan Payments sufficient to provide funds to make required payments of principal, premium, if any, and interest on the Bonds in full. See "**APPENDIX F — EXCERPTS OF THE MASTER INDENTURE, THE BOND INDENTURE, AND THE LOAN AGREEMENT — THE LOAN AGREEMENT.**"

Debt Service Coverage Ratio Covenant

Under the Loan Agreement, the Borrower will covenant that as long as the Bonds remain outstanding, its Available Revenues for each fiscal year (without excluding any Discretionary Expenses actually incurred in such fiscal year) will be equal to at least 1.10x the Annual Debt Service Requirements of the Borrower as of the end of the first fiscal year after the date of issuance of the Bonds and thereafter until such Bonds have been paid in full. If the Borrower is unable to comply with the above debt service coverage ratio, it will not constitute an Event of Default if the Borrower promptly engages (within thirty (30) days of the date such certificate describing such circumstances was required to be submitted) an Independent Management Consultant, such consultant promptly submits a report to be delivered to the Borrower and the Bond Trustee with recommendations for meeting the required debt service coverage ratio and the Borrower agrees to consider any recommendations by the Independent Management Consultant and, to the extent legally permissible and practicable, to promptly adopt and carry out such recommendations. However, if the debt service coverage ratio falls below 1.0x the Annual Debt Service Requirements of the Borrower, it will constitute a default under the Loan Agreement.

Negative Pledge

The Borrower is not allowed to create or allow any liens to exist on any of its property or equipment, except as permitted by the Deeds of Trust, including without limitation, any mortgage or other lien on the property comprising the Borrower's Participating Campuses (except in connection with the issuance of additional Debt for such campuses and provided that any such mortgage or other lien on such campuses is also required to secure the Bonds in addition to such additional Debt). **The Deeds of Trust are not security for the Series 2014A Note or the Bonds, and the holders of the Series 2014A Note and the Bonds will not realize anything from the foreclosure of the Deeds of Trust.**

Disposition of Assets

Property and Equipment ("P&E"). No P&E of the Borrower may be sold or otherwise disposed of unless (i) the P&E is obsolete or worn out or (ii) fair market value is received in return or (iii) the market value of all P&E disposed of in any fiscal year does not exceed five percent (5%) of the total market value of all P&E of the Borrower, and such disposition must comply with the requirements of Section 45.082, Texas Education Code.

Cash, Investments and Other Current Assets ("Liquid Assets"). No Liquid Assets of the Borrower may be sold or otherwise disposed of unless (i) fair market value is received in return or (ii) the total market value of Liquid Assets disposed of in any Fiscal Year does not exceed one percent (1%) of all Liquid Assets of the Borrower.

Operating Reserves

The Borrower is required to maintain an amount equal to 45 days of budgeted expenses as of the end of each of its Fiscal Years, commencing as of the end of the first Fiscal Year after the date of issuance of the Bonds and thereafter, each Fiscal Year until the Bonds have been paid in full, to be tested at the end of each Fiscal year. The Borrower's failure to achieve the required operating reserve level does not constitute an Event of Default if the Borrower promptly engages (within thirty (30) days of the date such certificate describing such circumstances was

required to be submitted) an Independent Management Consultant which consultant promptly prepares a report (to be delivered to the Borrower and the Bond Trustee) with recommendations for meeting the required operating reserve level. So long as the Borrower, to the extent legally permissible and practicable, is promptly implementing such recommendations, the Borrower will not be in default with respect to the operating reserve covenant. The operating reserves are not allowed to be funded with Bond proceeds.

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DEBT SERVICE REQUIREMENTS

Set forth in the following table are the aggregate debt service requirements for all of the Borrower's parity Debt entitled to the benefit of the Master Indenture, including the Series 2014A Note.

Fiscal Year Ending June 30	SERIES 2014A			
	OUTSTANDING DEBT SERVICE⁽¹⁾	Principal	Interest⁽²⁾	Total Parity Debt Service
2015	\$15,522,501	\$1,000,000	2,453,043 ⁽³⁾	\$18,975,544
2016	15,516,655	2,175,000	4,416,291 ⁽³⁾	22,107,946
2017	15,512,823	2,250,000	4,648,480	22,411,303
2018	15,509,141	2,355,000	4,556,230	22,420,371
2019	15,507,699	2,470,000	4,436,125	22,413,824
2020	15,497,701	2,605,000	4,310,155	22,412,856
2021	15,500,568	2,735,000	4,177,300	22,412,868
2022	15,500,958	2,885,000	4,037,815	22,423,773
2023	15,494,049	3,025,000	3,890,680	22,409,729
2024	15,490,526	3,190,000	3,736,405	22,416,931
2025	15,477,722	3,350,000	3,573,715	22,401,437
2026	15,482,721	3,500,000	3,402,865	22,385,586
2027	15,740,244	3,455,000	3,224,365	22,419,609
2028	12,767,429	3,890,000	3,048,160	19,705,589
2029	12,777,154	4,100,000	2,849,770	19,726,924
2030	12,781,029	4,310,000	2,640,670	19,731,699
2031	12,793,179	4,540,000	2,420,860	19,754,039
2032	12,810,499	4,770,000	2,189,320	19,769,819
2033	12,821,966	5,025,000	1,946,050	19,793,016
2034	12,829,729	5,285,000	1,689,775	19,804,504
2035	12,837,229	5,565,000	1,420,240	19,822,469
2036	12,847,505	5,800,000	1,192,075	19,839,580
2037	12,853,440	4,975,000	954,275	18,782,715
2038	12,868,073	2,685,000	750,300	16,303,373
2039	12,873,538	2,350,000	640,215	15,863,753
2040	12,892,874	2,445,000	543,865	15,881,739
2041	7,117,656	2,545,000	443,620	10,106,276
2042	2,084,250	2,650,000	339,275	5,073,525
2043		2,755,000	230,625	2,985,625
2044		2,870,000	117,670	2,987,670
Totals	\$377,708,855	\$101,555,000	\$74,280,234	\$553,544,088

⁽¹⁾ Excludes Refunded Bonds. Reflects annual sinking fund deposits for the Series 2010Q and 2011Q Bonds. Does not offset debt service with anticipated federal subsidy receipts.

⁽²⁾ Includes annual fee related to PSF Guarantee. (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – Charter District Bond Guarantee Program.")

⁽³⁾ Net of capitalized interest.

STATE FUNDING FOR TRADITIONAL SCHOOL DISTRICTS

Overview

The following is a description of the system of State funding for traditional school districts in Texas (the “Finance System”) and *not* for open-enrollment charter schools. *However, it is necessary to understand the Finance System in order to understand the system of State funding applicable to open-enrollment charter schools, which essentially adapts the provisions of the Finance System to make them work for open-enrollment charter schools.* The summary below includes changes made by the State Legislature to the Finance System, including modifications made during the regular through third called sessions of the 79th Texas Legislature (collectively, the “2006 Legislative Session”), the regular session of the 81st Texas Legislature (the “2009 Legislative Session”), the regular and first called sessions of the 82nd Texas Legislature (collectively, the “2011 Legislative Session”), and the regular through third called sessions of the 83rd Texas Legislature (collectively, the “2013 Legislative Session”). For a more complete description of school finance and fiscal management in the State, reference is made to Vernon’s Texas Codes Annotated, Education Code, Chapters 41 through 46, as amended.

Funding for school districts in the State is provided primarily from State and local sources. State funding for all school districts is provided through a set of funding formulas comprising the “Foundation School Program,” as well as two facilities financing programs. Generally, the Finance System is designed to promote wealth equalization among school districts by balancing State and local sources of funds available to school districts. In particular, because districts with relatively high levels of property wealth per student can raise more local funding, such districts receive less State aid, and in some cases, are required to disburse local funds to equalize their overall funding relative to other school districts. Conversely, because districts with relatively low levels of property wealth per student have limited access to local funding, the Finance System is designed to provide more State funding to such districts. Thus, as a school district’s property wealth per student increases, State funding to the school district is reduced. As a school district’s property wealth per student declines, the Finance System is designed to increase its State funding. A similar equalization system exists for facilities funding wherein districts with the same tax rate for debt service raise the same amount of combined State and local funding. Facilities funding for debt incurred in prior years is expected to continue in future years; however, State funding for new school facilities was not appropriated by the 83rd Texas Legislature for the 2014–15 State biennium.

Local funding is derived from collections of ad valorem taxes levied on property located within each district’s boundaries. School districts are authorized to levy two types of property taxes: a limited maintenance and operations (“M&O”) tax to pay current expenses and an unlimited interest and sinking fund (“I&S”) tax to pay debt service on bonds. Under current law, M&O tax rates are subject to a statutory maximum rate of \$1.17 per \$100 of taxable value for most school districts. Current law also requires school districts to demonstrate their ability to pay debt service on outstanding indebtedness through the levy of an ad valorem tax at a rate of not to exceed \$0.50 per \$100 of taxable property at the time bonds are issued. Once bonds are issued, however, districts may levy a tax to pay debt service on such bonds unlimited as to rate or amount. As noted above, because property values vary widely among school districts, the amount of local funding generated by the same tax rate is also subject to wide variation among school districts.

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

The Reform Legislation made substantive changes to the Finance System, which are summarized below. While each school district’s funding entitlement was calculated based on the same formulas that were used prior to the 2006–07 fiscal year, the Reform Legislation made changes to local district funding by reducing each districts’ 2005 M&O tax rate by one-third over two years through the introduction of the “State Compression Percentage,” with M&O tax levies declining by approximately 11% in fiscal year 2006–07 and approximately another 22% in fiscal year 2007–08. (Prior to the Reform Legislation, the maximum M&O tax rate for most school districts was \$1.50 per \$100

of taxable assessed valuation. Because most school districts levied an M&O rate of \$1.50 in 2005, the application of the Reform Legislation compression formula reduced the majority of school districts' M&O tax rates to \$1.00). Subject to local referenda, a district may increase its local M&O tax levy up to \$0.17 above the district's compressed tax rate. Based on the current State Compression Percentage, the maximum possible M&O tax rate is \$1.17 per \$100 of taxable value for most school districts.

Local Funding for School Districts

The primary source of local funding for school districts is collections from ad valorem taxes levied against the taxable property located in each school district. As noted above, prior to the Reform Legislation, the maximum M&O tax rate for most school districts was generally limited to \$1.50 per \$100 of taxable value, and the majority of school districts were levying an M&O tax rate of \$1.50 per \$100 of taxable value at the time the Reform Legislation was enacted. The Reform Legislation required each school district to "compress" its tax rate by an amount equal to the "State Compression Percentage." For fiscal years 2007–08 through 2014–15, the State Compression Percentage has been set at 66.67%, effectively setting the maximum compressed M&O tax rate for most school districts at \$1.00 per \$100 of taxable value. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. School districts are permitted, however, to generate additional local funds by raising their M&O tax rate by \$0.04 above the compressed tax rate without voter approval (for most districts, up to \$1.04 per \$100 of taxable value). In addition, if the voters approve the tax rate increase, districts may, in general, increase their M&O tax rate by an additional two or more cents and receive State equalization funds for such taxing effort up to a maximum M&O tax rate of \$1.17 per \$100 of taxable value. Elections authorizing the levy of M&O taxes held in certain school districts under older laws, however, may subject M&O tax rates in such districts to other limitations.

State Funding for School Districts

State funding for school districts is provided through the Foundation School Program, which provides each school district with a minimum level of funding (a "*Basic Allotment*") for each student in average daily attendance ("*ADA*"). The Basic Allotment is calculated for each school district using various weights and adjustments based on the number of students in average daily attendance and also varies depending on each district's compressed tax rate. This Basic Allotment formula determines most of the allotments making up a district's Tier One entitlement. This basic level of funding is referred to as "Tier One" of the Foundation School Program. The basic level of funding is then "enriched" with additional funds known as "Tier Two" of the Foundation School Program. Tier Two provides a guaranteed level of funding for each cent of local tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates above \$1.00 per \$100 of taxable value). The Finance System also provides an Existing Debt Allotment ("*EDA*") to subsidize debt service on eligible outstanding school district bonds and an Instructional Facilities Allotment ("*IFA*") to subsidize debt service on newly issued bonds. IFA primarily addresses the debt service needs of property-poor school districts. A New Instructional Facilities Allotment ("*NIFA*") also is available to help pay operational expenses associated with the opening of a new instructional facility; however, NIFA awards were not funded by the Legislature for either the 2012–13 or the 2014–15 State fiscal bienniums. The 2013 Legislative Session did appropriate funds in the amount of \$1,268,000 for the 2014–15 State fiscal biennium for continued EDA and IFA support.

Tier One and Tier Two allotments represent the State's share of the cost of M&O expenses of school districts, with local M&O taxes representing the district's local share. EDA and IFA allotments supplement a school district's local I&S taxes levied for debt service on eligible bonds issued to construct, acquire and improve facilities. Tier One and Tier Two allotments and existing EDA and IFA allotments are generally required to be funded each year by the Legislature. Since future-year IFA awards were not funded by the Legislature for the 2014–15 fiscal biennium, and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service on new bonds issued by districts to construct, acquire and improve facilities must be funded solely from local I&S taxes. For the 2014–15 State biennium, prior awards for IFA debt support will continue to be made but the Legislature set aside no funds for new IFA awards. State funding allotments may be adjusted in certain circumstances to account for shortages in State appropriations or to allocate available funds in accordance with wealth equalization goals.

Tier One allotments are intended to provide all districts a basic level of education necessary to meet applicable legal standards. Tier Two allotments are intended to guarantee each school district that is not subject to

the wealth transfer provisions described below an opportunity to supplement that basic program at a level of its own choice; however, Tier Two allotments may not be used for the payment of debt service or capital outlay.

As described above, the cost of the basic program is based on an allotment per student known as the Basic Allotment. For fiscal year 2013-14, the Basic Allotment is \$4,950 and for fiscal year 2014-15, the Basic Allotment is \$5,040 for each student in average daily attendance. The Basic Allotment is then adjusted for all districts by several different weights to account for inherent differences between school districts. These weights consist of (i) a cost adjustment factor intended to address varying economic conditions that affect teacher hiring known as the “cost of education index,” (ii) district-size adjustments for small and mid-size districts and (iii) an adjustment for the sparsity of the district’s student population. The cost of education index and district-size adjustments applied to the Basic Allotment, create what is referred to as the “*Adjusted Allotment*.” The Adjusted Allotment is used to compute a “regular program allotment,” as well as various other allotments associated with educating students with other specified educational needs.

Tier Two supplements the basic funding of Tier One and provides two levels of enrichment with different guaranteed yields depending on the district’s local tax effort. The first six cents of tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates ranging from \$1.01 to \$1.06 per \$100 of taxable value) will, for most districts, generate a guaranteed yield of \$59.97 and \$61.86 per penny of tax effort per weighted student in average daily attendance (“*WADA*”) for the fiscal year 2013-14 and fiscal year 2014-15, respectively. The second level of Tier Two is generated by tax effort that exceeds the district’s compressed tax rate plus six cents (for most districts eligible for this level of funding, M&O tax rates ranging from \$1.07 to \$1.17 per \$100 of taxable value) and has a guaranteed yield per cent per WADA of \$31.95 for fiscal years 2013-14 and 2014-15. Property-wealthy school districts that have an M&O tax rate that exceeds the district’s compressed tax rate plus six cent are subject to recapture above this tax rate level at the equivalent wealth per student of \$319,500 (see “**Wealth Transfer Provisions**” below).

In addition to the operations funding components of the Foundation School Program discussed above, the Foundation School Program provides a facilities funding component consisting of the Instructional Facilities Allotment (IFA) program and the Existing Debt Allotment (EDA) program. These programs assist school districts in funding facilities by, generally, equalizing a district’s I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the “*IFA Guaranteed Yield*”) in State and local funds for each cent of tax effort to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The guaranteed yield per cent of local tax effort per student in ADA has been \$35 since this program first began. To receive an IFA award, a school district must apply to the Commissioner in accordance with rules adopted by the Commissioner before issuing the bonds to be paid with IFA state assistance. The total amount of debt service assistance over a biennium for which a district may be awarded is limited to the lesser of (1) the actual debt service payments made by the district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the 2014–15 State biennium, however, no funds are appropriated for new IFA awards, although all current obligations are funded through the biennium.

State financial assistance is provided for certain existing eligible debt issued by school districts through the EDA program. The EDA guaranteed yield (the “*EDA Yield*”) is the same as the IFA Guaranteed Yield (\$35 per cent of local tax effort per student in ADA), subject to adjustment as described below. For bonds that became eligible for EDA funding after August 31, 2001, and prior to August 31, 2005, EDA assistance was less than \$35 in revenue per student for each cent of debt service tax, as a result of certain administrative delegations granted to the Commissioner under State law. The portion of a district’s local debt service rate that qualifies for EDA assistance is limited to the first 29 cents of debt service tax (or a greater amount for any year provided by appropriation by the Legislature). In general, a district’s bonds are eligible for EDA assistance if (i) the district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium or (ii) the district levied taxes to pay the principal of and interest on the bonds for that fiscal year. Each biennium, access to EDA funding is determined by the debt service taxes collected in the final year of the preceding biennium. A district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the district receives IFA funding.

Prior to the 2012–13 biennium, a district could also qualify for a NIFA allotment, which provided assistance to districts for operational expenses associated with opening new instructional facilities. As previously mentioned, this program was not funded for either the 2012–13 or 2014–15 State fiscal biennia.

Distribution and Recovery State Funding

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

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

2006 Legislation

Since the enactment of the Reform Legislation in 2006, most school districts in the State have operated with a “target” funding level per student (“*Target Revenue*”) that is based upon the “hold harmless” principles embodied in the Reform Legislation. This system of Target Revenue was superimposed on the Foundation School Program and made existing funding formulas substantially less important for most school districts. As noted above, the Reform Legislation was intended to lower M&O tax rates in order to give school districts “meaningful discretion” in setting their M&O tax rates, while holding school districts harmless by providing them with the same level of overall funding they received prior to the enactment of the Reform Legislation. Under the Target Revenue system, each school district is generally entitled to receive the same amount of revenue per student as it did in either the 2005–2006 or 2006–07 fiscal year (under existing laws prior to the enactment of the Reform Legislation), as long as the district adopted an M&O tax rate that was at least equal to its compressed rate. The reduction in local M&O taxes resulting from the mandatory compression of M&O tax rates under the Reform Legislation, by itself, would have significantly reduced the amount of local revenue available to fund the Finance System. To make up for this shortfall, the Reform Legislation authorized Additional State Aid for Tax Reduction (“*ASATR*”) for each school district in an amount equal to the difference between the amount that each district would receive under the Foundation School Program and the amount of each district's Target Revenue funding level.

2009 Legislation

During the 2009 Legislative Session, legislation was enacted that increased the Basic Allotment for the 2009–10 fiscal year from \$3,218 to \$4,765. In addition, each district's Target Revenue was increased by \$120 per WADA. Target Revenue amounts were also adjusted to provide for mandatory employee pay raises and to account for changes in transportation and NIFA costs since the original Target Revenues were set. Overall, the Legislature allocated approximately \$1.9 billion in new State aid for school districts.

2011 Legislation

During the 2011 Legislative Session, the Legislature enacted a budget that cut \$4 billion from the Foundation School Program for the 2012–13 State fiscal biennium, as compared to the funding level school districts were entitled to under the current formulas, including Target Revenue, and also cut approximately \$1.3 billion in various grants (*i.e.*, pre-kindergarten grant program, student success initiative, etc.) that were previously available. Such cuts were made in light of a projected State deficit of up to \$27 billion for the 2012–13 State fiscal biennium. In order to reduce formula funding, a Regular Program Adjustment Factor (“*RPAF*”) was applied to the formula that determines a district's regular program allotment. RPAF is multiplied by a school district's count of students in ADA (not counting the time a student spends in special education and career & technology education) and its Adjusted Allotment, which is the \$4,765 Basic Allotment adjusted for the cost of education index and the small- and mid-sized district adjustments. The RPAF is set at 0.9239 for the 2011–12 fiscal year and 0.98 for the 2012–13 fiscal year. In order to balance these reductions across the two years for formula funded districts, such districts had the option to request that an RPAF value of 0.95195 be applied for both the 2011–12 and 2012–13 fiscal years. In order to be granted the

request by the Commissioner, the district must demonstrate that using the 0.9239 RPAF would have caused the district a financial hardship in 2011–12. By applying the RPAF only to the Adjusted Allotment, other Tier One allotments, such as special education, career and technology, gifted and talented, bilingual and compensatory education, were not affected. The State Board of Education however, was directed to decrease funding for these programs in proportion to the reductions to the Basic Allotment. The Legislature also established an RPAF value of 0.98 for the 2013–15 State fiscal biennium, subject to increases by subsequent legislative appropriation not to exceed an RPAF value of 1.0. The RPAF factor and its related provisions are scheduled to expire on September 1, 2015.

The RPAF was the primary mechanism for formula reductions in the 2011–12 fiscal year. However, the 2011 Legislation also created the hold harmless reduction percentage to school district entitlement through the application of ASATR. Because it only applies to ASATR, its impact is generally felt only by school districts for which the formula funding system does not provide the district with its Target Revenue. In the 2012–13 fiscal year, the RPAF of 0.98 is combined with a percentage reduction in each school district's hold harmless Target Revenue per WADA to 92.35% of its formula amount. For the 2013–14 and 2014–15 fiscal years, the percentage reduction of each district's hold harmless formula amount is 92.63%. With regard to this adjustment, the ASATR relief that funds the Target Revenue system is phased out between the 2013–14 and 2017–18 fiscal years.

2013 Legislation

No significant modifications were made to the underlying school finance structure during the 2013 Legislative Session. However, several of the revenue reduction formulas, notably the RPAF, were eliminated. As stated above, the 2011 Legislation created the RPAF as the primary mechanism for formula reductions in the 2012–13 State biennium. For the 2013–14 and 2014–15 fiscal years, the State Legislature set the RPAF to 1.00 which restores the regular program allotment funding at 100% of which each district is entitled. The RPAF expires at the end of fiscal year 2014–15. The 2013 Legislature also continued the reduction in each district's ASATR payment but changed the reduction from 92.35% to 92.63% of what the district would have received in hold harmless ASATR funding for the 2013–14 and 2014–15 school years. The 2013 Legislation also increased the Basic Allotment for the 2013–14 fiscal year to \$4,950 and for the 2014–15 fiscal year to \$5,040.

Wealth Transfer Provisions

Some districts have sufficient property wealth per student in WADA (*“wealth per student”*) to generate their statutory level of funding through collections of local property taxes alone. Districts whose wealth per student generates local property tax collections in excess of their statutory level of funding are referred to as “Chapter 41” districts because they are subject to the wealth equalization provisions contained in Chapter 41 of the Texas Education Code. Chapter 41 districts may receive State funds for certain competitive grants and a few programs that remain outside the Foundation School Program, as well as receiving ASATR until their overall funding meets or exceeds their Target Revenue level of funding. Otherwise, Chapter 41 districts are not eligible to receive State funding. Furthermore, Chapter 41 districts must exercise certain options in order to reduce their wealth level to equalized wealth levels of funding, as determined by formulas set forth in the Reform Legislation. For most Chapter 41 districts, this equalization process entails paying the portion of the district's local taxes collected in excess of the equalized wealth levels of funding to the State (for redistribution to other school districts) or directly to other school districts with a wealth per student that does not generate local funds sufficient to meet the statutory level of funding; a process known as “recapture.”

The equalized wealth levels that subject Chapter 41 districts to wealth equalization measures for fiscal year 2013–14 are set at (i) \$495,000 per student in WADA with respect to that portion of a district's M&O tax effort that does not exceed its compressed tax rate (for most districts, the first \$1.00 per \$100 of taxable value) and (ii) \$319,500 per WADA with respect to that portion of a district's M&O tax effort that is beyond its compressed rate plus \$.06 (for most districts, M&O taxes levied above \$1.06 per \$100 in taxable value). For the 2014–15 fiscal year, the first equalized wealth level increases from \$495,000 to \$504,000, however the second equalized wealth level remains at \$319,500. M&O taxes levied above \$1.00 but below \$1.07 per \$100 of taxable value are not subject to the wealth equalization provisions of Chapter 41. Chapter 41 districts with a wealth per student above the lower equalized wealth level but below the higher equalized wealth level must equalize their wealth only with respect to the portion of their M&O tax rate, if any, in excess of \$1.06 per \$100 of taxable value. Chapter 41 districts may be entitled to receive ASATR from the State in excess of their recapture liability, and such districts may use their ASATR funds to offset their recapture liability.

Under Chapter 41, a district has five options to reduce its wealth per student so that it does not exceed the equalized wealth levels: (i) a district may consolidate by agreement with one or more districts to form a consolidated district; all property and debt of the consolidating districts vest in the consolidated district; (ii) a district may detach property from its territory for annexation by a property-poor district; (iii) a district may purchase attendance credits from the State; (iv) a district may contract to educate nonresident students from a property-poor district by sending money directly to one or more property-poor districts; or (v) a district may consolidate by agreement with one or more districts to form a consolidated taxing district solely to levy and distribute either M&O taxes or both M&O taxes and I&S taxes. A Chapter 41 district may also exercise any combination of these remedies. Options (iii), (iv) and (v) require prior approval by the transferring district's voters; however, Chapter 41 districts may apply ASATR funds to offset recapture and to achieve the statutory wealth equalization requirements, as described above, without approval from voters.

A district may not adopt a tax rate until its effective wealth per student is at or below the equalized wealth level. If a district fails to exercise a permitted option, the Commissioner must reduce the district's property wealth per student to the equalized wealth level by detaching certain types of property from the district and annexing the property to a property-poor district or, if necessary, consolidate the district with a property-poor district. Provisions governing detachment and annexation of taxable property by the Commissioner do not provide for assumption of any of the transferring district's existing debt. The Commissioner has not been required to detach property in the absence of a district failing to select another wealth-equalization option.

STATE OPEN-ENROLLMENT CHARTER SCHOOL FUNDING

State funding for open-enrollment charter schools is an adaptation of the Finance System described above under “**STATE FUNDING FOR TRADITIONAL SCHOOL DISTRICTS.**”

Tier One Funding for Charter Schools

With respect to Tier One funding, open-enrollment charter schools are generally entitled to receive the greater of:

- (i) the Basic Allotment (which includes adjustments for students with differing education needs) that the school would have received during the 2009–10 school year under the school finance formulas of the Foundation School Program in existence on January 1, 2009, plus an additional \$120 per weighted average daily attendance, each multiplied by 92.63% for the 2014–2015 fiscal biennium (for the 2016 fiscal year and each subsequent fiscal year, the Legislature by appropriation must establish the percentage reduction to be applied); or
- (ii) the Statewide average funding per student in weighted average daily attendance.

Because the RPAF described above under “**STATE FUNDING FOR TRADITIONAL SCHOOL DISTRICTS — 2011 Legislation**” was applied to the Tier One Basic Allotment for traditional school districts and open-enrollment charter schools alike, charter schools were equally subject to State budget cuts. A memorandum distributed by the Legislative Budget Board on May 28, 2011 estimated that the Borrower faced reductions in State funding of between 2.1% and 5.2% in the 2012 fiscal year (depending on the charter school) and 8.6% and 8.8% in the 2013 fiscal year (depending on the charter school). By setting the RPAF at 1.00% for the 2014–15 fiscal biennia, the Legislature essentially restored the funding that was previously cut during the 2011 Legislative Session.

Tier Two Funding and ASATR for Charter Schools

With respect to Tier Two funding, open-enrollment charter schools are entitled to receive a funding amount based on the Statewide “average tax effort” of traditional school districts. Similarly, open-enrollment charter schools are entitled to receive ASATR in an amount based on the Statewide average ASATR received by traditional school districts. Open-enrollment charter schools are also 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 authorizing statute specifically provides that open-enrollment charter schools are not entitled to such funding.

State Facilities Funding for Charter Schools

Open-enrollment charter schools are not entitled to receive any form of State funding to assist with the construction of new facilities.

Timing of State Funding

The Borrower receives State funding payments monthly in approximately even amounts (*i.e.*, either 8.3% or 8.4% of its overall annual entitlement, monthly). The amount of any installment can be modified to provide the proper amount to which the Borrower may be entitled and to correct errors in the allocation or distribution of funds.

CURRENT LITIGATION RELATED TO THE TEXAS PUBLIC SCHOOL FINANCE SYSTEM

Several lawsuits have been filed in District Courts of Travis County, Texas, which allege that the Finance System (as discussed above under “**STATE FUNDING FOR TRADITIONAL SCHOOL DISTRICTS**” and “**STATE OPEN-ENROLLMENT CHARTER SCHOOL FUNDING**”), as modified by legislation enacted since the decision in *Neely v. West Orange-Cove Consolidated Independent School District*, 176 S.W.3d 746 (Tex. 2005) (“*West Orange Cove I*”), and in particular, as modified by Senate Bill 1 in 2011 has resulted in a funding system that violates principles established in *West Orange-Cove Consolidated Independent School District v. Alanis*, 107 S.W.3d 558 (Tex. 2003) (“*West Orange Cove I*”) and *West Orange Cove II*, and prior decisions of the Supreme Court relating to the constitutionality of the Finance System, and several provisions of the Texas Constitution.

In general, each suit presented the legal perspectives and arguments of the different coalitions of school districts represented, but as a general matter, each group challenged the adequacy of funding provided by the Legislature for the Finance System, and the plaintiffs in each suit sought to have an injunction issued to the State and its officials to prevent the distribution of any funds under the current Finance System until a constitutional system is created and sought a declaration that changes in funding for the Finance System since the enactment of HB 1 have effectively converted the local M&O tax into a State property tax in violation of the Texas Constitution. The defendants in the suits include State officials and the State Board of Education (the “*State Defendants*”). The first suit was filed on October 10, 2011, styled “*The Texas Taxpayer & Student Fairness Coalition, et al. vs. Robert Scott, Commissioner of Education et al.*” A second suit was filed on December 9, 2011, styled “*Calhoun County Independent School District, et al. v Robert Scott, Commissioner of Education, et al.*” A third suit was filed on December 13, 2011, styled “*Edgewood Independent School District, et al. v. Robert Scott, Commissioner of Education, et al.*” A fourth suit was filed on December 23, 2011, styled “*Fort Bend Independent School District, et al. v. Robert Scott, Commissioner of Education, et al.*” (the “*Fort Bend Suit*”). The State Defendants filed an answer with respect to the each of the first four suits filed, denying the plaintiff’s allegations, and all of such suits were assigned to the 250th District Court of Travis County. On February 24, 2012 a plea of intervention to the Fort Bend Suit was filed by seven parents and a group named “Texans for Real Efficiency and Equity in Education.” The intervenors asserted that the Finance System is qualitatively inefficient, and that the Finance System is unconstitutional, in part based on arguments made by other plaintiffs. A fifth suit was filed on June 26, 2012 by individuals and the Texas Charter School Association, styled “*Flores, et al. v. Robert Scott, Commissioner of Education, et al.*” (the “*Charter School Suit*”). The petition for the Charter School Suit agreed with the arguments of the school districts in the first four suits filed that the Finance System is unconstitutional and also sought to have an injunction issued against the State Defendants in the same manner as the first four suits. The Charter School Suit added additional grounds that relate to the circumstances of charter schools as a basis for holding the Finance System unconstitutional, including that charter schools receive no funding for facilities and that the statutory cap on charter schools is unconstitutionally arbitrary. The State Defendants also filed a general denial in the Charter School Suit.

All five suits were consolidated by the 250th District Court of Travis County (the “*District Court*”), and the trial commenced on October 22, 2012. On February 4, 2013, the District Court rendered a preliminary ruling generally as follows: (i) the Finance System is inefficient “in that it fails to provide substantially equal access to revenues necessary to provide a general diffusion of knowledge;” (ii) the Finance System is not “adequately funded” and arbitrarily funds districts at different levels below the amount required to provide for a general diffusion of knowledge; (iii) the Finance System has created a Statewide property tax in violation of the Texas Constitution because districts lack “meaningful discretion” in setting their tax rates, as exemplified by the ruling that low property wealth districts are forced to tax at or near the maximum M&O tax rate of \$1.17 to meet State education standards and other districts

cannot lower their M&O tax rate without compromising their ability to meet State education standards nor can they raise their M&O tax rate because they are either legally or practically unable to do so.

In his preliminary ruling, the presiding judge of the District Court (the “*Presiding Judge*”) did not grant nor address the injunctive relief sought by any of the plaintiffs, and the Court declined the requests of Texans for Real Efficiency and Equity in Education for a declaration that the Finance System is unconstitutional on the basis of their arguments that included that greater competition, including more charter schools and less regulation, could result in a more efficient public school finance system. In response to arguments on behalf of the State’s charter schools, the District Court also held in its preliminary ruling that it is within the discretion of the Legislature, and not unconstitutional, to fund charter schools differently from other public schools.

In announcing his preliminary February 4, 2013 ruling, the Presiding Judge indicated that he would issue an omnibus order in the case within four to six weeks. However, no such order has been issued by the District Court. On June 19, 2013, a hearing was held by the District Court at which the Presiding Judge directed the parties to the suits to provide supplemental evidence to the District Court pertaining to new funding provided by the Legislature for the Finance System during the 83rd Regular Session of the Texas Legislature, which concluded on May 27, 2013. At the June 19, 2013 hearing, the Presiding Judge informed all parties to the suits that he would set a new trial date to consider such evidence. This trial began on January 21, 2014. Closing arguments were delivered on February 7, 2014. Published reports indicated that a final ruling would be issued during the summer of 2014. However, the Texas Attorney General filed a motion on June 1, 2014 requesting the Presiding Judge recuse himself based on perceived bias expressed in emails with attorneys. A hearing on the motion was held by an independent judge on June 20, 2014. On June 23, 2014, the reviewing judge ruled that the Presiding Judge could stay on case; however, that ruling could be appealed by the Texas Attorney General. Both sides have stated that they expect to appeal the case to the Texas Supreme Court if they lose.

NEITHER THE BORROWER NOR ANY OTHER PARTY TO THE BOND TRANSACTION CAN MAKE ANY REPRESENTATIONS OR PREDICTIONS CONCERNING THE EFFECT THIS LITIGATION MAY HAVE ON THE BORROWER’S FINANCIAL CONDITION, REVENUES OR OPERATIONS.

LEGAL MATTERS

General

All legal matters incident to the authorization, issuance, sale and delivery of the Bonds by the Issuer are subject to the approval of the Attorney General of the State and the legal opinion of Andrews Kurth LLP, Houston, Texas, Bond Counsel, in substantially the form of the opinion set forth in “**APPENDIX D — FORM OF BOND COUNSEL OPINION.**” The opinion of Bond Counsel will express no opinion and make no comment with respect to the sufficiency of the security for, or the marketability of, the Bonds.

Certain legal matters will be passed upon by Bracewell & Giuliani LLP, as counsel to the Issuer; by Andrews Kurth LLP, Houston, Texas, as counsel to the Borrower; by Haynes and Boone, LLP, as special tax counsel to the Borrower and by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, as counsel to the Underwriters.

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

Pending and Threatened Litigation, Audits and Investigations

The Borrower

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

The Issuer

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

TAX MATTERS

Tax Matters for the Bonds

Tax Exemption

In the opinion of Andrews Kurth LLP, Houston, Texas, Bond Counsel, interest on the Bonds is (a) excludable from gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “*Code*”), and (b) not included in determining the alternative minimum taxable income of individuals or, except as described below, corporations.

Interest on the Bonds owned by a corporation, other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC) or a financial asset securitization investment trust (FASIT), will be included in such corporation’s adjusted current earnings for purposes of calculating such corporation’s alternative minimum taxable income. A corporation’s alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed.

The foregoing opinions of Bond Counsel are based on the Code and the regulations, rulings and court decisions thereunder in existence on the date of issue of the Bonds. Such authorities are subject to change and any such change could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof or change the treatment of such interest for purposes of computing alternative minimum taxable income.

In rendering its opinion, Bond Counsel has assumed that the Issuer and the Borrower will comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer and the Borrower have covenanted in the Bond Indenture and the Loan Agreement to comply with each such requirement. In providing the opinions set forth in the preceding paragraph, Bond Counsel has relied upon representations of the Issuer, the Borrower and the Underwriters with respect to matters solely within the knowledge of the Issuer, the Borrower and the Underwriters, respectively, that Bond Counsel has not independently verified, and has assumed continuing compliance with the procedures, safeguards and covenants in the Bond Indenture and the Loan Agreement pertaining to those sections of the Code that affect the status of the Borrower as an organization described in Section 501(c)(3) of the Code, the requirements of Section 145 of the Code and the Treasury Regulations promulgated thereunder relating to projects for 501(c)(3) organizations and the exclusion from gross income or interest on the Bonds for federal income tax purposes. Bond Counsel has also relied, with the permission of the Issuer and the Borrower and without

independent verification, on representations of the Borrower pertaining to the applicable requirements of Sections 501(c)(3) and 145 of the Code and the Treasury Regulations promulgated thereunder. Included among such representations are those representations of the Borrower set forth in the Borrower's Tax Certificate and those representations of the Borrower and the Issuer set forth in the Tax Exemption Certificate. The matters that are the subject of such representations are (1) matters that Bond Counsel has assumed to be solely within the knowledge of the respective persons making such representations and (2) matters that Bond Counsel has not independently verified. Bond Counsel has assumed that subsequent to the date hereof there will be continuous compliance with the procedures, safeguards and covenants in the Bond Indenture and the Loan Agreement that pertain to the requirements of Sections 103, 141 through 150 and 501(c)(3) of the Code. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds regardless of the date on which the event causing such taxability occurs. The Code and existing regulations, rulings and court decisions thereunder upon which the foregoing opinions of Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes.

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

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Issuer and the Borrower described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the Issuer as the "taxpayer," and the owners of the Bonds may have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Issuer may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

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

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. Such prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

Proposed Tax Legislation

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or state income taxation, or otherwise prevent the beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal income tax purposes of interest on all state and local obligations, including the Bonds. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

Tax Accounting Treatment of Original Issue Discount Bonds

Some of the Bonds may be offered at an initial offering price which is less than the stated redemption price payable at maturity of such Bonds. If a substantial amount of any maturity of the Bonds is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesalers or underwriters) at such initial offering price, each of the Bonds of that maturity (the “*Discount Bond*”) will be considered to have “original issue discount” for federal income tax purposes equal to the difference between (a) the stated redemption price payable at the maturity of such Discount Bond and (b) the initial offering price to the public of such Discount Bond. Under existing law, such original issue discount will be treated for federal income tax purposes as additional interest on a Discount Bond and such initial owner will be entitled to exclude from gross income for federal income tax purposes that portion of such original issue discount deemed to be earned (as discussed below) during the period while such Discount Bond continues to be owned by such initial owner. Except as otherwise provided herein, the discussion regarding interest on the Discount Bond under the caption “*Tax Exemption*” generally applies to original issue discount deemed to be earned on a Discount Bond while held by an owner who has purchased such Discount Bond at the initial offering price in the initial public offering of the Discount Bonds and that discussion should be considered in connection with this portion of the Official Statement.

In the event of a redemption, sale, or other taxable disposition of a Discount Bond prior to its stated maturity, however, any amount realized by such initial owner in excess of the basis of such Discount Bond in the hands of such owner (increased to reflect the portion of the original issue discount deemed to have been earned while such Discount Bond continues to be held by such initial owner) will be includable in gross income for federal income tax purposes.

Because original issue discount on a Discount Bond will be treated for federal income tax purposes as interest on a Discount Bond, such original issue discount must be taken into account for certain federal income tax purposes as it is deemed to be earned even though there will not be a corresponding cash payment. Corporations that purchase a Discount Bond must take into account original issue discount as it is deemed to be earned for purposes of determining alternative minimum tax. Other owners of a Discount Bond may be required to take into account such original issue discount as it is deemed to be earned for purposes of determining certain collateral federal tax consequences of owning a Discount Bond. See “*Tax Exemption*” for a discussion regarding the alternative minimum taxable income consequences for corporations and for a reference to collateral federal tax consequences for certain other owners.

The characterization of original issue discount as interest is for federal income tax purposes only and does not otherwise affect the rights or obligations of the owner of a Discount Bond or of the District. The portion of the principal of a Discount Bond representing original issue discount is payable upon the maturity or earlier redemption of such Discount Bond to the registered owner of the Discount Bond at that time.

Under special tax accounting rules prescribed by existing law, a portion of the original issue discount on each Discount Bond is deemed to be earned each day. The portion of the original issue discount deemed to be earned each day is determined under an actuarial method of accrual, using the yield to maturity as the constant interest rate and semi-annual compounding.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Discount Bonds by an owner that did not purchase such Discount Bonds in the initial public offering and at the initial offering price may be determined according to rules which differ from those described above. All prospective purchasers of Discount Bonds should consult their tax advisors with respect to the determination for federal, state and local income tax purposes of interest and original issue discount accrued upon redemption, sale or other disposition of such Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Discount Bonds.

Tax Accounting Treatment of Original Issue Premium Bonds

Some of the Bonds may be offered at an initial offering price which exceeds the stated redemption price payable at the maturity of such Bonds. If a substantial amount of any maturity of the Bonds is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesales or underwriters) at such initial offering price, each of the Bonds of such maturity (the “*Premium Bond*”) will be considered for federal income tax purposes to have “bond premium” equal to such excess. The basis for federal income tax purposes of a Premium Bond in the hands of an initial purchaser who purchases such Premium Bond in

the initial offering must be reduced each year and upon the sale or other taxable disposition of the Premium Bond by the amount of amortizable bond premium. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond by the initial purchaser. Generally, no corresponding deduction is allowed for federal income tax purposes, for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond which is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined under special tax accounting rules which use a constant yield throughout the term of the Premium Bond based on the initial purchaser's original basis in such Premium Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition by an owner of Premium Bonds that are not purchased in the initial offering or which are purchased at an amount representing a price other than the initial offering price for the Premium Bonds of the same maturity may be determined according to rules which differ from those described above. Moreover, all prospective purchasers of Premium Bonds should consult their tax advisors with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of Premium Bonds.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

This disclosure statement provides information relating to the program (the "*Guarantee Program*") administered by the Texas Education Agency (the "*TEA*") with respect to the Texas Permanent School Fund guarantee of tax-supported bonds issued by Texas school districts and the guarantee of revenue bonds issued by or for the benefit of Texas charter districts. The Guarantee Program was authorized by an amendment to the Texas Constitution in 1983 and by Subchapter C of Chapter 45 of the Texas Education Code, as amended (the "*Act*"). While the Guarantee Program applies to bonds issued by or for both school districts and charter districts, as described below, the Act and the program rules for the two types of districts have some distinctions. For convenience of description and reference, those aspects of the Guarantee Program that are applicable to school district bonds and to charter district bonds are referred to herein as the "*School District Bond Guarantee Program*" and the "*Charter District Bond Guarantee Program*," respectively.

Some of the information contained in this Section may include projections or other forward-looking statements regarding future events or the future financial performance of the Texas Permanent School Fund (the "*PSF*" or the "*Fund*"). Actual results may differ materially from those contained in any such projections or forward-looking statements.

History and Purpose

The PSF was created with a \$2,000,000 appropriation by the Texas Legislature (the "*Legislature*") in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "*Total Return Constitutional Amendment*"), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board ("*SLB*") maintains the land endowment of the Fund on behalf of the Fund and is authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a three member board, the membership of which consists of the Commissioner of the Texas General Land Office (the "*Land Commissioner*") and two citizen members, one appointed by the Governor and one by the Texas Attorney General (the "*Attorney General*").

The Texas Constitution describes the PSF as “permanent” and “perpetual.” Prior to the approval by Total Return Constitutional Amendment, only the income produced by the PSF was to be used to complement taxes in financing public education.

On November 8, 1983, the voters of the State approved a constitutional amendment that provides for the guarantee by the PSF of bonds issued by school districts. On approval by the State Commissioner of Education (the “*Commissioner*”), bonds properly issued by a school district are fully guaranteed by the corpus of the PSF. See “**The School District Bond Guarantee Program.**”

In 2011, Senate Bill 1 (“*SB 1*”) was enacted by the Legislature. Among other provisions, SB 1 established the Charter District Bond Guarantee Program as a new component of the Guarantee Program, and authorized the use of the PSF to guarantee revenue bonds issued by or for the benefit of certain open-enrollment charter schools that are designated as “charter districts” by the Commissioner. On approval by the Commissioner, bonds properly issued by a charter district are fully guaranteed by the corpus of the PSF. As described below, the implementation of the Charter District Bond Guarantee Program was deferred pending receipt of guidance from the Internal Revenue Service (the “*IRS*”) which was received in September 2013, and the establishment of regulations to govern the program, which regulations were published for public comment on December 20, 2013, approved on January 30, 2014 and became effective on March 3, 2014. See “**The Charter District Bond Guarantee Program.**”

State law also permits charter schools to be chartered and operated by school districts and other political subdivisions, but bond financing of facilities for school district-operated charter schools is subject to the School District Bond Guarantee Program, not the Charter District Bond Guarantee Program.

While the School District Bond Guarantee Program and the Charter District Bond Guarantee Program relate to different types of bonds issued for different types of Texas public schools, and have different program regulations and requirements, a bond guaranteed under either part of the Guarantee Program has the same effect with respect to the guarantee obligation of the Fund thereto, and all guaranteed bonds are aggregated for purposes of determining the capacity of the Guarantee Program (see “**Capacity Limits for the Guarantee Program**”). The Charter District Bond Guarantee Program as enacted by State law has not been reviewed by any court, nor has the Texas Attorney General been requested to issue an opinion, with respect to its constitutional validity.

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the “*ASF*”), where they are distributed to local school districts and open-enrollment charter schools based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the PSF. In fiscal year 2013, distributions to the ASF amounted to \$281.08 per student and the total amount distributed to the ASF was \$1.321 billion, including \$300 million distributed to the ASF by the SLB.

Audited financial information for the PSF is provided annually through the PSF Annual Report (the “*Annual Report*”), which is filed with the Municipal Securities Rulemaking Board (“*MSRB*”). The Annual Report includes the Message of the Executive Administrator of the Fund (the “*Message*”) and the Management’s Discussion and Analysis (“*MD&A*”). The Annual Report for the year ended August 31, 2013, as filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 (“*Rule 15c2-12*”) of the federal Securities and Exchange Commission (the “*SEC*”), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2013 is derived from the audited financial statements of the PSF, which are included in the Annual Report when it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2013 and for a description of the financial results of the PSF for the year ended August 31, 2013, the most recent year for which audited financial information regarding the Fund is available. The 2013 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2013 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the “*Investment Policy*”), monthly updates with respect to the capacity of the Guarantee Program (collectively, the “*Web Site Materials*”) on the TEA web site at

http://www.tea.state.tx.us/index4.aspx?id=3413&menu_id=2147483695 and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund's holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar.shtml. A list of the Fund's equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, when filed, is incorporated herein and made a part hereof for all purposes.

The Total Return Constitutional Amendment

The Total Return Constitutional Amendment approved a fundamental change in the way that distributions are made to the ASF from the PSF. The Total Return Constitutional Amendment requires that PSF distributions to the ASF be determined using a total-return-based formula instead of the current-income-based formula, which was used from 1964 to the end of the 2003 fiscal year. The Total Return Constitutional Amendment provides that the total amount distributed from the Fund to the ASF: (1) in each year of a State fiscal biennium must be an amount that is not more than 6% of the average of the market value of the Fund, excluding real property (the "*Distribution Rate*"), on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium (the "*Distribution Measurement Period*"), in accordance with the rate adopted by: (a) a vote of two-thirds of the total membership of the State Board of Education ("*SBOE*"), taken before the Regular Session of the Legislature convenes or (b) the Legislature by general law or appropriation, if the SBOE does not adopt a rate as provided by clause (a); and (2) over the ten-year period consisting of the current State fiscal year and the nine preceding state fiscal years may not exceed the total return on all investment assets of the Fund over the same ten-year period (the "*Ten Year Total Return*"). In April 2009, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0707 (2009) ("*GA-0707*"), at the request of the Chairman of the SBOE with regard to certain matters pertaining to the Distribution Rate and the determination of the Ten Year Total Return. In GA-0707 the Attorney General opined, among other advice, that (i) the Ten Year Total Return should be calculated on an annual basis, (ii) a contingency plan adopted by the SBOE, to permit monthly transfers equal in aggregate to the annual Distribution Rate to be halted and subsequently made up if such transfers temporarily exceed the Ten Year Total Return, is not prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) that the amount distributed from the Fund in a fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

In determining the Distribution Rate, the SBOE has adopted the goal of maximizing the amount distributed from the Fund in a manner designed to preserve "intergenerational equity." Intergenerational equity is the maintenance of endowment purchasing power to ensure that endowment spending keeps pace with inflation, with the ultimate goal being to ensure that current and future generations are given equal levels of purchasing power. In making this determination, the SBOE takes into account various considerations, and relies particularly upon its external investment consultant, which undertakes a probability analysis for long term projection periods that includes certain assumptions. Among the assumptions used in the analysis are a projected rate of growth of the average daily scholastic attendance State-wide, the projected contributions and expenses of the Fund, projected returns in the capital markets and a projected inflation rate.

The SBOE established the Distribution Rate from the Fund to the ASF for fiscal years 2008 and 2009 at 3.5% and for fiscal years 2010 and 2011 at 2.5% of the average of the PSF market value during the respective Distribution Measurement Periods, which ended in November 2006 and November 2008, respectively. The decision of the SBOE regarding the Distribution Rate for 2008 through 2011 took into account a commitment by the SLB to transfer at least \$100 million per year in fiscal years 2008 through 2011. The distribution rate for fiscal years 2010 and 2011 produced total transfers of \$1.1535 billion to the ASF from the PSF during those years. The SBOE has set the Distribution Rate

for the 2012-13 biennium at 4.2%, which rate was determined after the SLB authorized the release of a total of \$500 million to the PSF in quarterly installments during the 2012-13 biennium. In November 2012, the SBOE set the Distribution Rate for the 2014-15 biennium at 3.3%, which is expected to produce an effective rate of 3.5% taking into account the broadening of the calculation base for the Fund that was effected by a 2011 State constitutional amendment, which amendment did not increase Fund revenues. See “**2011 Constitutional Amendment**” below for a description of amendments made to the Texas Constitution on November 8, 2011 that permit the SLB to make transfers directly to the ASF up to the amount of \$300 million in each fiscal year.

Since the enactment of a prior amendment to the Texas Constitution in 1964, the investment of the Fund has been managed with the dual objectives of producing current income for transfer to the ASF and growing the Fund for the benefit of future generations. As a result of this prior constitutional framework, prior to the adoption of the 2004 Asset Allocation Policy (as defined below) the investment of the Fund historically included a significant amount of fixed income investments and dividend-yielding equity investments, to produce income for transfer to the ASF.

With respect to the management of the Fund’s financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted by the SBOE in February 2004 (the “*2004 Asset Allocation Policy*”), in July 2006 (as subsequently reaffirmed in July 2008 such asset allocation is referred to herein as the “*2008 Asset Allocation Policy*”) and in July 2010 (the “*2010 Asset Allocation Policy*”), which have significantly altered the asset allocations of the Fund. The SBOE further modified the asset allocation policy for the Fund in July 2012 (the “*2012 Asset Allocation*”). The Fund’s investment policy provides for minimum and maximum ranges among the components of each of the three general asset classifications: equities, fixed income and alternative asset investments. The 2004 Asset Allocation Policy decreased the fixed income target from 45% to 25% of Fund investment assets and increased the allocation for equities from 55% to 75% of investment assets. In July 2006, the SBOE modified its asset allocation to reduce the equity allocation, including both domestic and foreign equity portfolios, to a target of 53% of Fund assets, further reduced the fixed income allocation target to 19% and added an alternative asset allocation, which included real estate, real return, absolute return and private equity components, totaling 28% of the Fund’s asset target. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. In July 2010, the SBOE modified the 2008 Asset Allocation Policy by decreasing the equity allocation to 50%, and the fixed income allocation to 15%, while increasing the alternative asset allocation (which may include equity and fixed income investments as part of a variety of alternative investment strategies) to 35%. In July 2012, the SBOE modified the 2010 Asset Allocation Policy by decreasing the equity allocation to 46%, increasing the fixed income allocation to 17%, and increasing the alternative asset allocation (which may include equity and fixed income investments as part of a variety of alternative investment strategies) to 37%. The 2012 Asset Allocation changes decreased the target for large cap equity investments from 21% to 18%, replaced a 4% allocation for international small cap equities with a 3% allocation for emerging international equities, reduced core fixed income bond investments from 15% to 12% and added a new 5% allocation for emerging market debt in the fixed income portfolio. In July 2012 and April 2013, the SBOE also realigned the management of certain of the investment portfolios within the absolute return allocation of the alternative investments and its private equity asset class. These new alignments in investment portfolios have created strategic relationships between the external manager and investment staff of the PSF, which has reduced administrative costs with respect to those portfolios. In response to a legal opinion request made by the Chair of the SBOE in October 2012, the Attorney General has advised the SBOE in Op. Tex. Att’y Gen. No. GA-0998 (2013) (“*GA-0998*”), that the PSF is not subject to requirements of certain State competitive bidding laws with respect to the selection of investments. In GA-0998, the Attorney General also advised that the SBOE generally must use competitive bidding for the selection of investment managers and other third party providers of investment services, such as record keeping and insurance, but excluding certain professional services, such as accounting services, as State law prohibits the use of competitive bidding for specified professional services. GA-0998 provides guidance to the SBOE in connection with the direct management of alternative investments through investment vehicles to be created by the SBOE, in lieu of contracting with external managers for such services, as has been the recent practice of the PSF. The PSF Staff and the Fund’s investment advisor are tasked with advising the SBOE with respect to the implementation of the 2010 Asset Allocation Policy, including the timing and manner of the selection of any external managers and other consultants. For a variety of reasons, each change in asset allocation for the Fund, including the 2012 Asset Allocation Policy, has been, and is being, implemented in phases. At August 31, 2013, the Fund’s financial assets portfolio was invested as follows: 53.21% in public market equity investments; 18.16% in fixed income investments; 10.33% in

absolute return assets; 2.67% in private equity assets; 3.16% in real estate assets; 6.46% in risk parity assets; 5.72% in real return assets; and 0.29% in cash.

In accordance with the Texas Constitution, the SBOE views the PSF as a perpetual institution, and the Fund is managed as an endowment fund with a long-term investment horizon. Under the total-return investment objective, the Investment Policy provides that the PSF shall be managed consistently with respect to the following: generating income for the benefit of the public free schools of Texas, the real growth of the corpus of the PSF, protecting capital, and balancing the needs of present and future generations of Texas school children. As described above, the Total Return Constitutional Amendment restricts the annual pay out from the Fund to the total-return on all investment assets of the Fund over a rolling ten-year period. State law provides that each transfer of funds from the PSF to the ASF is made monthly, with each transfer to be in the amount of one-twelfth of the annual distribution. The heavier weighting of equity securities relative to fixed income investments has resulted in greater volatility of the value of the Fund. Given the greater weighting in the overall portfolio of passively managed investments, it is expected that the Fund will reflect the general performance returns of the markets in which the Fund is invested.

The asset allocation of the Fund's financial assets portfolio is subject to change by the SBOE from time to time based upon a number of factors, including recommendations to the SBOE made by internal investment staff and external consultants, changes made by the SBOE without regard to such recommendations and directives of the Legislature. Fund performance may also be affected by factors other than asset allocation, including, without limitation, the general performance of the securities markets in the United States and abroad; political and investment considerations including those relating to socially responsible investing; application of the prudent person investment standard, which may eliminate certain investment opportunities for the Fund; management fees paid to external managers and embedded management fees for some fund investments; and limitations on the number and compensation of internal and external investment staff, which is subject to Legislative oversight. The Guarantee Program could also be impacted by changes in State or federal law or the implementation of new accounting standards.

Management and Administration of the Fund

The Texas Constitution and applicable statutes delegate to the SBOE the authority and responsibility for investment of the PSF's financial assets. In investing the Fund, the SBOE is charged with exercising the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital. The SBOE has adopted a "Statement of Investment Objectives, Policies, and Guidelines of the Texas Permanent School Fund," which is codified in the Texas Administrative Code beginning at 19 TAC section 33.1.

The Total Return Constitutional Amendment provides that expenses of managing the PSF are to be paid "by appropriation" from the PSF. In January 2005, at the request of the SBOE, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0293 (2005) ("GA-0293"), that the Total Return Constitutional Amendment requires that SBOE expenditures for managing or administering PSF investments, including payments to external investment managers, be paid from appropriations made by the Legislature, but that the Total Return Constitutional Amendment does not require the SBOE to pay from such appropriated PSF funds the indirect management costs deducted from the assets of a mutual fund or other investment company in which PSF funds have been invested.

Texas law assigns control of the Fund's land and mineral rights to the three-member SLB, which consists of the elected Commissioner of the General Land Office ("GLO"), an appointee of the Governor, and an appointee of the Attorney General. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the Commissioner of the GLO. In 2007, the Legislature established the real estate special fund account of the PSF (the "*Real Estate Account*") consisting of the land, mineral or royalty interest, real estate investment, or other interest, including revenue received from those sources, that is set apart to the PSF under the Texas Constitution and laws, together with the mineral estate in riverbeds, channels, and the tidelands, including islands. The investment of the Real Estate Account is subject to the sole and exclusive management and control of the SLB and the Land Commissioner, who is also the head of the GLO. The 2007 legislation presented constitutional questions regarding the respective roles of the SBOE and the SLB relating to the disposition of proceeds of real estate transactions to the ASF, among other questions. Amounts in the investment portfolio of the PSF are taken into account by the SBOE for purposes of determining the Distribution Rate. An amendment to the Texas Constitution was approved by State voters

on November 8, 2011, which permits the SLB to make transfers directly to the ASF, see “**2011 Constitutional Amendment**” below.

The SBOE contracts with its securities custodial agent to measure the performance of the total return of the Fund’s financial assets. A consultant is typically retained for the purpose of providing consultation with respect to strategic asset allocation decisions and to assist the SBOE in selecting external fund management advisors. The SBOE also contracts with financial institutions for custodial and securities lending services. The SBOE has established the Committee of Investment Advisors, which consists of independent investment experts each appointed by a member of the SBOE to closely advise the respective SBOE member on investment issues.

As noted above, the Texas Constitution and applicable statutes make the SBOE responsible for investment of the PSF’s financial assets. By law, the Commissioner is appointed by the Governor, with Senate confirmation, and assists the SBOE, but the Commissioner can neither be hired nor dismissed by the SBOE. The Executive Administrator of the Fund is also hired by and reports to the Commissioner. Moreover, although the Fund’s Executive Administrator and his staff implement the decisions of and provide information to the School Finance/PSF Committee of the SBOE and the full SBOE, the SBOE can neither select nor dismiss the Executive Administrator. TEA’s General Counsel provides legal advice to the Executive Administrator and to the SBOE. The SBOE has also engaged outside counsel to advise it as to its duties over the Fund, including specific actions regarding the investment of the PSF to ensure compliance with fiduciary standards, and to provide transactional advice in connection with the investment of Fund assets in non-traditional investments.

Capacity Limits for the Guarantee Program

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited in two ways: by State law (the “*State Capacity Limit*”) and by regulations and a notice issued by the IRS (the “*IRS Limit*”). Prior to May 20, 2003, the State Capacity Limit was equal to two times the lower of cost or fair market value of the Fund’s assets, exclusive of real estate. During the 78th Regular Session of the Legislature in 2003, legislation was enacted that increased the State Capacity Limit by 25%, to two and one half times the lower of cost or fair market value of the Fund’s assets as estimated by the SBOE and certified by the State Auditor, and eliminated the real estate exclusion from the calculation. Prior to the issuance of the IRS Notice (defined below), the capacity of the program under the IRS Limit was limited to two and one-half times the lower of cost or fair market value of the Fund’s assets adjusted by a factor that excluded additions to the Fund made since May 14, 1989. During the 2007 Texas Legislature, Senate Bill 389 (“*SB 389*”) was enacted providing for additional increases in the capacity of the Guarantee Program, and specifically providing that the SBOE may by rule increase the capacity of the Guarantee Program from two and one-half times the cost value of the PSF to an amount not to exceed five times the cost value of the PSF, provided that the increased limit does not violate federal law and regulations and does not prevent bonds guaranteed by the Guarantee Program from receiving the highest available credit rating, as determined by the SBOE. SB 389 further provides that the SBOE shall at least annually consider whether to change the capacity of the Guarantee Program. Since 2005, the Guarantee Program has twice reached capacity under the IRS Limit, and in each instance the Guarantee Program was closed to new bond guarantee applications until relief was obtained from the IRS. The most recent closure of the Guarantee Program commenced in March 2009 and the Guarantee Program reopened in February 2010 on the basis of receipt of the IRS Notice.

On December 16, 2009, the IRS published Notice 2010-5 (the “*IRS Notice*”) stating that the IRS will issue proposed regulations amending the existing regulations to raise the IRS limit to 500% of the total cost of the assets held by the PSF as of December 16, 2009. In accordance with the IRS Notice, the amount of any new bonds to be guaranteed by the PSF, together with the then outstanding amount of bonds previously guaranteed by the PSF, must not exceed the IRS limit on the sale date of the new bonds to be guaranteed. The IRS Notice further provides that the IRS Notice may be relied upon for bonds sold on or after December 16, 2009, and before the effective date of future regulations or other public administrative guidance affecting funds like the PSF.

On September 16, 2013, the IRS published proposed regulations (the “*Proposed IRS Regulations*”) that, among other things, would enact the IRS Notice. The preamble to the Proposed IRS Regulations provides that issuers may elect to apply the Proposed IRS Regulations, in whole or in part, to bonds sold on or after September 16, 2013, and before the date that final regulations become effective.

The IRS Notice and the Proposed IRS Regulations establish a static capacity for the Guarantee Program based upon the cost value of Fund assets on December 16, 2009 multiplied by five. On December 16, 2009, the cost value of the Guarantee Program was \$23,463,730,608 (estimated and unaudited), thereby producing an IRS Limit of approximately \$117.3 billion. The State Capacity Limit is determined on the basis of the cost value of the Fund from time to time multiplied by the capacity multiplier determined annually by the SBOE, but not to exceed a multiplier of five. The capacity of the Guarantee Program will be limited to the lower of the State Capacity Limit and the IRS Limit. On May 21, 2010, the SBOE modified the regulations that govern the School District Bond Guarantee Program (the “SDBGP Rules”), and increased the State Law Capacity to an amount equal to three times the cost value of the PSF. Such modified regulations, including the revised capacity rule, became effective on July 1, 2010. The SDBGP Rules provide that the Commissioner may reduce the multiplier to maintain the AAA credit rating of the Guarantee Program, but provide that any changes to the multiplier made by the Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See “**Valuation of the PSF and Guaranteed Bonds**,” below. The capacity limitation included in the SDBGP Rules is incorporated into the proposed regulations for the Charter District Bond Guarantee Program that are described below.

Since July 1991, when the SBOE amended the Guarantee Program Rules to broaden the range of bonds that are eligible for guarantee under the Guarantee Program to encompass most Texas school district bonds, the principal amount of bonds guaranteed under the Guarantee Program has increased sharply. In addition, in recent years a number of factors have caused an increase in the amount of bonds issued by school districts in the State. See the table “**Permanent School Fund Guaranteed Bonds**” below. Effective September 1, 2009, the Act provides that the SBOE may annually establish a percentage of the cost value of the Fund to be reserved from use in guaranteeing bonds. The capacity of the Guarantee Program in excess of any reserved portion is referred to herein as the “*Capacity Reserve*.” The SDBGP Rules provide for a minimum Capacity Reserve for the Guarantee Program of no less than 5%, and provide that the amount of the Capacity Reserve may be increased by a majority vote of the SBOE. The Commissioner is authorized to change the Capacity Reserve, which decision must be ratified or rejected by the SBOE at its next meeting following any change made by the Commissioner. The current Capacity Reserve is noted in the monthly updates with respect to the capacity of the Guarantee Program on the TEA web site at http://www.tea.state.tx.us/index4.aspx?id=3413&menu_id=2147483695, which are also filed with the MSRB.

Based upon historical performance of the Fund, the legal restrictions relating to the amount of bonds that may be guaranteed has generally resulted in a lower ratio of guaranteed bonds to available assets as compared to many other types of credit enhancements that may be available for Texas school district bonds and charter district bonds. However, changes in the value of the Fund due to changes in securities markets, investment objectives of the Fund, an increase in bond issues by school districts in the State or legal restrictions on the Fund, the implementation of the Charter District Bond Guarantee Program, or an increase in the calculation base of the Fund for purposes of making transfers to the ASF, among other factors, could adversely affect the ratio of Fund assets to guaranteed bonds and the growth of the Fund in general. It is anticipated that the issuance of the IRS Notice and the Proposed IRS Regulations will likely result in a substantial increase in the amount of bonds guaranteed under the Guarantee Program. The implementation of the Charter School Bond Guarantee Program is also expected to increase the amount of guaranteed bonds.

The Act requires that the Commissioner prepare, and the SBOE approve, an annual report on the status of the Guarantee Program (the Annual Report). The State Auditor audits the financial statements of the PSF, which are separate from other State financial statements.

The School District Bond Guarantee Program

The School District Bond Guarantee Program requires an application be made by a school district to the Commissioner for a guarantee of its bonds. If the conditions for the School District Bond Guarantee Program are satisfied, the guarantee becomes effective upon approval of the bonds by the Attorney General and remains in effect until the guaranteed bonds are paid or defeased, by a refunding or otherwise.

In the event of default, holders of guaranteed school district bonds will receive all payments due from the corpus of the PSF. Following a determination that a school district will be or is unable to pay maturing or matured principal or interest on any guaranteed bond, the Act requires the school district to notify the Commissioner not later than the fifth day before the stated maturity date of such bond or interest payment. Immediately following receipt of such notice, the Commissioner must cause to be transferred from the appropriate account in the PSF to the Paying

Agent/Registrar an amount necessary to pay the maturing or matured principal and interest. Upon receipt of funds for payment of such principal or interest, the Paying Agent/Registrar must pay the amount due and forward the canceled bond or evidence of payment of the interest to the State Comptroller of Public Accounts (the “*Comptroller*”). The Commissioner will instruct the Comptroller to withhold the amount paid, plus interest, from the first State money payable to the school district. The amount withheld will be deposited to the credit of the PSF. The Comptroller must hold such canceled bond or evidence of payment of the interest on behalf of the PSF. Following full reimbursement of such payment by the school district to the PSF with interest, the Comptroller will cancel the bond or evidence of payment of the interest and forward it to the school district. The Act permits the Commissioner to order a school district to set a tax rate sufficient to reimburse the PSF for any payments made with respect to guaranteed bonds, and also sufficient to pay future payments on guaranteed bonds, and provides certain enforcement mechanisms to the Commissioner, including the appointment of a board of managers or annexation of a defaulting school district to another school district.

If a school district fails to pay principal or interest on a bond as it is stated to mature, other amounts not due and payable are not accelerated and do not become due and payable by virtue of the district’s default. The School District Bond Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund redemption, and does not apply to the obligation, if any, of a school district to pay a redemption premium on its guaranteed bonds. The guarantee applies to all matured interest on guaranteed school district bonds, whether the bonds were issued with a fixed or variable interest rate and whether the interest rate changes as a result of an interest reset provision or other bond order provision requiring an interest rate change. The guarantee does not extend to any obligation of a school district under any agreement with a third party relating to guaranteed bonds that is defined or described in State law as a “bond enhancement agreement” or a “credit agreement,” unless the right to payment of such third party is directly as a result of such third party being a bondholder.

In the event that two or more payments are made from the PSF on behalf of a district, the Commissioner shall request the Attorney General to institute legal action to compel the district and its officers, agents and employees to comply with the duties required of them by law in respect to the payment of guaranteed bonds.

The SBOE has approved and modified the SDBGP Rules in recent years, most recently in May 2010. Generally, the SDBGP Rules limit guarantees to certain types of notes and bonds, including, with respect to refunding bonds issued by school districts, a requirement that the bonds produce debt service savings, and that bonds issued for capital facilities of school districts must have been voted as unlimited tax debt of the issuing district. The Guarantee Program Rules include certain accreditation criteria for districts applying for a guarantee of their bonds, and limit guarantees to districts that have less than the amount of annual debt service per average daily attendance that represents the 90th percentile of annual debt service per average daily attendance for all school districts, but such limitation will not apply to school districts that have enrollment growth of at least 25% over the previous five school years. The SDBGP Rules are codified in the Texas Administrative Code at 19 TAC sections 33.65 et seq., and are available on the TEA web site at <http://ritter.tea.state.tx.us/rules/tac/chapter033/index.html>.

Charter District Bond Guarantee Program

The Charter District Bond Guarantee Program became effective March 3, 2014. The SBOE published final regulations in the Texas Register that provide for the administration of the Charter District Guarantee Program (the “*CDBGP Rules*”). The CDBGP Rules are codified at 19 TAC sections 33.67 et seq., and are available on the TEA web site at <http://ritter.tea.state.tx.us/rules/tac/chapter033/index.html>.

The Charter District Bond Guarantee Program has been authorized through the enactment of amendments to the Act, which provide that a charter holder may make application to the Commissioner for designation as a “charter district” and for a guarantee by the PSF under the Act of bonds issued on behalf of a charter district by a non-profit corporation. If the conditions for the Charter District Bond Guarantee Program are satisfied, the guarantee becomes effective upon approval of the bonds by the Attorney General and remains in effect until the guaranteed bonds are paid or defeased, by a refunding or otherwise.

The capacity of the Charter District Bond Guarantee Program is limited to the amount that equals the result of the percentage of the number of students enrolled in open-enrollment charter schools in the State compared to the total number of students enrolled in all public schools in the State multiplied by the available capacity of the Guarantee Program. Available capacity is defined as the maximum amount under SBOE rules, less Capacity Reserve and minus

existing guarantees. The CDBG Rules authorize the Commissioner to determine that ratio based on information provided to the TEA by school districts and open-enrollment charter schools, and the calculation will be made annually, on or about March 1 of each year. As of October 2013 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 3.95%. As of March 7, 2014, there were 209 active open-enrollment charter schools in the State, and there were 613 charter school campuses operating under such charters. Section 12.101, Texas Education Code, as amended by the Legislature in 2013, provides that the Commissioner may grant not more than 215 charters through the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters permitted by the statute. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see **“Capacity Limits for the Guarantee Program.”** The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

In accordance with the Act, the Commissioner may not approve charter district bonds for guarantee if such guarantees will result in lower bond ratings for public school district bonds that are guaranteed under the School District Bond Guarantee Program. To be eligible for a guarantee, the Act provides that a charter district's bonds must be approved by the Attorney General, have an unenhanced investment grade rating from a nationally recognized investment rating firm, and satisfy a limited investigation conducted by the TEA.

With respect to the Charter District Bond Guarantee Program, the Act establishes a bond guarantee reserve fund in the State treasury (the *“Charter District Reserve Fund”*). Each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% (or such higher amount as may be determined by the Commissioner) of the savings to the charter district that result from the lower interest rate on the bond due to the guarantee by the PSF. The Commissioner's rule governing the calculation and payment of savings into the Charter District Reserve Fund has been proposed and will be in effect coinciding with the first date at which deposits are required to be made thereto.

The Charter District Bond Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund redemption, and does not apply to the obligation, if any, of a charter district to pay a redemption premium on its guaranteed bonds. The guarantee applies to all matured interest on guaranteed charter district bonds, whether the bonds were issued with a fixed or variable interest rate and whether the interest rate changes as a result of an interest reset provision or other bond resolution provision requiring an interest rate change. The guarantee does not extend to any obligation of a charter district under any agreement with a third party relating to guaranteed bonds that is defined or described in State law as a “bond enhancement agreement” or a “credit agreement,” unless the right to payment of such third party is directly as a result of such third party being a bondholder.

The Act provides that immediately following receipt of notice that a charter district will be or is unable to pay maturing or matured principal or interest on a guaranteed bond, the Commissioner is required to instruct the Comptroller to transfer from the Charter District Reserve Fund to the district's paying agent an amount necessary to pay the maturing or matured principal or interest. If money in the Charter District Reserve Fund is insufficient to pay the amount due on a bond for which a notice of default has been received, the Commissioner is required to instruct the Comptroller to transfer from the PSF to the district's paying agent the amount necessary to pay the balance of the unpaid maturing or matured principal or interest. If a total of two or more payments are made under the Charter District Bond Guarantee Program on charter district bonds and the Commissioner determines that the charter district is acting in bad faith under the program, the Commissioner may request the Attorney General to institute appropriate legal action to compel the charter district and its officers, agents, and employees to comply with the duties required of them by law in regard to the guaranteed bonds. As is the case with the School District Bond Guarantee Program, the Act obligates the Commissioner to instruct the Comptroller to withhold the amount paid with respect to the Charter District Bond Guarantee Program, plus interest, from the first State money payable to a charter district that fails to make a guaranteed payment on its bonds. The amount withheld will be deposited, first, to the credit of the PSF, and then to restore any amount drawn from the Charter District Reserve Fund as a result of the non-payment.

The CDBG Rules provide that the PSF may be used to guarantee bonds issued for the acquisition, construction, repair, or renovation of an educational facility for an open-enrollment charter holder and equipping real

property of an open-enrollment charter school and/or to refinance promissory notes executed by an open-enrollment charter school, each in an amount in excess of \$500,000 the proceeds of which loans were used for a purposes described above (so-called new money bonds) or for refinancing bonds previously issued for the charter school that were approved by the attorney general (so-called refunding bonds). Refunding bonds may not be guaranteed under the Charter District Bond Guarantee Program if they do not result in a present value savings to the charter holder.

The CDBG Rules provide that an open-enrollment charter holder applying for charter district designation and a guarantee of its bonds under the Charter District Bond Guarantee Program satisfy various provisions of the regulations, including the following: It must (i) have operated at least one open-enrollment charter school with enrolled students in the State for at least three years; (ii) agree that the bonded indebtedness for which the guarantee is sought will be undertaken as an obligation of all entities under common control of the open-enrollment charter holder, and that all such entities will be liable for the obligation if the open-enrollment charter holder defaults on the bonded indebtedness, provided, however, that an entity that does not operate a charter school in Texas is subject to this provision only to the extent it has received state funds from the open-enrollment charter holder; (iii) have had completed for the past three years an audit for each such year that included unqualified or unmodified audit opinions; and (iv) have received an investment grade credit rating within the last year. Upon receipt of an application for guarantee under the Charter District Bond Guarantee Program, the Commissioner is required to conduct an investigation into the financial status of the applicant charter district and of the accreditation status of all open-enrollment charter schools operated under the charter, within the scope set forth in the CDBG Rules. Such financial investigation must establish that an applying charter district has a historical debt service coverage ratio, based on annual debt service, of at least 1.1 for the most recently completed fiscal year, and a projected debt service coverage ratio, based on projected revenues and expenses and maximum annual debt service, of at least 1.2. The failure of an open-enrollment charter holder to comply with the Act or the applicable regulations, including by making any material misrepresentations in the charter holder's application for charter district designation or guarantee under the Charter District Bond Guarantee Program, constitutes a material violation of the open-enrollment charter holder's charter.

Ratings of Bonds Guaranteed Under the Guarantee Program

Moody's Investors Service, Standard & Poor's Rating Service, a Standard & Poor's Financial Service LLC business, and Fitch Ratings rate bonds guaranteed by the PSF "Aaa," "AAA" and "AAA," respectively. Not all districts apply for multiple ratings on their bonds, however. See "**Ratings**" herein.

Valuation of the PSF and Guaranteed Bonds

PERMANENT SCHOOL FUND VALUATIONS

Fiscal Year		
Ended 8/31	Book Value ⁽¹⁾	Market Value ⁽¹⁾
2009	\$23,117,052,793	\$25,443,104,623
2010	23,653,185,489	27,066,200,259
2011	24,701,156,685	29,643,439,794
2012	25,161,994,845	31,284,851,266
2013	25,596,193,826 ⁽²⁾	33,131,028,540 ⁽²⁾

⁽¹⁾ SLB managed assets are included in the market value and book value of the Fund. In determining the market value of the PSF from time to time during a fiscal year, the TEA uses current, unaudited values for TEA managed investment portfolios and cash held by the SLB. With respect to SLB managed assets shown in the table above, market values of land and mineral interests, internally managed real estate, investments in externally managed real estate funds and cash are based upon information reported to the PSF by the SLB. Beginning in fiscal year 2009, the SLB reported that information to the PSF on a quarterly basis. The valuation of such assets at any point in time is dependent upon a variety of factors, including economic conditions in the State and nation in general, and the values of these assets, and, in particular, the valuation of mineral holdings administered by the SLB, can be volatile and subject to material changes from period to period. At August 31, 2013, land, mineral assets, internally managed discretionary real estate, external discretionary real estate investments and cash managed by the SLB had book values of approximately \$19.8 million, \$13.4 million, \$343.8 million, \$1.8 billion, and \$1.2 billion respectively, and market values of approximately \$366.2 million, \$2.3 billion, \$348.9 million, \$1.7 billion and \$1.2 billion, respectively.

⁽²⁾ At February 28, 2014, the PSF had a book value of \$26,403,872,521 and a market value of \$35,871,072,992 (in each case, based on unaudited data).

PERMANENT SCHOOL FUND GUARANTEED BONDS

At 8/31	Principal Amount ⁽¹⁾
2009	\$50,032,724,439
2010	49,301,683,338
2011	52,653,930,546
2012	53,634,455,141
2013	55,218,889,156 ⁽²⁾

(1) Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program. The TEA does not maintain records of the accreted value of capital appreciation bonds that are guaranteed under the Guarantee Program.

(2) As of August 31, 2013, the TEA expected that the principal and interest to be paid by school districts over the remaining life of the bonds guaranteed by the Guarantee Program is \$91,490,196,730, of which \$36,271,307,574 represents interest to be paid. At February 28, 2014, there were \$56,050,507,440.14 of bonds guaranteed under the Guarantee Program and the capacity of the Guarantee Program was \$79,211,617,563 based on the three times cost value multiplier approved by the SBOE on May 21, 2010. Such capacity figures include the Reserve Capacity.

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2013

The following discussion is derived from the Annual Report for the year ended August 31, 2013, including the Message of the Executive Administrator of the Fund and the Management's Discussion and Analysis contained therein. Reference is made to the Annual Report, when filed, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) assets. As of August 31, 2013, the Fund's land, mineral rights and certain real assets are managed by the three-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The 2012 SBOE Asset Allocation Policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2013, the total Fund balance was \$30.6 billion. Fund balance increased \$1.80 billion from the prior year, primarily attributable to the increase in the fair value of the PSF(SBOE) equities and alternative investments, the (PSF(SLB) real assets investments and the recovering markets. During the year, the SBOE continued implementing its revised long term strategic asset allocation to diversify and strengthen the PSF(SBOE) investment assets of the Fund. The revised allocation is projected to increase returns over the long run while reducing risk and return volatility of the portfolio. The one year, three year, five year and ten year annualized total returns for the PSF(SBOE) assets were 10.16%, 11.07%, 6.16% and 7.26% respectively (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund's investments). In addition, the SLB continued its shift into externally managed real asset investment funds and the one year, three year, and five year annualized total returns for the PSF(SLB) real assets, including cash, are 7.60%, 9.56%, and 1.04% respectively.

The market value of the Fund's assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as correlated to traditional asset classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. As of August 31, 2013, the PSF(SBOE) portion of the Fund had diversified into emerging market large cap international equities, absolute return funds, real estate, private equity, risk parity, real return Treasury Inflation-Protected Securities and real return commodities. Other asset classes such as emerging market debt and emerging international equities securities will be strategically added commensurate with the economic environment and the goals and objectives of the SBOE. As of August 31, 2013, the SBOE had approved and the PSF(SBOE) made capital commitments to externally managed real estate funds in the amount of \$1.25 billion and capital commitments to four private equity limited partnerships in the total amount of \$2.2 billion. Unfunded commitments at August 31, 2013, were \$513.0 million in real estate and \$1.58 billion in private equity.

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of

externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2013, the remaining commitments totaled approximately \$1.14 billion.

The PSF(SBOE)'s investment in public equity securities experienced a return of 17.709% during the fiscal year ended August 31, 2013. The PSF(SBOE)'s investment in fixed income securities produced a return of -2.02% during the fiscal year and absolute return investments yielded a return of 10.23%. The PSF(SBOE) real estate and private equity investments returned 11.85% and 26.89%, respectively. Risk parity assets produced a return of -3.28%, while real return assets yielded -7.99%. Combined, all PSF(SBOE) asset classes produced an investment return of 10.16% for the fiscal year ended August 31, 2013, underperforming the target index by approximately 25 basis points. All PSF(SLB) real assets (including cash) returned 7.60% for the fiscal year ending August 31, 2013.

For fiscal year 2013, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$3.20 billion, an increase of \$251.6 million from fiscal year 2012 earnings of \$2.95 billion. This increase reflects the performance of the securities markets in which the Fund was invested in fiscal year 2013. In fiscal year 2013, revenues earned by the Fund included lease payments, bonuses and royalty income received from oil, gas and mineral leases; lease payments from commercial real estate; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies; dividends, interest, and securities lending revenues; the net change in the fair value of the investment portfolio; and, other miscellaneous fees and income.

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the SLB to manage the land endowment, as well as operational costs of the Fund, including external management fees paid from appropriated funds. Total operating expenditures, net of security lending rebates and fees, increased 11.6% for the fiscal year ending August 31, 2013. This increase is primarily attributable to the operational costs related to managing alternative investments.

The Fund supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2012 and 2013, the distribution from the SBOE to the ASF totaled \$1.021 billion and \$1.021 billion, respectively. Additionally, the SLB provided \$300 million to the ASF in fiscal year 2013.

At the end of the 2013 fiscal year, PSF assets guaranteed \$55.219 billion in bonds issued by 810 local school districts. Since its inception in 1983, the Fund has guaranteed 5,280 school district bond issues totaling \$112.0 billion in principal amount. During the 2013 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program increased by 155, or 5.9%. The dollar amount of guaranteed school bond issues outstanding increased by \$1.58 billion or 3.0%. The guarantee capacity of the Fund increased by \$1.312 billion, or 1.7%, during fiscal year 2013 due to the investment performance of the Fund.

2011 Constitutional Amendment

During the Regular Session of the 82nd Legislature, which concluded May 30, 2011, a joint resolution (“HJR 109”) was enacted proposing amendments to various sections of the Texas Constitution that pertain to the PSF. In accordance with HJR 109, a referendum was held in the State on November 8, 2011. At that referendum, voters of State approved non-substantive changes to the Texas Constitution to clarify references to the Fund, and, in addition, approved an amendment that effects an increase to the base amount used in calculating the Distribution Rate from the Fund to the ASF. The amendments approved at the referendum include an increase to the base used to calculate the Distribution Rate by adding to the calculation base certain discretionary real assets and cash in the Fund that is managed by entities other than the SBOE (at present, by the SLB). The value of those assets were already included in the value of the Fund for purposes of the Guarantee Program, but prior to the amendment had not been included in the calculation base for purposes of making transfers from the Fund to the ASF. While the amendment provides for an increase in the base for the calculation of approximately \$2 billion, no new resources were provided for deposit to the Fund. As described under “**The Total Return Constitutional Amendment**” the SBOE is prevented from approving a Distribution Rate or making a pay out from the Fund if the amount distributed would exceed 6% of the average of the market value of the Fund, excluding real property in the Fund, but including discretionary real asset

investments on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium or if such pay out would exceed the Ten Year Total Return. The new calculation base is required to be used to determine all payments to the ASF from the Fund beginning with the 2012-13 biennium. As described under “**The Total Return Constitutional Amendment**” the SBOE approved a Distribution Rate of 4.2% in January 2011 based on a commitment of the SLB to transfer \$500 million to the PSF during the biennium. In November 2012, the SBOE established a 3.3% Distribution Rate for the 2014-15 biennium.

The constitutional amendments approved on November 8, 2011 also provides authority to the GLO or other entity other than the SBOE that has responsibility for the management of land or other properties of the Fund to determine in its sole discretion whether to transfer each year from Fund assets to the ASF revenue derived from such land or properties, an amount not to exceed \$300 million. Any amount transferred to the ASF by an entity other than the SBOE is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers.

The impact of the increase in the base against which the Distribution Rate is applied will be an increase in the distributions from the PSF to the ASF, provided that there are no reductions in the percentage established biennially by the SBOE to be the Distribution Rate. For the 2012-13 biennium, the Distribution Rate has been set by the SBOE at 4.2%. Given the increase in the calculation base effected by the November 8, 2011 constitutional amendment, the effect on transfers made by the SBOE in 2012-13 will be an increase in the total return distribution by an estimated \$73.7 million in each year of the biennium. Going forward, it may be necessary for the SBOE to reduce the Distribution Rate in order to preserve the corpus of the Fund in accordance with its management objective of preserving intergenerational equity, and the Distribution Rate for the 2014-15 biennium has been reduced to 3.3%, as described above. If the SBOE were to maintain a Distribution Rate in future years at the level set for 2012-13, prior to the enactment of the 2011 constitutional amendment, as the value of the real assets investments increase annually, distributions to the ASF would increase in the out years. The increased amounts distributed from the Fund will be a loss to either the investment corpus of the PSF managed by SBOE or, should the SLB increase its transfers to the SBOE to cover this share of the distribution, to the assets managed by the SLB. In addition, the changes made by the amendment will reduce the compounding interest in the Fund that would be derived from these assets remaining in the corpus of the Fund. Other factors that may affect the corpus of the Fund that are associated with this change include the decisions that are made by the SLB or others that are or may in the future be authorized to make transfers of funds from the PSF to the ASF. While the SBOE has oversight of the Guarantee Program, it will not have the decision making power with respect to all transfers to the ASF, as it has had in the past, which could adversely affect the ability of the SBOE to optimally manage its portion of the PSF assets.

Other Events and Disclosures

The State Investment Ethics Code governs the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. In accordance with the provisions of the State Investment Ethics Code, the SBOE periodically modifies its code of ethics, which occurred most recently in May 2010. The SBOE code of ethics includes prohibitions on sharing confidential information, avoiding conflict of interests and requiring disclosure filings with respect to contributions made or received in connection with the operation or management of the Fund. The code of ethics applies to members of the SBOE as well as to persons who are responsible by contract or by virtue of being a TEA PSF staff member for managing, investing, executing brokerage transactions, providing consultant services, or acting as a custodian of the PSF, and persons who provide investment and management advice to a member of the SBOE, with or without compensation under certain circumstances. The code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.5 et seq., and is available on the TEA web site at <http://ritter.tea.state.tx.us/rules/tac/chapter033/index.html>.

Since 2007, TEA has made supplemental appropriation requests to the Legislature for the purpose of funding the implementation of the 2008 Asset Allocation Policy, but those requests have been denied or partly funded. In the 2011 legislative session, the Legislature approved an increase of 31 positions in the full-time equivalent employees for the administration of the Fund, which was funded as part of an \$18 million appropriation for each year of the 2012-13 biennium, in addition to the operational appropriation of \$11 million for each year of the biennium. The TEA has begun increasing the PSF administrative staff in accordance with the 2011 legislative appropriation, and the TEA received an appropriation of \$30.0 million for the administration of the PSF for each year of the 2014-15 biennium.

As of August 31, 2013, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund’s title to certain real property and/or past or future mineral income from that property, and other litigation arising

in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

The SBOE is a named defendant in litigation described in the Official Statement pertaining to the Bonds that has been filed in State District Court that has challenged the constitutionality of the Texas public school finance system, and which, among other relief requested, seeks an injunction to prohibit the State and its officials from distributing any funds under the current finance system until a constitutional system is created. The TEA does not anticipate that the security for payment of bonds guaranteed under the Guarantee Program would be adversely affected by such litigation.

PSF Continuing Disclosure Undertaking

The SBOE has adopted an investment policy rule (the “*TEA Rule*”) pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program. The most recent amendment to the TEA Rule was adopted by the SBOE on November 19, 2010, and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee bonds, the SBOE has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an “obligated person,” within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Rule obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Rule pertain solely to the Guarantee Program. The issuer or an “obligated person” of the guaranteed bonds has assumed the applicable obligation under Rule 15c-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

The MSRB has established the Electronic Municipal Market Access (“*EMMA*”) system, and the TEA is required to file its continuing disclosure information using the EMMA system. Investors may access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Annual Reports

The TEA will annually provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the Guarantee Program and the PSF of the general type included in this Official Statement under the heading “**THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.**” The information also includes the Annual Report. The TEA will update and provide this information within six months after the end of each fiscal year.

The TEA may provide updated information in full text or may incorporate by reference certain other publicly-available documents, as permitted by Rule 15c2-12. The updated information includes audited financial statements of, or relating to, the State or the PSF, when and if such audits are commissioned and available. Financial statements of the State will be prepared in accordance with generally accepted accounting principles as applied to state governments, as such principles may be changed from time to time, or such other accounting principles as the State Auditor is required to employ from time to time pursuant to State law or regulation. The financial statements of the Fund were prepared to conform to U.S. Generally Accepted Accounting Principles as established by the Governmental Accounting Standards Board.

The Fund is reported by the State of Texas as a permanent fund and accounted for on a current financial resources measurement focus and the modified accrual basis of accounting. Measurement focus refers to the definition of the resource flows measured. Under the modified accrual basis of accounting, all revenues reported are recognized based on the criteria of availability and measurability. Assets are defined as available if they are in the form of cash or can be converted into cash within 60 days to be usable for payment of current liabilities. Amounts are defined as measurable if they can be estimated or otherwise determined. Expenditures are recognized when the related fund liability is incurred.

The State's current fiscal year end is August 31. Accordingly, the TEA must provide updated information by the last day of February in each year, unless the State changes its fiscal year. If the State changes its fiscal year, the TEA will notify the MSRB of the change.

Material Event Notices

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under **"Annual Reports."**

Availability of Information

The TEA has agreed to provide the foregoing information only to the MSRB and to transmit such information electronically to the MSRB in such format and accompanied by such identifying information as prescribed by the MSRB. The information is available from the MSRB to the public without charge at www.emma.msrb.org.

Limitations and Amendments

The TEA has agreed to update information and to provide notices of material events only as described above. The TEA has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The TEA makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The TEA disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the TEA to comply with its agreement.

The continuing disclosure agreement of the TEA is made only with respect to the PSF and the Guarantee Program. The issuer of guaranteed bonds or an obligated person with respect to guaranteed bonds may make a

continuing disclosure undertaking in accordance with Rule 15c2-12 with respect to its obligations arising under Rule 15c2-12 pertaining to financial and operating data concerning such entity and notices of material events relating to such guaranteed bonds. A description of such undertaking, if any, is included elsewhere in the Official Statement.

This continuing disclosure agreement may be amended by the TEA from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the TEA, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell guaranteed bonds in the primary offering of such bonds in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 since such offering as well as such changed circumstances and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding bonds guaranteed by the Guarantee Program consent to such amendment or (b) a person that is unaffiliated with the TEA (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the holders and beneficial owners of the bonds guaranteed by the Guarantee Program. The TEA may also amend or repeal the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provision of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling bonds guaranteed by the Guarantee Program in the primary offering of such bonds.

Compliance with Prior Undertakings

The TEA has not previously failed to substantially comply with its previous continuing disclosure agreements in accordance with Rule 15c2-12.

SEC Exemptive Relief

On February 9, 1996, the TEA received a letter from the Chief Counsel of the SEC that pertains to the availability of the “small issuer exemption” set forth in paragraph (d)(2) of Rule 15c2-12. The letter provides that Texas school districts which offer municipal securities that are guaranteed under the Guarantee Program may undertake to comply with the provisions of paragraph (d)(2) of Rule 15c2-12 if their offerings otherwise qualify for such exemption, notwithstanding the guarantee of the school district securities under the Guarantee Program. Among other requirements established by Rule 15c2-12, a school district offering may qualify for the small issuer exemption if, upon issuance of the proposed series of securities, the school district will have no more than \$10 million of outstanding municipal securities.

CONTINUING DISCLOSURE AGREEMENT

General

The Borrower will enter into and deliver a Continuing Disclosure Agreement with respect to the Bonds (the “*Continuing Disclosure Agreement*”). The Continuing Disclosure Agreement is made for the benefit of the registered and Beneficial Owners of the Bonds and in order to assist the Underwriters in complying with their obligations pursuant to Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the “*Rule*”). See “**APPENDIX E — FORM OF CONTINUING DISCLOSURE AGREEMENT.**”

Compliance with Prior Undertakings

The Borrower failed to comply with its previously provided continuing disclosure agreements over the past five years as a result of failing to file certain of its annual and quarterly financial and operating information disclosures and by failing to file such information on a timely basis. In order to limit the possibility of future failures, the Borrower entered into a Continuing Disclosure Agreement in 2012, pursuant to which the dissemination agent agreed to remind the Borrower of its obligation under the 2012 Continuing Disclosure Agreement to file within 30 days of each required annual and interim filing and to review the proposed filings to confirm that the requisite information was included. The Borrower subsequently failed to file (i) certain quarterly reports regarding enrollment and attendance data because the Borrower believed such reports were superseded by its filing of annual attendance data, (ii) a quarterly financial statement from May 31, 2010, which the Borrower inadvertently failed to file, and (iii) the calculation of the Borrower’s debt service coverage ratio for the fiscal years ending August 31, 2012 and June 30, 2013, which coverage

ratios were provided to the dissemination agent on a timely basis, but not posted with EMMA. On April 15, 2014, the Borrower made supplemental filings giving notice of its failures to file and filing the remaining filings it had not previously filed, including a notice of its failure to file. The Borrower has also signed up for the automatic notification feature with EMMA in order to have an additional reminder to make its required filings.

Permanent School Fund

See “**THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM**” for a description of the continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State of Texas as the case may be, and to provide timely notice of certain specified events related to the guarantee to the Municipal Securities Rulemaking Board.

FINANCIAL STATEMENTS

The annual financial reports of the Borrower, as of June 30, 2013, August 31, 2012 and August 31, 2011 included in this Official Statement in “**APPENDIX C — FINANCIAL STATEMENTS**,” have been audited by Gomez & Company, Houston, Texas (“*Gomez & Company*”), to the extent and for the periods indicated in their report thereon. Such financial statements have been included in reliance upon the report of Gomez & Company. The Borrower is not aware of any facts that would make such financial statements misleading.

RATINGS

Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“*S&P*”) has assigned the rating of “AAA” to the Bonds based on the Permanent School Fund Guarantee. S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas “AAA.” Such rating reflects only the views of S&P and any desired explanation of the significance of such rating should be obtained from S&P at 55 Water Street, New York, New York 10041. The underlying unenhanced rating of the Bonds is “BBB.” Generally, rating agencies base their ratings on the information and materials furnished to them and on investigations, studies and assumptions of their own. There is no assurance that any such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if, in the judgment of such agency, circumstances so warrant. Any such downward revision or withdrawal may have an adverse effect on the market price of the Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

As a condition to the delivery of the Bonds, Grant Thornton LLP, a firm of independent accountants, will deliver its report indicating that it has examined, in accordance with the standards established by the American Institute of Certified Public Accountants, certain information and assertions provided by the Authority and verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the maturing principal of and interest on the government obligations to pay, when due, the principal of, redemption premium, if any, and interest on the portion of the Refunded Bonds to the maturity dates and redemption dates, and (b) the mathematical computations of the yield on the Bonds used by Bond Counsel to support its conclusion that interest on such Bonds will be excluded from gross income for federal income tax purposes.

FINANCIAL ADVISOR

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

The Financial Advisor to the Borrower has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of their respective responsibilities to the Borrower 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.

MISCELLANEOUS

Underwriting

Subject to the terms and conditions of a bond purchase agreement (the “*Bond Purchase Agreement*”) entered into by and among the Issuer, the Borrower and Raymond James and Associates, Inc. (“*Raymond James*”), or its successor in interest, as representative of the underwriters named therein (the “*Underwriters*”), the Bonds are being sold by the Issuer to the Underwriters at an underwriting discount of \$812,440. Expenses associated with the issuance of the Bonds are being paid from proceeds of the Bonds. The right of the Underwriters to receive compensation in connection with the Bonds is contingent upon the actual sale and delivery of the Bonds. The Underwriters have initially offered the Bonds to the public at the prices set forth on the inside front cover page of this Official Statement. Such prices may subsequently change without any requirement of prior notice. The Underwriters reserve the right to join with dealers and other investment banking firms in offering the Bonds to the public. Raymond James will receive additional compensation for serving as the bidding agent for the governmental securities being acquired for deposit into the Escrow Funds for the Refunded Bonds.

Additional Information

The summaries of or references to constitutional provisions, statutes, regulations, resolutions, agreements, contracts, financial statements, reports, publications and other documents or compilations of data or information set forth in this Official Statement do not purport to be complete statements of the provisions of the items summarized or referred to and are qualified in their entirety by the actual provisions of such items, copies of which are either publicly available or available upon request and the payment of a reasonable copying, mailing and handling charge from the Underwriters, 4400 Post Oak Parkway, Suite 2670, Houston, Texas 77027.

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Certification

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

HARMONY PUBLIC SCHOOLS

By: /s/ Dr. Oner U. Celepcikay
President

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SCHEDULE I
SCHEDULE OF REFUNDED BONDS

TEXAS PUBLIC FINANCE AUTHORITY CHARTER SCHOOL FINANCE CORPORATION
EDUCATION REVENUE BONDS, SERIES 2007A

Maturity Date	Interest Rate	Outstanding Par Amount	Redemption Date	Price	CUSIP
February 15, 2018	5.000%	\$2,635,000	February 15, 2015	100%	88276PAX4
February 15, 2037	5.375%	\$24,065,000	February 15, 2015	100%	88276PAY2

LA VERNIA HIGHER EDUCATION FINANCE CORPORATION
EDUCATION REVENUE BONDS, SERIES 2008A

Maturity Date	Interest Rate	Outstanding Par Amount	Redemption Date	Price	CUSIP
February 15, 2017	6.250%	\$1,550,000	February 15, 2017	100%	505237AQ0
February 15, 2038	7.125%	\$27,640,000	February 15, 2017	100%	505237AR8

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW

SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW

This Appendix summarizes certain provisions of Texas charter school law. This Appendix provides a summary only and is for informational purposes only. Potential investors should refer to and independently evaluate applicable provisions of the charter school law in its entirety, with assistance from counsel as necessary, for a complete understanding of its terms. During the 83rd Legislature of the State of Texas, changes to the laws affecting charter schools were made, many of which went into effect on September 1, 2013 (the “*Current Law*”). This Appendix summarizes certain provisions of the resulting changes found in the Current Law. The Current Law provides that, in certain situations, the law as it existed prior to Current Law (the “*Prior Law*”) will apply. However, to avoid additional levels of complexity and detail which would be required to summarize both the Prior Law and Current Laws adequately, we do not provide a summary of the Prior Law below. Further, potential investors should note that the provisions summarized below are subject to change, and this summary only pertains to certain aspects of currently existing law. See “**RISK FACTORS — Future Changes to Charter School Laws.**”

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GENERAL

BACKGROUND

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

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

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

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

The remaining sections that follow provide additional information applicable to open-enrollment charter schools, such as the Borrower, and with respect to the Foundation School Program, which is the funding scheme for charter schools.

Charter Applicants (Texas Education Code § 12.101)

The Commissioner may grant a charter for an open-enrollment charter school on the application of: (i) certain institutions of higher education (including private or independent institutions of higher education); (ii) organizations that are tax-exempt under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended; and (iii) governmental entities. Such a charter for an open-enrollment charter school may only be granted by the Commissioner to an applicant that meets the financial, governing, educational, and operational standards adopted by the Commissioner under the Open-Enrollment Charter School subchapter of the Texas Education Code. The Commissioner must determine that the applicant is capable of carrying out the responsibilities provided by the charter and likely to operate a school of high quality, and:

- (i) has not within the preceding 10 years had a charter under Chapter 12 of the Texas Education Code or a similar charter issued under the laws of another state surrendered under a settlement agreement, revoked, denied renewal, or returned; or
- (ii) is not, under rules adopted by the Commissioner, considered to be a corporate affiliate of or substantially related to an entity that has within the preceding 10 years had a charter under Chapter 12 of the Texas Education Code or a similar charter issued under the laws of another state surrendered under a settlement agreement, revoked, denied renewal, or returned.

The Commissioner shall notify the State Board of Education of each charter the Commissioner proposes to grant under Subchapter D of the Texas Education Code. Unless, before the 90th day after the date on which the board receives the notice from the Commissioner, a majority of the members of the board present and voting vote against the grant of that charter, the Commissioner's proposal to grant the charter takes effect. The board may not deliberate or vote on any grant of a charter that is not proposed by the Commissioner.

The Commissioner may not grant a total of more than:

- 215 charters for an open-enrollment charter school through the fiscal year ending August 31, 2014;
- 225 charters beginning September 1, 2014;
- 240 charters beginning September 1, 2015;
- 255 charters beginning September 1, 2016;
- 270 charters beginning September 1, 2017; and
- 285 charters beginning September 1, 2018.

Beginning September 1, 2019, the total number of charters for open-enrollment charter schools that may be granted is 305 charters.

The Commissioner may not grant more than one charter for an open-enrollment charter school to any charter holder. The Commissioner may consolidate charters for an open-enrollment charter school held by multiple charter holders into a single charter held by a single charter holder with the written consent to the terms of consolidation by or at the request of each charter holder affected by the consolidation.

Notwithstanding Texas Education Code Section 12.114, approval of the Commissioner under that section is not required for establishment of a new open-enrollment charter school campus if the requirements set forth below, including the absence of Commissioner disapproval under **Subdivision (iii)**, are satisfied. A charter holder having an accreditation status of accredited and at least 50 percent of its student population in grades assessed under Subchapter B, Chapter 39 of the Texas Education Code, or at least 50 percent of the students in the grades assessed having been enrolled in the school for at least three school years may establish one or more new campuses under an existing charter held by the charter holder if:

- (i) the charter holder is currently evaluated under the standard accountability procedures for evaluation under Chapter 39 of the Texas Education Code and received a district rating in the highest or second highest performance rating category under Subchapter C, Chapter 39 of the Texas Education Code, for three of the last five years with at least 75 percent of the campuses rated under the charter also receiving a rating in the highest or second highest performance rating category and with no campus with a rating in the lowest performance rating category in the most recent ratings;
- (ii) the charter holder provides written notice to the Commissioner of the establishment of any campus hereunder in the time, manner, and form provided by rule of the Commissioner; and
- (iii) not later than the 60th day after the date the charter holder provides written notice under **Subdivision (ii)** above, the Commissioner does not provide written notice to the charter holder of disapproval of a new campus.

The initial term of a charter granted under Section 12.101 of the Texas Education Code is five years. The Commissioner shall adopt rules to modify criteria for granting a charter for an open-enrollment charter school as described herein to the extent necessary to address changes in performance rating categories or in the financial accountability system under Chapter 39 of the Texas Education Code.

A charter granted as described herein for a dropout recovery school is not considered for purposes of the limit on the number of charters for open-enrollment charter schools imposed herein. For purposes of this subsection, an open-enrollment charter school is considered to be a dropout recovery school if the school meets the criteria for designation as a dropout recovery school under Section 12.1141(c) of the Texas Education Code. In adopting any financial standards under Subchapter D of the Texas Education Code that an applicant for a charter for an open enrollment charter school must meet, the Commissioner shall not:

- (i) exclude any loan or line of credit in determining an applicant's available funding; or

- (ii) exclude an applicant from the grant of a charter solely because the applicant fails to demonstrate having a certain amount of current assets in cash.

Charter Authorization for High-Performing Entities (Texas Education Code § 12.1011)

Notwithstanding Texas Education Code Section 12.101(b), the Commissioner may grant a charter for an open-enrollment charter school to an applicant that is:

- (i) an eligible entity under Section 12.101(a)(3) of the Texas Education Code that proposes to operate the charter school program of a charter operator that operates one or more charter schools in another state and with which the eligible entity is affiliated and, as determined by the Commissioner in accordance with Commissioner rule, has performed at a level of performance comparable to performance under the highest or second highest performance rating category under Subchapter C, Chapter 39 of the Texas Education Code; or
- (ii) an entity that has operated one or more charter schools established under Subchapters C, D or E of the Texas Education Code and, as determined by the Commissioner in accordance with Commissioner rule, has performed in the highest or second highest performance rating category under Subchapter C, Chapter 39 of the Texas Education Code.

A charter holder granted a charter for an open-enrollment charter school under **Subdivision (i)** above may vest management of corporate affairs in a member entity provided that the member entity may change the members of the governing body of the charter holder before the expiration of a member's term only with the express written approval of the Commissioner. The initial term of a charter granted under Section 12.1011 of the Texas Education Code is five years.

Charter Authorizer Accountability (Texas Education Code § 12.1013)

The Commissioner shall select a center for education research authorized by Texas Education Code Section 1.005 to prepare an annual report concerning the performance of open-enrollment charter schools by authorizer compared to campus charters and matched traditional campuses, which shall be provided annually under Subchapters J and K of Chapter 39 of the Texas Education Code.

The format of the report must enable the public to distinguish and compare the performance of each type of public school by classifying the schools as follows: (i) open-enrollment charters granted by the State Board of Education; (ii) open-enrollment charters granted by the Commissioner; (iii) charters granted by school districts; and (iv) matched traditional campuses.

The report must include the performance of each public school in each class described in the preceding paragraph as measured by the student achievement indicators adopted under Section 39.053 of the Texas Education Code and student attrition rates. The report must also: (i) aggregate and compare the performance of open-enrollment charter schools granted charters by the State Board of Education, open-enrollment charter schools granted charters by the Commissioner, campuses and programs granted charters by school districts, and matched traditional campuses; and (ii) rate the aggregate performance of elementary, middle or junior high, and high schools within each class described in the preceding paragraph as indicated by the composite rating that would be assigned to the class of elementary, middle or junior high, and high schools if the students attending all schools in that class were cumulatively enrolled in one elementary, middle or junior high, or high school.

The report must also include an analysis of whether the performance of matched traditional campuses would likely improve if there were consolidation of school districts within the county in which the campuses are located. Such analysis is only applicable to a county that includes at least seven school districts and at least 10 open-enrollment charter schools.

Charter Authorization for Schools Primarily Serving Students with Disabilities (Texas Education Code § 12.1014)

The Commissioner may grant under Texas Education Code Section 12.101 a charter on the application of an eligible entity for an open-enrollment charter school intended primarily to serve students eligible to receive services under Subchapter A, Chapter 29 of the Texas Education Code.

The limit on the number of charters for open-enrollment charter schools imposed by Section 12.101 of the Texas Education Code does not apply to a charter granted under this section to a school at which at least 50 percent of the students are eligible to receive services under Subchapter A, Chapter 29 of the Texas Education Code. Not more than five charters may be granted for such schools. For purposes of the applicability of state and federal law, including a law prescribing requirements concerning students with disabilities, an open-enrollment charter school intended primarily to serve students eligible to receive services under Subchapter A, Chapter 29 of the Texas Education Code, is considered the same as any other school for which a charter is granted under Section 12.101 of the Texas Education Code.

To the fullest extent permitted under federal law, a parent of a student with a disability may choose to enroll the parent's child in an open-enrollment charter school described by Subchapter A, Chapter 29 of the Texas Education Code regardless of whether a disproportionate number of the school's students are students with disabilities.

An open-enrollment charter school is not authorized to discriminate in admissions or in the services provided based on the presence, absence, or nature of an applicant's or student's disability. The Commissioner and the State Board for Educator Certification are required to adopt rules as necessary to administer this section.

Authority Under Charter (Texas Education Code § 12.102)

An open-enrollment charter school: (i) provides instruction to students at one or more elementary or secondary grade levels as provided by the charter; (ii) is governed under the governing structure described by the charter; (iii) retains authority to operate under the charter (contingent on the status of the charter as determined under Sections 12.1141, and 12.115 of the Texas Education Code and Subchapter E, Chapter 39 of the Texas Education Code); and (iv) does not have authority to impose taxes.

General Applicability of Laws (Texas Education Code § 12.103)

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

Applicability of Title (Texas Education Code § 12.104)

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

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

Status (Texas Education Code § 12.105)

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

Open Meetings (Texas Education Code § 12.1051)

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

Local Government Records (Texas Education Code § 12.1052)

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

Public Purchasing and Contracting (Texas Education Code § 12.1053)

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

Conflicts of Interest (Texas Education Code § 12.1054)

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

the Texas Local Government Code, and is thereby subject to various restrictions under the Texas Local Government Code.

Immunity from Liability (Texas Education Code § 12.1056)

In matters related to operation of an open-enrollment charter school, an open-enrollment charter school is immune from liability to the same extent as a school district, and its employees and volunteers are immune from liability to the same extent as school district employees and volunteers. A member of the governing body of an open-enrollment charter school or of a charter holder is immune from liability to the same extent as a school district trustee.

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

An employee of an open-enrollment charter school who qualifies for membership in the Teacher Retirement System of Texas is covered under the system to the same extent a qualified employee of a school district is covered. For each employee of the school covered under the system, the school is responsible for making any contribution that otherwise would be the legal responsibility of the school district, and the state is responsible for making contributions to the same extent it would be legally responsible if the employee were a school district employee.

Tuition and Fees Restricted (Texas Education Code § 12.108)

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

Transportation (Texas Education Code § 12.109)

Open-enrollment charter schools are required to provide transportation to each student attending the school to the same extent a school district is required by law to provide transportation to district students.

CHARTER APPLICATION, CONTENT AND FORM

Application (Texas Education Code § 12.110)

The Commissioner is required under the Texas Education Code to adopt an application form and a procedure that must be used to apply for a charter for an open-enrollment charter school and criteria to use in selecting a program for which to grant a charter. As part of the application procedure, the Commissioner may require a petition supporting a charter for a school signed by a specified number of parents or guardians of school-age children residing in the area in which a school is proposed or may hold a public hearing to determine parental support for the school. The Commissioner shall approve or deny an application based on: (i) documented evidence collected through the application review process; (ii) merit; and (iii) other criteria as adopted by the Commissioner, which must include: (a) criteria relating to the capability of the applicant to carry out the responsibilities provided by the charter and the likelihood that the applicant will operate a school of high quality; (b) criteria relating to improving student performance and encouraging innovative programs; and (c) a statement from any school district whose enrollment is likely to be affected by the open-enrollment charter school, including information relating to any financial difficulty that a loss in enrollment may have on the district.

The Commissioner shall give priority to applications that propose an open-enrollment charter school campus to be located in the attendance zone of a school district campus assigned an unacceptable performance rating under Section 39.054 of the Texas Education Code for the two preceding school years.

Charter Content (Texas Education Code § 12.111)

Each open-enrollment charter must:

- (i) describe the educational program to be offered, which must include the required curriculum;
- (ii) provide that continuation of the charter is contingent on the status of the charter as determined under Section 12.1141 or 12.115 of the Texas Education Code or under Subchapter E, Chapter 39 of the Texas Education Code;
- (iii) specify the academic, operational, and financial performance expectations by which a school operating under the charter will be evaluated, which must include applicable elements of the performance frameworks adopted under Section 12.1181 of the Texas Education Code;
- (iv) specify any basis, in addition to a basis specified in Subchapter D of Chapter 12 of the Texas Education Code, or Subchapter E, Chapter 39 of the Texas Education Code, on which the charter may be revoked, renewal of the charter may be denied, or the charter may be allowed to expire; and the standards for evaluation of a school operating under the charter for purposes of charter renewal, denial of renewal, expiration, revocation, or other intervention in accordance with Section 12.1141 or 12.115 of the Texas Education Code or Subchapter E, Chapter 39 of the Texas Education Code, as applicable;
- (v) prohibit discrimination in admission policy on the basis of sex, national origin, ethnicity, religion, disability, academic, artistic, or athletic ability, or the district the child would otherwise attend in accordance with the Texas Education Code (nevertheless, the charter may provide for: (a) the exclusion of a student who has a documented history of a criminal offense, a juvenile court adjudication, or certain discipline problems, and (b) an admission policy that requires a student to demonstrate artistic ability if the school specializes in performing arts);
- (vi) specify the grade levels to be offered;
- (vii) describe the governing structure of the program (including the officer positions designated, the manner in which members of the governing body of the school are selected and removed from office, the manner in which vacancies on the governing body are filled, the term for which members of that governing body serve, and whether the terms are to be staggered);
- (viii) specify the powers or duties of the governing body of the school that the governing body may delegate to an officer;
- (ix) specify the manner in which the school will distribute to parents information related to the qualifications of each professional employee of the program;
- (x) describe the process by which the person providing the program will adopt an annual budget;
- (xi) describe the manner in which an annual audit of the financial and programmatic operations of the program is to be conducted;
- (xii) describe the facilities to be used;
- (xiii) describe the geographical area served by the program;
- (xiv) specify any type of enrollment criteria to be used;

- (xv) provide information, as determined by the Commissioner, relating to any management company that will provide management services to a school operating under the charter; and
- (xvi) specify that the governing body of an open-enrollment charter school accepts and may not delegate ultimate responsibility for the school, including the school's academic performance and financial and operational viability, and is responsible for overseeing any management company providing management services for the school and for holding the management company accountable for the school's performance.

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

CHARTER REVISION, REVOCATION, NON-RENEWAL AND MODIFICATION OF GOVERNANCE

General (Texas Education Code §§§ 12.114, 12.1141 and 12.115)

The charter of an open-enrollment charter school may be revised only with the approval of the Commissioner, and an open-enrollment charter school may request approval to revise the maximum student enrollment described by the school's charter not more than once each year. Not later than the 60th day after the date that a charter holder submits to the Commissioner a completed request for approval for an expansion amendment, as defined by Commissioner rule, including a new school amendment, the Commissioner shall provide to the charter holder written notice of approval or disapproval of the amendment.

The Commissioner shall develop and by rule adopt a procedure for renewal, denial of renewal, or expiration of a charter for an open-enrollment charter school at the end of the term of the charter. The procedure must include consideration of the performance under Chapter 39 of the Texas Education Code of the charter holder and each campus operating under the charter and must include three distinct processes, which must be expedited renewal, discretionary consideration of renewal or denial of renewal, and expiration. To renew a charter at the end of the term, the charter holder must submit a petition for renewal to the Commissioner in the time and manner established by Commissioner rule.

At the end of the term of a charter for an open-enrollment charter school, if a charter holder submits to the Commissioner a petition for expedited renewal of the charter, the charter automatically renews unless, not later than the 30th day after the date the charter holder submits the petition, the Commissioner provides written notice to the charter holder that expedited renewal of the charter is denied. The Commissioner may not deny expedited renewal of a charter if:

- (i) the charter holder has been assigned the highest or second highest performance rating under Subchapter C, Chapter 39 of the Texas Education Code, for the three preceding school years;
- (ii) the charter holder has been assigned a financial performance accountability rating under Subchapter D, Chapter 39 of the Texas Education Code, indicating financial performance that is satisfactory or better for the three preceding school years; and
- (iii) no campus operating under the charter has been assigned the lowest performance rating under Subchapter C, Chapter 39 of the Texas Education Code, for the three preceding school years or such a campus has been closed.

At the end of the term of a charter for an open-enrollment charter school, if a charter holder submits to the Commissioner a petition for renewal of the charter and the charter does not meet the criteria for expedited renewal or for expiration as described above and below, the Commissioner shall use the discretionary consideration process. The Commissioner's decision under the discretionary consideration process must take into consideration the results of annual evaluations under the performance frameworks established under Section 12.1181 of the Texas Education Code. The renewal of the charter of an open-enrollment charter school that is registered under the agency's alternative education accountability procedures for evaluation under Chapter 39 of the Texas Education Code shall be considered under the discretionary consideration process regardless of the performance ratings under

Subchapter C, Chapter 39 of the Texas Education Code, of the open-enrollment charter school or of any campus operating under the charter, except that if the charter holder has been assigned a financial accountability performance rating under Subchapter D, Chapter 39 of the Texas Education Code, indicating financial performance that is lower than satisfactory for any three of the five preceding school years, the Commissioner shall allow the charter to expire under Section 12.1141(d) of the Texas Education Code. In considering the renewal of the charter of an open-enrollment charter school that is registered under the agency's alternative education accountability procedures for evaluation under Chapter 39 of the Texas Education Code, such as a dropout recovery school or a school providing education within a residential treatment facility, the Commissioner shall use academic criteria established by Commissioner rule that are appropriate to measure the specific goals of the school. The criteria established by the Commissioner shall recognize growth in student achievement as well as educational attainment. For purposes of Section 12.1141(c) of the Texas Education Code, the Commissioner shall designate as a dropout recovery school an open-enrollment charter school or a campus of an open-enrollment charter school:

- (i) that serves students in grades 9 through 12 and has an enrollment of which at least 50 percent of the students are 17 years of age or older as of September 1 of the school year as reported for the fall semester Public Education Information Management System (PEIMS) submission; and
- (ii) that meets the eligibility requirements for and is registered under alternative education accountability procedures adopted by the Commissioner.

At the end of the term of a charter for an open-enrollment charter school, if a charter holder submits to the Commissioner a petition for renewal of the charter, the Commissioner may not renew the charter and shall allow the charter to expire if:

- (i) the charter holder has been assigned the lowest performance rating under Subchapter C, Chapter 39 of the Texas Education Code, for any three of the five preceding school years;
- (ii) the charter holder has been assigned a financial accountability performance rating under Subchapter D, Chapter 39 of the Texas Education Code, indicating financial performance that is lower than satisfactory for any three of the five preceding school years;
- (iii) the charter holder has been assigned any combination of the ratings described by **Subdivision (i)** or **(ii)** in this paragraph for any three of the five preceding school years; or
- (iv) any campus operating under the charter has been assigned the lowest performance rating under Subchapter C, Chapter 39 of the Texas Education Code, for the three preceding school years and such a campus has not been closed.

Notwithstanding any other law, a determination by the Commissioner under Section 12.1141(d) of the Texas Education Code is final and may not be appealed.

Not later than the 90th day after the date on which a charter holder submits a petition for renewal of a charter for an open-enrollment charter school at the end of the term of the charter, the Commissioner shall provide written notice to the charter holder, in accordance with Commissioner rule, of the basis on which the charter qualified for expedited renewal, discretionary consideration, or expiration, and of the Commissioner's decision regarding whether to renew the charter, deny renewal of the charter, or allow the charter to expire.

Notwithstanding any other law, and except for a final, non-appealable determination by the Commissioner under Section 12.1141(d) of the Texas Education Code, a decision by the Commissioner to deny renewal of a charter for an open-enrollment charter school is subject to review by the State Office of Administrative Hearings. Notwithstanding Chapter 2001, Government Code:

- (i) the administrative law judge shall uphold a decision by the Commissioner to deny renewal of a charter for an open-enrollment charter school unless the judge finds the decision is arbitrary and capricious or clearly erroneous; and

- (ii) a decision of the administrative law judge under Section 12.1141(g)(2) of the Texas Education Code is final and may not be appealed.

If a charter holder submits a petition for renewal of a charter for an open-enrollment charter school, notwithstanding the expiration date of the charter, the charter term is extended until the Commissioner has provided notice to the charter holder of the renewal, denial of renewal, or expiration of the charter.

The term of a charter renewed under Section 12.1141 of the Texas Education Code is 10 years for each renewal.

The Commissioner shall adopt rules to modify criteria for renewal, denial of renewal, or expiration of a charter for an open-enrollment charter school under this section to the extent necessary to address changes in performance rating categories or in the financial accountability system under Chapter 39 of the Texas Education Code.

For purposes of determination of renewal under Section 12.1141 of the Texas Education Code, Subsections (b)(1) or (3) or (d)(1) or (4), performance during the 2011-2012 school year may not be considered. For purposes of determination of renewal under Section 12.1141 of the Texas Education Code, Subsections (b)(1) or (3) or (d)(1) or (4), the initial three school years for which performance ratings under Subchapter C, Chapter 39 of the Texas Education Code, shall be considered are the 2009-2010, 2010-2011, and 2012-2013 school years. For purposes of determination of renewal under Section 12.1141 of the Texas Education Code, Subsections (b)(2) or (d)(2), the earliest school year for which financial accountability performance ratings under Subchapter D, Chapter 39 of the Texas Education Code, may be considered is the 2010-2011 school year. The renewal qualifications in this paragraph, described in Section 12.1141(k) of the Texas Education Code, expire September 1, 2016.

The Commissioner shall revoke the charter of, or modify the governance of the holder of a charter, of an open-enrollment charter school, or reconstitute the governing body of the charter holder, if the Commissioner determines that the charter holder:

- (i) committed a material violation of the charter, including failure to satisfy accountability provisions prescribed by the charter;
- (ii) failed to satisfy generally accepted accounting standards of fiscal management;
- (iii) failed to protect the health, safety, or welfare of the students enrolled at the school;
- (iv) failed to comply with any applicable law or rule;
- (v) failed to satisfy the performance framework standards adopted under Section 12.1181 of the Texas Education Code; or
- (vi) is imminently insolvent as determined by the Commissioner in accordance with Commissioner rule.

Any action (described above) that the Commissioner takes must be based on the best interest of the open-enrollment charter school's students, the severity of the violation, any previous violation the school has committed, and the accreditation status of the school.

The Commissioner shall revoke the charter of an open-enrollment charter school if:

- (i) the charter holder has been assigned an unacceptable performance rating under Subchapter C, Chapter 39 of the Texas Education Code, for the three preceding school years;
- (ii) the charter holder has been assigned a financial accountability performance rating under Subchapter D, Chapter 39 of the Texas Education Code, indicating financial performance lower than satisfactory for the three preceding school years; or

- (iii) the charter holder has been assigned any combination of the ratings described by **Subdivision (i)** or **(ii)** of this paragraph for the three preceding school years.

For purposes of revocation under **Subdivision (i)** in the preceding paragraph, performance during the 2011-2012 school year may not be considered. For purposes of revocation under **Subdivision (i)** in the preceding paragraph, the initial three school years for which performance ratings under Subchapter C, Chapter 39 of the Texas Education Code, shall be considered are the 2009-2010, 2010-2011, and 2012-2013 school years. For purposes of revocation under **Subdivision (ii)** in the preceding paragraph, the initial three school years for which financial accountability performance ratings under Subchapter D, Chapter 39 of the Texas Education Code, shall be considered are the 2010-2011, 2011-2012, and 2012-2013 school years. The revocation qualifications in this paragraph, described in Section 12.115(c-1) of the Texas Education Code, expire September 1, 2016.

In reconstituting the governing body of a charter holder under this section, the Commissioner shall appoint members to the governing body and shall consider local input from community members and parents; and appropriate credentials and expertise for membership, including financial expertise, whether the person lives in the geographic area the charter holder serves, and whether the person is an educator; and may reappoint current members of the governing body.

If a governing body of a charter holder subject to reconstitution governs enterprises other than the open-enrollment charter school, the Commissioner may require the charter holder to create a new, single-purpose organization that is exempt from taxation under Section 501(c)(3), Internal Revenue Code of 1986, to govern the open-enrollment charter school and may require the charter holder to surrender the charter to the Commissioner for transfer to the organization created. The Commissioner shall appoint the members of the governing body. The Commissioner shall adopt rules necessary to administer this section. The Commissioner shall adopt initial rules not later than September 1, 2014. The authority of the attorney general to take any action authorized by law is not limited by such requirements.

Related Procedures (Texas Education Code § 12.116)

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

A decision by the Commissioner to revoke a charter is subject to review by the State Office of Administrative Hearings. Subject to Chapter 2001, Government Code, the administrative law judge shall uphold a decision by the Commissioner to revoke a charter unless the judge finds the decision is arbitrary and capricious or clearly erroneous; and a decision of the administrative law judge under this subsection is final and may not be appealed.

If the Commissioner revokes the charter of an open-enrollment charter school, the Commissioner may manage the school until alternative arrangements are made for the school's students; and assign operation of one or more campuses formerly operated by the charter holder who held the revoked charter to a different charter holder who consents to the assignment.

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

If the Commissioner revokes or denies the renewal of a charter of an open-enrollment charter school, or an open-enrollment charter school surrenders its charter, the school may not continue to operate or receive State funds.

Additional Sanctions (Texas Education Code § 12.1162)

The Commissioner may take a variety of actions if an open-enrollment charter school commits a material violation of the school's charter, fails to satisfy generally accepted accounting standards of fiscal management, or fails to comply with any applicable law or rule. The Commissioner may: (i) temporarily withhold funding;

(ii) suspend the authority of an open-enrollment charter school to operate; or (iii) take any other reasonable action the Commissioner determines necessary to protect the health, safety, or welfare of students enrolled at the school based on evidence that conditions at the school present a danger to the health, safety, or welfare of the students. If the Commissioner takes such action, the open-enrollment charter school may not receive funding and may not resume operating until a determination is made that: (i) despite initial evidence, the conditions at the school do not present a danger of material harm to the health, safety, or welfare of students, or (ii) the conditions at the school that presented a danger of material harm to the health, safety, or welfare of students have been corrected.

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

Audit by Commissioner (Texas Education Code § 12.1163)

The Commissioner may audit the records of an open-enrollment charter school, and such audit must be limited to matters directly related to the management or operation of an open-enrollment charter school, including any financial and administrative records. Unless the Commissioner has specific cause to conduct an additional audit, the Commissioner may not conduct more than one on-site audit during any fiscal year, including any financial and administrative records. For purposes of this provision, an audit of a charter holder or management company associated with an open-enrollment charter school is not considered an audit of the school.

ADMISSION AND EVALUATION

Admission (Texas Education Code § 12.117)

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

Evaluation (Texas Education Code § 12.118)

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

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

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

Performance Frameworks; Annual Evaluations (Texas Education Code § 12.1181)

The Commissioner shall develop and by rule adopt performance frameworks that establish standards by which to measure the performance of an open-enrollment charter school. The Commissioner shall develop and by rule adopt separate, specific performance frameworks by which to measure the performance of an open-enrollment charter school that is registered under the agency's alternative education accountability procedures for evaluation under Chapter 39 of the Texas Education Code. The performance frameworks shall be based on national best practices that charter school authorizers use in developing and applying standards for charter school performance. In developing the performance frameworks, the Commissioner shall solicit advice from charter holders, the members of the governing bodies of open-enrollment charter schools, and other interested persons.

The performance frameworks may include a variety of standards. In evaluating an open-enrollment charter school, the Commissioner shall measure school performance against an established set of quality standards developed and adopted by the Commissioner. Each year, the Commissioner shall evaluate the performance of each open-enrollment charter school based on the applicable performance frameworks adopted under Section 12.1181(a) of the Texas Education Code. The performance of a school on a performance framework may not be considered for purposes of renewal of a charter under Section 12.1141(d) of the Texas Education Code or revocation of a charter under Section 12.115(c) of the Texas Education Code.

GOVERNANCE

Bylaws; Annual Report (Texas Education Code § 12.119)

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

Each year, each open-enrollment charter school shall file with the Commissioner the name, address, and telephone number of each officer and member of the governing body of the open-enrollment charter school, and the amount of annual compensation the open-enrollment charter school pays to each officer and member of the governing body.

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

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

Property Purchased or Leased With State Funds (Texas Education Code § 12.128)

Property purchased or leased with funds received by a charter holder under Section 12.106 after September 1, 2001:

- (i) is considered to be public property for all purposes under state law;
- (ii) is property of the state held in trust by the charter holder for the benefit of the students of the open-enrollment charter school; and
- (iii) may be used only for a purpose for which a school district may use school district property.

If at least 50 percent of the funds used by a charter holder to purchase real property are funds received under Section 12.106 before September 1, 2001, the property is considered to be public property to the extent it was purchased with those funds.

The Commissioner shall:

- (i) take possession and assume control of the property described herein of an open-enrollment charter school that ceases to operate; and

- (ii) supervise the disposition of the property in accordance with law.

The Commissioner may adopt rules necessary to administer this section.

This section does not affect a security interest in or lien on property established by a creditor in compliance with law if the security interest or lien arose in connection with the sale or lease of the property to the charter holder.

PRINCIPAL AND TEACHER QUALIFICATIONS

Minimum Principal and Teacher Qualifications (Texas Education Code § 12.129)

A person employed as a principal or teacher by an open-enrollment charter school must hold a baccalaureate degree.

Notice of Teacher Qualifications (Texas Education Code § 12.130)

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

STATE FUNDING

GENERAL

Entitlement (Texas Education Code § 12.106)

Until September 1, 2017, a charter holder is entitled to receive for the open-enrollment charter school funding under the Foundation School Program Chapter of the Texas Education Code (for additional information see the “Foundation School Program” sections below) equal to the greater of:

- (i) the percentage specified by Section 42.2516(i) of the Texas Education Code multiplied by the amount of funding per student in weighted average daily attendance, excluding enrichment funding under Sections 42.302(a-1)(2) and (3) of the Texas Education Code, as they existed on January 1, 2009, that would have been received for the school during the 2009-10 school year under the Foundation School Program Chapter of the Texas Education Code as it existed on January 1, 2009, and an additional amount of the percentage specified by Section 42.2516(i) of the Texas Education Code multiplied by \$120 for each student in weighted average daily attendance; or
- (ii) the amount of funding per student in weighted average daily attendance, excluding enrichment funding under Section 42.302(a) of the Texas Education Code, to which the charter holder would be entitled for the school under the Foundation School Program Chapter of the Texas Education Code if the school were a school district without a tier one local share for purposes of Section 42.253 of the Texas Education Code and without any local revenue for purposes of Section 42.2516 of the Texas Education Code.

In determining funding for an open-enrollment charter school in the prior paragraphs, adjustments under Sections 42.102, 42.103, 42.104, and 42.105 of the Texas Education Code are based on the average adjustment for the state. In addition to the funding provided above, a charter holder is entitled to receive for the open-enrollment charter school enrichment funding under Section 42.302 of the Texas Education Code based on the state average tax effort. An open-enrollment charter school is entitled to funds that are available to school districts from the Texas Education Agency or the Commissioner 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. Until September 1, 2015, in determining funding for an open-enrollment charter school in the prior paragraphs, the Commissioner shall apply the regular program adjustment factor provided under Section 42.101 of the Texas Education Code to calculate the regular program allotment to which a charter school is entitled.

Effective September 1, 2017, a charter holder is entitled to receive for the open-enrollment charter school funding under Chapter 42 of the Texas Education Code equal to the amount of funding per student in weighted

average daily attendance, excluding enrichment funding under Section 42.302(a) of the Texas Education Code, to which the charter holder would be entitled for the school under Chapter 42 of the Texas Education Code if the school were a school district without a tier one local share for purposes of Section 42.253 of the Texas Education Code.

The Commissioner may adopt rules to provide and account for state funding of open-enrollment charter schools. A rule adopted may be similar to a provision of the Texas Education Code that is not similar to Section 12.104(b) of the Texas Education Code if the Commissioner determines that the rule is related to financing of open-enrollment charter schools and is necessary or prudent to provide or account for state funds.

Recovery of Certain Funds (Texas Education Code § 12.1061)

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

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

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

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

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

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

FOUNDATION SCHOOL PROGRAM

General

Average Daily Attendance (Texas Education Code § 42.005)

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

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

PEIMS System (Texas Education Code § 42.006)

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

The Commissioner by rule shall require each open-enrollment charter school to report through the PEIMS information regarding the number of students enrolled in the district or school who are identified as having dyslexia.

Equalized Funding Elements (Texas Education Code § 42.007)

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

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

The funding elements must include:

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

- (vi) the computation of students in weighted average daily attendance under Section 42.302 of the Texas Education Code; and
- (vii) the amount to be appropriated for the school facilities assistance program under the Assistance with Existing Facilities and Payment of Existing Debt Chapter of the Texas Education Code.

Determination of Funding Levels (Texas Education Code § 42.009)

Not later than July 1 of each year, the Commissioner shall determine for each school district whether the estimated amount of state and local funding per student in weighted average daily attendance to be provided to the district under the Foundation School Program for maintenance and operations for the following school year is less than the amount provided to the district for the 2010-2011 school year. If the amount estimated to be provided is less, the Commissioner shall certify the percentage decrease in funding to be provided to the district.

In making the determinations regarding funding levels required by the prior paragraph, the Commissioner shall:

- (i) make adjustments as necessary to reflect changes in a school district's maintenance and operations tax rate;
- (ii) for a district required to take action under Chapter 41 of the Texas Education Code to reduce its wealth per student to the equalized wealth level, base the determinations on the district's net funding levels after deducting any amounts required to be expended by the district to comply with Chapter 41 of the Texas Education Code; and
- (iii) determine a district's weighted average daily attendance in accordance with this chapter as it existed on January 1, 2011.

BASIC AND REGULAR PROGRAM ALLOTMENTS

General (Texas Education Code § 42.101)

The basic allotment is an amount equal to the lesser of \$4,765 or the amount that results from the following formula:

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

where:

“A” is the resulting amount for a district;

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

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

A greater amount for any school year for the basic allotment described above may be provided by appropriation.

A school district is entitled to a regular program allotment equal to the amount that results from the following formula:

$$RPA = ADA \times AA \times RPAF$$

where:

“RPA” is the regular program allotment to which the district is entitled;

“*ADA*” is the number of students in average daily attendance in a district, not including the time students spend each day in special education programs in an instructional arrangement other than mainstream or career and technology education programs, for which an additional allotment is made under Subchapter C of Chapter 42 of the Texas Education Code;

“*AA*” is the district's adjusted basic allotment, as determined under Section 42.102 of the Texas Education Code and, if applicable, as further adjusted under Section 42.103 of the Texas Education Code; and

“*RPAF*” is the regular program adjustment factor.

Except as provided by the following paragraph, the RPAF is 0.9239 for the 2011-2012 school year and 0.98 for the 2012-2013 school year.

For a school district that does not receive funding under Section 42.2516 of the Texas Education Code, for the 2011-2012 school year, the Commissioner may set the RPAF at 0.95195 for the 2011-2012 and 2012-2013 school years if the district demonstrates that funding reductions as a result of adjustments to the regular program allotment made by S.B. No. 1, Acts of the 82nd Legislature, 1st Called Session, 2011, will result in a hardship to the district in the 2011-2012 school year. Notwithstanding any other provision of this paragraph, the Commissioner shall adjust the RPAF for the 2012-2013 school year for a school district whose regular program adjustment factor is set in accordance with this subsection to ensure that the total amount of state and local revenue in the combined 2011-2012 and 2012-2013 school years does not differ from the amount the district would have received if the district's regular program adjustment factor had not been set in accordance with this paragraph. A determination by the Commissioner under this subsection is final and may not be appealed.

The RPAF is 0.98 for the 2013-2014 and 2014-2015 school years or a greater amount established by appropriation, not to exceed 1.0. This paragraph and preceding three paragraphs expire September 1, 2015.

Effective September 1, 2015, Section 42.101 of the Texas Education Code, is amended to read as follows:

For each student in average daily attendance, not including the time students spend each day in special education programs in an instructional arrangement other than mainstream or career and technology education programs, for which an additional allotment is made under Subchapter C of the Texas Education Code, a district is entitled to an allotment equal to the lesser of \$4,765 or the amount that results from the following formula:

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

where:

“*A*” is the allotment to which a district is entitled;

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

“*MCR*” is the state maximum compressed tax rate, which is the product of the state compression percentage, as determined under Section 42.2516 of the Texas Education Code, multiplied by \$1.50.

A greater amount for any school year may be provided by appropriation.

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

SPECIAL ALLOTMENTS

Special Education (Texas Education Code § 42.151)

For each student in average daily attendance in a special education program under the Special Education Program Subchapter of the Educational Programs Chapter of the Texas Education Code, in a mainstream

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

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

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

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

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

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

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

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

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

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

Other Special Allotments

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

FINANCING THE PROGRAM

General (Texas Education Code § 42.251)

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

The program shall be financed by:

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

Additional State Aid

Texas law provides for additional State aid in certain circumstances, including additional State aid for staff salary increases (Texas Education Code Section 42.2513), additional state aid for tax increment financing payments (Texas Education Code Section 42.2514), additional State aid for ad valorem tax credits under the Texas Economic Development Act (Texas Education Code Section 42.2515), additional State aid for tax reduction/state compression percentage (Texas Education Code Section 42.2516), and excess funds for cost of education adjustment (Texas Education Code Section 42.2517).

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

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

$$LFA = TR \times DPV$$

where:

“LFA” is the school district's local share;

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

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

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

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

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

The Commissioner is granted the authority to ensure that school districts receiving federal impact aid due to the presence of a military installation or significant concentrations of military students do not receive more than an eight percent reduction should the federal government reduce appropriations to those schools under Section 42.2525 of the Texas Education Code.

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

For each school year the Commissioner shall determine:

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

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

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

Until September 1, 2017, the amounts to be paid under Section 42.2516(b)(3) of the Texas Education Code shall be paid at the same time as other state revenue is paid to the district. Payments shall be based on amounts paid under Section 42.2516(b)(3) of the Texas Education Code for the preceding year. Any deficiency shall be paid to

the district at the same time the final amount to be paid to the district is determined, and any overpayment shall be deducted from the payments the district would otherwise receive in the following year.

The Commissioner shall approve warrants to each school district equaling the amount of its entitlement except as provided herein. Warrants for all money expended according to the Foundation School Program Chapter of the Texas Education Code shall be approved and transmitted to treasurers or depositories of school districts in the same manner that warrants for state payments are transmitted. The total amount of the warrants issued may not exceed the total amount appropriated for Foundation School Program purposes for that fiscal year.

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

Until September 1, 2017, if the amount appropriated for the Foundation School Program for the second year of a state fiscal biennium is less than the amount to which school districts and open-enrollment charter schools are entitled for that year, the Commissioner is required to certify the amount of the difference to the Legislative Budget Board not later than January 1 of the second year of the state fiscal biennium. The Legislative Budget Board shall propose to the legislature that the certified amount be transferred to the foundation school fund from the economic stabilization fund and appropriated for the purpose of increases in allocations. If the legislature fails during the regular session to enact the proposed transfer and appropriation and there are not funds available for the legislature to appropriate from funds that the comptroller, at any time during the fiscal year, finds are available, the Commissioner shall adjust the total amounts due to each school district and open-enrollment charter school under Chapter 42 of the Texas Education Code and the total amounts necessary for each school district to comply with the requirements of Chapter 41 of the Texas Education Code by an amount determined by applying to each district and school, including a district receiving funds under Section 42.2516 of the Texas Education Code, the same percentage adjustment to the total amount of state and local revenue due to the district or school under Chapter 42 of the Texas Education Code and Chapter 41 of the Texas Education Code so that the total amount of the adjustment to all districts and schools results in an amount equal to the total adjustment necessary. The following fiscal year:

- (i) a district's or school's entitlement under this section is increased by an amount equal to the adjustment made under this paragraph; and
- (ii) the amount necessary for a district to comply with the requirements of Chapter 41 of the Texas Education Code is reduced by an amount necessary to ensure the district's full recovery of the adjustment made under this paragraph.

On and after September 1, 2017, if the amount appropriated for the Foundation School Program for the second year of a state fiscal biennium is less than the amount to which school districts and open-enrollment charter schools are entitled for that year, the Commissioner shall certify the amount of the difference to the Legislative Budget Board not later than January 1 of the second year of the state fiscal biennium. The Legislative Budget Board shall propose to the legislature that the certified amount be transferred to the foundation school fund from the economic stabilization fund and appropriated for the purpose of increases in allocations under this paragraph. If the legislature fails during the regular session to enact the proposed transfer and appropriation and there are not funds available under Subsection (j) of Section 42.253 of the Texas Education Code, the Commissioner shall adjust the total amounts due to each school district and open-enrollment charter school under Chapter 42 of the Texas Education Code and the total amounts necessary for each school district to comply with the requirements of Chapter 41 of the Texas Education Code by an amount determined by applying to each district and school the same percentage adjustment to the total amount of state and local revenue due to the district or school under this chapter and Chapter 41 of the Texas Education Code so that the total amount of the adjustment to all districts and schools results in an amount equal to the total adjustment necessary. The following fiscal year:

- (i) a district's or school's entitlement under this section is increased by an amount equal to the adjustment made under this paragraph; and

- (ii) the amount necessary for a district to comply with the requirements of Chapter 41 of the Texas Education Code is reduced by an amount necessary to ensure a district's full recovery of the adjustment made under this paragraph.

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

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

Recovery of Overallocated Funds (Texas Education Code § 42.258)

- (i) If a school district has received an overallocation of state funds, the Texas Education Agency shall, by withholding from subsequent allocations of state funds for the current or subsequent school year or by requesting and obtaining a refund, recover from the district an amount equal to the overallocation.
- (ii) Notwithstanding **clause (i)** above, the Texas Education Agency may recover an overallocation of state funds over a period not to exceed the subsequent five school years if the Commissioner determines that the overallocation was the result of exceptional circumstances reasonably caused by statutory changes to Chapter 41 or 46 of the Texas Education Code or Chapter 42 of the Texas Education Code and related reporting requirements.
- (iii) If a district fails to comply with a request for a refund under **(i)** above, the Texas Education Agency shall certify to the comptroller that the amount constitutes a debt for purposes of Section 403.055 of the Texas Government Code. The Texas Education Agency shall provide to the comptroller the amount of the overallocation and any other information required by the comptroller. The comptroller may certify the amount of the debt to the attorney general for collection.
- (iv) Any amounts recovered shall be deposited in the foundation school fund.

Foundation School Fund Transfers (Texas Education Code § 42.259)

As used below:

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

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

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

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

- (i) Payments from the foundation school fund to each category 1 school district shall be made as follows:
 - (a) 15 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of September of a fiscal year;

- (b) 80 percent of the yearly entitlement of the district shall be paid in eight equal installments to be made on or before the 25th day of October, November, December, January, March, May, June, and July; and
 - (c) five percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of February.
- (ii) Payments from the foundation school fund to each category 2 school district shall be made as follows:
- (a) 22 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of September of a fiscal year;
 - (b) 18 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of October;
 - (c) 9.5 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of November;
 - (d) 7.5 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of April;
 - (e) five percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of May;
 - (f) 10 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of June;
 - (g) 13 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of July; and
 - (h) 15 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of August.

Notwithstanding **Subdivision (ii)(h)** above, for the state fiscal year ending August 31, 2013, the installment described by that Subdivision shall be paid on or before the 30th day of August, 2013. **Subdivision (ii)(h)** expires August 31, 2013.

- (iii) Payments from the foundation school fund to each category 3 school district shall be made as follows:
- (a) 45 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of September of a fiscal year;
 - (b) 35 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of October; and
 - (c) 20 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of August.

Notwithstanding **Subdivision (iii)(c)** above, for the state fiscal year ending August 31, 2013, the installment described by that Subdivision shall be paid on or before the 30th day of August, 2013. **Subdivision (iii)(c)** expires August 31, 2013.

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

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

The Commissioner shall make all annual Foundation School Program payments under this section for purposes described by Sections 42.252(a)(1) and (2) of the Texas Education Code before the deadline established under Section 45.263(b) of the Texas Education Code for payment of debt service on bonds. Notwithstanding any other provision of this section, the Commissioner may make Foundation School Program payments under this section after the deadline established under Section 45.263(b) of the Texas Education Code only if the Commissioner has not received notice under Section 45.258 of the Texas Education Code concerning a district's failure or inability to pay matured principal or interest on bonds.

Use of Certain Funds (Texas Education Code § 42.260)

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

For each year, the Commissioner shall certify to each school district or participating charter school the amount of additional funds to which the district or school is entitled due to the increase made by H.B. No. 3343, Acts of the 77th Legislature, Regular Session, 2001, to:

- (i) the equalized wealth level under Section 41.002 of the Texas Education Code; or
- (ii) the guaranteed level of state and local funds per weighted student per cent of tax effort under Section 42.302 of the Texas Education Code.

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

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

GUARANTEED YIELD PROGRAM

Purpose (Texas Education Code § 42.301)

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

Allotment (Texas Education Code § 42.302)

- (i) Each school district is guaranteed a specified amount per weighted student in state and local funds for each cent of tax effort over that required for the district's local fund assignment up to the

maximum level specified in the Guaranteed Yield Subchapter of the Foundation School Program Chapter of the Texas Education Code. The amount of state support, subject only to the maximum amount under Section 42.303 of the Texas Education Code, is determined by the formula:

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

where:

“*GYA*” is the guaranteed yield amount of state funds to be allocated to the district;

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

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

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

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

- (ii) As used below, “wealth per student” means the taxable value of property, as determined under Subchapter M, Chapter 403 of the Texas Government Code, divided by the number of students in weighted average daily attendance. For purposes of (i) above, the dollar amount guaranteed level of state and local funds per weighted student per cent of tax effort (“*GL*”) for a school district is:
 - (a) the greater of the amount of district tax revenue per weighted student per cent of tax effort that would be available to the Austin Independent School District, as determined by the Commissioner in cooperation with the Legislative Budget Board, if the reduction of the limitation on tax increases as provided by Section 11.26(a-1), (a-2), or (a-3) of the Texas Tax Code, did not apply, or the amount of district tax revenue per weighted student per cent of tax effort used for purposes of this **paragraph (ii)** in the preceding school year, for the first six cents by which the district's maintenance and operations tax rate exceeds the rate equal to the product of the state compression percentage, as determined under Section 42.2516 of the Texas Education Code, multiplied by the maintenance and operations tax rate adopted by the district for the 2005 tax year; and
 - (b) \$31.95, for the district's maintenance and operations tax effort that exceeds the amount of tax effort described by (a).
- (iii) The limitation on district enrichment tax rate (“*DTR*”) under Section 42.303 of the Texas Education Code does not apply to the district's maintenance and operations tax effort described in **(ii)(a)** above.

Notwithstanding **clauses (i) and (ii)**, for a school district that imposed a maintenance and operations tax for the 2010 tax year at the maximum rate permitted under Section 45.003 of the Texas Education Code, the dollar amount guaranteed level of state and local funds per weighted student per cent

of tax effort (“GL”) for the district's maintenance and operations tax effort described by **clause (ii)(b)** is \$33.95. This paragraph expires September 1, 2012.

- (iv) In computing the district enrichment tax rate of a school district, the total amount of maintenance and operations taxes collected by the school district does not include the amount of:
 - (a) the district's local fund assignment under Section 42.252; or
 - (b) taxes paid into a tax increment fund under Chapter 311 of the Texas Tax Code.
- (v) For purposes of Section 42.302 of the Texas Education Code, school district taxes for which credit is granted under Section 31.035, 31.036, or 31.037 of the Texas Tax Code, are considered taxes collected by the school district as if the taxes were paid when the credit for the taxes was granted. For purposes of Section 42.302 of the Texas Education Code, the total amount of maintenance and operations taxes collected for an applicable school year by a school district with alternate tax dates, as authorized by Section 26.135 of the Texas Tax Code, is the amount of taxes collected on or after January 1 of the year in which the school year begins and not later than December 31 of the same year.
- (vi) For purposes of Section 42.302 of the Texas Education Code, school district taxes for which credit is granted under former Subchapter D, Chapter 313 of the Texas Tax Code, are considered taxes collected by the school district as if the taxes were paid when the credit for the taxes was granted. If a school district imposes a maintenance and operations tax at a rate greater than the rate equal to the product of the state compression percentage, as determined under Section 42.2516 of the Texas Education Code, multiplied by the maintenance and operations tax rate adopted by the district for the 2005 tax year, the district is entitled to receive an allotment as described above on the basis of that greater tax effort.

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

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

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APPENDIX B

THE BORROWER AND THE CHARTER SCHOOLS

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APPENDIX B

THE BORROWER AND THE CHARTER SCHOOLS

General

Harmony Public Schools (the “*Borrower*”) is a non-profit corporation incorporated in the State of Texas (the “*State*”) in 1999. The Borrower is an organization described under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “*Code*”). The Borrower currently operates forty open-enrollment charter schools throughout the State and plans to begin operations at three additional campuses in the fall of 2014 and two additional campuses in the fall of 2015, (collectively, the “*Charter Schools*”). **Table 1** below presents certain basic information concerning the Charter Schools currently in operation, under construction or expected to be financed with proceeds of the Bonds.

TABLE 1: CHARTER SCHOOLS				
CHARTER NAME/CAMPUS NAME	GRADES OFFERED⁽¹⁾	CAMPUS ENROLLMENT⁽¹⁾	YEAR OPENED⁽²⁾	FREE/REDUCED LUNCH (LOW-INCOME)⁽¹⁾
Harmony Science Academy (Houston) (101-846)				
1. Harmony Science Academy High School – Houston	9–12	557	2000–01	Approximately 74%
2. Harmony School of Innovation – Houston	4–8	602	2005–06	Approximately 74%
3. Harmony School of Ingenuity – Houston	3–12	613	2009–10	Approximately 76%
4. Harmony Science Academy – Houston	K–8	348	2010–11	Approximately 84%
5. Harmony School of Fine Arts and Technology – Houston	K–8	660	2010–11	Approximately 63%
6. Harmony School of Exploration – Houston	K–3	350	2013-14	Approximately 72%
Harmony School of Excellence (101-858)				
1. Harmony School of Excellence – Houston	K–8	903	2006–07	Approximately 29%
2. Harmony School of Excellence – Endeavor	K–8	565	2009–10	Approximately 72%
3. Harmony Science Academy – Bryan/College Station	K–12	438	2007–08	Approximately 67%
4. Harmony Science Academy – Houston Northwest	K–8	663	2006–07	Approximately 42%
5. Harmony School of Advancement High School – Houston	9–12	601	2010–11	Approximately 43%
6. Harmony School of Discovery – Houston	K–11	752	2010–11	Approximately 44%
Harmony School of Science (Houston) (101-862)				
1. Harmony School of Science – Houston	K–6	740	2008–09	Approximately 51%
2. Harmony School of Science – Sugar Land High School	7–11	701	2011–12	Approximately 54%
3. Harmony Science Academy – West Houston	K–10 ⁽³⁾	829	2011–12	Approximately 46%
4. Harmony Science Academy – Beaumont	K–12 ⁽⁴⁾⁽⁵⁾	551	2007–08	Approximately 52%
Harmony Science Academy (Waco) (161-807)				
1. Harmony Science Academy – Waco	K–12	713	2007–08	Approximately 80%
2. Harmony Science Academy – Dallas	K–12	1,200	2007–08	Approximately 79%
3. Harmony School of Innovation – Dallas	K–12	640	2009–10	Approximately 42%
4. Harmony Science Academy – Garland	K–11 ⁽⁴⁾	666	2010–11	Approximately 50%
5. Harmony School of Innovation – Garland	K–5 ⁽⁶⁾	N/A	2014-15	N/A
6. Harmony School of Business – Dallas	K–9	678	2012–13	Approximately 45%
7. Harmony Science Academy – Fort Worth	K–5 ⁽⁷⁾	663	2006–07	Approximately 49%
8. Harmony Science Academy – Grand Prairie	K–12 ⁽⁷⁾	528	2008–09	Approximately 59%
9. Harmony Science Academy – Euless	5–12 ⁽⁷⁾	634	2009–10	Approximately 50%
10. Harmony School of Nature and Athletics – Dallas	K–11 ⁽⁷⁾	694	2010–11	Approximately 46%
11. Harmony School of Innovation – Fort Worth	6–12 ⁽⁴⁾⁽⁷⁾	482	2012–13	Approximately 43%
12. Harmony School of Innovation – Euless	K–4 ⁽⁷⁾	640	2013-14	Approximately 50%
Harmony Science Academy (Austin) (227-816)				
1. Harmony Science Academy – Austin	K–7	364	2001–02	Approximately 79%
2. Harmony Science Academy – North Austin	8–12	612	2008–09	Approximately 52%

TABLE 1: CHARTER SCHOOLS				
CHARTER NAME/CAMPUS NAME	GRADES OFFERED⁽¹⁾	CAMPUS ENROLLMENT⁽¹⁾	YEAR OPENED⁽²⁾	FREE/REDUCED LUNCH (LOW-INCOME)⁽¹⁾
3. Harmony School of Excellence – Austin	K–12 ⁽⁴⁾	734	2009–10	Approximately 75%
4. Harmony School of Innovation – Austin	K–5	N/A	2014–15	N/A
5. Harmony School of Science – Austin	K–8	543	2006–07	Approximately 41%
6. Harmony School of Political Science and Communication – Austin	K–10	792	2011–12	Approximately 22%
Harmony Science Academy (El Paso) (071-806)				
1. Harmony Science Academy – El Paso	K–12	955	2006–07	Approximately 77%
2. Harmony School of Innovation – El Paso	K–12	756	2009–10	Approximately 70%
3. Harmony Science Academy – Lubbock	K–12 ⁽⁸⁾	427	2007–08	Approximately 79%
4. Harmony Science Academy – Odessa	K–8 ⁽⁸⁾	362	2010–11	Approximately 55%
Harmony Science Academy (San Antonio) (015-828)				
1. Harmony Science Academy – San Antonio	K–12	890	2006–07	Approximately 61%
2. Harmony School of Innovation – San Antonio	K–9	595	2010–11	Approximately 70%
3. Harmony Science Academy – Laredo	K–12 ⁽⁴⁾⁽⁹⁾	757	2008–09	Approximately 65%
4. Harmony School of Innovation – Laredo	K–5	N/A	2014–15	N/A
5. Harmony Science Academy – Brownsville	K–12 ⁽¹⁰⁾	449	2008–09	Approximately 81%
TOTAL ENROLLMENT		25,647		

Source: The Borrower.

⁽¹⁾ As of December 31, 2013.

⁽²⁾ The year opened reflects the year in which the Borrower began operating a Charter School at such location.

⁽³⁾ Harmony Science Academy – West Houston was transferred from the Harmony Science Academy (El Paso) charter in order to be in better geographic alignment.

⁽⁴⁾ Upon opening of the new elementary schools, students in kindergarten through fifth grade are expected to transfer to the related new elementary school and the identified schools will no longer offer kindergarten through fifth grade.

⁽⁵⁾ Harmony Science Academy – Beaumont was transferred from the Harmony Science Academy (Houston) charter in order to be in better geographic alignment.

⁽⁶⁾ The Borrower will need to issue additional Debt in order to complete Harmony School of Innovation – Garland.

⁽⁷⁾ The Borrower agreed to transfer Harmony Science Academy – Fort Worth, Harmony Science Academy – Grand Prairie, Harmony Science Academy – Euless, Harmony School of Nature and Athletics – Dallas, Harmony School of Innovation – Fort Worth and Harmony School of Innovation – Euless from the Harmony Science Academy (Fort Worth) charter to the Harmony Science Academy (Waco) charter in order to obtain the approval of the TEA to the guarantee of the Bonds under the Bond Guarantee Program of the Permanent School Fund of the State of Texas. The Harmony Science Academy (Fort Worth) charter was subsequently returned to the TEA.

⁽⁸⁾ The Borrower agreed to transfer Harmony Science Academy – Lubbock and Harmony Science Academy – Odessa from the Harmony Science Academy (Lubbock) charter to the Harmony Science Academy (El Paso) charter in order to obtain the approval of the TEA to the guarantee of the Bonds under the Bond Guarantee Program of the Permanent School Fund of the State of Texas. The Harmony Science Academy (Lubbock) charter was subsequently returned to the TEA.

⁽⁹⁾ Harmony Science Academy – Laredo was transferred from the Harmony Science Academy (Laredo) charter to the Harmony Science Academy (San Antonio) charter in order to increase financial efficiency by consolidating some positions and improving cash flow restrictions. The Harmony Science Academy (Laredo) charter was subsequently returned to the TEA.

⁽¹⁰⁾ The Borrower agreed to transfer Harmony Science Academy – Brownsville from the Harmony Science Academy (Brownsville) charter to the Harmony Science Academy (San Antonio) charter in order to obtain the approval of the TEA to the guarantee of the Bonds under the Bond Guarantee Program of the Permanent School Fund of the State of Texas. The Harmony Science Academy (Brownsville) charter was subsequently returned to the TEA.

History, Growth Strategy and Other Information Relating to the Borrower and the Charter Schools

General

The Borrower was formed in 1999 and opened Harmony Science Academy in Houston, its first Charter School, in 2000. The Borrower opened its second Charter School in Austin in 2002, its third Charter School in Dallas in 2004, and its fourth Charter School in Houston in 2005. Since that time, the Borrower has grown rapidly, adding five additional Charter Schools in each of 2006, 2007 and 2008, six additional Charter Schools in 2009, eight additional Charter Schools in 2010, three additional charter schools in 2011, two additional charter schools in 2012 and two additional charter schools in 2013. The Borrower's goal is for its Charter Schools to be high-performing college preparatory schools that focus on math, science, engineering and computer technologies. The Charter Schools are typically located in underserved communities. The Charter Schools provide students with the opportunity to excel

in their studies in a small classroom environment focused on providing the skills they need to succeed later in life. The Borrower's vision is to lead its students from the classroom into the world as productive and responsible citizens, and even Nobel laureates. The Borrower's mission is to prepare each student for higher learning in a safe, caring and collaborative atmosphere through a quality, learner-centered educational program with a strong emphasis on math, science, engineering and technology.

Growth Strategy

The Borrower's short term growth strategy (2014-2016) generally involves expanding its existing facilities and opening three new schools for the 2014-15 school year and two new schools in the 2015-16 school year. Thereafter, the Borrower anticipates opening two to three new schools per year.

Support Service Agreements

The Borrower provides support services to other organizations who wish to replicate the Borrower's model for operating charter schools. Such organizations include (1) Millennium Education Foundation, which operates two charter schools in Missouri, (2) SKY Foundation, which operates four charter schools in Oklahoma, (3) Pelican Educational Foundation ("*Pelican*"), which operates one charter school in Louisiana, (4) Focus Foundation ("*Focus*"), which operates one charter school in Albuquerque, New Mexico, (5) Read Foundation ("*Read*"), which operates one charter school in Memphis, Tennessee, (6) Little Scholars of Arkansas Foundation ("*LISA*"), which operates two charter schools in Little Rock, Arkansas, and (7) Harmony DC Public Schools, which will begin operating a charter school in Washington D.C in 2014-15. The Borrower has entered into agreements (each a "*Support Service Agreement*") with each of the aforementioned organizations (or schools operated by the foregoing) wherein the Borrower provides support services to each organization. Pursuant to the Support Service Agreements, the Borrower provides support in certain of the following areas: consulting services; educational technology solutions; data network solutions; efficiency analysis; strategic planning; and coaching key leadership and teacher training. The Borrower is paid for such services on an hourly basis ranging from \$80.00 to \$120.00 per hour.

In addition to each Support Service Agreement, the Borrower also licenses certain of its intellectual property to the foregoing entities for fees (except for Harmony DC Public Schools) ranging from \$15,000 to \$147,000 per school per year. For Harmony DC Public Schools, the fee is equal to 5% of the state and local per-pupil funding that Harmony DC Public Schools receives. In the fiscal year ending June 30, 2013, the Borrower received an aggregate of approximately \$1,150,000 in revenue from such Support Service Agreements.

The Support Service Agreements have terms of one to three years, but may be terminated upon the occurrence of certain events.

In addition to the Support Service Agreements, the Borrower and Riverwalk Education Foundation ("*Riverwalk*"), which operates four schools in Texas, have entered into an agreement titled "Shared Services Agreement for Harmony Public Schools and Riverwalk Foundation" (the "*Shared Services Agreement*"). The Shared Services Agreement establishes a co-operative, the management of which consists of the chief financial officer of each of the Riverwalk schools. The Borrower serves as "fiscal agent" under the Shared Services Agreement and assists the schools in determining staffing needs, secures materials, equipment, supplies and facilities necessary to support the schools, provides financial and accounting statements for the schools and provides other services. In exchange therefor, each of the schools is required to pay 7% of all of their state funding to the co-operative (which is, ultimately, paid to the Borrower).

The Borrower has also agreed to allow Harmony DC Public Schools to use the Harmony name.

Recent Accomplishments

The Borrower has regularly been recognized for its accomplishments and notes the following as past highlights:

- Six Harmony Public Schools were ranked in the top 10% of the Washington Post's "America's Most Challenging High Schools" list. The schools were Harmony Science Academy – North Austin (25), Harmony Science Academy – Brownsville (30), Harmony Science Academy – Waco (41), Harmony Science Academy – Fort Worth (57), Harmony Science Academy – Beaumont (101), and Harmony School of Advancement (107).

- The Borrower received approval from the Washington, D.C., Public Charter School Board to open Harmony School of Excellence – D.C. (“HSE-DC”) for the 2014-2015 school year. This will be the first time the Borrower’s model will be fully replicated outside of Texas, which provides an opportunity to spread the Borrower’s nationally recognized science, technology, engineering and math (STEM) model for educating college-ready students to the nation’s capital. The school will be operated by a separate non-profit corporation.
- In 2013, 216 of the Borrower’s students received the Advanced Placement Scholars Award. This award recognizes high school students who have demonstrated outstanding college-level achievement through advanced placement courses and exams.
- Five of the Borrower’s schools ranked among *US News and World Report’s* 2013 Best High Schools in Texas and were nationally ranked some of the tops schools to attend.
- Seven of the Borrower’s schools made the *Newsweek’s* 2013 America’s Best High Schools List. This list highlights the best 2,000 public high schools in the nation based on their effectiveness in preparing students for college.
- Eleven of the Borrower’s schools made the Washington Post’s 2013 High School Challenge Index list. The index formula is a simple ratio: the number of Advanced Placement, International Baccalaureate and Advanced International Certificate of Education tests given at a school each year, divided by the number of seniors who graduated that year.
- Four students from the Borrower’s schools received 1st, 2nd, 3rd, and 4th place in the 2013 East Texas Regional Competition and qualified for the next round at the State Competition of Texas Charter School Academic & Athletic League Math Olympiad at Austin.
- DePelchin Children’s Center of Houston and the Borrower received grant funding from the Texas Department of State and Health Services in 2013 to execute a youth prevention universal program throughout the Greater Houston Area.
- The Harmony Science Academy – Houston High Chess Team received 3rd place amongst 452 competitors from all over the U.S. in the 2013 K-12 section of the National Open known as the U.S. Class Championships. This competition was sponsored by the U.S. Chess Federation, a nationally recognized chess non-profit organization.
- In December 2012, the Borrower was named a Race to the Top District by the Department of Education and was awarded a \$30 million grant payable over a four year period.
- Harmony Science Academy High School – Houston was listed by *US News and World Report* as one of the best high schools among 21,000 public high schools across the country in 2007, 2008, 2009, 2010 and 2011.
- Harmony Science Academy – Houston, Harmony Science Academy – Austin, and Harmony Science Academy – Dallas have each experienced a 100% college acceptance rate and 0% dropout rate since 2004, 2006 and 2010, respectively.
- 95% of Charter School students that graduated in 2010 were accepted to 4-year colleges and 5% were accepted to 2-year colleges.
- In 2011, Harmony Science Academy – Dallas and Harmony Science Academy – North Austin were ranked among the best 500 high schools in the nation by Newsweek, and both of such schools were also considered “Miracle Schools” (schools with standout performances despite limited resources).
- Charter School students were recognized for the following achievements in MathCounts, a national middle school mathematics program that promotes mathematics achievement through a series of “bee” style contests:
 - **2014:** Harmony School of Excellence – Houston placed 3rd at the Texas State MathCounts Competition.
 - **2014:** Harmony School of Innovation – Fort Worth hosted an invitational MathCounts competition and placed third.

- **2013:** Harmony School of Discovery – Houston team was the East Texas Middle School Regional Champion in Math Olympiad in Houston.
 - **2013:** Harmony School of Innovation – Houston team placed 3rd in East Texas Middle School Regional Math Olympiad in Houston.
 - **2013:** Harmony Science Academy – Houston teams were named Champion, Runner-Up, Third Place, and Qualifier in East Texas High School Regional Math Olympiad in Houston.
 - **2013:** Harmony School of Innovation – Carrollton teams became the North Texas Middle School Regional Champion and Runner Up in Math Olympiad in Dallas.
 - **2013:** Harmony Science Academy – Waco team became the North Texas High School Regional Champion in Math Olympiad in Dallas.
 - **2013:** Harmony Science Academy – Dallas team became the North Texas High School Regional Runner-Up in Math Olympiad in Dallas.
 - **2013:** Harmony School of Excellence – Houston team placed 1st in Math League contest at Houston Baptist University.
 - **2013:** Harmony School of Excellence – Houston team placed 2nd at the 10th Annual Spurs Sports & Entertainment “Mathletes in Action” competition in San Antonio.
 - **2012:** Harmony School of Advancement – Houston student won 3rd place award in Geometry at Harvard-MIT Math Tournament.
 - **2011:** Harmony School of Excellence – Houston teams won 1st and 3rd place out of 80 teams in “Mathletes in Action” competition, with 5 team members placing in the top 10, including 1st, 2nd, and 3rd places.
 - **2010:** Harmony School of Excellence – Houston team won 1st place at Georgetown MathCounts Invitational Tournament.
 - **2010:** Harmony Science Academy – Beaumont team won 1st place in Beaumont.
 - **2010:** Harmony School of Excellence – Houston team won 2nd place in Texas, with one team member proceeding to the national competition.
 - **2010:** Harmony School of Excellence – Houston team won 1st place in Mathletes in Action competition.
 - **2009:** Harmony Science Academy – El Paso team won 2nd place in El Paso.
 - In **2008**, an 8th grader from Harmony School of Excellence represented Texas along with three other students in Math Counts tournaments. The Texas team became the national Math Counts champions at the national level. President Bush welcomed the 2008 National MathCounts champions and other team members to the Oval Office at The White House.
- Charter School students were recognized for the following achievements at the following competitions where students build LEGO-based robots to complete tasks on a thematic playing surface:
 - **2014:** Harmony Science Academy – North Austin robotics team advanced to Super Regionals after their performance in the Alamo FTC Regional Championship in San Antonio.
 - **2014:** Harmony Science Academy – Laredo robotics teams won 1st and 2nd place in FLL competition in San Antonio.
 - **2014:** Harmony Science Academy – Waco robotics teams won 1st place at First Tech Challenge (FTC) robotics competition at Central Texas College in Killeen, TX.
 - **2014:** Harmony School of Excellence – Houston robotics team placed 3rd in FLL regional championship at Lone Star FLL Championship.
 - **2013:** Harmony Science Academy – El Paso robotics teams won Inspire and Connect Awards in regional and state FTC competitions and advanced to compete at FTC World Championship in St. Louis, MO.
 - **2013:** Harmony School of Excellence – Houston robotics team won 1st place at Katy Ranch Junior High School regional FLL competition.
 - **2012:** Harmony School of Advancement – Houston robotics team ranked #1 at Texas State Championship in San Jacinto College. The team qualified to represent the state of Texas at FTC Robotics World Championship in St. Louis, MO.
 - **2012:** Harmony Science Academy – Houston High School robotics teams won 1st and 2nd place awards at FTC Regional Competition at San Jacinto College and advanced to the state competition.
 - **2012:** Harmony Science Academy – Fort Worth robotics team won 2nd place and became “Regional Finalist” at the Dallas East Regional Event of First Robotics Competition.

- **2012:** Harmony Science Academy – Waco robotics team won 2nd place and became “Regional Finalist” at the Dallas East Regional Event of First Robotics Competition.
 - **2012:** Harmony School of Advancement – Houston robotics team participated in FTC Southeast Texas Tournament and swept all the awards.
 - **2010:** Harmony Science Academy – El Paso won 8 awards at the Southwest FIRST LEGO League (FLL) Championship, including 1st and 2nd places; this team will represent Texas in the FLL World Festival and Championship in St. Louis, Missouri.
 - **2010:** Harmony Science Academy – Beaumont team won 1st place at the BEST Robotics Competition held in Galveston.
 - **2010:** Harmony Science Academy – Brownsville won 1st place at the FLL Robotics Championship Tournament held in Houston.
 - **2010:** Harmony Science Academy – Laredo team received 1st place at the South Texas FLL Finals.
 - **2010:** Harmony Science Academy – Dallas won 4th place at the North Texas FLL Championship.
 - **2009:** Harmony Science Academy – El Paso team won 1st place at the Texas Alliance for Minorities in Engineering (TAME)/FLL Tri-State Robotics Championship and represented the United States in the 2009 European Open Championship Robotics Competition.
 - **2009:** Harmony Science Academy – El Paso team won 1st and 2nd places at the Texas Computer Education Association (TCEA) Robotics Championship held in Austin.
 - **2009:** Harmony Science Academy – Beaumont won 1st place at the College Park FLL Qualifying Tournament.
- Charter School students were recognized for the following achievements at the following science fairs:
 - **2014:** Harmony School of Excellence – Houston student received 1st place award in the category of Mathematical Sciences at the State Science and Engineering Fair of Texas.
 - **2014:** Harmony Science Academy – Beaumont received 1st place award at a regional Science Olympiad.
 - **2013:** Harmony Science Academy – Houston High school student became semi-finalist in the Siemens Foundation Math and Science Competition.
 - **2013:** Harmony Science Academy – North Austin Quiz Bowl team scored the highest finish by any Texas small school in the 2013 National Academic Quiz Tournaments High School Championship in Atlanta, GA. HSA-NA ranked third in the nation in the “small schools” division.
 - **2010:** Harmony Science Academy – Euless won 9 awards at the Fort Worth Regional Science and Engineering Fair, including the Best School and Best Teacher awards.
 - **2009:** Harmony Science Academy – El Paso won 20 awards at a regional Science Olympiad tournament.
 - **2009:** Harmony Science Academy – El Paso won 20 awards at the Sun Country Regional Science and Engineering Fair.
 - **2009:** Harmony Science Academy – Fort Worth won 28 awards at the Fort Worth Regional Science and Engineering Fair.
 - **2009:** Harmony Science Academy – San Antonio won 1st and 2nd place awards and Harmony Science Academy – Laredo won 2nd and 4th place awards at the Texas Science and Engineering Fair.
 - The Borrower is responsible for establishing and organizing the International Sustainable World (Energy, Engineering, and Environment) Project (I-SWEEEP), a science fair competition open to high school students and the largest science fair event of its kind world-wide. In 2013, students from 70 countries participated in I-SWEEEP.
 - 24 of the Borrower’s Charter Schools have been designated as T-STEM (Texas Science Technology Engineering and Mathematics) Academies and have received funding from public and private organizations such as the Gates Foundation and the Dell Foundation as part of the Texas High School Project. As of 2014, there are a total of 77 T-STEM Academies in Texas.
 - Harmony Science Academy – Austin was selected as the best middle school in Central Texas in 2009 by Children at Risk, a nonprofit and nonpartisan organization that drives change for children through research, education and influencing public policy.

- Harmony Science Academy High School – Houston was listed as one of the top 10 high schools in Houston according to a study conducted by Children at Risk.

Educational Philosophy

The Borrower's Academic Department believes in the combination of learning by knowing and learning by doing. Knowledge, skills and concepts must be learned in all subjects. The Borrower's teaching techniques and materials are a combination of four nationally recognized programs: Direct Teaching, Problem-Based Learning, Project-Based Learning and Collaborative Learning. Teachers tailor their teaching methods according to their students' needs.

Direct Instruction

Direct instruction is the most traditional teaching method wherein content is transmitted to students via a teacher, a book, video, or other repository of knowledge. It is essential for transmitting conventions of communication and social behavior. It is also used to transmit conceptual and methodological knowledge. Direct instruction is a systematic way of planning, communicating, and delivering in the classroom.

Problem-Based Learning

Problem-based learning is an educational approach that organizes curriculum and instruction around carefully crafted problematic situations adapted from real-world issues. Problem-based learning, as the name implies, begins with a problem for students to solve or learn more about. Guided by teachers, students develop critical thinking, problem-solving, and collaborative skills in addition to content knowledge as they identify problems, formulate hypotheses, conduct data searches, perform experiments, formulate solutions, and determine the "best fit" of solutions to the conditions of the problem.

Project-Based Learning

Project-based learning is a model for classroom activity that emphasizes learning activities that are long-term, interdisciplinary, student-centered, and integrated with real world issues and practices. The project-based learning approach uses a production model: First, students define the purpose for creating the end product and identify their audience. They research their topic, design their product, and create a plan for project management. Students then begin the project, resolve problems and issues that arise in production, and finish their product. Students may use or present the product they have created, and ideally are given time to reflect on and evaluate their work. The entire process is meant to be authentic, mirroring real world production activities and utilizing students' own ideas and approaches to accomplish the tasks at hand.

Collaborative Learning

Collaborative learning techniques involve two or more students working together to solve problems and complete tasks. Students learn to depend upon and use each other's strengths to solve problems. Research shows that collaborative work supports greater retention of subject matter, improved attitudes toward learning and teaches children how to get along with each other.

Family Involvement

The Borrower believes that parental support is vital to the success of its Charter Schools. The Borrower believes that high student attendance is a result of high family involvement in the school's programs. Therefore, parents/guardians are asked to participate in the school process by volunteering to serve on a committee or in the classroom, run a social activity, or coach—all at the comfort level of the parent/guardian. Various programs encourage parents to reinforce at home what the students are learning at school. Teachers also conduct home visits, especially for those parents who have lower levels of communication with teachers because of their work schedules.

Prior, Current, Concurrent and Future Financings

Bond Financings Secured Under the Master Indenture. Excluding bonds being refinanced with proceeds of the Bonds (See " – **The Refunding**" herein), the Series 2010 Bonds, Series 2011 Bonds and Series 2012 Bonds (each described below) were previously issued for the benefit of the Borrower and will remain outstanding. The uses of the proceeds of such bonds are also set forth below:

Series 2010 Bonds. The Borrower used the proceeds of the Texas Public Finance Authority Charter School Finance Corporation's \$50,090,000 Education Revenue Bonds (Cosmos Foundation, Inc.), Series 2010A and \$39,910,000 Taxable Education Revenue Bonds (Cosmos Foundation, Inc.), Series 2010Q (Qualified School Construction Bonds – Direct Pay) (collectively, the “*Series 2010 Bonds*”) to:

- (i) construct new gymnasiums at Harmony Science Academy – Bryan/College Station and Harmony Science Academy – Lubbock;
- (ii) renovate leased facilities at Harmony School of Excellence – Austin, Harmony Science Academy – North Austin, Harmony School of Innovation – Dallas, Harmony School of Innovation – El Paso, Harmony Science Academy – Dallas and Harmony School of Discovery – Houston;
- (iii) complete construction of facilities at Harmony School of Nature and Athletics – Dallas, Harmony School of Art and Technology – Houston, Harmony School of Innovation – San Antonio, Harmony School of Advancement High School – Houston, Harmony School of Innovation – Houston and Harmony School of Ingenuity – Houston;
- (iv) acquire land and construct new facilities at Harmony School of Political Science and Communication – Austin and Harmony School of Science – Sugar Land High School;
- (v) purchase previously leased facilities at Harmony Science Academy – Austin;
- (vi) purchase and improve existing facilities at Harmony Science Academy – Garland; and
- (vii) refinance existing debt.

The Series 2010 Bonds are outstanding in the aggregate principal amount of \$90,000,000. The Series 2010 Bonds are payable from payments to be made by the Borrower under two promissory notes (the “*Series 2010 Notes*”) issued by the Borrower to the Texas Public Finance Authority Charter School Finance Corporation and assigned to the bond trustee for the Series 2010 Bonds as security therefor. The Series 2010 Notes are entitled to the benefit of the Master Indenture and are secured under the Master Indenture on a parity with the Series 2011 Notes (defined below), the Series 2012 Notes (defined below), the Series 2014A Note, the Bridge Note (defined below), the LISA Note (defined below) and the Equipment Note (defined below) (collectively, such Notes are referred to as the “*Outstanding Senior Notes*”) and any future promissory notes issued pursuant to the Master Indenture on a parity therewith.

Series 2011 Bonds. The Borrower used the proceeds of the City of Houston Higher Education Finance Corporation \$58,930,000 Education Revenue Bonds (Cosmos Foundation, Inc.), Series 2011A and \$5,085,000 Taxable Education Revenue Bonds (Cosmos Foundation, Inc.), Series 2011Q (Qualified School Construction Bonds – Direct Pay) (collectively, the “*Series 2011 Bonds*”) to:

- (i) make classroom additions and renovations to Harmony School of Discovery – Houston, Harmony Science Academy – Austin, Harmony Science Academy – Odessa and Harmony Science Academy – Garland;
- (ii) Add a gym addition for Harmony Science Academy – Austin, Harmony School of Science – Sugar Land High School, Harmony School of Political Science and Communication – Austin and Harmony School of Nature and Athletics – Dallas;
- (iii) construct a new building to house Harmony School of Innovation – Fort Worth;
- (iv) pay for certain earlier cost overruns for Harmony School of Nature and Athletics – Dallas;
- (v) purchase new school sites and construct new buildings to house Harmony School of Political Science and Communication – Austin, Harmony School of Science – Sugar Land High School, Harmony School of Business – Dallas and Harmony Science Academy – West Houston; and
- (vi) purchase the existing facility for Harmony Science Academy – Dallas and Harmony School of Innovation – Dallas.

The Series 2011 Bonds are outstanding in the aggregate principal amount of \$63,410,000. The Series 2011 Bonds are payable from payments to be made by the Borrower under two promissory notes (the “*Series 2011 Notes*”) issued by the Borrower to the City of Houston Higher Education Finance Corporation and assigned to the bond trustee for the Series 2011 Bonds as security therefor. The Series 2011 Notes are entitled to the benefit of the Master Indenture and are secured under the Master Indenture on a parity with the Outstanding Senior Notes and any future promissory notes issued pursuant to the Master Indenture on a parity therewith.

Series 2012 Bonds. The Borrower used the proceeds of the City of Houston Higher Education Finance Corporation \$31,350,000 Education Revenue Bonds (Cosmos Foundation, Inc.), Series 2012A (the “*Series 2012 Bonds*”) to:

- (i) refinance Harmony School of Ingenuity – Houston and add additional classrooms to the second floor;
- (ii) acquire a building that was leased by the Borrower for Harmony Science Academy – Beaumont and add a new gymnasium;
- (iii) purchase an adjacent building to Harmony School of Innovation – Houston and remodel it to create additional classrooms and a cafeteria;
- (iv) expand Harmony School of Nature and Athletics – Dallas through the addition of a new gymnasium, parking, landscaping and the partial renovation of the existing building;
- (v) expand Harmony School of Discovery – Houston by adding classrooms and a gymnasium;
- (vi) add a gymnasium, two cafeterias and seven classrooms at Harmony Science Academy – West Houston;
- (vii) landscape and add a soccer field at Harmony School of Innovation – Dallas;
- (viii) construct a fence, landscape and develop a soccer field at Harmony Science Academy – Garland; and
- (ix) refinance then-existing indebtedness incurred for the acquisition of furniture, fixtures and equipment and for the payment of other expenses of the projects described in **clauses (i) – (viii)** above.

The Series 2012 Bonds are outstanding in the aggregate principal amount of \$30,820,000. The Series 2012 Bonds are payable from payments to be made by the Borrower under a promissory note (the “*Series 2012 Note*”) issued by the Borrower to the City of Houston Higher Education Finance Corporation and assigned to the bond trustee for the Series 2012 Bonds as security therefor. The Series 2012 Notes are entitled to the benefit of the Master Indenture and are secured under the Master Indenture on a parity with the Outstanding Senior Notes and any future promissory notes issued pursuant to the Master Indenture on a parity therewith.

Series 2014 Bonds. See “**PLAN OF FINANCE**” in the Official Statement for additional information regarding the Projects to be financed with the proceeds of the Bonds.

The Bonds are payable from payments to be made by the Borrower under a promissory note (the “*Series 2014A Note*”) to be issued by the Borrower to the City of Houston Higher Education Finance Corporation and assigned to the bond trustee for the Bonds as security therefor. The Series 2014A Note will be entitled to the benefit of the Master Indenture and, upon the issuance of the Bonds, will be secured under the Master Indenture on a parity with the Outstanding Senior Notes and any future promissory notes issued pursuant to the Master Indenture on a parity therewith.

Other Obligations Secured Under the Master Indenture.

In addition to the Master Notes relating to the bonds described above, the Borrower has issued a promissory note in the amount of \$25,000,000 (the “*Bridge Note*”) to evidence a bridge loan from Regions Bank (the “*Bridge Loan*”). The Bridge Loan is dated April 5, 2013, has a variable interest rate and interest is payable semi-annually on August 15 and February 15. The total amount of the bridge loan is due in a lump sum upon maturity. As of

May 31, 2014, \$9,378,327.46 was outstanding on the Bridge Note. The date of maturity is April 5, 2015. It is anticipated that the outstanding principal amount of the Bridge Note will be paid with proceeds of the Bonds.

The Borrower has also issued a promissory note in the amount of \$1.9 million (the “*LISA Note*”) to evidence its obligations under a guaranty relating to the debt of LISA Academy (“*LISA*”), a non-profit corporation operating charter schools in Little Rock, Arkansas. As of May 31, 2014, \$1,245,000 of such debt remained outstanding. The LISA Note is entitled to the benefit of the Master Indenture and is secured under the Master Indenture on a parity with the Outstanding Senior Notes and any future promissory notes issued pursuant to the Master Indenture on a parity therewith.

Finally, the Borrower has issued a promissory note outstanding in the amount of \$1,025,000 (the “*Equipment Note*”) the proceeds of which were used to acquire furniture and equipment. The Equipment Note bears interest at a variable rate and is payable in 60 installments of \$25,000. The maturity of such note is October 1, 2017.

Other Long-Term Debt. Excluding indebtedness being refinanced with proceeds of the Bonds (See “ – The Refinancing” herein) and in addition to indebtedness issued under and entitled to the benefit of the Master Indenture, the Borrower has incurred additional indebtedness, not secured under the Master Indenture, including the following:

1. Unsecured note payable to a landlord. The note is dated August 1, 2012, and has a 7% interest rate, payable in 24 installments of \$18,200.05 and is outstanding in the amount of \$53,969 as of May 31, 2014. The date of maturity is August 1, 2014.
2. Note payable to a church, secured by land. The note is dated December 9, 2011, has a 5.50% interest rate, is payable in 24 monthly installments of \$9,921 and is outstanding in the amount of \$19,707 as of May 31, 2014. The date of maturity is August 1, 2014.

The Borrower has also guaranteed a 10-year lease entered into by the Read Foundation, which operates a charter school in Memphis, Tennessee. Payments under the lease range from approximately \$18,000 to \$47,000 per month, depending upon the amount of space leased (currently, the lease payments are approximately \$38,000 per month).

Future Financings. In addition to the Series 2014A Note, it is highly likely that the Borrower will issue additional promissory notes in the future to finance additional expansion and new campus projects, subject to compliance with its covenants in the Master Indenture. Such promissory notes may or may not be on a parity with the Master Notes. The Borrower anticipates operating 45 charter schools by 2015-16 and anticipates opening two to three additional schools per year thereafter.

Facilities

The following table provides information regarding the locations from which the Charter Schools currently operate.

TABLE 2: EXISTING/PROPOSED FACILITIES				
CHARTER NAME/CAMPUS NAME & ADDRESS	OWN/LEASE (LEASE EXPIRATION DATE)	APPROXIMATE SQUARE FOOTAGE ⁽¹⁾	YEAR FIRST BUILT	STUDENT CAPACITY ⁽¹⁾
Harmony Science Academy (Houston)				
1.Harmony Science Academy High School – Houston 9431–9441 W. Sam Houston Pkwy. S., Houston, TX	Own	35,000	1986	875
2.Harmony School of Innovation – Houston 9421 W. Sam Houston Pkwy. S., Houston, TX	Own	41,400	1986	1,035
3.Harmony School of Ingenuity – Houston 10555 Stella Link Rd., Houston, TX	Own	68,000	2000	1,550
4.Harmony Science Academy – Houston 5435 S. Braeswood Blvd., Houston, TX	Own	22,000	1976	550
5.Harmony School of Fine Arts and Technology – Houston 9115 Kirby Dr., Houston, TX	Own	73,000	2010	1,700

**TABLE 2:
EXISTING/PROPOSED FACILITIES**

CHARTER NAME/CAMPUS NAME & ADDRESS	OWN/LEASE (LEASE EXPIRATION DATE)	APPROXIMATE SQUARE FOOTAGE ⁽¹⁾	YEAR FIRST BUILT	STUDENT CAPACITY ⁽¹⁾
6. Harmony School of Exploration – Houston 9303 and 9305 W. Sam Houston Parkway South, Houston, TX	Own	78,255	1980	1,732
Harmony School of Excellence				
1. Harmony School of Excellence – Houston 7340 N. Gessner Dr., Houston, TX	Lease (7/31/2020)	88,000	1984	1,800
2. Harmony School of Excellence – Endeavor 5668 W. Little York Rd., Houston, TX	Lease (8/31/2019)	32,913	1984	820
3. Harmony Science Academy – Bryan/College Station 2031 S. Texas Ave., Bryan, TX	Own	24,000	1990	600
4. Harmony Science Academy – Houston Northwest 16200 Tomball Pkwy. (SH 249), Houston, TX	Lease (7/31/2017)	47,000	1987	1,175
5. Harmony School of Advancement High School – Houston 3171 N. Sam Houston Pkwy. W., Houston, TX	Own	62,000	2010	1,550
6. Harmony School of Discovery – Houston 6270 Barker Cypress Rd., Houston, TX	Own	34,500	2008	860
Harmony School of Science (Houston)				
1. Harmony School of Science – Houston 13415 W. Belfort Ave., Sugar Land, TX ⁽²⁾	Own	36,937	2008	920
2. Harmony School of Science – Sugar Land High School 13522 W. Airport Blvd., Sugar Land, TX	Own	69,850	2011	1,256
3. Harmony Science Academy – West Houston ⁽³⁾ 22400 Grand Corner Drive, Katy, TX	Own	59,500	2011	1,180
4. Harmony Science Academy – Beaumont ⁽⁴⁾ 4055 Calder Ave., Beaumont, TX	Own	41,599	1993	866
Harmony Science Academy (Waco)				
1. Harmony Science Academy – Waco 1900 N. Valley Mills Dr., Waco, TX	Lease (8/30/2017) ⁽⁵⁾	54,265	1988	1,350
2. Harmony Science Academy – Dallas 11945-12005 Forestgate Dr., Dallas, TX	Own	48,000	1985	1,200
3. Harmony School of Innovation – Dallas 1024 W. Rosemeade Pkwy., Carrollton, TX	Own	41,000	1985	1,000
4. Harmony Science Academy – Garland 2302 Firewheel Pkwy., Garland, TX	Own	54,000	1995	1,200
5. Harmony School of Innovation – Garland ⁽⁶⁾ 2302 Firewheel Pkwy., Garland, TX	Own	46,128	2014	1,420
6. Harmony School of Business – Dallas SH 190 at Frankford Rd., Dallas, TX	Own	48,000	2012	1,200
7. Harmony Science Academy – Fort Worth 5651 Westcreek Dr., Fort Worth, TX ⁽⁷⁾	Lease (8/31/2016) ⁽⁵⁾	47,000	1975	1,175
8. Harmony Science Academy – Grand Prairie 1102 NW 7th St., Grand Prairie, TX ⁽⁷⁾	Own	50,200	1981	1,200
9. Harmony Science Academy – Euless 701 S. Industrial Blvd., Euless, TX ⁽⁷⁾	Lease (8/31/2021) ⁽⁸⁾	48,000	2002	1,200
10. Harmony School of Nature and Athletics – Dallas 8120 W. Camp Wisdom Rd., Dallas, TX ⁽⁷⁾	Own	101,000	2011	2,000
11. Harmony School of Innovation – Fort Worth 8100 South Hulen Street, Fort Worth, TX ⁽⁷⁾	Own	82,550	2012	2,325
12. Harmony School of Innovation – Euless 701 S. Industrial Blvd., Euless, TX ⁽⁷⁾	Lease (8/31/2021) ⁽⁸⁾	37,200	2013	900
Harmony Science Academy (Austin)				
1. Harmony Science Academy – Austin 930 E. Rundberg Ln., Austin, TX	Own	46,900	1972	1,221
2. Harmony Science Academy – North Austin 1421 Wells Branch Pkwy. W., Pflugerville, TX	Lease (8/31/2020) ⁽⁹⁾	55,000	1998	1,300

**TABLE 2:
EXISTING/PROPOSED FACILITIES**

CHARTER NAME/CAMPUS NAME & ADDRESS	OWN/LEASE (LEASE EXPIRATION DATE)	APPROXIMATE SQUARE FOOTAGE ⁽¹⁾	YEAR FIRST BUILT	STUDENT CAPACITY ⁽¹⁾
3. Harmony School of Excellence – Austin 2100 E. Saint Elmo Rd., Austin, TX	Lease (8/31/2021)	49,966	1998	1,200
4. Harmony School of Innovation – Austin 2124 E. Saint Elmo Rd., Austin, TX	Lease (8/31/2021) ⁽⁹⁾	26,100	1981	800
5. Harmony School of Science – Austin 11800 Stonehollow Dr., Austin, TX	Lease (8/31/2020)	23,350	1999	790
6. Harmony School of Political Science and Communication – Austin 13415 FM 620 North, Austin, TX	Own	71,200	2011	1,400
Harmony Science Academy (El Paso)				
1. Harmony Science Academy – El Paso 9405 Betel Dr., El Paso, TX	Lease (5/31/2017)	86,000	2007	2,000
2. Harmony School of Innovation – El Paso 5210 Fairbanks Dr., El Paso, TX	Lease (12/31/2015)	72,000	1987	1,800
3. Harmony Science Academy – Lubbock ⁽¹⁰⁾ 1516 53 rd St., Lubbock, TX, 1501 52 nd St., Lubbock, TX, 1503 52 nd St., Lubbock, TX and 5201 Avenue P, Lubbock, TX	Own	53,000	1980	1,325
4. Harmony Science Academy – Odessa ⁽¹⁰⁾ 2755 N. Grandview Ave., Odessa, TX	Lease (8/31/2020)	36,145	2001	850
Harmony Science Academy (San Antonio)				
1. Harmony Science Academy – San Antonio 8505 Lakeside Pkwy., San Antonio, TX	Own	62,000	2006	1,550
2. Harmony School of Innovation – San Antonio 8125 Glen Mont Dr., San Antonio, TX	Own	74,700	2010	1,868
3. Harmony Science Academy – Laredo ⁽¹¹⁾ 4401 San Francisco Ave., Laredo, TX	Lease (8/31/2018) ⁽¹²⁾	48,569	1997	1,000
4. Harmony School of Innovation – Laredo 616 Leal Street, Laredo, TX	Lease (6/30/2025) ⁽¹³⁾	31,000	1987	750
5. Harmony Science Academy – Brownsville 1124 Central Blvd., Brownsville, TX ⁽¹⁴⁾	Lease (8/31/2018)	44,000	1970	1,000

Source: The Borrower.

⁽¹⁾ Determined assuming the completion of the Projects being financed with proceeds of the Bonds.

⁽²⁾ To be purchased with proceeds of the Bonds.

⁽³⁾ Harmony Science Academy – West Houston was transferred from the Harmony Science Academy (El Paso) charter in order to be in better geographic alignment.

⁽⁴⁾ Harmony Science Academy – Beaumont was transferred from the Harmony Science Academy (Houston) charter in order to be in better geographic alignment.

⁽⁵⁾ Two five year extensions are available at increased rates.

⁽⁶⁾ The Borrower will need to issue additional Debt in order to complete Harmony School of Innovation – Garland.

⁽⁷⁾ The Borrower agreed to transfer Harmony Science Academy – Fort Worth, Harmony Science Academy – Grand Prairie, Harmony Science Academy – Euless, Harmony School of Nature and Athletics – Dallas, Harmony School of Innovation – Fort Worth and Harmony School of Innovation – Euless from the Harmony Science Academy (Fort Worth) charter to the Harmony Science Academy (Waco) charter in order to obtain the approval of the TEA to the guarantee of the Bonds under the Bond Guarantee Program of the Permanent School Fund of the State of Texas. The Harmony Science Academy (Fort Worth) charter was subsequently returned to the TEA.

⁽⁸⁾ One five year extension is available at prevailing market rates.

⁽⁹⁾ Two five year extensions are available at prevailing market rates.

⁽¹⁰⁾ The Borrower agreed to transfer Harmony Science Academy – Lubbock and Harmony Science Academy – Odessa from the Harmony Science Academy (Lubbock) charter to the Harmony Science Academy (El Paso) charter in order to obtain the approval of the TEA to the guarantee of the Bonds under the Bond Guarantee Program of the Permanent School Fund of the State of Texas. The Harmony Science Academy (Lubbock) charter was subsequently returned to the TEA.

⁽¹¹⁾ Harmony Science Academy – Laredo was transferred from the Harmony Science Academy (Laredo) charter to the Harmony Science Academy (San Antonio) charter in order to increase financial efficiency by consolidating some positions and improving cash flow restrictions. The Harmony Science Academy (Laredo) charter was subsequently returned to the TEA.

⁽¹²⁾ One five year extension is available at the prior year's rates.

(13) Two ten year extensions are available at a “capped” fair market rental rate.

(14) The Borrower agreed to transfer Harmony Science Academy – Brownsville from the Harmony Science Academy (Brownsville) charter to the Harmony Science Academy (San Antonio) charter in order to obtain the approval of the TEA to the guarantee of the Bonds under the Bond Guarantee Program of the Permanent School Fund of the State of Texas. The Harmony Science Academy (Brownsville) charter was subsequently returned to the TEA.

The Projects

The proceeds of the Bonds will be used to finance or refinance the Projects described below and to pay the costs of issuance of the Bonds.

TABLE 3: ESTIMATED PROJECT COSTS⁽¹⁾		
CAMPUS	2014A RELATED COSTS⁽¹⁾	PROJECT DESCRIPTION
Harmony School of Innovation – Austin	\$2,200,000	Conversion of a leased warehouse to a new school
Harmony Science Academy – Austin	\$5,500,000	Expand current school building
Harmony School of Innovation– Garland	\$3,000,000	Build new school building on owned property
Harmony School of Innovation – Dallas	\$7,500,000	Build new school building on owned property
Harmony School of Innovation – Fort Worth	\$6,000,000	Expand current school building
Harmony School of Nature and Athletics – Dallas	\$1,500,000	Addition of a new gymnasium
Harmony School of Exploration – Houston	\$2,500,000	Renovate existing owned building
Harmony School of Science – Houston	\$5,400,000	Acquire the existing leased facility
Miscellaneous Projects	\$9,031,117	Capital improvements, furniture and equipment for multiple locations
Subtotal to be Financed	<u>\$42,631,117⁽²⁾</u>	
Bank Loan Refinancing	\$7,575,811	Acquire and renovate properties, fund capital improvements, furniture and equipment at multiple locations
Total	<u>\$50,206,928</u>	

Source: The Borrower.

(1) Preliminary, based upon current construction estimates.

(2) To be funded with \$32 million of Bond proceeds plus prior draws of \$10,631,115 on the Bridge Loan.

The Refinancing

As reflected in **Table 3** above, proceeds of the Bonds will be used to refinance two existing bank loans and the outstanding amount of the Bridge Loan in the amount of approximately \$18,206,926.

The Refunding

Proceeds of the Series 2014A Bonds will be used to refund the Texas Public Finance Authority Charter School Finance Corporation’s Education Revenue Bonds (Cosmos Foundation), Series 2007A outstanding in the aggregate principal amount of \$26,700,000 and the La Vernia Higher Education Finance Corporation’s Education Revenue Bonds (Cosmos Foundation), Series 2008A outstanding in the aggregate principal amount of \$29,190,000. See “**PLAN OF FINANCE**” in the forepart to this Official Statement.

Project Construction

General

The Borrower employs a construction staff of five professionals for the purpose of overseeing the development of its construction projects. Generally, the Borrower’s construction staff is responsible for architectural design and management of its construction projects. The Borrower does not anticipate entering into fixed-price construction contracts with respect to the Projects. Rather, the Borrower assumes the risk of completing the Projects on budget. The Borrower has been advised by its outside architect that the proceeds of the Bonds, together with

available funds available to the Borrower, will be sufficient for the completion of the Projects. If the proceeds are not sufficient, the Borrower may not be able to complete the Projects in a timely fashion or at all, which could adversely affect the ability of the Borrower to generate sufficient revenues to pay debt service on the Bonds. Additionally, restrictions on the incurrence of additional Debt contained in the Master Indenture could limit the ability of the Borrower to incur additional Debt in order to complete the Projects in the event of a shortfall in the proceeds of the Bonds.

Construction Process

Generally, after initial designs are completed by the in-house construction staff, the Borrower contracts with an outside architect to draft final plans and assist with the construction process. After that, legal notices are published in the local newspaper announcing that the Borrower is seeking bids for the construction projects. The notices are published for a two-week period. Over the following two-week period after the notices have been published, the Borrower receives sealed bids for the contracts. The bids are then opened in public (and usually in front of a number of bidders) and tabulated. The Borrower then, with the assistance of its independent architect, selects the lowest responsible bid.

Charter Contracts

General

The Charter Schools operate or will operate pursuant to seven open-enrollment charter contracts between the Borrower and the Texas State Board of Education (the “*State Board of Education*”) under Chapter 12 of the Texas Education Code, Section 12.001 *et seq.* (the “*Charter Schools Act*”). The Charter Schools Act provides for the creation of charter schools in order to improve student learning, to increase the choice of learning opportunities within the public school system, to create professional opportunities that will attract new teachers to the public school system, to establish a new form of accountability for public schools and to encourage different and innovative learning methods. The Charter Schools Act provides for three kinds of charter contracts: home-rule school district charters, campus or campus programs charters, and open-enrollment charters. See “**APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW – GENERAL.**” A charter contract governs such matters as the recipient’s authority to operate, student admissions and performance, financial management, and governance and operations. The term of an open-enrollment charter contract is not specifically provided under State law, and there is no formal annual review process. The current practice of the Texas Education Agency (the “*TEA*”) is to grant open-enrollment charters for a five-year period and then to renew such charters for additional ten-year periods. At the end of each charter contract, each charter holder is required to submit a charter renewal application to the TEA. Charter schools are required to provide periodic reports to the TEA, including financial data, an annual governance report, and an annual financial audit report. Additionally, charter schools must report enrollment data to TEA every six weeks. If any such reports are missing or not satisfactory, the TEA may follow up with additional questions.

In the second quarter of 2014, the Borrower applied to the TEA for the Bonds to be guaranteed under the Bond Guarantee Program of the Permanent School Fund of the State of Texas. The TEA declined the request for guarantee because the Borrower operated one charter district, Harmony Science Academy (Lubbock), which failed to meet standard under the State’s academic accountability ratings. In subsequent discussions, the TEA agreed to approve the Bonds for the Bond Guarantee Program of the Permanent School Fund of the State of Texas if the Borrower agreed to return three of its charter districts and consolidate the charter schools under such districts into other existing charter districts of the Borrower. The Borrower agreed to return such charter districts effective July 1, 2014. The description of the Borrower, the charter districts and the Charter Schools described herein reflect the structure of the Borrower, the charter districts and the Charter Schools after the effectiveness of the return of the three charter districts.

The table following contains information regarding each of the Borrower’s charters, the current expiration dates and the current accountability ratings.

TABLE 4: CHARTER INFORMATION				
CHARTER NAME/CAMPUS NAME	CHARTER GRANTED/ CAMPUS OPENED	ORIGINAL CHARTER EXPIRATION DATE	CURRENT CHARTER EXPIRATION DATE	2012–13 ACCOUNTABILITY RATING
Harmony Science Academy (Houston) (101-846)	05/19/00	07/31/05	7/31/15	Met Standard
1. Harmony Science Academy High School – Houston	2000–01			Met Standard
2. Harmony School of Innovation – Houston	2005–06			Met Standard
3. Harmony School of Ingenuity – Houston	2009–10			Met Standard
4. Harmony Science Academy – Houston	2010–11			Met Standard
5. Harmony School of Fine Arts and Technology – Houston	2010–11			Met Standard
6. Harmony School of Exploration – Houston	2013-14			N/A
Harmony School of Excellence (101-858)	02/01/06	07/31/10	7/31/20	Met Standard
1. Harmony School of Excellence – Houston	2006–07			Met Standard
2. Harmony School of Excellence – Endeavor	2009–10			Met Standard
3. Harmony Science Academy – Bryan/College Station	2007–08			Met Standard
4. Harmony Science Academy – Houston Northwest	2006–07			Met Standard
5. Harmony School of Advancement High School – Houston	2010–11			Met Standard
6. Harmony School of Discovery – Houston	2010–11			Met Standard
Harmony School of Science – Houston (101-862)	04/25/08	07/31/13	7/31/23	Met Standard
1. Harmony School of Science – Houston	2008–09			Met Standard
2. Harmony School of Science – Sugar Land High School	2011–12			Met Standard
3. Harmony Science Academy – West Houston ⁽¹⁾	2011–12			Met Standard
4. Harmony Science Academy – Beaumont ⁽²⁾	2007–08			Met Standard
Harmony Science Academy (Waco) (161-807)	02/26/07	07/31/11	7/31/21	Met Standard
1. Harmony Science Academy – Waco	2007–08			Met Standard
2. Harmony Science Academy – Dallas	2007–08			Met Standard
3. Harmony School of Innovation – Dallas	2009–10			Met Standard
4. Harmony Science Academy – Garland	2010–11			Met Standard
5. Harmony School of Innovation – Garland	2014-15			N/A
6. Harmony School of Business – Dallas	2012–13			Met Standard
7. Harmony Science Academy – Fort Worth ⁽³⁾	2006–07			Met Standard
8. Harmony Science Academy – Grand Prairie ⁽³⁾	2008–09			Met Standard
9. Harmony Science Academy – Euless ⁽³⁾	2009–10			Met Standard
10. Harmony School of Nature and Athletics – Dallas ⁽³⁾	2010–11			Met Standard
11. Harmony School of Innovation – Fort Worth ⁽³⁾	2012–13			Met Standard
12. Harmony School of Innovation – Euless ⁽³⁾	2013-14			Met Standard
Harmony Science Academy (Austin) (227-816)	05/19/00	07/31/05	7/31/15	Met Standard
1. Harmony Science Academy – Austin	2000–01			Met Standard
2. Harmony Science Academy – North Austin	2008–09			Met Standard
3. Harmony School of Excellence – Austin	2009–10			Met Standard
4. Harmony School of Innovation – Austin	2014-15			N/A
5. Harmony School of Science – Austin	2006–07			Met Standard
6. Harmony School of Political Science and Communication – Austin	2011–12			Met Standard
Harmony Science Academy (El Paso) (071-806)	02/01/06	07/31/10	7/31/20	Met Standard
1. Harmony Science Academy – El Paso	2006–07			Met Standard
2. Harmony School of Innovation – El Paso	2009–10			Met Standard
3. Harmony Science Academy – Lubbock ⁽⁴⁾	2007–08			Improvement Required
4. Harmony Science Academy – Odessa ⁽⁴⁾	2010–11			Met Standard

TABLE 4: CHARTER INFORMATION				
CHARTER NAME/CAMPUS NAME	CHARTER GRANTED/ CAMPUS OPENED	ORIGINAL CHARTER EXPIRATION DATE	CURRENT CHARTER EXPIRATION DATE	2012–13 ACCOUNTABILITY RATING
Harmony Science Academy (San Antonio) (015-828)	02/01/06	07/31/10	7/31/20	Met Standard
1. Harmony Science Academy – San Antonio	2006–07			Met Standard
2. Harmony School of Innovation – San Antonio	2010–11			Met Standard
3. Harmony Science Academy – Laredo ⁽⁵⁾	2008–09			Met Standard
4. Harmony School of Innovation – Laredo	2014–15			N/A
5. Harmony Science Academy – Brownsville ⁽⁶⁾	2008–09			Met Standard

Source: The Borrower.

- (1) Harmony Science Academy – West Houston was transferred from the Harmony Science Academy (El Paso) charter in order to be in better geographic alignment.
- (2) Harmony Science Academy – Beaumont was transferred from the Harmony Science Academy (Houston) charter in order to be in better geographic alignment.
- (3) The Borrower agreed to transfer Harmony Science Academy – Fort Worth, Harmony Science Academy – Grand Prairie, Harmony Science Academy – Euless, Harmony School of Nature and Athletics – Dallas, Harmony School of Innovation – Fort Worth and Harmony School of Innovation – Euless from the Harmony Science Academy (Fort Worth) charter to the Harmony Science Academy (Waco) charter in order to obtain the approval of the TEA to the guarantee of the Bonds under the Bond Guarantee Program of the Permanent School Fund of the State of Texas. The Harmony Science Academy (Fort Worth) charter was subsequently returned to the TEA.
- (4) The Borrower agreed to transfer Harmony Science Academy – Lubbock and Harmony Science Academy – Odessa from the Harmony Science Academy (Lubbock) charter to the Harmony Science Academy (El Paso) charter in order to obtain the approval of the TEA to the guarantee of the Bonds under the Bond Guarantee Program of the Permanent School Fund of the State of Texas. The Harmony Science Academy (Lubbock) charter was subsequently returned to the TEA.
- (5) Harmony Science Academy – Laredo was transferred from the Harmony Science Academy (Laredo) charter to the Harmony Science Academy (San Antonio) charter in order to increase financial efficiency by consolidating some positions and improving cash flow restrictions. The Harmony Science Academy (Laredo) charter was subsequently returned to the TEA.
- (6) The Borrower agreed to transfer Harmony Science Academy – Brownsville from the Harmony Science Academy (Brownsville) charter to the Harmony Science Academy (San Antonio) charter in order to obtain the approval of the TEA to the guarantee of the Bonds under the Bond Guarantee Program of the Permanent School Fund of the State of Texas. The Harmony Science Academy (Brownsville) charter was subsequently returned to the TEA.

The Borrower was granted its initial open-enrollment charter from the TEA to operate its initial school as an open-enrollment charter school on May 19, 2000. The Borrower currently holds seven open-enrollment charters from the TEA. Once the Projects are complete, the Borrower will have the capacity to accommodate up to 53,493 students (although the charters currently limit the total number of students to 50,400 students).

Revocation, Nonrenewal, Modification of Governance and Automatic Revocation

Under the Charter Schools Act and the terms of the Borrower’s charter contract, the Commissioner of Education (the “*Commissioner*”) shall revoke the charter of, or modify the governance of the holder of a charter of an open-enrollment charter school, or reconstitute the governing body of the charter holder, if the Commissioner determines that the charter holder:

- (i) committed a material violation of the charter, including failure to satisfy accountability provisions prescribed by the charter;
- (ii) failed to satisfy generally accepted accounting standards of fiscal management;
- (iii) failed to protect the health, safety, or welfare of the students enrolled at the school;
- (iv) failed to comply with any applicable law or rule;
- (v) failed to satisfy the performance framework standards adopted under Section 12.1181 of the Texas Education Code; or
- (vi) is imminently insolvent as determined by the Commissioner in accordance with Commissioner rule.

Any action (described above) that the Commissioner takes must be based on the best interest of the open-enrollment charter school's students, the severity of the violation, any previous violation the school has committed and the accreditation status of the school. If the Commissioner takes such action, the open-enrollment charter school may not receive funding and may not resume operating until a determination is made that:

- (i) despite initial evidence, the conditions at the school do not present a danger of material harm to the health, safety, or welfare of students, or
- (ii) the conditions at the school that presented a danger of material harm to the health, safety, or welfare of students have been corrected.

Not later than the third business day after the date the Commissioner takes action, the Commissioner must provide the school an opportunity for a hearing, after which the Commissioner must take action or cease any temporary sanctions. Texas law provides that relevant provisions of the Texas Government Code do not apply to a hearing related to a revocation or modification of governance of an open-enrollment charter school. A decision by the Commissioner to revoke a charter is however, subject to review by the State Office of Administrative Hearings. Subject to Chapter 2001, Government Code, the administrative law judge shall uphold a decision by the Commissioner to revoke a charter unless the judge finds the decision is arbitrary and capricious or clearly erroneous; and a decision of the administrative law judge under this subsection is final and may not be appealed. If the Commissioner revokes the charter of an open-enrollment charter school, the Commissioner may manage the school until alternative arrangements are made for the school's students; and assign operation of one or more campuses formerly operated by the charter holder who held the revoked charter to a different charter holder who consents to the assignment. For additional information, see "**APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW – GENERAL – CHARTER REVISION, REVOCATION AND NON-RENEWAL.**"

In addition, Texas law requires that if a charter holder has failed to meet academic or financial accountability ratings for any three of the five preceding school years, the charter is required to be revoked. Harmony Science Academy (Lubbock), as a district, had an accountability rating in 2013 of "Improvement Required." However, the charter schools under such district were transferred to Harmony Science Academy (El Paso) district and the Harmony Science Academy (Lubbock) district was returned to the TEA.

Board of Directors

The Borrower operates as a nonprofit corporation under the Texas Business Organizations Code. The Borrower is governed by applicable law and its articles of incorporation and bylaws. The Borrower is governed by a 6-member Board of Directors. Board members are recruited among volunteers who participate in activities of the Borrower and its Charter Schools and who share goals and objectives with the Borrower (*i.e.*, to establish and provide state-of-the-art math, science, and technology education). Identification and recruitment of new board members is a long-term process requiring a step-by-step approach. One of the Borrower's goals regarding board membership and diversity is to build a team around the Borrower's core values rather than around the unpredictable results of political elections or friendship. Currently, there is no set term for board members. Board members also serve on the Borrower's Membership Committee, Nominating Committee and Program Committee.

Dr. Oner U. Celepcikay is the President of the Board of Directors of the Borrower. He received his Ph.D. in Computer Science at University of Houston in 2009 and his M.S. Degree in Computer Science at the University of Houston in 2003. He received his Bachelor's Degree in Electrical Engineering in 1997 from Istanbul University. Dr. Celepcikay serves on the faculty at the University of Phoenix Business Information System Department and works as a web application developer. Prior to that, he served as an Information Technology Consultant with the Borrower and a Program Director and instructor for North American College. Before joining North American College, Dr. Celepcikay worked at the University of Houston Educational Technology Outreach Department from 2000 to 2007 as a graduate technology assistant. He has published a number of papers in his research fields including cluster analysis, multivariate statistical analysis, regional regression analysis and spatial data mining. Dr. Celepcikay is a member of the Institute of Electrical and Electronics Engineers.

Ms. Ellen A. MacDonald is a Vice President of the Board of Directors of the Borrower. Ms. MacDonald is the Executive Director/CEO of the Senior Guidance Directory. It is a Caregiving Handbook, available free to elders and their caregivers and it provides a comprehensive listing of resources and services that can help improve the lives of seniors and their caregivers as they strive to resolve their health, lifestyle and safety issues.

She has also previously served as program manager for care consultation and support groups at the Houston and Southeast Texas Chapter of the Alzheimer's Association and as Vice President for Health Services at Sheltering Arms Senior Services in Houston.

In 1999, Ms. MacDonald retired from the University of Texas at Houston, School of Nursing, where she served in a number of important roles, including Division Head for Gerontology in the Department of Systems and Technology at the UT-Houston School of Nursing and Associate Director for Community Affairs and Operations at the UT-Houston Center on Aging.

She received her bachelor's degree in History from Houghton College and her Master's Degree in Nursing from Case Western Reserve University.

Mr. Cengizhan Keskin is the Secretary of the Board of Directors of the Borrower. Mr. Keskin is a petroleum engineer and senior flow assurance consultant for SPT Group, a global provider of technology solutions and personnel for the oil production industry. Prior to that, Mr. Keskin was employed as a flow assurance specialist at Schlumberger Technology Corporation in Houston. He holds a Master of Engineering degree in Petroleum Engineering from the University of Tulsa where he also worked as a research assistant for the University of Tulsa Fluid Flow Projects. He received his M.Sc. and B.Sc. degrees in petroleum and natural gas engineering from Middle East Technical University in Ankara, Turkey. He has a number of publications in peer reviewed journals on multiphase flow and thermal analysis. He has also been involved in several high school and middle school science fairs as a judge on science and engineering.

Dr. Mustafa A. Atik is the Treasurer of the Board of Directors of the Borrower. Dr. Atik is a physician who has worked at Baylor College of Medicine as a researcher from 2005 to the present. Dr. Atik received his undergraduate degree from Hacettepe University School of Medicine in 1985. Following his graduation, he worked at Anayurt Medical Center in Afyon, Turkey for two years. He completed his residency in the field of Pulmonary Medicine at Ataturk Chest Diseases and Thoracic Surgery Center in Ankara, Turkey. Between 1992 and 1993, Dr. Atik worked as Pulmonary Medicine Specialist for the Ministry of Health in Turkey. From 1993 to 1999, he worked as a pulmonologist at Konya Exemplary Hospital and from 1999-2001 he was the Deputy Director of Konya Exemplary Hospital. In 2001, Dr. Atik moved to the United States and established a business in Houston, Texas. In 2005, he was hired as a Medical Researcher by Baylor College of Medicine.

Mr. Homer Stewart is the Second Vice President of the Board of Directors. Mr. Stewart is an electronic engineering technologist, a certified teacher in the state of Texas, and a curriculum development specialist and trainer. During his career he has served in the Fort Bend Independent School District, and as a faculty member at the Houston Community College Northeast Campus. Currently, Mr. Stewart is employed at Subsea Solutions, LLC, where he develops service curricular for subsea well equipment and subsea control systems targeting training of well completion, petroleum, and subsea engineers. Mr. Stewart's interest is empowering students by correlating critical-thinking academic skills with the hands-on implementation, integration, and translation of academic skills and activities to real world applications. Mr. Stewart serves as an advisory member on several committees in the cities of Houston and Sugar Land.

Dr. Kamil Sarac is a member of the Board of Directors. Dr. Sarac is an Associate Professor in the Department of Computer Science at The University of Texas at Dallas and Director of Education at the Cyber Security Research and Education Institute. Prior to that, he served as an Assistant Professor in the Department of Computer Science at the University of Texas at Dallas from 2002 to 2009. His research interests include computer networks and protocols, network security, network and service monitoring and internet measurements, overlay networks and their use in network security. Dr. Sarac obtained his PhD in computer science and his M.S. in Computer Science at the University of California at Santa Barbara in 2002. He obtained a B.S in Computer Engineering from Middle East Technical University in Ankara, Turkey,

Advisory Board of Governance

In addition to the Board of Directors, the Borrower has an Advisory Board of Governance (the "*Advisory Board*"). The Advisory Board was established to (a) support the Charter Schools; (b) plan school-community initiatives; (c) identify ways to learn from innovators in other sectors; (d) identify ways to improve communication, cooperation, and the exchange of ideas; (e) support ways to drive innovation in public education; (f) bring community leaders and the Charter Schools together in a spirit of cooperation to improve academic achievement and school wide endeavors; (g) serve as ambassadors for the Charter Schools by clearly articulating the school's mission,

accomplishments and goals to the community and by garnering support from key leaders of the community; and (h) to recommend activities or programs that generate greater cooperation between the community and the Charter Schools.

The table below sets out the current members of the Advisory Board of Governance, their occupation and the duration of their term.

<u>Name</u>	<u>Occupation</u>	<u>Organization</u>
Dr. Marshall Schott	Associate Vice Chancellor, Academic Affairs	Lone Star College
Charles Gardner	Managing Director	The Lamar Family Trust
Charles C. Foster	Attorney, Co-Chairman	FosterQuan, LLP
Dr. Alma Allen	State Representative	Texas House of Representatives
Dr. Soner Tarim	Chief Executive Officer and Superintendent	Harmony Public Schools
Dr. Bill Flores	President	University of Houston – Downtown
D’Artagnan Bebel	Vice President and General Manager	Fox 26 KRIV-TV and My 20 KTXH-TX
Dr. John Harper	Adjunct Professor of Accounting and Consultant	Texas A&M University at Commerce
Julie Norton	Director of Communications	Harmony Public Schools
Dr. Ozgur Ozer	Chief Academic Officer	Harmony Public Schools
Dr. Larry Spears	Director of Urban Center	University of Houston – Downtown
Zekeriya Yuksel	Chief Personnel Officer	Harmony Public Schools
Dr. Mark Smith	Dean, College of Natural Sciences and Mathematics	University of Houston
Brittane Lewis	Community Specialist	Harmony Public Schools
Dr. Robert Capraro	Co-Director, Aggie STEM Center	Texas A&M University
Dr. Robert LeBlanc	Associate Professor and Dean of the School of Education	University of St. Thomas
Dr. John Galiotos	Dean of Energy and Manufacturing Institute	Lone Star College

Senior Leadership and Succession Planning

Each of the Borrower’s Charter Schools is led by a Principal, who reports to a Cluster Superintendent. The Charter Schools are organized into eight “clusters,” and each of the eight Cluster Superintendents report to the Superintendent of Schools. Listed below are members of the Borrower’s senior leadership, along with a brief description of the responsibilities of their respective positions and biographical information pertaining to each.

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

Mr. Yalcin Akyildiz, Associate Superintendent and CFO – Mr. Akyildiz is the Associate Superintendent and Chief Financial Officer of the Borrower. As Chief Financial Officer, Mr. Akyildiz is responsible for all aspects of financial management of the Borrower. Mr. Akyildiz received his M.Ed. from University of Oklahoma in Mathematics Education and another M.Ed. from The University of Texas at Tyler in School Administration. Mr. Akyildiz has a B.S. degree in Mathematics. Mr. Akyildiz holds his superintendent certification as well as a non-profit

finance certificate from Rice University. Mr. Akyildiz has seventeen years of experience in education, fourteen of which is in charter school leadership. Prior to his current position, Mr. Akyildiz was the area superintendent overseeing the greater Houston area campuses of the Borrower. Prior to that, Mr. Akyildiz was the Superintendent of a charter school in Oklahoma. Under his leadership, the Oklahoma charter school received the highest academic ratings and many awards from the state.

Dr. Ozgur Ozer, EdD, Associate Superintendent and CAO – Dr. Ozer has worked as the Borrower’s Associate Superintendent and Chief Academic Officer since June 2012. He is responsible for overseeing academic activities, including curriculum development and implementation, assessment and accountability, high school programs, professional development, and special education services for all the campuses of Harmony Public Schools. Dr. Ozer began his teaching career as a science teacher at the first Harmony campus in 2000. He served in various capacities as a science fair coordinator, gifted and talented director, counselor, and assistant principal. In 2005, he was appointed as the first elementary school principal of the system. Dr. Ozer worked on various charter proposals, grants, policies, procedures, and guidelines on curriculum, charter school governance, and operations. He is the judging director for I-SWEEEP, an international science Olympiad held in Houston since 2008. Between 2007 and 2012, Dr. Ozer worked in North American University as faculty, director of enrollment management, and director of continuing education. Dr. Ozer holds a B.S. degree in Physics. He received his M. Ed. and Ed. D. degrees in Curriculum and Instruction from the University of Houston’s College of Education. He is a state certified charter school board trainer.

Mr. Erdal Caglar, Associate Superintendent and Chief Operating Officer – Mr. Caglar has been working as the Borrower’s Associate Superintendent and Chief Operating Officer since June 2011. He is responsible for the following items: incorporate procedures and regulations to manage charter operations and apply policies adopted by the Board; ensure that the charter facilities are maintained and that provisions are made for the safety of students, employees, and other users of charter facilities; work with Cluster Superintendents and Principals to coordinate and supervise student enrollment process; produce and apply open communication between the charter, the parents, and the community; work with Cluster Superintendents and Principals on daily operations; work with Cluster Superintendents and Principals on School Facility Expansion and Planning; verify the use of technology in the instructional process; and work with Cluster Superintendents and Principals on data management and reporting.

Mr. Caglar’s career in education began as a Math teacher and then as assistant principal for four years at a private school. In May 2000, Mr. Caglar began working as a Math teacher at Harmony Science Academy in Houston. At Harmony, Mr. Caglar taught middle/high school Math courses. In 2002, he was promoted to Assistant Principal. During 2004 and 2008, he worked as assistant principal at Harmony Science Academy in Dallas. In 2008, Mr. Caglar moved to Austin to be the principal of Harmony Science Academy-North Austin. Mr. Caglar holds a B.S. degree in Math Education and a Masters Degree in Educational Leadership. He is currently working towards his doctorate degree in Educational Leadership and Administrative Program from Lamar University.

Succession Planning – The Borrower maintains a succession plan for every executive position (*i.e.*, the Superintendent, Chief Financial Officer, Chief Academic Officer, Chief Operating Officer, Human Resource Director, each Cluster Superintendent, and each Principal). Each executive works closely with several other employees in his/her division and provides mentoring to prepare others to fill his/her position in the future. The Borrower has consistently used this process of mentoring and advancement to fill vacant leadership positions. For example, both the Chief Financial Officer and Chief Academic Officer work closely with the Superintendent, are consulted for input on many important decisions, and make executive decisions when the Superintendent is not available.

Employees

General

The following table provides information regarding the number of professional staff and faculty that the Borrower employed as of the first day of the school year for the years set forth below.

TABLE 5: PROFESSIONAL STAFF AND FACULTY				
FACULTY & STAFF	2010-11	2011-12	2012-13	2013-14
Teachers	1,186	1,441	1,610	1,756
Administration (Leadership)	254	345	347	281 ⁽¹⁾
Central Administration	63	81	91	105
Total	1,503	1,867	2,048	2,142
FACULTY	2010-11	2011-12	2012-13	2013-14
Beginning Teachers	377	420	569	577
1-5 Years Experience	719	969	922	1,058
6-10 Years Experience	62	35	93	94
Over 10 Years Experience	28	17	26	27
Number of Students Per Teacher	13.80	13.97	15.12	14.79

Source: The Borrower.

⁽¹⁾ Previous year's administration numbers included all administrative positions. For 2013-14, the number includes only leadership positions.

Labor Relations

All of the Borrower's teachers, support staff and other employees are at-will employees of the Borrower and are held to high standards. The Borrower believes that the faculty, administration and the Board of Directors have a strong and collaborative working relationship. The Borrower had an approximately 82% teacher retention rate between the 2012-13 and 2013-14 school years. The Borrower considers relations with its teachers to be very good.

Enrollment

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

Under its general admissions policies, the Borrower accepts applications year round, on a school-by-school basis. Any student who lives in the area of a Charter School and who submits a timely application may attend such Charter School. If the number of applications exceeds such Charter School's capacity, applicants are selected through a lottery process.

The following table sets forth data provided by the Borrower regarding each Charter School's historical and projected enrollment. For 2014-15 and thereafter, data presented represents projected enrollment as estimated by the Borrower, and is subject to the general qualifications and limitations described under **"INTRODUCTION – Forward-Looking Statements"** in the Official Statement. The table includes projected information for the Borrower's currently existing campuses and planned campuses.

**TABLE 6:
HISTORICAL AND FUTURE PROJECTED ENROLLMENT**

		<i>HISTORICAL</i>					<i>PROJECTED</i>			
	Grade	2010-11⁽¹⁾	2011-12⁽¹⁾	2012-13⁽¹⁾	2013-14⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony Science Academy High School – Houston (101-846)	K	—	—	—	—		—	—	—	—
	1	—	—	—	—		—	—	—	—
	2	—	—	—	—		—	—	—	—
	3	—	—	—	—		—	—	—	—
	4	—	—	—	—		—	—	—	—
	5	—	—	—	—		—	—	—	—
	6	—	—	—	—		—	—	—	—
	7	—	—	—	—		—	—	—	—
	8	—	73	81	—		—	—	—	—
	9	145	157	147	144		156	156	182	182
	10	127	156	165	134		130	156	156	182
	11	76	103	151	142		156	130	156	156
	12	28	66	83	137		156	156	130	156
	Grade	2010-11⁽¹⁾	2011-12⁽¹⁾	2012-13⁽¹⁾	2013-14⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony School of Innovation – Houston (101-846)	K	46	47	48	—		—	—	—	—
	1	49	69	53	—		—	—	—	—
	2	46	70	70	—		—	—	—	—
	3	49	73	76	—		—	—	—	—
	4	76	56	77	109					
	5	74	79	54	118					
	6	84	102	109	158		208	130	208	208
	7	81	82	106	109		208	208	156	208
	8	81	—	—	108		130	208	208	156
	9	—	—	—	—		—	—	—	—
	10	—	—	—	—		—	—	—	—
	11	—	—	—	—		—	—	—	—
	12	—	—	—	—		—	—	—	—
	Grade	2010-11⁽¹⁾	2011-12⁽¹⁾	2012-13⁽¹⁾	2013-14⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony School of Ingenuity – Houston (101-846)	K	48	26	28	—		—	—	—	—
	1	44	56	51	—		—	—	—	—
	2	54	54	55	—		—	—	—	—
	3	69	52	69	56		—	—	—	—
	4	51	71	51	51		52	—	—	—
	5	50	54	78	53		52	52	—	—
	6	74	78	80	102		52	52	78	104
	7	72	73	70	85		78	52	52	78
	8	21	76	77	79		78	78	52	52
	9	15	25	52	105		104	156	156	130
	10	—	14	19	58		130	104	156	156
	11	—	—	10	16		52	130	104	156
	12	—	—	—	8		26	52	130	104
	Grade	2010-11⁽¹⁾	2011-12⁽¹⁾	2012-13⁽¹⁾	2013-14⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony Science Academy – Houston (101-846)	K	24	25	25	23		52	52	78	78
	1	24	26	25	29		26	52	52	78
	2	23	26	26	27		26	26	52	52
	3	24	25	26	26		26	26	26	52
	4	25	25	47	29		26	26	26	26
	5	24	27	52	52		26	26	26	26
	6	55	51	51	52		52	26	26	26
	7	65	49	51	55		52	52	26	26
	8	72	65	51	55		52	52	52	26
	9	—	—	—	—		—	—	—	—
	10	—	—	—	—		—	—	—	—
	11	—	—	—	—		—	—	—	—
	12	—	—	—	—		—	—	—	—

	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony School of Fine Arts and Technology – Houston (101-846)	K	50	54	28	25		52	78	104	104
	1	50	79	59	51		26	52	78	104
	2	51	78	85	100		52	26	52	78
	3	50	79	111	77		104	52	26	52
	4	47	81	86	104		78	104	52	26
	5	51	71	84	77		104	78	104	52
	6	53	80	103	79		78	104	78	104
	7	32	55	79	84		78	78	104	78
	8	23	26	52	63		78	78	78	104
	9	—	—	26	—		—	—	—	—
	10	—	—	—	—		—	—	—	—
	11	—	—	—	—		—	—	—	—
	12	—	—	—	—		—	—	—	—
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony School of Exploration– Houston (101-846)	K	—	—	—	104		104	104	104	104
	1	—	—	—	80		104	104	104	104
	2	—	—	—	83		104	104	104	104
	3	—	—	—	83		104	104	104	104
	4	—	—	—	—		104	104	104	104
	5	—	—	—	—		104	104	104	104
	6	—	—	—	—		—	—	—	—
	7	—	—	—	—		—	—	—	—
	8	—	—	—	—		—	—	—	—
	9	—	—	—	—		—	—	—	—
	10	—	—	—	—		—	—	—	—
	11	—	—	—	—		—	—	—	—
	12	—	—	—	—		—	—	—	—
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony School of Excellence – Houston⁽²⁾ (101-858)	K	53	52	81	81		104	104	130	156
	1	74	81	81	81		78	104	104	130
	2	75	82	84	81		78	78	104	104
	3	73	92	112	109		78	78	78	104
	4	76	101	113	109		104	78	78	78
	5	100	102	115	109		104	104	78	78
	6	102	119	115	115		104	104	104	78
	7	102	104	115	108		104	104	104	104
	8	98	81	105	110		104	104	104	104
	9	—	—	—	—		—	—	—	—
	10	—	—	—	—		—	—	—	—
	11	—	—	—	—		—	—	—	—
	12	—	—	—	—		—	—	—	—
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony School of Excellence – Endeavor (101-858)	K	41	64	57	67		52	52	52	78
	1	46	76	49	54		78	78	52	52
	2	63	54	73	52		52	78	78	52
	3	45	74	50	75		52	52	78	78
	4	51	51	74	54		78	52	52	78
	5	64	52	56	77		52	78	52	52
	6	66	75	51	54		78	52	78	52
	7	48	61	75	54		52	78	52	78
	8	20	46	54	78		52	52	78	52
	9	—	—	—	—		—	—	—	—
	10	—	—	—	—		—	—	—	—
	11	—	—	—	—		—	—	—	—
	12	—	—	—	—		—	—	—	—

	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony Science Academy – Bryan/College Station (101-858)	K	21	24	51	48		26	26	26	56
	1	25	33	25	47		52	26	26	26
	2	23	42	26	40		52	52	26	26
	3	21	25	50	46		52	52	52	26
	4	25	37	26	37		52	52	52	52
	5	21	25	27	41		52	52	52	52
	6	33	40	48	42		52	52	52	52
	7	28	25	42	44		52	52	52	52
	8	22	24	25	34		52	52	52	52
	9	22	19	24	19		52	52	52	52
	10	13	11	19	19		26	52	52	52
	11	4	13	12	13		26	26	52	52
	12	2	5	12	8		26	26	26	52
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony Science Academy – Houston Northwest (101-858)	K	76	60	56	51		52	78	104	104
	1	81	85	56	54		52	78	78	104
	2	78	79	83	80		52	52	78	78
	3	74	82	85	81		78	52	52	78
	4	74	80	85	79		78	78	52	52
	5	72	83	83	83		78	78	78	52
	6	76	82	80	84		78	78	78	78
	7	69	81	82	79		78	78	78	78
	8	47	—	86	72		78	78	78	78
	9	—	—	—	—		—	—	—	—
	10	—	—	—	—		—	—	—	—
	11	—	—	—	—		—	—	—	—
	12	—	—	—	—		—	—	—	—
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony School of Advancement High School – Houston (101-858)	K	—	—	—	—		—	—	—	—
	1	—	—	—	—		—	—	—	—
	2	—	—	—	—		—	—	—	—
	3	—	—	—	—		—	—	—	—
	4	—	—	—	—		—	—	—	—
	5	—	—	—	—		—	—	—	—
	6	—	—	—	—		—	—	—	—
	7	—	—	—	—		—	—	—	—
	8	—	84	—	—		—	—	—	—
	9	91	167	206	218		182	182	208	208
	10	81	100	168	175		182	182	182	208
	11	70	77	86	126		156	182	182	182
	12	22	52	68	82		156	156	182	182
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony School of Discovery – Houston (101-858)	K	26	84	87	29		26	26	52	78
	1	27	55	85	82		26	26	26	52
	2	30	48	85	83		78	26	26	26
	3	49	51	84	82		78	78	26	26
	4	66	55	87	79		78	78	78	26
	5	51	63	83	77		78	78	78	78
	6	54	56	94	82		78	78	78	78
	7	22	58	55	87		78	78	78	78
	8	22	27	59	56		78	78	78	78
	9	—	22	26	50		26	78	78	78
	10	—	—	23	25		52	26	78	78
	11	—	—	—	20		26	52	26	78
	12	—	—	—	—		26	26	52	26

	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony School of Science – Houston (101-862)	K	45	92	106	50		78	130	130	156
	1	64	104	107	110		104	78	130	130
	2	47	110	110	108		104	104	78	130
	3	53	103	111	110		104	104	104	78
	4	55	110	114	111		104	104	104	104
	5	60	107	164	112		104	104	104	104
	6	100	—	—	139		130	104	104	104
	7	98	—	—	—					
	8	90	—	—	—		—	—	—	—
	9	—	—	—	—		—	—	—	—
	10	—	—	—	—		—	—	—	—
	11	—	—	—	—		—	—	—	—
	12	—	—	—	—		—	—	—	—
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony School of Science – Sugar Land High (101-862)	K	—	—	—	—		—	—	—	—
	1	—	—	—	—		—	—	—	—
	2	—	—	—	—		—	—	—	—
	3	—	—	—	—		—	—	—	—
	4	—	—	—	—		—	—	—	—
	5	—	—	—	—		—	—	—	—
	6	—	153	219	—		—	—	—	—
	7	—	152	160	224		—	—	—	—
	8	—	125	160	167		208	130	130	156
	9	—	96	127	137		156	208	130	130
	10	—	—	104	91		130	156	208	130
	11	—	—	—	82		130	130	156	208
	12	—	—	—	—		110	130	130	156
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony Science Academy – West Houston (101-862)	K	—	50	70	83		26	52	52	52
	1	—	47	85	83		78	26	52	52
	2	—	51	79	81		78	78	26	52
	3	—	50	106	110		78	78	78	26
	4	—	51	101	108		104	78	78	78
	5	—	47	55	111		78	104	78	78
	6	—	49	53	56		78	78	104	78
	7	—	33	56	54		52	78	78	104
	8	—	—	52	53		52	52	78	78
	9	—	—	43	51		52	52	78	78
	10	—	—	—	39		52	52	52	78
	11	—	—	—	—		52	52	52	52
	12	—	—	—	—		—	52	52	52
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony Science Academy – Beaumont (101-862)	K	40	21	46	30		26	26	52	52
	1	45	43	27	54		26	26	26	52
	2	45	64	47	28		52	26	26	26
	3	44	46	49	46		26	52	26	26
	4	43	47	43	53		52	26	52	26
	5	40	42	47	58		52	52	26	52
	6	46	45	55	56		52	52	52	26
	7	45	48	45	56		52	52	52	52
	8	42	44	44	58		52	52	52	52
	9	45	35	39	46		52	52	52	52
	10	17	39	25	29		52	52	52	52
	11	13	6	25	19		52	52	52	52
	12	—	12	5	18		26	52	52	52

	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony Science Academy – Waco (161-807)	K	46	53	50	52		26	52	78	104
	1	46	55	51	51		52	26	52	78
	2	45	58	55	52		52	52	26	52
	3	64	57	53	52		52	52	52	26
	4	63	70	58	52		52	52	52	52
	5	61	73	80	56		52	52	52	52
	6	59	72	76	81		52	52	52	52
	7	62	72	78	78		78	52	52	52
	8	55	48	70	78		78	78	52	52
	9	26	45	48	66		78	78	78	52
	10	14	28	48	34		78	78	78	78
	11	14	11	28	39		52	78	78	78
	12	—	14	11	22		52	52	78	78
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony Science Academy – Dallas (161-807)	K	50	51	48	53		78	104	130	156
	1	49	53	51	54		52	104	104	130
	2	51	54	55	54		52	52	104	104
	3	48	53	54	56		52	52	52	104
	4	89	89	103	95		52	52	52	52
	5	87	99	107	106		104	52	52	52
	6	121	114	129	139		104	104	52	52
	7	114	125	137	123		130	104	104	52
	8	113	127	124	128		130	130	104	104
	9	92	124	109	111		130	130	130	104
	10	76	91	109	105		130	130	130	130
	11	38	72	86	96		104	130	130	130
	12	38	39	71	80		104	104	130	130
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony School of Innovation – Dallas (161-807)	K	50	54	50	53		26	130	156	182
	1	49	55	55	54		52	104	130	156
	2	48	55	56	54		52	104	104	130
	3	52	53	56	53		52	104	104	104
	4	48	57	55	55		52	104	104	104
	5	69	55	56	55		52	104	104	104
	6	56	74	80	56		52	52	52	52
	7	54	65	78	66		52	52	52	52
	8	36	52	71	71		78	52	52	52
	9	24	42	47	45		78	78	52	52
	10	—	22	43	36		52	78	78	52
	11	—	—	19	26		52	52	78	78
	12	—	—	—	16		52	52	52	78
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony Science Academy – Garland (161-807)	K	47	51	50	54		26	26	78	104
	1	48	55	52	53		52	26	26	78
	2	45	54	47	60		52	52	26	26
	3	50	50	56	55		52	52	52	26
	4	50	50	52	56		52	52	52	52
	5	47	55	52	56		52	52	52	52
	6	74	87	102	84		52	52	52	52
	7	26	92	104	83		78	52	52	52
	8	21	31	93	69		78	78	52	52
	9	—	24	34	58		52	78	78	52
	10	—	—	21	22		78	52	78	78
	11	—	—	—	16		52	78	52	78
	12	—	—	—	—		26	52	78	52

	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony School of Innovation–Garland (161-807)	K	—	—	—	—		78	78	78	78
	1	—	—	—	—		78	78	78	78
	2	—	—	—	—		52	78	78	78
	3	—	—	—	—		52	52	78	78
	4	—	—	—	—		52	52	52	78
	5	—	—	—	—		52	52	52	52
	6	—	—	—	—		—	—	—	—
	7	—	—	—	—		—	—	—	—
	8	—	—	—	—		—	—	—	—
	9	—	—	—	—		—	—	—	—
	10	—	—	—	—		—	—	—	—
	11	—	—	—	—		—	—	—	—
	12	—	—	—	—		—	—	—	—
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony School of Business–Dallas (161-807)	K	—	—	70	80		26	26	52	52
	1	—	—	66	79		78	26	26	52
	2	—	—	62	80		78	78	26	26
	3	—	—	49	99		78	78	78	26
	4	—	—	48	56		104	78	78	78
	5	—	—	54	56		52	104	78	78
	6	—	—	43	104		52	52	104	78
	7	—	—	27	55		104	52	52	104
	8	—	—	21	41		52	104	52	52
	9	—	—	—	28		26	52	78	52
	10	—	—	—	—		26	26	52	78
	11	—	—	—	—		—	26	26	52
	12	—	—	—	—		—	—	26	26
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony Science Academy – Fort Worth (161-807)	K	24	27	104	108		78	104	104	104
	1	51	27	104	110		104	104	104	104
	2	26	55	103	108		104	104	104	104
	3	26	28	105	108		104	104	104	104
	4	24	28	111	115		104	104	104	104
	5	52	28	112	114		104	104	104	104
	6	73	54	—	—		—	—	—	—
	7	75	74	—	—		—	—	—	—
	8	95	66	—	—		—	—	—	—
	9	66	82	—	—		—	—	—	—
	10	38	58	—	—		—	—	—	—
	11	30	29	—	—		—	—	—	—
	12	20	27	—	—		—	—	—	—
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony Science Academy – Grand Prairie (161-807)	K	41	42	26	26		52	26	52	78
	1	39	49	48	25		78	52	52	52
	2	53	48	51	52		78	78	52	52
	3	52	52	48	52		78	78	78	52
	4	48	51	50	52		78	78	78	78
	5	52	49	50	56		78	78	78	78
	6	49	51	50	51		52	78	78	78
	7	72	50	54	51		52	52	78	78
	8	48	66	48	51		52	52	52	78
	9	22	39	46	43		—	—	—	—
	10	24	21	22	39		—	—	—	—
	11	—	21	14	20		—	—	—	—
	12	—	—	19	10		—	—	—	—

	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony Science Academy – Euless (161-807)	K	54	25	103	—		—	—	—	—
	1	65	69	101	—		—	—	—	—
	2	75	66	104	—		—	—	—	—
	3	62	80	102	—		—	—	—	—
	4	71	68	105	—		—	—	—	—
	5	59	71	107	133		130	130	130	156
	6	62	67	105	105		130	130	130	130
	7	55	66	107	103		104	130	130	130
	8	22	63	106	99		104	104	130	130
	9	28	21	79	96		104	104	104	130
	10	—	26	25	67		78	104	104	104
	11	—	—	20	13		78	78	104	104
	12	—	—	—	18		26	78	78	104
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony School of Nature and Athletics – Dallas (161-807)	K	56	50	27	26		26	52	78	78
	1	53	55	52	27		26	26	52	78
	2	55	58	56	51		26	26	26	52
	3	54	77	54	55		52	26	26	26
	4	52	78	79	54		52	52	26	26
	5	54	79	82	76		52	52	52	26
	6	61	78	105	80		78	52	52	52
	7	47	100	107	105		78	78	52	52
	8	25	50	107	92		104	78	78	52
	9	—	35	49	60		78	104	78	78
	10	—	—	37	41		78	78	104	78
	11	—	—	—	27		52	78	78	104
	12	—	—	—	—		52	52	78	78
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony School of Innovation – Fort Worth (161-807)	K	—	—	—	—		—	78	78	78
	1	—	—	—	—		—	78	78	78
	2	—	—	—	—		—	52	78	78
	3	—	—	—	—		—	52	52	78
	4	—	—	—	—		—	52	52	52
	5	—	—	—	—		—	52	52	52
	6	—	—	54	113		78	78	104	104
	7	—	—	60	58		104	78	78	104
	8	—	—	84	58		52	104	78	78
	9	—	—	70	82		52	52	78	78
	10	—	—	67	61		78	52	52	78
	11	—	—	54	62		78	78	52	52
	12	—	—	28	48		78	78	78	52
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony School of Innovation– Euless (161-807)	K	—	—	—	103		104	130	156	156
	1	—	—	—	133		104	130	130	156
	2	—	—	—	137		130	104	130	130
	3	—	—	—	129		130	130	104	130
	4	—	—	—	138		130	130	130	104
	5	—	—	—	—		—	—	—	—
	6	—	—	—	—		—	—	—	—
	7	—	—	—	—		—	—	—	—
	8	—	—	—	—		—	—	—	—
	9	—	—	—	—		—	—	—	—
	10	—	—	—	—		—	—	—	—
	11	—	—	—	—		—	—	—	—
	12	—	—	—	—		—	—	—	—

	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony Science Academy – Austin (227-816)	K	21	22	44	41		26	52	70	78
	1	20	21	44	43		52	52	52	78
	2	38	20	20	43		52	52	52	52
	3	20	38	25	46		52	52	52	52
	4	19	25	52	52		26	52	52	52
	5	18	26	52	55		52	26	52	52
	6	72	53	26	56		52	52	26	52
	7	71	76	52	28		52	52	52	26
	8	48	65	65	—		26	52	52	52
	9	—	—	—	—		—	—	—	—
	10	—	—	—	—		—	—	—	—
	11	—	—	—	—		—	—	—	—
	12	—	—	—	—		—	—	—	—
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony Science Academy – North Austin (227-816)	K	—	—	—	—		—	—	—	—
	1	—	—	—	—		—	—	—	—
	2	—	—	—	—		—	—	—	—
	3	—	—	—	—		—	—	—	—
	4	—	—	—	—		—	—	—	—
	5	75	—	—	—		—	—	—	—
	6	87	106	—	—		—	—	—	—
	7	81	107	104	—		—	—	—	—
	8	76	84	107	156		—	—	—	—
	9	82	113	129	156		182	130	130	186
	10	81	83	122	128		182	208	130	130
	11	44	76	66	106		130	182	208	130
	12	21	34	63	66		130	130	182	208
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony School of Excellence – Austin (227-816)	K	46	46	46	60		26	52	78	78
	1	47	52	53	52		52	26	52	78
	2	52	48	58	51		52	52	26	52
	3	47	48	53	52		52	52	52	26
	4	61	73	57	58		52	52	52	52
	5	47	72	83	55		52	52	52	52
	6	65	97	78	84		52	52	52	52
	7	65	68	102	81		78	52	52	52
	8	39	66	79	93		78	78	52	52
	9	23	37	52	62		104	78	78	52
	10	—	18	22	46		78	104	78	78
	11	—	—	18	24		52	78	104	78
	12	—	—	—	16		26	52	78	104
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony School of Innovation– Austin (227-816)	K	—	—	—	—		78	78	78	78
	1	—	—	—	—		78	78	78	78
	2	—	—	—	—		52	78	78	78
	3	—	—	—	—		52	52	78	78
	4	—	—	—	—		52	52	52	78
	5	—	—	—	—		52	52	52	52
	6	—	—	—	—		—	—	—	—
	7	—	—	—	—		—	—	—	—
	8	—	—	—	—		—	—	—	—
	9	—	—	—	—		—	—	—	—
	10	—	—	—	—		—	—	—	—
	11	—	—	—	—		—	—	—	—
	12	—	—	—	—		—	—	—	—

	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony School of Science – Austin (227-816)	K	51	52	54	51		26	78	78	104
	1	50	54	53	51		52	78	78	78
	2	53	50	55	52		52	52	78	78
	3	51	54	53	51		52	52	52	78
	4	73	76	57	56		52	52	52	52
	5	64	78	75	56		52	52	52	52
	6	72	66	82	79		52	52	52	52
	7	61	55	73	79		78	52	52	52
	8	44	48	40	68		78	78	52	52
	9	—	—	—	—		—	—	—	—
	10	—	—	—	—		—	—	—	—
	11	—	—	—	—		—	—	—	—
	12	—	—	—	—		—	—	—	—
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony School of Political Science and Communication - Austin (227-816)	K	—	65	73	99		26	52	52	52
	1	—	69	74	72		78	26	52	52
	2	—	72	77	77		78	78	26	52
	3	—	54	100	90		78	78	78	26
	4	—	56	97	98		78	78	78	78
	5	—	54	97	103		104	78	78	78
	6	—	39	84	88		78	104	78	78
	7	—	37	41	69		104	78	104	78
	8	—	13	48	40		52	104	78	104
	9	—	—	24	35		52	52	104	78
	10	—	—	—	21		52	52	52	104
	11	—	—	—	—		26	52	52	52
	12	—	—	—	—		—	26	52	52
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony Science Academy – El Paso (071-806)	K	24	48	50	55		26	78	78	104
	1	45	45	52	55		52	52	78	78
	2	42	45	54	56		52	52	52	78
	3	47	46	55	54		52	52	52	52
	4	49	62	74	82		52	52	52	52
	5	64	64	78	78		78	52	52	52
	6	91	82	105	107		78	78	52	52
	7	95	91	107	108		104	78	78	52
	8	76	91	101	100		104	104	78	78
	9	76	75	72	84		104	104	104	104
	10	56	61	59	70		104	104	104	104
	11	27	45	51	57		78	104	104	104
	12	18	24	44	49		78	78	104	104
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony School of Innovation – El Paso (071-806)	K	21	23	46	74		26	78	78	78
	1	44	41	49	74		78	26	78	78
	2	49	46	50	54		78	78	26	78
	3	45	50	51	55		52	78	78	26
	4	53	47	54	55		52	52	78	78
	5	56	56	53	56		52	52	52	78
	6	63	70	84	106		52	52	52	52
	7	68	65	72	81		104	52	52	52
	8	42	63	71	81		78	104	52	52
	9	26	37	36	52		78	78	156	52
	10	—	26	37	26		78	78	78	156
	11	—	—	18	25		52	78	78	78
	12	—	—	—	17		52	52	78	78

	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony Science Academy – Lubbock (071-806)	K	42	40	41	22		26	26	26	52
	1	41	42	44	40		26	26	26	26
	2	36	41	53	41		52	26	26	26
	3	35	39	44	42		52	52	26	26
	4	37	39	44	41		52	52	52	26
	5	37	35	43	44		52	52	52	52
	6	45	39	47	52		52	52	52	52
	7	34	46	44	43		52	52	52	52
	8	35	29	46	31		52	52	52	52
	9	15	33	26	26		52	52	52	52
	10	19	15	24	18		52	52	52	52
	11	13	19	11	19		26	52	52	52
	12		12	11	8		26	26	52	52
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony Science Academy – Odessa (071-806)	K	41	38	41	50		26	26	26	26
	1	35	46	48	52		52	26	26	26
	2	25	40	51	54		52	52	26	26
	3	24	37	46	51		52	52	52	26
	4	23	26	32	50		52	52	52	52
	5	17	23	30	28		52	52	52	52
	6	24	27	26	26		26	52	52	52
	7	24	28	29	24		26	26	52	52
	8	13	26	26	27		26	26	26	52
	9	—	9	21	—		—	—	—	—
	10	—	—	—	—		—	—	—	—
	11	—	—	—	—		—	—	—	—
	12	—	—	—	—		—	—	—	—
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony Science Academy – San Antonio (015-828)	K	50	46	49	50		26	78	104	104
	1	50	49	74	52		52	52	78	104
	2	50	46	79	83		52	52	52	78
	3	47	49	50	78		78	52	52	52
	4	49	48	54	55		78	78	52	52
	5	65	50	54	55		52	78	78	52
	6	88	96	110	80		52	52	78	78
	7	90	90	109	108		78	52	52	78
	8	80	80	104	101		104	78	52	52
	9	65	74	80	84		104	104	78	52
	10	56	36	50	75		104	104	104	78
	11	22	33	28	41		78	104	104	104
	12	7	18	29	28		52	78	104	104
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony School of Innovation – San Antonio (015-828)	K	24	40	46	51		26	52	52	52
	1	25	48	71	53		52	26	52	52
	2	23	37	64	73		52	52	26	52
	3	17	41	49	77		78	52	52	26
	4	32	54	48	51		78	78	52	52
	5	18	70	70	70		52	78	78	52
	6	28	63	77	79		52	52	78	78
	7	14	38	66	77		104	52	52	78
	8	9	17	26	50		78	104	52	52
	9	—	—	—	14		26	52	78	52
	10	—	—	—	—		26	26	52	78
	11	—	—	—	—		—	26	26	52
	12	—	—	—	—		—	—	26	26

	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony Science Academy – Laredo (015-828)	K	28	25	27	28		26	78	78	78
	1	53	40	27	30		26	52	78	78
	2	49	50	26	28		26	26	52	78
	3	48	52	52	29		26	26	26	52
	4	53	50	55	55		26	26	26	26
	5	73	49	57	54		52	26	26	26
	6	88	100	104	102		52	52	26	26
	7	86	98	108	103		104	52	52	26
	8	65	97	104	102		104	104	52	52
	9	41	50	67	86		104	104	104	52
	10	29	34	44	63		78	104	104	104
	11	—	18	39	42		78	78	104	104
	12	—	—	17	35		52	78	78	104
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony School of Innovation– Laredo (015-828)	K	—	—	—	—		78	78	78	78
	1	—	—	—	—		78	78	78	78
	2	—	—	—	—		52	78	78	78
	3	—	—	—	—		52	52	78	78
	4	—	—	—	—		52	52	52	78
	5	—	—	—	—		52	52	52	52
	6	—	—	—	—		—	—	—	—
	7	—	—	—	—		—	—	—	—
	8	—	—	—	—		—	—	—	—
	9	—	—	—	—		—	—	—	—
	10	—	—	—	—		—	—	—	—
	11	—	—	—	—		—	—	—	—
	12	—	—	—	—		—	—	—	—
	Grade	2010-11 ⁽¹⁾	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾		2014-15	2015-16	2016-17	2017-18
Harmony Science Academy – Brownsville (015-828)	K	23	45	25	26		26	52	52	52
	1	22	26	50	27		26	26	52	52
	2	25	26	25	49		26	26	26	52
	3	26	26	28	27		52	26	26	26
	4	48	26	27	26		26	52	26	26
	5	56	49	27	26		26	26	52	26
	6	61	53	53	52		26	26	26	52
	7	63	65	57	51		52	26	26	26
	8	54	53	54	52		52	52	26	26
	9	17	35	42	39		52	52	78	26
	10	12	13	33	39		52	52	52	78
	11	—	11	11	24		52	52	52	52
	12	—	—	8	11		26	52	52	52
TOTALS:		16,126	20,073	24,338	25,647		27,748	29,354	30,308	31,286

Source: The Borrower

⁽¹⁾ Data presented is as of December 31 of each year.

The maximum capacities of the Borrower's existing facilities (as described in **Table 2**, above) limit the Borrower's maximum enrollment. Once the Projects are complete, the Borrower will have the capacity to accommodate up to 53,493 students (although the charters currently limit the total number of students to 50,400 students).

Waiting List

After the lotteries described above, and once all remaining slots are filled, students are placed on a waiting list in the order in which their names are selected. If there are additional students who apply after the lottery has been conducted, they are added to the waiting list in the order in which their applications are received. Each year, students wishing to enroll must reapply, a new lottery is conducted, and a new waiting list prepared. The Borrower currently maintains waiting lists on a campus-by-campus basis.

TABLE 7: WAITING LIST DATA		
CHARTER NAME/CAMPUS NAME	ENROLLMENT FOR 2013–14	# ON WAITING LIST ⁽¹⁾
Harmony Science Academy (Houston)		
1. Harmony Science Academy High School – Houston	557	206
2. Harmony School of Innovation – Houston	602	2,135
3. Harmony School of Ingenuity – Houston	613	817
4. Harmony Science Academy – Houston	348	1,508
5. Harmony School of Fine Arts and Technology – Houston	660	1,961
6. Harmony School of Exploration – Houston	350	1,183
Harmony School of Excellence		
1. Harmony School of Excellence – Houston	903	3,408
2. Harmony School of Excellence – Endeavor	565	865
3. Harmony Science Academy – Bryan/College Station	438	183
4. Harmony Science Academy – Houston Northwest	663	1,634
5. Harmony School of Advancement High School – Houston	601	303
6. Harmony School of Discovery – Houston	752	3,213
Harmony School of Science – Houston		
1. Harmony School of Science – Houston	740	2,766
2. Harmony School of Science – Sugar Land High School	701	608
3. Harmony Science Academy – West Houston	829	2,550
4. Harmony Science Academy – Beaumont	551	111
Harmony Science Academy (Waco)		
1. Harmony Science Academy – Waco	713	379
2. Harmony Science Academy – Dallas	1,200	756
3. Harmony School of Innovation – Dallas	640	988
4. Harmony Science Academy – Garland	666	557
5. Harmony School of Innovation – Garland	N/A	N/A
6. Harmony School of Business – Dallas	678	692
7. Harmony Science Academy – Fort Worth	663	1,280
8. Harmony Science Academy – Grand Prairie	528	956
9. Harmony Science Academy – Euless	634	879
10. Harmony School of Nature and Athletics – Dallas	694	1,767
11. Harmony School of Innovation – Fort Worth	482	678
12. Harmony School of Innovation – Euless	640	497
Harmony Science Academy (Austin)		
1. Harmony Science Academy – Austin	364	712
2. Harmony Science Academy – North Austin	612	61
3. Harmony School of Excellence – Austin	734	811
4. Harmony School of Innovation – Austin	N/A	N/A
5. Harmony School of Science – Austin	543	1,306
6. Harmony School of Political Science and Communication – Austin	792	753
Harmony Science Academy (El Paso)		
1. Harmony Science Academy – El Paso	955	1,224
2. Harmony School of Innovation – El Paso	756	472
3. Harmony Science Academy – Lubbock	427	7
4. Harmony Science Academy – Odessa	362	349
Harmony Science Academy (San Antonio)		
1. Harmony Science Academy – San Antonio	890	1,000
2. Harmony School of Innovation – San Antonio	595	305
3. Harmony Science Academy – Laredo	757	619
4. Harmony School of Innovation – Laredo	N/A	N/A
5. Harmony Science Academy – Brownsville	449	278
TOTALS	25,647	40,777

Source: The Borrower

⁽¹⁾Waiting list data is as of September 2013.

Student Retention

The following table shows the number of the Borrower's students (aggregate, for all campuses) at the beginning of the 2012–13 school year which the Borrower retained as of the beginning of the 2013–14 school year.

TABLE 8: STUDENT RETENTION DATA			
	BEGINNING OF 2012-13	BEGINNING OF 2013-14	PERCENTAGE
NUMBER OF STUDENTS	24,131 ⁽¹⁾	18,950	78.5%

Source: The Borrower

⁽¹⁾ Does not include 508 graduating seniors.

Competing Schools

The Charter Schools face constant competition for students with public schools, private schools and other charter schools and there can be no assurance that they will continue to attract and retain the number of students that are needed to generate sufficient revenues for the Borrower to make payments representing debt service on the Bonds. See “**RISK FACTORS – Competition for Students.**”

Accountability Ratings and Student Performance

The State's accountability system assigns ratings to every campus and district in the public education system each year. The current accountability ratings are as follows:

- Met Standard: Assigned to districts and campuses that meet performance index targets on all indexes for which they have performance data in 2013.
- Met Alternative Standard: Assigned to charter operators and alternative education campuses evaluated under alternative education accountability provisions that meet modified performance index targets on all indexes for which they have performance data in 2013.
- Improvement Required: Assigned to a district or campus that did not meet one or more performance index targets in 2013.
- Not Rated.

The overall design of the accountability rating system is a performance index framework. Performance indicators are grouped into four indexes that align with the goals of the accountability system. The structure for evaluation of performance across the four indexes affords multiple views of campus and district performance. Performances across the four indexes are used to assign accountability rating labels based on performance targets that are set for each index.

- **Index 1: Student Achievement** - Provides a snapshot of performance across subjects, on both general and alternative assessments, at the satisfactory performance standard.
- **Index 2: Student Progress** - Provides a measure of student progress by subject and student group independent of overall student achievement levels.
- **Index 3: Closing Performance Gaps** - Emphasizes advanced academic achievement of the economically disadvantaged student group and the lowest performing racial/ethnic student groups at each campus or district.
- **Index 4: Postsecondary Readiness** - Emphasizes the importance for students to receive a high school diploma that provides them with the foundation necessary for success in college, the workforce, job training programs, or the military.

The Student Assessment Division of the TEA manages and oversees the development, administration, scoring, and analysis of the State's assessment program. In the past, the State-wide assessment program has centered around the Texas Assessment of Knowledge and Skills (“TAKS”) assessments, which are designed to measure the extent to which a student has learned and is able to apply the defined knowledge and skills at each tested grade level. There is also a Texas Assessment of Knowledge and Skills-Modified (“TAKS-M”), which is an alternate assessment

based on modified academic achievement standards designed for students who meet participation requirements and who are receiving special education services.

Beginning in the Spring of 2012, the State of Texas Assessments of Academic Readiness (“STAAR”) assessments replaced TAKS. The STAAR program at grades 3-8 assesses the same subjects and grades that were previously assessed on TAKS. At high school, however, grade-specific assessments were replaced with 12 end-of-course assessments. Similarly, the State of Texas Assessments of Academic Readiness Modified (“STAAR Modified”) replaced the TAKS-M beginning in the 2011-12 school year, for 3-9 grade students who meet the STAAR Modified participation requirements. The Student Assessment Division also administers the State of Texas Assessments of Academic Readiness Alternate (“STAAR Alternate”) to meet the federal requirements. STAAR Alternate is designed for the purpose of assessing students in grades 3-8 and high school who have significant cognitive disabilities and are receiving special education services.

The Student Assessment Division also administers Texas English Language Proficiency Assessment System (“TELPAS”) assessments, which are designed to assess the progress that limited English proficient students make in learning the English language.

In 2011-12, no state accountability ratings were issued (although districts retained their ratings from the previous year) while the TEA worked with advisory committees to develop a new rating system based on the State of Texas Assessments of Academic Readiness and a new distinction designations system. This new accountability system allows for a large number of measures without the rating being dependent on a single measure. The 2012-13 school year marks the first year of ratings using STAAR results and distinction designations. The table below sets forth the Borrower’s accountability results for the 2012-13 school year.

TABLE 9: ACCOUNTABILITY RATINGS					
ACCOUNTABILITY INDEX	INDEX 1: STUDENT ACHIEVEMENT	INDEX 2: STUDENT PROGRESS	INDEX 3: CLOSING PERFORMANCE GAPS	INDEX 4: POSTSECONDARY READINESS	ACCOUNTABILITY RESULTS
Target Score	50	5 th percentile	55	75	
Harmony Science Academy (Houston) (District)	79	37(21) ⁽¹⁾	78	100	Met Standard
1. Harmony Science Academy High School – Houston	88	41(17) ⁽¹⁾	87	100	Met Standard ⁽²⁾⁽³⁾⁽⁴⁾
2. Harmony School of Innovation – Houston	85	43(30) ⁽¹⁾	85	N/A	Met Standard
3. Harmony School of Ingenuity – Houston	72	33(17) ⁽¹⁾	76	100	Met Standard ⁽³⁾
4. Harmony Science Academy – Houston	70	38(30) ⁽¹⁾	75	N/A	Met Standard
5. Harmony School of Fine Arts and Technology – Houston	74	38(17) ⁽¹⁾	75	N/A	Met Standard ⁽³⁾⁽⁴⁾
6. Harmony School of Exploration – Houston ⁽⁵⁾	N/A	N/A	N/A	N/A	N/A
Harmony School of Excellence (District)	84	36(21) ⁽¹⁾	78	96	Met Standard
1. Harmony School of Excellence – Houston	91	48(30) ⁽¹⁾	81	N/A	Met Standard
2. Harmony School of Excellence – Endeavor	69	40(30) ⁽¹⁾	65	N/A	Met Standard
3. Harmony Science Academy – Bryan/College Station	67	34(17) ⁽¹⁾	66	84	Met Standard ⁽²⁾⁽³⁾
4. Harmony Science Academy – Houston Northwest	82	44(30) ⁽¹⁾	74	N/A	Met Standard
5. Harmony School of Advancement High School – Houston	89	28(17) ⁽¹⁾	85	100	Met Standard ⁽²⁾⁽³⁾⁽⁴⁾
6. Harmony School of Discovery – Houston	88	37(17) ⁽¹⁾	84	100	Met Standard ⁽²⁾⁽³⁾

TABLE 9:
ACCOUNTABILITY RATINGS

ACCOUNTABILITY INDEX	INDEX 1: STUDENT ACHIEVEMENT	INDEX 2: STUDENT PROGRESS	INDEX 3: CLOSING PERFORMANCE GAPS	INDEX 4: POSTSECONDARY READINESS	ACCOUNTABILITY RESULTS
Target Score	50	5 th percentile	55	75	
Harmony School of Science (Houston) (District)	91	41(21) ⁽¹⁾	88	100	Met Standard
1. Harmony School of Science – Houston	88	56(30) ⁽¹⁾	85	N/A	Met Standard ⁽²⁾⁽³⁾⁽⁴⁾
2. Harmony School of Science – Sugar Land High School	92	39(17) ⁽¹⁾	88	100	Met Standard ⁽³⁾⁽⁴⁾
3. Harmony Science Academy – West Houston	91	49(17) ⁽¹⁾	89	N/A	Met Standard ⁽²⁾⁽³⁾⁽⁴⁾
4. Harmony Science Academy – Beaumont	76	39(17) ⁽¹⁾	68	100	Met Standard ⁽²⁾⁽³⁾⁽⁴⁾
Harmony Science Academy (Waco) (District)	80	36(21) ⁽¹⁾	79	100	Met Standard
1. Harmony Science Academy – Waco	73	40(17) ⁽¹⁾	70	100	Met Standard ⁽⁴⁾
2. Harmony Science Academy – Dallas	81	33(17) ⁽¹⁾	83	100	Met Standard
3. Harmony School of Innovation – Dallas	89	40(17) ⁽¹⁾	85	100	Met Standard ⁽²⁾⁽³⁾⁽⁴⁾
4. Harmony Science Academy – Garland	75	34(17) ⁽¹⁾	71	100	Met Standard
5. Harmony School of Innovation – Garland	N/A	N/A	N/A	N/A	N/A
6. Harmony School of Business – Dallas	82	40(30) ⁽¹⁾	75	N/A	Met Standard
7. Harmony Science Academy – Fort Worth	76	46(30) ⁽¹⁾	72	99	Met Standard
8. Harmony Science Academy – Grand Prairie	81	37(17) ⁽¹⁾	80	100	Met Standard
9. Harmony Science Academy – Euless	86	38(17) ⁽¹⁾	80	100	Met Standard ⁽²⁾⁽³⁾
10. Harmony School of Nature and Athletics – Dallas	82	37(17) ⁽¹⁾	79	100	Met Standard
11. Harmony School of Innovation – Fort Worth	89	40(17) ⁽¹⁾	85	N/A	Met Standard ⁽³⁾⁽⁴⁾
12. Harmony School of Innovation – Euless ⁽⁵⁾	N/A	N/A	N/A	N/A	N/A
Harmony Science Academy (Austin) (District)	81	39(21) ⁽¹⁾	78	100	Met Standard
1. Harmony Science Academy – Austin	73	42(30) ⁽¹⁾	74	N/A	Met Standard
2. Harmony Science Academy – North Austin	88	40(17) ⁽¹⁾	88	94	Met Standard ⁽²⁾⁽³⁾⁽⁴⁾
3. Harmony School of Excellence – Austin	72	34(17) ⁽¹⁾	70	100	Met Standard
4. Harmony School of Innovation – Austin	N/A	N/A	N/A	N/A	N/A
5. Harmony School of Science – Austin	89	40(30) ⁽¹⁾	83	N/A	Met Standard ⁽³⁾
6. Harmony School of Political Science and Communication – Austin	84	43(17) ⁽¹⁾	77	N/A	Met Standard ⁽⁴⁾
Harmony Science Academy (El Paso) (District)	80	40(21) ⁽¹⁾	77	100	Met Standard
1. Harmony Science Academy – El Paso	80	33(17) ⁽¹⁾	80	100	Met Standard ⁽²⁾
2. Harmony School of Innovation – El Paso	71	33(17) ⁽¹⁾	66	100	Met Standard ⁽³⁾
3. Harmony Science Academy – Lubbock	59	38(17) ⁽¹⁾	53	93	Improvement Required
4. Harmony Science Academy – Odessa	59	38(17) ⁽¹⁾	58	100	Met Standard ⁽²⁾⁽³⁾

**TABLE 9:
ACCOUNTABILITY RATINGS**

ACCOUNTABILITY INDEX	INDEX 1: STUDENT ACHIEVEMENT	INDEX 2: STUDENT PROGRESS	INDEX 3: CLOSING PERFORMANCE GAPS	INDEX 4: POSTSECONDARY READINESS	ACCOUNTABILITY RESULTS
Target Score	50	5 th percentile	55	75	
Harmony Science Academy (San Antonio) (District)	75	40(21) ⁽¹⁾	73	100	Met Standard
1. Harmony Science Academy – San Antonio	79	37(17) ⁽¹⁾	76	100	Met Standard ⁽²⁾
2. Harmony School of Innovation – San Antonio	67	45(30) ⁽¹⁾	62	N/A	Met Standard ⁽⁴⁾
3. Harmony Science Academy – Laredo	75	33(17) ⁽¹⁾	76	N/A	Met Standard
4. Harmony School of Innovation – Laredo	N/A	N/A	N/A	N/A	N/A
5. Harmony Science Academy – Brownsville	80	44(17) ⁽¹⁾	81	100	Met Standard ⁽²⁾⁽³⁾⁽⁴⁾

Source: The Borrower, from information made available by the TEA.

(1) The numbers in parentheses indicate the “target score” for the particular campus.

(2) Earned a distinction for Academic Achievement in Mathematics.

(3) Earned a distinction in Reading/ELA.

(4) Earned a distinction in Top 25% Student Progress.

(5) Did not open until the 2013-14 school year.

The Borrower received ratings of “Met Standard” at the district level and at all rated schools except for the Harmony Science Academy (Lubbock) charter (the charter schools of which have since been consolidated into the Harmony Science Academy (El Paso) district) and Harmony Science Academy – Lubbock. The Borrower also “Met Standard” for each performance indicator, except for “Closing Performance Gaps” at Harmony Science Academy (Lubbock) charter and Harmony Science Academy – Lubbock. Twenty-three of the Borrower’s campuses earned at least one distinction.

The table following compares the Borrower’s districts with other traditional school districts from which the Borrower obtains a substantial number of students.

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TABLE 10: ⁽¹⁾				
2013 TEXAS EDUCATION AGENCY ACCOUNTABILITY RATINGS				
DISTRICT NAME	INDEX 1: STUDENT ACHIEVEMENT	INDEX 2: STUDENT PROGRESS	INDEX 3: CLOSING PERFORMANCE GAPS	INDEX 4: POST- SECONDARY READINESS
HARMONY SCIENCE ACADEMY (HOUSTON)	79	37	78	100
HARMONY SCHOOL OF EXCELLENCE	84	36	78	96
HARMONY SCHOOL OF SCIENCE (HOUSTON)	91	41	88	100
HARMONY SCIENCE ACADEMY (WACO)	80	36	79	100
HARMONY SCIENCE ACADEMY (FORT WORTH) ⁽¹⁾	84	36	79	99
HARMONY SCIENCE ACADEMY (AUSTIN)	81	39	78	100
HARMONY SCIENCE ACADEMY (EL PASO)	80	40	77	100
HARMONY SCIENCE ACADEMY (SAN ANTONIO)	75	40	73	100
HARMONY SCIENCE ACADEMY (LUBBOCK) ⁽¹⁾	59	38	53	94
HARMONY SCIENCE ACADEMY (BROWNSVILLE) ⁽¹⁾	80	44	81	100
AUSTIN ISD	78	35	70	81
BEAUMONT ISD	73	34	70	87
BROWNSVILLE ISD	73	38	77	90
BRYAN ISD	72	33	66	74
COLLEGE STATION ISD	86	39	71	85
DALLAS ISD	69	38	70	84
ECTOR COUNTY ISD	64	31	58	79
EL PASO ISD	76	36	74	89
FORT BEND ISD	84	36	76	87
FORT WORTH ISD	67	34	64	82
GARLAND ISD	80	34	75	88
GRAND PRAIRIE ISD	73	34	72	85
HOUSTON ISD	71	37	70	85
HURST-EULESS BEDFORD ISD	87	35	83	92
LAREDO ISD	59	29	73	84
LUBBOCK ISD	72	35	61	85
SAN ANTONIO ISD	63	33	59	78
WACO ISD	58	30	56	76

⁽¹⁾ The charter schools under the indicated districts were consolidated into other existing districts of the Borrower and the charters for the indicated districts were returned to the TEA.

In 2010-11, the State's accountability system assigned ratings to every campus and district in the public education system each year. Generally, the State assigned one of four rating labels, which, ranging from lowest to highest, were as follows: Academically Unacceptable, Academically Acceptable, Recognized and Exemplary. The State also assigned "Not Ranked: Other" under certain circumstances, generally in cases where there was insufficient

data to rate the school or campus. In 2010-11, the Borrower's accountability rankings ranged from academically acceptable to exemplary.

AYP Status

The TEA submitted a waiver request to the United States Department of Education on February 28, 2013. The waiver included a request to use the new state accountability system (performance indexes and system safeguards) to evaluate campuses and districts in place of federal Adequate Yearly Progress (AYP) evaluations. The conditional waiver from the U.S. Department of Education was granted for the 2013-14 school year. Now, the State is required to provide interventions to improve identified low performing schools.

Beginning in the 2013-14 school year, the TEA will identify "Priority" or "Focus" schools as follows:

- "Priority" designates 5% of Title I campuses in Texas, consisting of School Improvement Grant – Texas Title I Priority Schools ("SIG-TTIPS"), high schools with graduation rates less than 60% and lowest-performing schools based on statewide reading and math assessments.
- "Focus" designates 10% of Title I campuses, based on the widest gaps between student performance and the federal targets of 75% (known as "system safeguards").

After being identified as a priority or focus school, in order to exit such status, a school must make significant progress for two consecutive years following interventions and no longer fit the criteria to be identified as a priority or focus school.

Priority and focus schools are required to align the Texas Accountability and Intervention System ("TAIS") improvement process around the Elementary and Secondary Education Act ("ESEA") turnaround principles and critical success factors ("CSFs"). The local education agency ("LEA") is responsible for assisting identified campuses in all aspects of the school improvement process, which include data analysis, needs assessment, and developing, implementing, and monitoring a plan for improvement.

During the 2013-14 school year, the following interventions will be required for identified schools:

- SIG-TTIPS priority schools will continue to implement current Texas Title I Priority Schools requirements and engage in the TAIS improvement process of data analysis, needs assessment, improvement planning and implementation and monitoring of activities at the LEA level and the campus level. These campuses must also ensure they continue to address the ESEA turnaround principles in all plans and activities required through the TTIPS grant.
- Non-SIG-TTIPS priority schools will, through engaging in the TAIS improvement process referenced above, evaluate current campus staff and create a plan that addresses the ESEA turnaround principles, which will be submitted at the end of the 2013-14 school year. This plan, based on the turnaround principles, will be fully implemented by the campus in the 2014-15 school year.
- Focus schools will review ESEA turnaround principles and must identify and implement no less than one instructional intervention specifically targeted to meet the deficiencies of the campus and assist in closing existing achievement gaps. Reasons for identification and chosen instructional intervention(s) must be included in the campus' 2013-14 campus improvement plan.

Priority and focus schools already identified as *Improvement Required* (IR) under the state accountability system will continue the requirements currently in place.

Additional information regarding priority and focus schools can be found on the TEA's website at www.tea.state.tx.us.

None of the Borrower's schools were listed as priority schools. However, the following schools were listed as focus schools:

- Harmony Science Academy - Bryan/College Station

- Harmony Science Academy – Lubbock.

In accordance with requirements, the Borrower has designated a district contact; reviewed ESEA turnaround principles and identified, implemented, and included in 2013-14 campus improvement plan, implemented instructional intervention specifically targeted to address closing existing achievement gaps; and included reasons for identification and targeted instructional interventions in the 2013-14 campus improvement plan that will be fully implemented during the 2014-15 school year.

Financial and Operations Information

Statement of Financial Position for the Fiscal Years Ended June 30, 2013, August 31, 2012 and August 31, 2011

The following is derived from the Borrower's audited financial statements for fiscal years ended June 30, 2013, August 31, 2012 and August 31, 2011.

Balance Sheet

<u>Assets:</u>	<u>FYE</u> <u>June 30,</u> <u>2013⁽¹⁾</u> <u>TOTAL</u>	<u>FYE</u> <u>August 31,</u> <u>2012</u> <u>TOTAL</u>	<u>FYE</u> <u>August 31,</u> <u>2011</u> <u>TOTAL</u>
Assets			
Cash	\$59,443,556	\$67,033,915	\$ 54,860,564
Receivables	29,584,480	8,840,385	8,008,846
Other receivables	359,383	1,385,107	321,532
Land	30,486,657	28,873,193	27,850,679
Building and improvements	223,965,673	209,878,657	179,955,661
Equipment and furniture	16,607,525	15,138,340	13,510,264
Accumulated depreciation	(38,392,215)	(28,613,744)	(17,969,661)
Deposits	574,446	555,646	399,713
Other assets	4,894,372	5,064,085	4,429,369
Total Assets	<u>\$327,223,878</u>	<u>\$308,155,585</u>	<u>\$ 271,366,966</u>
<u>Liabilities:</u>			
Liabilities			
Accounts payable	\$3,049,142	\$6,513,720	\$5,219,270
Accrued liabilities	3,214,541	1,185,056	264,995
Interest payable	4,817,860	1,750,275	1,565,651
Wages payable	12,577,291	3,086,767	2,598,831
Capital lease payable	0	8,396	33,205
Bond payable net of discount	241,238,775	242,812,533	211,972,064
Notes payable	11,564,933	15,759,435	18,497,994
Total Liabilities	<u>\$276,462,542</u>	<u>\$271,301,559</u>	<u>\$ 240,152,010</u>
Net Assets			
Unrestricted	11,199,969	10,935,047	7,853,741
Temporarily restricted	39,561,367	25,918,979	23,361,215
TOTAL NET ASSETS	<u>\$50,761,336</u>	<u>\$36,854,026</u>	<u>\$ 31,214,956</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$327,223,878</u>	<u>\$308,155,585</u>	<u>\$ 271,366,966</u>

Source: The Borrower, from its audited financial statements.

⁽¹⁾ The Borrower changed its fiscal year end from August 31 to June 30, commencing June 30, 2013. As a result, the financial information for June 30, 2013 reflects a 10-month fiscal year.

Statements of Activities for the Fiscal Years Ended June 30, 2013, August 31, 2012 and August 31, 2011

The following is derived from the Borrower's audited financial statements for fiscal years 2013, 2012 and 2010.

Statement of Activities

	FYE <u>June 30, 2013⁽¹⁾</u> TOTAL	FYE <u>August 31, 2012</u> TOTAL	FYE <u>August 31, 2011 TOTAL</u>
<u>REVENUES AND OTHER SUPPORT</u>			
Federal grants	\$16,060,822	\$18,290,028	\$ 14,176,454
State and local grants	169,002,660	148,926,334	126,447,384
Donations	770,621	700,126	1,570,475
Interest income	101,282	113,722	91,242
Other income	8,003,524	7,500,319	6,385,409
Net assets released from restrictions	—	—	—
Total Revenues	\$193,938,908	\$175,530,529	\$ 148,670,964
 <u>EXPENSES</u>			
Program services			
Total expenses	\$180,031,599	\$169,891,459	\$ 143,508,876
 Change in net assets	\$13,907,310	\$5,639,070	\$5,162,088
Net assets, beginning of year	36,854,026	31,214,956	26,052,867
Net assets, ending of year	\$50,761,336	\$36,854,026	\$31,214,956

Source: The Borrower, from its audited financial statements.

⁽¹⁾ The Borrower changed its fiscal year end from August 31 to June 30, commencing June 30, 2013. As a result, the financial information for June 30, 2013 reflects a 10-month fiscal year.

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Statements of Financial Position for the Nine-Month Period Ended March 31, 2014

The following is derived from the Borrower's unaudited nine-month financial statements for the nine month period ended March 31, 2014.

	March 31, 2014
	(Unaudited)
<u>ASSETS</u>	
Assets:	
Cash	\$ 61,422,815
Receivable	\$ 36,812,064
Other Receivable	\$ 537,442
Land	\$ 30,486,657
Buildings and improvements	\$ 231,672,531
Furniture and Equipment	\$ 18,155,327
Accumulated depreciation	\$ (48,216,767)
Security Deposits	\$ 289,020
Other Assets	\$ 6,028,964
Total assets	337,188,053
<u>LIABILITIES</u>	
Liabilities:	
Accounts payable	\$ 2,557,824
Accrued liabilities	\$ 492,520
Wages Payable	\$ 20,284,083
Capital lease payable	\$ -
Interest payable	\$ 3,037,955
Notes Payable	\$ 16,608,760
Bond payable net of discount	\$ 240,279,660
Total liabilities	\$ 283,260,802
Net Assets:	\$ 53,927,250
Total liabilities and net assets	\$ 337,188,053

Unrestricted Cash Balances

The following table shows the unrestricted cash balances of the Borrower as of March 31, 2014.

Source: The Borrower, from its unaudited financial statements.

	March 31, 2014
	(Unaudited)
Unrestricted Cash Balance	\$35,329,940

Source: The Borrower, from its unaudited financial statements.

Statements of Activities for the Nine-Month Period Ended March 31, 2014

The following is derived from the Borrower's unaudited nine-month financial statements for the nine-month period ended March 31, 2014.

<u>REVENUE</u>	March 31, 2014 (Unaudited)
5700 LOCAL REVENUE	\$ 8,669,617
5800 STATE REVENUE	\$ 150,935,117
5900 FEDERAL REVENUE	\$ 20,171,223
Total revenue	\$ 179,775,956
<u>EXPENDITURE</u>	
11-INSTRUCTION	\$ 95,261,543
12-INSTR RES&MEDIA SVCS	\$ 81,305
13-CURR DEV & INST STF DEV	\$ 3,523,705
21-CURR DEV & ADMIN	\$ 885,323
23-SCHOOL LEADERSHIP	\$ 18,442,424
33-HEALTH SERVICES	\$ 74,258
34-TRANSPORTATION	\$ 475,438
35-FOOD SERVICES	\$ 5,175,032
36-CO-CUR/EXTRA CURR STU	\$ 3,803,896
41-GENERAL ADMIN	\$ 7,303,891
51-PLAN MAINT/ OPR PLANT	\$ 27,247,130
52-SECURITY & MONITORING SVCS	\$ 563,744
53- DATA PROCESSING SVCS	\$ 1,520,273
71- DEBT SERVICES	\$ 12,252,082
Total Expenditure	\$ 176,610,042
Change in Net Assets	\$ 3,165,914
Net Assets, Begining of Year	\$ 50,761,336
Net Assets, End Of Period	\$ 53,927,250

Source: The Borrower, from its unaudited financial statements.

Audited Financial Information

Audited financial statements for the Borrower for the fiscal years ending June 30, 2013, August 31, 2012 and August 31, 2011 are included herein as **APPENDIX A**.

Debt Summary

Below is a list of the long-term outstanding debt obligations of the Borrower as of May 31, 2014 (excluding obligations expected to be repaid with Bond proceeds).

TABLE 11: DEBT SUMMARY⁽¹⁾⁽²⁾		
TYPE OF DEBT	ORIGINAL AMOUNT	OUTSTANDING AMOUNT⁽¹⁾
Series 2010 Notes	\$90,000,000	\$90,000,000
Series 2011 Notes	64,015,000	62,770,000
Series 2012 Notes	31,350,000	30,820,000
Note dated 12/09/2011	225,000	19,707
Note dated 8/01/2012	406,500	53,969
Note dated 10/24/2012	1,500,000	1,025,000
Note dated 4/05/2013	25,000,000 ⁽³⁾	0 ⁽⁴⁾
TOTAL	\$212,496,500	\$184,688,676

(1) Exclude certain notes and obligations that are expected to be paid with proceeds of the Bonds..

(2) See also “**APPENDIX C – FINANCIAL STATEMENTS.**”

(3) Bridge Loan which may be drawn up to \$25,000,000.

(4) The current outstanding amount will be repaid with proceeds of the Bonds.

Conflicts Policy

The Borrower’s bylaws prohibit the Borrower from making any loan to a director or officer of the Borrower. The Borrower is also prohibited from borrowing money from or otherwise transacting business with a member, director, officer, or committee member of the Borrower unless the transaction is described fully in a legally binding instrument and is in the best interests of the Borrower. The Borrower is further prohibited from borrowing money from or otherwise transacting business with a director, officer, or committee member of the Borrower without full disclosure of all relevant facts and without the approval of the Board of Directors, not including the vote of any person having a personal interest in the transaction. Additionally, the Board of Directors is subject to the conflict of interest provisions set forth in Section 12.1054 of the Texas Education Code, as amended.

The Borrower’s bylaws also prohibit contracts and transactions that would result in denial of its tax exemption under the Code. The Code and related Treasury Regulations contain provisions governing “excess benefit” transactions (as set forth in Section 4958 of the Code). Those provisions provide for penalty taxes and, in extreme cases, revocation of 501(c)(3) status, for, among other things, above fair market value transactions with “disqualified persons.” Loss of tax-exempt status by the Borrower could result in loss of tax exemption for federal income tax purposes of interest on the Bonds. See “**RISK FACTORS – Loss of Tax-Exempt Status.**”

In addition to the foregoing, the Borrower has adopted a Conflicts of Interest Policy which, among other things, (a) requires directors, officers and employees to exercise their duties honestly, in good faith and with a high standard of diligence and care, (b) requires directors and officers to comply with State law governing conflicts of interest among charter school and charter holder board members and officers and (c) requires the directors and officers to file an affidavit relating to certain conflicts of interest.

Insurance Coverage

In the Master Indenture, the Borrower has covenanted at all times following completion of any Related Project (as defined therein) to keep and maintain such Related Project insured against such risks and in such amounts with such deductible provisions as are customary in connection with the operation of facilities of the type and size comparable to the Related Project and consistent with the requirements of State law, all as further described in the Master Indenture. Additionally, the Borrower has covenanted to review each year the insurance carried by the Borrower with respect to the Borrower and the Related Project and, to the extent feasible, to carry insurance insuring against the risks and hazards described in the previous sentence to the same extent that other entities comparable to

the Borrower and owning or operating facilities of the size and type comparable to the Related Project carry such insurance. At least once every two years, the Borrower has covenanted to retain an Independent Insurance Consultant (as defined in the Master Indenture) for the purpose of reviewing the insurance coverage of, and the insurance required for, the Borrower and the Related Project and making recommendations respecting the types, amounts and provisions of insurance that should be carried with respect to the Borrower and the Related Project. The insurance requirements of the Master Indenture shall be deemed modified or superseded as necessary to conform with the recommendations contained in said report to the extent the report recommends additional or increased coverage.

The Borrower last engaged an Independent Insurance Consultant to conduct a review of the Borrower's insurance coverage as of September 23, 2013. The Borrower currently maintains commercial general liability insurance with a general aggregate limit of \$2,000,000 and a \$1,000,000 per occurrence limit, commercial automotive insurance with a liability limit of \$1,000,000 and educator's legal liability insurance with a professional aggregate limit of \$2,000,000, all through Philadelphia Insurance Companies, an A.M. Best "A" rated carrier ("*Philadelphia*"). The Borrower maintains property insurance with Zurich America Insurance Company, an A.M. Best "A+ XV" rated carrier. The aggregate coverage amounts for the Borrower's real and personal property are \$169,510,987 and \$12,783,000, respectively. The Borrower also has a commercial excess liability policy with Philadelphia with an aggregate limit of \$4,000,000 and a per occurrence limit of \$4,000,000.

Projected Revenues and Expenditures

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

The Borrower is providing the following Historical and Projected Revenues and Expenses table for illustrative purposes only. These projections have been prepared by the Borrower, based on the Borrower's operating history with respect to charter schools and its assumptions about future State funding levels and future operations of the Charter Schools, including student enrollment and expenses. The Borrower's projections have not been independently verified by any party other than the Borrower. The Borrower's projections have not been prepared in accordance with generally accepted accounting principles ("*GAAP*"). No feasibility studies have been conducted with respect to operations of the Borrower pertinent to the Bonds. The Underwriters have not independently verified the Borrower's projections, and make no representations nor give any assurances that such projections, or the assumptions underlying them, are complete or correct.

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

TABLE 12: HISTORICAL AND PROJECTED REVENUES AND EXPENSES

	Audited	Audited	Audited	Projected	Projected	Projected	Projected	Projected
	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Grade Levels	K-12	K-12	K-12	K-12	K-12	K-12	K-12	K-12
Enrollment ⁽¹⁾	\$ 16,126	20,120	24,338	25,880	26,656	27,456	28,280	29,128
Average Daily Attendance ⁽²⁾	15,643	19,516	23,608	25,104	25,857	26,632	27,431	28,254
Revenue								
Local (Interest Inc., Grants, Gifts, Other)	\$ 8,047,126	\$ 8,314,167	\$ 6,703,097	\$ 6,243,052	\$ 6,430,344	\$ 6,623,254	\$ 6,821,951	\$ 7,026,610
State Funding ⁽³⁾	\$ 126,447,384	148,926,334	169,002,660	200,993,402	210,749,622	\$ 217,072,110	\$ 223,584,274	\$ 230,291,802
Federal Funding*	11,296,349	15,779,415	16,060,822	14,468,782	14,713,602	\$ 15,155,010	\$ 15,609,660	\$ 16,077,950
Sub Total Revenue	145,790,859	173,019,916	191,766,579	221,705,236	231,893,567	238,850,374	246,015,885	253,396,362
Anticipated Direct Subsidy	2,880,105	2,510,613	2,172,330	2,290,792	2,290,792	2,290,792	2,290,792	2,290,792
TOTAL REVENUE⁽⁶⁾⁽⁷⁾	\$ 148,670,964	\$ 175,530,529	\$ 193,938,909	\$ 223,996,028	\$ 234,184,359	\$ 241,141,166	\$ 248,306,677	\$ 255,687,153
Operating Expenditures								
Payroll Costs ⁽⁴⁾	\$ 71,826,356	\$ 87,012,130	\$ 101,607,493	\$ 119,506,503	\$ 123,091,698	\$ 126,784,449	\$ 130,587,983	\$ 135,505,089
Buildings' Leases ⁽⁵⁾	11,574,688	11,045,747	10,370,418	9,534,562	\$ 9,820,599	\$ 10,115,217	\$ 10,418,673	\$ 10,731,234
Supplies & Materials	11,553,325	14,734,184	12,687,246	16,889,843	\$ 17,396,538	\$ 17,918,434	\$ 18,455,987	\$ 19,003,702
Other Operating Costs	30,943,900	33,609,306	32,007,864	43,823,132	\$ 44,951,621	\$ 46,298,043	\$ 47,689,787	\$ 48,126,915
TOTAL OPERATING EXPENSES	\$ 125,898,269	\$ 146,401,367	\$ 156,673,021	\$ 189,754,040	\$ 195,260,456	\$ 201,116,143	\$ 207,152,430	\$ 213,366,939
Net Revenues Available for Debt Servi	\$ 22,772,695	\$ 29,129,162	\$ 37,265,888	\$ 34,241,988	\$ 38,923,902	\$ 40,025,022	\$ 41,154,247	\$ 42,320,214
Annual Interest Payment	9,421,111	12,571,988	13,084,717	15,906,613	15,859,655	16,468,557	16,635,740	16,475,134
Annual Principal Payment	1,595,624	2,770,642	3,964,674	3,511,268	4,408,379	5,639,389	5,775,563	5,945,237
Annual Debt Service	11,016,735	15,342,630	17,049,391	19,417,881	20,268,034	22,107,946	22,411,303	22,420,371
Annual Debt Coverage (without Subs	1.806	1.735	2.058	1.645	1.807	1.707	1.734	1.785
Annual Debt Coverage (with Subsidy	2.067	1.899	2.186	1.763	1.920	1.810	1.836	1.888
Maximum Annual Debt Service	\$ 18,345,189	\$ 20,605,190	\$ 20,605,190	\$ 20,605,190	\$ 22,423,773	\$ 22,423,773	\$ 22,423,773	\$ 22,423,773
MADS Coverage (without Subsidy)	1.084	1.292	1.703	1.551	1.634	1.683	1.733	1.785
MADS Coverage (with Subsidy)	1.241	1.414	1.809	1.662	1.736	1.785	1.835	1.887
Leased Adjusted MADS (with Subsidy)	1.148	1.269	1.538	1.452	1.512	1.541	1.570	1.600
Depreciation and Amortization	8,189,496	10,918,104	10,273,861	12,376,518	12,747,813	13,130,248	13,524,155	13,929,880
Total Expenses⁽⁶⁾⁽⁷⁾	143,508,876	169,891,459	180,031,599	218,037,170	223,867,924	230,714,948	237,312,325	243,771,953
Change in Net Assets	5,162,088	5,639,070	13,907,310	5,958,857	10,316,434	10,426,218	10,994,352	11,915,201
Beginning Net Asset Balance	26,052,867	31,214,955	36,854,025	50,761,335	56,720,192	67,036,626	77,462,844	88,457,196
Ending Net Assets Balance	31,214,955	36,854,025	50,761,335	56,720,192	67,036,626	77,462,844	88,457,196	100,372,397

This information has been prepared by the Borrower

Revenue Assumptions

- (1) Projected enrollment for 40 current campuses only.
- (2) Average attendance rate is 97%
- (3) Projected revenues based on state funding per student in ADA of \$8,007 in 2013-2014 and \$8,151 thereafter (1.8% increase starting 2014-2015 according to Legislative Budget Board).

Expense Assumptions

- (4) Payroll cost is equal to 53% of the sub total revenue.
- (5) Buildings' Lease numbers based on the leased facilities that are already under the contract.
- (6) 3% increase on revenue and expenditure due to growth on enrollment.
- (7) Race to Top Grant (RTT) is excluded from revenue and expenditure (same amount of revenue is received and expensed in the same year). RTT numbers are as follows;
 - \$1,242,885 in 2012-2013
 - \$13,732,171 in 2013-2014
 - \$5,929,482 in 2014-2015
 - \$4,747,339 in 2015-2016
 - \$4,215,061 in 2016-2017

Except as described above, the foregoing projections assume current fiscal policies of the Borrower are continued, with considerations of historical information as well as known events and conditions that affect the projection periods. The projections may be used to assess whether projected cash inflows will be sufficient to sustain the Borrower's services and to meeting financial obligations as they come due. However, it is important to note that the projections of cash inflows, cash outflows, and accrued financial obligations based on current policy do not represent a forecast or a prediction of the most likely outcome.

Financial projections may be based upon assumptions regarding changes in social, economic and demographic events and conditions that are inherently subject to uncertainties. Therefore, readers are cautioned that actual future financial results of the Borrower may be significantly different from the financial projections that are reported.

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APPENDIX C
FINANCIAL STATEMENTS

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HARMONY PUBLIC SCHOOLS
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

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HARMONY PUBLIC SCHOOLS

071-806
101-858
220-813
015-828
101-846
227-816
152-805
161-807
031-803
101-862

(Federal Employer Identification Number: 76-0615245)

CERTIFICATE OF BOARD

June 30, 2013

We, the undersigned, certify that the attached Annual Financial and Compliance Report of Harmony Public Schools was reviewed and _____ approved _____ disapproved for the ten month period ended June 30, 2013, at a meeting of the governing body of said charter school on the _____ day of _____, 20_____.



Signature of Board Secretary



Signature of Board President

GOMEZ & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

5177 RICHMOND AVE. SUITE 1100
HOUSTON, TEXAS 77056
TEL: (713) 666-5900
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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors of
Harmony Public Schools
Houston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Harmony Public Schools (a nonprofit organization) (HPS), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the ten month period then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HPS as of June 30, 2013, and the changes in its net assets and its cash flows for the ten month period then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

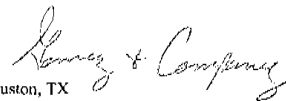
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013, on our consideration of HPS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HPS's internal control over financial reporting and compliance.

Houston, TX
October 21, 2013



HARMONY PUBLIC SCHOOLS

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2013

(With Comparative Totals for August 31, 2012)

	2013	2012
ASSETS		
Current Assets:		
Cash	\$ 33,081,273	\$ 22,828,524
Restricted Cash	26,362,283	44,205,391
Receivables	29,584,480	8,840,385
Other Receivables	359,383	1,297,153
Prepays		87,954
Total Current Assets	89,387,420	77,259,408
Property & Equipment:		
Land	30,486,657	28,873,193
Buildings and Improvements	223,965,673	209,878,657
Furniture and Equipment	16,607,525	15,138,340
	271,059,855	253,890,190
Less: Accumulated Depreciation	(38,692,215)	(28,613,744)
	232,367,640	225,276,446
Other Assets:		
Deposits	574,446	555,646
Bond Issuance Cost	4,894,372	5,064,085
Total Assets	<u>\$ 327,223,878</u>	<u>\$ 308,155,585</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	\$ 3,049,142	\$ 6,513,720
Accrued Liabilities	3,214,541	1,185,056
Wages Payable	11,126,058	3,086,767
Payroll Taxes Payable	1,451,233	
Interest Payable	4,817,860	1,750,275
Due to State		185,376
Capital Lease Payable		8,396
Current Portion of Notes Payable	1,668,089	7,485,482
Current Portion of Bonds Payable	4,589,379	3,911,782
Total Current Liabilities	29,916,302	24,126,855
Long-term Liabilities:		
Notes Payable Net of Current Portion	9,896,844	8,273,953
Bonds Payable Net of Discount/Premium and Current Portion	236,649,396	238,900,751
Total Liabilities	276,462,542	271,301,559
Net Assets:		
Unrestricted	11,199,969	10,935,047
Temporarily Restricted	39,561,367	25,918,979
Total Net Assets	50,761,336	36,854,026
Total Liabilities and Net Assets	<u>\$ 327,223,878</u>	<u>\$ 308,155,585</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS

STATEMENT OF ACTIVITIES

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	Unrestricted	Temporarily Restricted	Total	2012
SUPPORT AND REVENUE				
Federal Grants	\$	\$ 16,060,822	\$ 16,060,822	\$ 18,290,028
State and Local Grants		169,002,660	169,002,660	148,926,334
Donations	770,621	770,621	770,621	700,126
Interest Income	101,282		101,282	113,722
Other Income	8,003,524		8,003,524	7,500,319
Net Assets Released From Restrictions	171,421,094	(171,421,094)		
Total Revenues	<u>180,296,521</u>	<u>13,642,388</u>	<u>193,938,908</u>	<u>175,530,529</u>
EXPENSES				
Salaries	90,799,463		90,799,463	74,832,273
Employee Benefits	8,878,183		8,878,183	10,610,597
Payroll Tax Expense	1,929,847		1,929,847	1,569,260
Professional Fees	17,785,297		17,785,297	17,524,847
Occupancy	8,084,046		8,084,046	8,942,449
Equipment Lease	2,286,372		2,286,372	2,103,298
Supplies	12,687,246		12,687,246	14,734,184
Interest	13,084,717		13,084,717	12,571,988
Repairs & Maintenance	2,436,561		2,436,561	3,594,993
Utilities	3,139,735		3,139,735	3,360,979
Travel	2,364,775		2,364,775	2,747,084
Insurance	749,013		749,013	502,339
Other Expense	5,532,482		5,532,482	5,879,064
Depreciation	10,078,470		10,078,470	10,644,083
Amortization	195,391		195,391	274,021
Total Expenses	<u>180,031,599</u>		<u>180,031,599</u>	<u>169,891,459</u>
Change in Net Assets	264,922	13,642,388	13,907,310	5,639,070
Net Assets, Beginning of Year	10,935,047	25,918,979	36,854,026	31,214,956
Net Assets, Ending of Year	<u>\$ 11,199,969</u>	<u>\$ 39,561,367</u>	<u>\$ 50,761,336</u>	<u>\$ 36,854,026</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS

STATEMENT OF CASH FLOWS

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

HARMONY PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

	2013	2012
Cash Flows From Operating Activities		
Change in net assets	\$ 13,907,310	\$ 5,639,070
Adjustments to reconcile change in net assets to net		
Cash provided (used) by operating activities		
Depreciation	10,078,470	10,644,083
(Increase) Decrease in Receivable	(20,744,095)	(831,539)
(Increase) Decrease in Other Receivable	937,770	(1,031,339)
(Increase) Decrease in Prepaids	87,954	
(Increase) Decrease in Deposits	(18,800)	(155,933)
(Increase) Decrease in Bond Issuance Cost	169,713	(634,716)
Increase (Decrease) in Accounts Payable	(3,464,579)	1,294,451
Increase (Decrease) in Wages Payable	8,039,291	487,936
Increase (Decrease) in Accrued Liabilities	2,029,485	920,061
Increase (Decrease) in Payroll Taxes Payable	1,451,233	
Increase (Decrease) in Due to State	(185,376)	185,376
Increase (Decrease) in Interest Payable	3,067,585	184,624
Net Cash Provided (Used) by Operating Activities	15,355,961	16,702,074
Cash Flows From Investing Activities		
Purchase of Fixed Assets	(17,169,665)	(32,605,824)
Net Cash Provided (Used) by Investing Activities	(17,169,665)	(32,605,824)
Cash Flows From Financing Activities		
Proceeds from Loans	3,230,481	4,435,037
Proceeds from Bonds		31,720,469
Repayment of Capital Leases	(8,396)	(24,809)
Repayment of Loans	(7,424,982)	(7,173,596)
Repayment of Bonds	(1,573,758)	(880,000)
Net Cash Provided (Used) by Financing Activities	(5,776,655)	28,077,101
NET INCREASE (DECREASE) IN CASH	(7,590,359)	12,173,351
CASH AT BEGINNING OF YEAR	67,033,915	54,860,564
CASH AT END OF YEAR	\$ 59,443,556	\$ 67,033,915
Supplemental Disclosures		
Cash Paid During the Year for:		
Interest	\$ 13,084,717	\$ 12,571,988

See accompanying notes to financial statements.

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A. Organization:

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

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

B. Summary of Significant Accounting Policies:

BASIS OF PRESENTATION

HPS reports its financial information based on the *Financial Accounting Standards Board Accounting Standards Codification 958 Not-for-Profit Entities-205 Presentation of Financial Statements*. Under *FASB ASC 958-205*, an Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

PRINCIPLES OF CONSOLIDATION

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

SUPPORT AND REVENUE

Support and revenue are recorded based on the accrual method.

CASH DONATIONS AND DONATED SERVICES

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

CONTRIBUTIONS

In accordance with *Financial Accounting Standards Board Accounting Standards Codification 958 Not-for-Profit Entities-605 Revenue Recognition*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

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HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

B. Summary of Significant Accounting Policies: (Continued)

PROPERTY AND EQUIPMENT

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

PLEDGES AND ACCOUNTS RECEIVABLE

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

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

FUNCTIONAL EXPENSES

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

INCOME TAXES

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

CASH AND CASH EQUIVALENTS

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

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

B. Summary of Significant Accounting Policies: (Continued)

ESTIMATES

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

C. Pension Plan:

The charter school contributes to the Teacher Retirement System of Texas (TRS), a cost sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the charter school, but are the liability of the State of Texas. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805 respectively. The Texas State legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800- 223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications Heading.

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 1 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal year 2013, 2012 and 2011, and a state contribution rate of 6.0% for fiscal years 2013, 2012 and 6.644% for fiscal year 2011. The charter school's employee contributions to the system for the ten month period ending June 30, 2013 were \$6,451,862 equal to the required contributions for the year. Other contributions made from federal and private grants and from the charter school for salaries above the statutory minimum for the ten month period ending June 30, 2013 was \$229,534.

D. Budget:

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

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

E. Operating Lease Commitment:

HPS is currently leasing its office equipment and building on a non-cancelable operating lease. HPS minimum annual lease commitment is as follows:

Year months ending June 30,	Amount
2014	\$ 9,655,190
2015	8,082,027
2016	5,807,293
2017	3,908,503
2018	2,218,069
Total	<u>\$ 29,671,082</u>

Operating lease expense amounted to \$10,370,418 for the ten month period ended June 30, 2013.

F. Notes Payable:

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

Note payable to a bank, secured by land and buildings. The note is dated August 5, 2009, and has a variable interest rate, payable in monthly installments of \$79,917 and a face amount of \$6,650,000. The date of maturity is August 31, 2015. \$ 4,285,150

Note payable to a bank, secured by land and buildings. The note is dated December 28, 2009, and has a 6.5% interest rate, payable in 20 installments of \$97,156 and a face amount of \$4,300,000. The date of maturity is October 5, 2015. 3,985,780

Note payable to a bank, secured by furniture and equipment. The note is dated October 24, 2012, and has a variable interest rate, payable in 60 installments of \$25,000 and a face amount of \$1,500,000. The date of maturity is October 1, 2017. 1,300,000

Note payable to a landlord, unsecured. The note is dated August 1, 2012, and has a 7% interest rate, payable in 24 installments of \$18,200.05 and a face amount of \$406,500. The date of maturity is August 1, 2014. 260,781

Note payable to a church, secured by land. The note is dated December 9, 2011, has a 5.50% interest rate, payable in 24 monthly installments of \$9,921 and a face amount of \$225,000. The date of maturity is August 1, 2014. 134,241

Note payable to a bank for capital expansion of school facilities, secured by land, buildings and expected bond proceeds. The bridge loan is dated April 5, 2013, has a variable interest rate, interest is payable semi-annually on August 15 and February 15 and a face amount is up to \$25,000,000. The total amount of the bridge loan is due in a lump sum upon maturity. The date of maturity is April 5, 2015. 1,323,981

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

F. Notes Payable: (Continued)

Revolving line of credit with a bank unsecured, payable on demand with an interest rate of 6.50%. The date of maturity is January 23, 2013. See note G.	275,000
Total notes payable	<u>\$ 11,564,933</u>
Less Current Portion	<u>(1,668,089)</u>
Notes Payable	<u>9,896,844</u>

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

Year ending June 30,	Amount
2014	\$ 1,668,089
2015	5,442,310
2016	4,054,424
2017	300,000
2018	100,000
Total	<u>\$ 11,564,823</u>

G. Revolving Line of Credit:

HPS, Inc. has a \$1,500,000 revolving line of credit with a bank. All advances on the credit line are payable on demand and carry an interest rate of 6.50%. The credit line is unsecured. HPS, Inc. had draws on the line of credit that totaled to \$275,000 as of June 30, 2013.

H. Restricted Cash:

Restricted cash at June 30, 2013 consisted of project funds, debt service, debt service reserve fund and sinking fund bond cash accounts. These funds are to be solely used in the construction and acquisition of new facilities and repayment of bond liabilities and cannot be used for normal operating expenditures.

I. Bonds Payable:

HPS, Inc. has secured bond financing pursuant to Chapter 53 of the Texas Education Code of "Qualified Tax Exempt" Education Revenue Series Bonds, 2007A, 2008A, 2010A, 2011A and 2012A in the amounts of \$28,860,000, \$30,075,000, \$50,090,000, \$58,930,000 and \$31,350,000 respectively. HPS also has Taxable Educational Revenue Bonds, Q Series (Qualified School Construction Bonds) 2010Q and 2011Q in the amounts of \$39,910,000 and \$5,085,000 respectively. The bonds are limited obligations of the issuer payable solely from revenues received by the issuer pursuant to a loan agreement between the issuer and the borrower.

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. Bonds Payable; (Continued)

Bonds payable at June 30, 2013 consist of the following:

2007A Bonds, 5.35% interest; principle due annually commencing February 15, 2011 and interest due in semi-annual installments, commencing August 15, 2008; Maturity dates range from 2011 to 2037.	\$ 27,280,000
2008A Bonds, 6.25% interest; principle due annually commencing February 15, 2013 and interest due in semi-annual installments, commencing February 15, 2007; Maturity dates range from 2013 to 2038.	29,645,000
2010A Bonds, 6.0% - 6.2% interest; principle due annually commencing 2028 and interest due in semi-annual installments, commencing February 15, 2011; Maturity dates range from 2028 to 2040.	50,090,000
2011A Bonds, 8.125% interest; principle due annually commencing May 15, 2013 and interest due in semi-annual installments, commencing November 15, 2011; Maturity dates range from 2013 to 2041.	58,325,000
2011Q Bonds, 8.125% interest; principle due annually commencing May 15, 2013 and interest due in semi-annual installments, commencing November 15, 2011; Maturity dates range from 2013 to 2026.	5,085,000
2010Q Bonds, 8.125% interest; principle is deposited annually to a sinking fund account and interest due in semi-annual installments, commencing February 15, 2011; Bond matures in 2027.	39,910,000
2012A Bonds, 4% - 5% interest; principle due annually commencing February 15, 2014 and interest due semi-annually commencing August 15, 2012; Maturity dates range from 2014 to 2042.	31,350,000
Total	\$ 241,685,000
Less unamortized discount	(776,447)
Plus original issue premium	330,222
Less current portion	(4,589,379)
	<u>\$ 236,649,396</u>

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. Bonds Payable; (Continued)

Future maturities of long-term debt at June 30, 2013 are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2014	\$ 4,586,379
2015	4,767,778
2016	4,951,032
2017	5,151,198
2018	5,363,334
Thereafter	<u>216,865,279</u>
	241,685,000
	Less unamortized discount (776,447)
	Plus original issue premium <u>330,222</u>
	Amount of bond net of discount and premium <u>\$ 241,238,775</u>

HPS must maintain a debt service reserve fund which is required to maintain a minimum balance for the 2007A, 2008A, 2010A, 2011A and 2012A series bonds in the amounts of \$1,021,296, \$2,499,614, \$5,009,000, \$5,039,469 and \$2,035,125. At June 30, 2013, the debt service reserve funds for the 2007A, 2008A, 2010A, 2011A and 2012A series bonds had a cash balance of \$1,068,953, \$1,517,791, \$5,039,864, \$5,059,859 and \$2,038,372 respectively. HPS applied for, and was awarded, two grants in 2009 from the Texas Credit Enhancement Program in the amount of \$1,000,000 each to secure the debt service reserve fund requirement for the 2007A and 2008A series bonds. This grant can be used to secure other debt service reserve funds as deemed necessary.

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

J. Bond Debt Covenants:

The bond agreements contain the following restrictions and covenants. HPS is required to maintain a ratio of available revenue (without excluding any discretionary expenses incurred during the fiscal year) that must be equal to 1.10X of the annual debt service requirements. HPS's minimum revenue requirements for each bonds were as follows for the 2007A, 2008A, 2010A, 2011A and 2012A series bonds in the amounts of \$1,957,547, \$2,406,657, \$2,831,593, \$4,254,708 and \$1,384,958, respectively and totaled \$12,835,462. At June 30, 2013, HPS met the covenant requirements holding available revenue of \$13,907,310. Additionally, HPS needs to maintain an operating reserve that covers 45 days of budgeted expenses at the end of each fiscal year. For the fiscal year ending June 30, 2013, HPS was required to have \$26,944,443 in their operating accounts. At June 30, 2013, HPS met the covenant with an available cash balance of \$32,022,294.

K. Commitments and Contingencies:

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

L. Health Care Coverage:

During the ten month period ended June 30, 2013, employees of HPS were covered by a group insurance plan. The school paid premiums up to \$325 for teachers, \$425 for assistant principals, \$625 for principals and central office administrators, \$825 for assistant superintendents, cluster superintendents, and superintendents, for each campus per month per employee (depending upon coverage selected) to the plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer.

M. Temporarily Restricted Net Assets:

Temporarily restricted net assets at June 30, 2013, are available for the following periods:

Periods after June 30, 2013	
State Funds	\$ 39,561,367
Total restricted funds	<u>\$ 25,918,979</u>

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

State Fund	\$ 155,360,272
Federal Funds	16,060,822
Total restrictions released	<u>\$ 171,421,094</u>

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

N. Certificate of Deposits:

HSA- El Paso has renewed a \$1,500,000 twelve month certificate of deposit with a variable interest rate as of June 30, 2013. The certificate of deposit matures on January 23, 2014. Investment in certificate of deposit totals \$1,516,992 at June 30, 2013.

O. Harmony Science Academy-Houston Title III Cooperative:

HPS received \$57,833 of Title III Academic Achievement for Limited Proficiency funds for the ten month period ended June 30, 2013. The cooperative has a TEA approved Shared Services Arrangement (SSA) with the following member schools/entities, member revenue and member expenses for the ten month period ended June 30, 2013:

<u>Member/ Entity</u>	<u>Revenue</u>	<u>Expense</u>
Harmony Science Academy Houston	\$43,050	\$43,050
Harmony Science Academy Brownsville	3,556	3,556
Harmony Science Academy Lubbock	3,878	3,878
School of Science & Technology	2,554	2,554
School of Science & Technology Discovery	6,991	6,991
Total Title III Funds	<u>\$60,029</u>	<u>\$60,029</u>
Total Title III Federal Funds	\$60,029	\$60,029

P. Lawsuits and Contingencies:

HPS is currently in dispute with several sub-contractors that have filed various liens for nonpayment of services related to the construction of a building. HPS contends that these claims have no merit since the general contractor was paid in full and is obligated to make the sub-contractor whole. HPS will vigorously defend itself against these claims.

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Q. Elimination Entries:

<u>Description</u>	<u>Balance Before Eliminations</u>	<u>Eliminations</u>	<u>Consolidated Balance</u>
Total Assets	\$ 327,223,878	\$ -	\$ 327,053,316
Total Liabilities	276,462,542	-	276,462,542
Net Assets	50,761,336	-	50,761,336
Total Liabilities & Net Assets	327,223,878		327,223,878
Revenue	205,466,408	(11,527,500)	193,938,908
Expenses	191,559,099	(11,527,500)	180,031,599
Net Income	\$ 13,907,310	-	\$ 13,907,310

Eliminations consist of the following:

District Financial Services	\$ 10,927,500
Rental Income	600,000
Total	\$ 11,527,500

R. Guarantee of Bonds:

HPS guarantees \$1,245,000 of Series 2010 Y Bonds and \$705,000 of Series 2010 Z Bonds for Lisa Academy, Inc. (an independent charter school district) for property located in Arkansas. The outstanding principal balances on the bonds are \$1,245,000 and \$250,000 respectively at June 30, 2013. This guarantee would require payment by HPS only in the event of default by Lisa Academy, Inc. The security interest in the property would be subrogated to HPS. The related partnership was current with required payments as of June 30, 2013 and management believes likelihood is remote that material payments will be required under this guarantee.

S. Evaluation of Subsequent Events:

HPS has evaluated subsequent events through October 21, 2013, the date which the financial statements were available to be issued.


GOMEZ & COMPANY

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INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

To The Board of Directors of
Harmony Public Schools
Houston, Texas

We have audited the financial statements of Harmony Public Schools as of and for the ten month period ended June 30, 2013, and our report thereon dated October 21, 2013, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules for individual charter school dated June 30, 2013, a ten month period, pages 17 to 76 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


Houston, TX
October 21, 2013

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY- HOUSTON
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013
(With Comparative Totals for August 31, 2012)

	2013	2012
ASSETS		
Current Assets:		
Cash	\$ 5,467,654	\$ 2,709,476
Restricted Cash	6,477,299	16,884,185
Receivables	4,657,745	1,204,615
Other Receivables	318,588	949,338
Prepays		87,954
Total Current Assets	<u>16,921,286</u>	<u>21,835,568</u>
Property & Equipment:		
Land	7,837,301	6,223,837
Buildings and Improvements	57,936,915	51,695,739
Furniture and Equipment	<u>3,958,722</u>	<u>3,571,837</u>
	69,732,938	61,491,413
Less: Accumulated Depreciation	<u>(8,476,217)</u>	<u>(6,495,974)</u>
	61,256,721	54,995,439
Other Assets:		
Deposits	7,077	7,077
Bond Issuance Cost	<u>2,957,033</u>	<u>3,058,823</u>
Total Assets	<u>\$ 81,142,117</u>	<u>\$ 79,896,908</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	\$ 673,859	\$ 959,632
Accrued Liabilities	769,527	290,884
Wages Payable	2,356,493	478,688
Payroll Taxes Payable	298,647	
Interest Payable	1,455,509	214,334
Due to State		139,383
Current Portion of Notes Payable	51,648	5,090,454
Current Portion of Bonds Payable	<u>1,368,229</u>	<u>1,008,456</u>
Total Current Liabilities	6,973,913	8,181,830
Long-term Liabilities:		
Notes Payable Net of Current Portion	494,712	96,405
Bonds Payable Net of Discount and Current Portion	<u>63,499,884</u>	<u>63,332,076</u>
Total Liabilities	<u>70,968,509</u>	<u>71,610,311</u>
Net Assets:		
Unrestricted	4,255,380	3,545,843
Temporarily Restricted	<u>5,918,228</u>	<u>4,740,753</u>
Total Net Assets	<u>10,173,608</u>	<u>8,286,596</u>
Total Liabilities and Net Assets	<u>\$ 81,142,117</u>	<u>\$ 79,896,908</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY- AUSTIN
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013
(With Comparative Totals for August 31, 2012)

	2013	2012
ASSETS		
Current Assets:		
Cash	\$ 2,994,341	\$ 2,025,018
Restricted Cash	2,444,737	2,779,867
Receivables	<u>3,454,823</u>	<u>987,284</u>
Total Current Assets	8,893,901	5,792,170
Property & Equipment:		
Land	2,129,350	2,129,350
Buildings and Improvements	18,735,746	18,001,868
Furniture and Equipment	<u>1,767,789</u>	<u>1,710,227</u>
	22,632,884	21,841,446
Less: Accumulated Depreciation	<u>(3,112,242)</u>	<u>(2,141,790)</u>
	19,520,642	19,699,655
Other Assets:		
Deposits	110,814	110,814
Bond Issuance Cost	<u>214,939</u>	<u>222,343</u>
Total Assets	<u>\$ 28,740,297</u>	<u>\$ 25,824,982</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	\$ 299,302	\$ 493,552
Accrued Liabilities	337,271	8,338
Wages Payable	1,249,458	363,978
Payroll Taxes Payable	169,703	
Interest Payable	429,154	165,351
Current Portion of Notes Payable	83,580	68,994
Current Portion of Bonds Payable	<u>343,152</u>	<u>323,933</u>
Total Current Liabilities	2,911,620	1,424,145
Long-term Liabilities:		
Notes Payable Net of Current Portion	276,529	112,200
Bonds Payable Net of Discount and Current Portion	<u>20,694,173</u>	<u>20,785,968</u>
Total Liabilities	<u>23,882,322</u>	<u>22,322,314</u>
Net Assets:		
Unrestricted	265,226	257,076
Temporarily Restricted	<u>4,592,749</u>	<u>3,245,592</u>
Total Net Assets	<u>4,857,975</u>	<u>3,502,668</u>
Total Liabilities and Net Assets	<u>\$ 28,740,297</u>	<u>\$ 25,824,982</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY- SAN ANTONIO
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013
(With Comparative Totals for August 31, 2012)

	2013	2012
ASSETS		
Current Assets:		
Cash	\$ 3,211,358	2,748,886
Restricted Cash	2,001,674	1,672,138
Receivables	2,717,160	706,540
Other Receivables	4,265	4,265
Total Current Assets	<u>7,934,456</u>	<u>5,131,829</u>
Property & Equipment:		
Land	1,718,271	1,718,271
Buildings and Improvements	19,454,126	19,369,982
Furniture and Equipment	<u>1,367,295</u>	<u>1,276,001</u>
	22,539,692	22,364,254
Less: Accumulated Depreciation	<u>(2,501,531)</u>	<u>(1,844,569)</u>
	20,038,161	20,519,686
Other Assets:		
Deposits	32,550	23,750
Bond Issuance Cost	<u>364,698</u>	<u>379,944</u>
Total Assets	<u>\$ 28,369,866</u>	<u>\$ 26,055,208</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	\$ 90,505	172,447
Accrued Liabilities	256,317	14,519
Wages Payable	914,532	264,339
Payroll Taxes Payable	121,936	
Interest Payable	475,521	80,181
Due to State	0	45,993
Current Portion of Notes Payable	119,672	500,000
Current Portion of Bonds Payable	<u>464,638</u>	<u>447,572</u>
Total Current Liabilities	<u>2,443,121</u>	<u>1,525,051</u>
Long-term Liabilities:		
Notes Payable Net of Current Portion	105,658	
Bonds Payable Net of Discount and Current Portion	<u>19,890,117</u>	<u>20,103,506</u>
Total Liabilities	<u>22,438,896</u>	<u>21,628,557</u>
Net Assets:		
Unrestricted	2,094,136	2,229,564
Temporarily Restricted	<u>3,836,833</u>	<u>2,197,087</u>
Total Net Assets	<u>5,930,969</u>	<u>4,426,651</u>
Total Liabilities and Net Assets	<u>\$ 28,369,866</u>	<u>\$ 26,055,208</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY- EL PASO
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013
(With Comparative Totals for August 31, 2012)

	2013	2012
ASSETS		
Current Assets:		
Cash	\$ 7,386,499	\$ 6,064,541
Restricted Cash	1,531,486	1,682,095
Receivables	2,651,115	737,513
Other Receivables	4,564	268,115
Total Current Assets	<u>11,573,663</u>	<u>8,752,265</u>
Property & Equipment:		
Land	1,790,950	1,790,950
Buildings and Improvements	13,610,307	13,112,839
Furniture and Equipment	<u>911,184</u>	<u>594,281</u>
	16,312,441	15,498,070
Less: Accumulated Depreciation	<u>(2,272,680)</u>	<u>(1,570,862)</u>
	14,039,761	13,927,208
Other Assets:		
Deposits	37,532	37,532
Bond Issuance Cost	<u>114,559</u>	<u>114,953</u>
Total Assets	<u>\$ 25,765,515</u>	<u>\$ 22,831,959</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	\$ 109,068	526,333
Accrued Liabilities	248,639	6,039
Wages Payable	899,882	275,319
Payroll Taxes Payable	115,496	
Interest Payable	167,563	258,614
Current Portion of Notes Payable	223,980	122,400
Current Portion of Bonds Payable	<u>453,520</u>	<u>414,191</u>
Total Current Liabilities	<u>2,218,147</u>	<u>1,602,894</u>
Long-term Liabilities:		
Notes Payable Net of Current Portion	1,453,209	823,084
Bonds Payable Net of Discount and Current Portion	<u>13,904,438</u>	<u>14,228,812</u>
Total Liabilities	<u>17,575,794</u>	<u>16,654,790</u>
Net Assets:		
Unrestricted	2,030,876	1,957,434
Temporarily Restricted	<u>6,158,845</u>	<u>4,219,735</u>
Total Net Assets	<u>8,189,721</u>	<u>6,177,169</u>
Total Liabilities and Net Assets	<u>\$ 25,765,515</u>	<u>\$ 22,831,959</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY- FORT WORTH
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013
(With Comparative Totals for August 31, 2012)

	2013	2012
ASSETS		
Current Assets:		
Cash	\$ 1,568,650	\$ 725,937
Restricted Cash	4,990,333	7,436,430
Receivables	3,930,449	1,377,877
Other Receivables		<u>35,706</u>
Total Current Assets	<u>10,489,432</u>	<u>9,575,950</u>
Property & Equipment:		
Land	2,944,614	2,944,614
Buildings and Improvements	34,811,284	31,558,404
Furniture and Equipment	<u>2,035,134</u>	<u>1,942,249</u>
	39,791,032	36,445,267
Less: Accumulated Depreciation	<u>(4,196,886)</u>	<u>(3,027,621)</u>
	35,594,146	33,417,645
Other Assets:		
Deposits	82,542	82,542
Bond Issuance Cost	<u>401,157</u>	<u>416,004</u>
Total Assets	<u>\$ 46,567,277</u>	<u>\$ 43,492,141</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	\$ 888,179	\$ 1,783,210
Accrued Liabilities	399,295	11,403
Wages Payable	1,398,007	420,311
Payroll Taxes Payable	177,839	
Interest Payable	660,525	333,233
Current Portion of Notes Payable	552,223	311,438
Current Portion of Bonds Payable	<u>673,884</u>	<u>578,885</u>
Total Current Liabilities	<u>4,749,951</u>	<u>3,438,480</u>
Long-term Liabilities:		
Notes Payable Net of Current Portion	1,918,116	1,599,680
Bonds Payable Net of Discount and Current Portion	<u>33,813,628</u>	<u>33,955,099</u>
Total Liabilities	<u>40,481,696</u>	<u>38,993,259</u>
Net Assets:		
Unrestricted	1,512,235	1,553,477
Temporarily Restricted	<u>4,573,347</u>	<u>2,945,405</u>
Total Net Assets	<u>6,085,582</u>	<u>4,498,882</u>
Total Liabilities and Net Assets	<u>\$ 46,567,277</u>	<u>\$ 43,492,141</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF EXCELLENCE
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013
(With Comparative Totals for August 31, 2012)

	2013	2012
ASSETS		
Current Assets:		
Cash	\$ 2,794,007	\$ 1,649,372
Restricted Cash	3,862,117	6,848,104
Receivables	4,274,300	1,205,512
Other Receivables	<u>2,200</u>	<u>2,200</u>
Total Current Assets	<u>10,932,624</u>	<u>9,705,188</u>
Property & Equipment:		
Land	3,995,277	3,995,277
Buildings and Improvements	30,750,102	28,727,026
Furniture and Equipment	<u>2,781,003</u>	<u>2,633,711</u>
	37,526,383	35,356,014
Less: Accumulated Depreciation	<u>(7,150,940)</u>	<u>(5,556,699)</u>
	30,375,442	29,799,315
Other Assets:		
Deposits	69,781	59,781
Bond Issuance Cost	<u>424,553</u>	<u>438,620</u>
Total Assets	<u>\$ 41,802,400</u>	<u>\$ 40,002,904</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	\$ 321,905	\$ 158,346
Accrued Liabilities	436,912	842,863
Wages Payable	1,518,791	444,653
Payroll Taxes Payable	195,928	
Interest Payable	645,903	116,970
Capital Lease Payable		8,396
Current Portion of Notes Payable	441,957	1,282,783
Current Portion of Bonds Payable	<u>543,333</u>	<u>457,301</u>
Total Current Liabilities	<u>4,104,730</u>	<u>3,311,314</u>
Long-term Liabilities:		
Notes Payable Net of Current Portion	5,118,434	5,367,960
Bonds Payable Net of Discount and Current Portion	<u>28,771,314</u>	<u>29,858,240</u>
Total Liabilities	<u>37,994,478</u>	<u>38,537,514</u>
Net Assets:		
Unrestricted	567,973	651,463
Temporarily Restricted	<u>3,239,949</u>	<u>813,927</u>
Total Net Assets	<u>3,807,922</u>	<u>1,465,390</u>
Total Liabilities and Net Assets	<u>\$ 41,802,400</u>	<u>\$ 40,002,904</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY- LUBBOCK
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013
(With Comparative Totals for August 31, 2012)

	2013	2012
ASSETS		
Current Assets:		
Cash	\$ 1,419,068	\$ 973,960
Restricted Cash	435,379	369,794
Receivables	997,549	295,479
Total Current Assets	2,851,996	1,639,233
Property & Equipment:		
Land	154,893	154,893
Buildings and Improvements	4,583,389	4,573,437
Furniture and Equipment	562,103	529,513
	5,300,385	5,257,843
Less: Accumulated Depreciation	(1,783,433)	(1,418,645)
	3,516,952	3,839,198
Other Assets:		
Deposits	15,800	15,800
Bond Issuance Cost	93,892	97,420
Total Assets	<u>\$ 6,478,640</u>	<u>\$ 5,591,651</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	\$ 31,602	\$ 28,523
Accrued Liabilities	106,583	481
Wages Payable	363,476	120,524
Payroll Taxes Payable	51,430	
Interest Payable	112,716	26,085
Current Portion of Bonds Payable	126,392	121,565
Total Current Liabilities	792,199	297,178
Long-term Liabilities:		
Bonds Payable Net of Discount and Current Portion	4,561,997	4,615,309
Total Liabilities	<u>5,354,196</u>	<u>4,912,486</u>
Net Assets:		
Unrestricted	(36,852)	(28,026)
Temporarily Restricted	1,161,296	707,191
Total Net Assets	<u>1,124,444</u>	<u>679,165</u>
Total Liabilities and Net Assets	<u>\$ 6,478,640</u>	<u>\$ 5,591,651</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY-WACO
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013
(With Comparative Totals for August 31, 2012)

	2013	2012
ASSETS		
Current Assets:		
Cash	\$ 4,848,980	\$ 4,067,631
Restricted Cash	2,576,077	4,658,278
Receivables	4,562,007	1,733,017
Other Receivables	12,205	19,969
Total Current Assets	11,999,270	10,478,895
Property & Equipment:		
Land	8,828,501	8,828,501
Buildings and Improvements	29,843,411	28,657,706
Furniture and Equipment	2,450,146	2,198,889
	41,122,058	39,685,096
Less: Accumulated Depreciation	(6,436,545)	(4,556,270)
	34,685,512	35,128,826
Other Assets:		
Deposits	134,352	134,352
Bond Issuance Cost	117,849	122,861
Total Assets	<u>\$ 46,936,983</u>	<u>\$ 45,864,935</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	\$ 545,545	\$ 2,291,050
Accrued Liabilities	448,718	4,927
Wages Payable	1,624,606	475,241
Payroll Taxes Payable	218,349	
Interest Payable	522,643	458,080
Current Portion of Notes Payable	186,269	109,414
Current Portion of Bonds Payable	286,941	250,052
Total Current Liabilities	3,833,071	3,588,765
Long-term Liabilities:		
Notes Payable Net of Current Portion	500,990	274,622
Bonds Payable Net of Discount and Current Portion	36,491,528	36,921,606
Total Liabilities	<u>40,825,588</u>	<u>40,784,993</u>
Net Assets:		
Unrestricted	145,868	362,129
Temporarily Restricted	5,965,526	4,717,813
Total Net Assets	<u>6,111,394</u>	<u>5,079,942</u>
Total Liabilities and Net Assets	<u>\$ 46,936,983</u>	<u>\$ 45,864,935</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY- BROWNSVILLE
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013
(With Comparative Totals for August 31, 2012)

	2013	2012
ASSETS		
Current Assets:		
Cash	\$ 1,435,583	\$ 1,164,469
Restricted Cash	5,702	6,384
Receivables	517,117	162,883
Other Receivables	18,090	18,090
Total Current Assets	1,976,493	1,351,827
Property & Equipment:		
Buildings and Improvements	410,753	379,476
Furniture and Equipment	120,317	107,749
	531,070	487,225
Less: Accumulated Depreciation	(314,508)	(232,512)
	216,562	254,713
Other Assets:		
Deposits	24,000	24,000
Total Assets	\$ 2,217,055	\$ 1,630,541
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	\$ 33,239	\$ 18,256
Accrued Liabilities	61,919	
Wages Payable	225,262	62,133
Payroll Taxes Payable	26,269	
Interest Payable	516	1,215
Current Portion of Bonds Payable	704	666
Total Current Liabilities	347,909	82,269
Long-term Liabilities:		
Bonds Payable Net of Discount and Current Portion	59,613	60,294
Total Liabilities	407,522	142,563
Net Assets:		
Unrestricted	167,705	155,951
Temporarily Restricted	1,641,828	1,332,027
Total Net Assets	1,809,533	1,487,978
Total Liabilities and Net Assets	\$ 2,217,055	\$ 1,630,541

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF SCIENCE- HOUSTON
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013
(With Comparative Totals for August 31, 2012)

	2013	2012
ASSETS		
Current Assets:		
Cash	\$ 1,955,133	\$ 699,234
Restricted Cash	2,037,479	1,868,116
Receivables	1,821,686	429,135
Total Current Assets	5,814,299	2,996,484
Property & Equipment:		
Land	1,087,500	1,087,500
Buildings and Improvements	13,829,640	13,802,178
Furniture and Equipment	653,831	573,882
	15,570,972	15,463,561
Less: Accumulated Depreciation	(2,447,232)	(1,768,802)
	13,123,740	13,694,759
Other Assets:		
Deposits	59,998	59,998
Bond Issuance Cost	205,691	213,117
Total Assets	\$ 19,203,727	\$ 16,964,358
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	\$ 55,940	\$ 82,373
Accrued Liabilities	149,361	5,604
Wages Payable	575,551	181,582
Payroll Taxes Payable	75,636	
Interest Payable	347,808	96,214
Current Portion of Notes Payable	8,759	
Current Portion of Bonds Payable	325,586	309,162
Total Current Liabilities	1,538,641	674,935
Long-term Liabilities:		
Notes Payable Net of Current Portion	29,197	
Bonds Payable Net of Discount and Current Portion	14,965,703	15,039,840
Total Liabilities	16,533,541	15,714,775
Net Assets:		
Unrestricted	196,970	249,684
Temporarily Restricted	2,473,216	999,899
Total Net Assets	2,670,186	1,249,583
Total Liabilities and Net Assets	\$ 19,203,727	\$ 16,964,358

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - HOUSTON

STATEMENT OF ACTIVITIES
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	Unrestricted	Temporarily Restricted	Total	2012
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 13,659,047	\$	\$ 13,659,047	\$12,922,477
5750 Revenue from Curricular	<u>595,123</u>		<u>595,123</u>	<u>1,074,146</u>
Total Local Support	14,254,169		14,254,169	13,996,624
State Program Revenues				
5810 Foundation School Program Act Revenue		24,256,004	24,256,004	23,060,759
5820 State Program Revenues Distributed by Texas Education Agency		<u>100,338</u>	<u>100,338</u>	<u>201,279</u>
Total State Program Revenues		24,356,342	24,356,342	23,262,038
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency		2,813,588	2,813,588	2,906,054
5940 Federal Revenues Distributed Directly From the Federal Government		<u>808,115</u>	<u>808,115</u>	<u>783,280</u>
Total Federal Program Revenues		3,621,703	3,621,703	3,689,334
Net assets released from restrictions: Restrictions satisfied by payments	<u>26,800,570</u>	<u>(26,800,570)</u>		
Total Revenues	<u>41,054,739</u>	<u>1,177,475</u>	<u>42,232,214</u>	<u>40,947,996</u>
EXPENSES				
11 Instruction	14,496,962		14,496,962	13,618,075
12 Instructional Resources and Media Service	6,846		6,846	57,757
13 Curriculum Development and Instructional Staff Development	2,911,138		2,911,138	3,981,269
21 Instructional Leadership	843,389		843,389	609,950
23 School Leadership	3,114,041		3,114,041	2,651,629
33 Health Services	64,248		64,248	53,153
34 Student (Pupil) Transportation	100,140		100,140	139,320
35 Food Service	1,366,889		1,366,889	1,357,278
36 Cocurricular/Extracurricular Activities	663,193		663,193	808,493
41 General Administration	7,595,532		7,595,532	7,028,774
51 Plant Maintenance and Operations	5,416,758		5,416,758	6,188,762
52 Security and Monitoring Services	115,052		115,052	184,506
53 Data Processing Services	670,913		670,913	358,015
71 Debt Service	<u>2,980,102</u>		<u>2,980,102</u>	<u>3,383,408</u>
Total Expenses	<u>40,345,202</u>		<u>40,345,202</u>	<u>40,420,389</u>
Change in Net Assets	<u>709,537</u>	<u>1,177,475</u>	<u>1,887,012</u>	<u>527,607</u>
Net Assets, Beginning of Year	<u>3,545,843</u>	<u>4,740,753</u>	<u>8,286,596</u>	<u>7,758,990</u>
Net Assets, End of Year	<u>\$ 4,255,380</u>	<u>\$ 5,918,228</u>	<u>\$ 10,173,608</u>	<u>\$ 8,286,596</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - AUSTIN

STATEMENT OF ACTIVITIES
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	Unrestricted	Temporarily Restricted	Total	2012
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 246,387	\$	\$ 246,387	\$ 4,988
5750 Revenue from Curricular	<u>576,244</u>		<u>576,244</u>	<u>774,764</u>
Total Local Support	822,631		822,631	779,752
State Program Revenues				
5810 Foundation School Program Act Revenues		20,179,984	20,179,984	18,654,327
5820 State Program Revenues Distributed by Texas Education Agency		<u>139,115</u>	<u>139,115</u>	<u>176,934</u>
Total State Program Revenues		20,319,100	20,319,100	18,831,261
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency		1,377,468	1,377,468	1,615,522
5940 Federal Revenues Distributed Directly From the Federal Government		<u>68,144</u>	<u>68,144</u>	<u>375,339</u>
Total Federal Program Revenues		1,445,612	1,445,612	1,990,862
Net assets released from restrictions: Restrictions satisfied by payments	<u>20,417,555</u>	<u>(20,417,555)</u>		
Total Revenues	<u>21,240,186</u>	<u>1,347,157</u>	<u>22,587,343</u>	<u>21,601,874</u>
EXPENSES				
11 Instruction	11,321,259		11,321,259	10,496,828
12 Instructional Resources and Media Services	7,747		7,747	20,146
13 Curriculum Development and Instructional Staff Development	502,289		502,289	649,454
21 Instructional Leadership	75,030		75,030	
23 School Leadership	1,971,415		1,971,415	1,937,459
33 Health Services	4,413		4,413	3,898
34 Student (Pupil) Transportation	122,613		122,613	90,282
35 Food Service	595,862		595,862	699,353
36 Cocurricular/Extracurricular Activities	552,571		552,571	425,537
41 General Administration	1,055,762		1,055,762	1,053,045
51 Plant Maintenance and Operations	3,752,952		3,752,952	4,091,896
52 Security and Monitoring Services	33,562		33,562	23,097
53 Data Processing Services	49,065		49,065	237,796
71 Debt Service	<u>1,187,497</u>		<u>1,187,497</u>	<u>1,118,147</u>
Total Expenses	<u>21,232,036</u>		<u>21,232,036</u>	<u>20,846,938</u>
Change in Net Assets	<u>8,150</u>	<u>1,347,157</u>	<u>1,355,307</u>	<u>754,937</u>
Net Assets, Beginning of Year	<u>257,076</u>	<u>3,245,592</u>	<u>3,502,668</u>	<u>2,747,731</u>
Net Assets, End of Year	<u>\$ 265,226</u>	<u>\$ 4,592,749</u>	<u>\$ 4,857,975</u>	<u>\$ 3,502,668</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - SAN ANTONIO

STATEMENT OF ACTIVITIES
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	Unrestricted	Temporarily Restricted	Total	2012
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 248,196	\$	\$ 248,196	\$ 2
5750 Revenue from Curricular	<u>378,188</u>		<u>378,188</u>	<u>333,840</u>
Total Local Support	626,384		626,384	333,841
State Program Revenues:				
5810 Foundation School Program Act Revenues		14,821,573	14,821,573	9,298,263
5820 State Program Revenues Distributed by Texas Education Agency		<u>39,583</u>	<u>39,583</u>	<u>71,051</u>
Total State Program Revenues		14,861,156	14,861,156	9,369,314
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency		1,351,488	1,351,488	843,510
5940 Federal Revenues Distributed Directly From the Federal Government		<u>11,088</u>	<u>11,088</u>	<u>292,596</u>
Total Federal Program Revenues		1,362,576	1,362,576	1,136,106
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>14,583,986</u>	<u>(14,583,986)</u>	<u>16,850,117</u>	<u>10,839,261</u>
Total Revenues	<u>15,210,370</u>	<u>1,639,746</u>	<u>16,850,117</u>	<u>10,839,261</u>
EXPENSES				
11 Instruction	7,737,504		7,737,504	5,391,614
12 Instructional Resources and Media Services	3,468		3,468	24,679
13 Curriculum Development and Instructional Staff Development	452,343		452,343	454,446
21 Instructional Leadership	59,982		59,982	
23 School Leadership	1,499,747		1,499,747	971,733
33 Health Services	8,142		8,142	4,106
35 Food Service	759,785		759,785	491,472
36 Cocurricular/Extracurricular Activities	356,322		356,322	175,106
41 General Administration	761,908		761,908	499,452
51 Plant Maintenance and Operations	2,444,378		2,444,378	1,513,456
52 Security and Monitoring Services	30,212		30,212	8,111
53 Data Processing Services	94,259		94,259	66,760
71 Debt Service	<u>1,137,750</u>		<u>1,137,750</u>	<u>1,283,413</u>
Total Expenses	<u>15,345,799</u>		<u>15,345,799</u>	<u>10,884,347</u>
Change in Net Assets	<u>(135,428)</u>	<u>1,639,746</u>	<u>1,504,318</u>	<u>(45,086)</u>
Net Assets, Beginning of Year	<u>2,229,564</u>	<u>2,197,087</u>	<u>4,426,651</u>	<u>4,471,737</u>
Net Assets, End of Year	<u>\$ 2,094,136</u>	<u>\$ 3,836,833</u>	<u>\$ 5,930,969</u>	<u>\$ 4,426,651</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - EL PASO

STATEMENT OF ACTIVITIES
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	Unrestricted	Temporarily Restricted	Total	2012
REVENUES				
5740 Other Revenues from Local Sources	\$ 290,232	\$	\$ 290,232	\$ 55,494
5750 Food Service Sales	<u>497,258</u>		<u>497,258</u>	<u>663,709</u>
Total Local Support	787,489		787,489	719,203
State Program Revenues:				
5810 Foundation School Program Act Revenues		15,574,937	15,574,937	12,818,245
5820 State Program Revenues Distributed by Texas Education Agency		<u>73,416</u>	<u>73,416</u>	<u>85,487</u>
Total State Program Revenues		15,648,353	15,648,353	12,903,732
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency		1,516,198	1,516,198	1,391,920
5940 Federal Revenues Distributed Directly From the Federal Government		<u>31,343</u>	<u>31,343</u>	<u>244,016</u>
Total Federal Program Revenues		1,547,541	1,547,541	1,635,937
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>15,256,784</u>	<u>(15,256,784)</u>	<u>17,983,384</u>	<u>15,258,872</u>
Total Revenues	<u>16,044,273</u>	<u>1,939,110</u>	<u>17,983,384</u>	<u>15,258,872</u>
EXPENSES				
11 Instruction	8,268,036		8,268,036	6,530,343
12 Instructional Resources and Media Services	6,456		6,456	27,411
13 Curriculum Development and Instructional Staff Development	545,506		545,506	473,256
21 Instructional Leadership	50,000		50,000	
23 School Leadership	1,612,686		1,612,686	1,407,769
33 Health Services	2,381		2,381	4,672
35 Food Service	662,023		662,023	512,544
36 Cocurricular/Extracurricular Activities	420,662		420,662	447,502
41 General Administration	817,099		817,099	806,014
51 Plant Maintenance and Operations	2,679,335		2,679,335	2,979,808
52 Security and Monitoring Services	17,036		17,036	21,344
53 Data Processing Services	39,670		39,670	112,841
71 Debt Service	<u>849,942</u>		<u>849,942</u>	<u>674,232</u>
Total Expenses	<u>15,970,832</u>		<u>15,970,832</u>	<u>13,997,735</u>
Change in Net Assets	<u>73,442</u>	<u>1,939,110</u>	<u>2,012,552</u>	<u>1,261,137</u>
Net Assets, Beginning of Year	<u>1,957,434</u>	<u>4,219,735</u>	<u>6,177,169</u>	<u>4,916,032</u>
Net Assets, End of Year	<u>\$ 2,030,876</u>	<u>\$ 6,158,845</u>	<u>\$ 8,189,721</u>	<u>\$ 6,177,169</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - FORT WORTH

STATEMENT OF ACTIVITIES
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	Unrestricted	Temporarily Restricted	Total	2012
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 247,573	\$	\$ 247,573	\$ 991
5750 Revenue from Curricular	<u>720,598</u>		<u>720,598</u>	<u>772,348</u>
Total Local Support	968,171		968,171	773,339
State Program Revenues				
5810 Foundation School Program Act Revenue		22,667,392	22,667,392	17,314,988
5820 State Program Revenues Distributed by Texas Education Agency		<u>179,233</u>	<u>179,233</u>	<u>138,084</u>
Total State Program Revenues		22,846,625	22,846,625	17,453,072
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency		1,391,405	1,391,405	1,420,080
5940 Federal Revenues Distributed Directly From the Federal Government		<u>222,437</u>	<u>222,437</u>	<u>783,519</u>
Total Federal Program Revenues		1,613,842	1,613,842	2,203,599
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>22,832,526</u>	<u>(22,832,526)</u>		
Total Revenues	<u>23,800,697</u>	<u>1,627,942</u>	<u>25,428,639</u>	<u>20,430,010</u>
EXPENSES				
11 Instruction	12,312,004		12,312,004	10,350,996
12 Instructional Resources and Media Service	11,971		11,971	9,270
13 Curriculum Development and Instructional Staff Development	646,160		646,160	790,704
21 Instructional Leadership	89,881		89,881	
23 School Leadership	2,502,412		2,502,412	1,840,128
33 Health Services	18,316		18,316	41,006
35 Food Service	916,692		916,692	644,824
36 Cocurricular/Extracurricular Activities	606,066		606,066	516,078
41 General Administration	1,051,582		1,051,582	1,001,600
51 Plant Maintenance and Operations	3,548,512		3,548,512	3,547,542
52 Security and Monitoring Services	62,428		62,428	23,157
53 Data Processing Services	70,798		70,798	75,665
71 Debt Service	<u>2,005,117</u>		<u>2,005,117</u>	<u>1,652,036</u>
Total Expenses	<u>23,841,939</u>		<u>23,841,939</u>	<u>20,493,005</u>
Change in Net Assets	<u>(41,242)</u>	<u>1,627,942</u>	<u>1,586,700</u>	<u>(62,995)</u>
Net Assets, Beginning of Year	<u>1,553,477</u>	<u>2,945,405</u>	<u>4,498,882</u>	<u>4,561,877</u>
Net Assets, End of Year	<u>\$ 1,512,235</u>	<u>\$ 4,573,347</u>	<u>\$ 6,085,582</u>	<u>\$ 4,498,882</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF EXCELLENCE

STATEMENT OF ACTIVITIES
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	Unrestricted	Temporarily Restricted	Total	2012
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 380,454	\$	\$ 380,454	\$ 1,519
5750 Revenue from Curricular	<u>939,609</u>		<u>939,609</u>	<u>1,233,516</u>
Total Local Support	1,320,063		1,320,063	1,235,035
State Program Revenues				
5810 Foundation School Program Act Revenues		25,827,013	25,827,013	23,824,376
5820 State Program Revenues Distributed by Texas Education Agency		<u>88,153</u>	<u>88,153</u>	<u>204,092</u>
Total State Program Revenues		25,915,166	25,915,166	24,028,469
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency		1,995,190	1,995,190	1,986,609
5940 Federal Revenues Distributed Directly From the Federal Government		<u>10,332</u>	<u>10,332</u>	<u>406,589</u>
Total Federal Program Revenues		2,005,522	2,005,522	2,393,198
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>25,494,666</u>	<u>(25,494,666)</u>		
Total Revenues	<u>26,814,729</u>	<u>2,426,022</u>	<u>29,240,751</u>	<u>27,656,702</u>
EXPENSES				
11 Instruction	13,146,525		13,146,525	12,222,713
12 Instructional Resources and Media Services	22,337		22,337	183,353
13 Curriculum Development and Instructional Staff Development	666,231		666,231	881,359
21 Instructional Leadership	103,160		103,160	
23 School Leadership	2,950,379		2,950,379	3,147,388
33 Health Services	15,241		15,241	12,305
34 Student (Pupil) Transportation	295,262		295,262	279,062
35 Food Service	1,110,671		1,110,671	1,126,724
36 Cocurricular/Extracurricular Activities	747,049		747,049	781,299
41 General Administration	1,230,204		1,230,204	1,483,983
51 Plant Maintenance and Operations	4,647,530		4,647,530	5,124,750
52 Security and Monitoring Services	99,418		99,418	66,409
53 Data Processing Services	61,258		61,258	83,016
71 Debt Service	<u>1,802,954</u>		<u>1,802,954</u>	<u>1,951,107</u>
Total Expenses	<u>26,898,219</u>		<u>26,898,219</u>	<u>27,343,468</u>
Change in Net Assets	<u>(83,490)</u>	<u>2,426,022</u>	<u>2,342,532</u>	<u>313,234</u>
Net Assets, Beginning of Year	<u>651,463</u>	<u>813,927</u>	<u>1,465,390</u>	<u>1,152,156</u>
Net Assets, End of Year	<u>\$ 567,973</u>	<u>\$ 3,239,949</u>	<u>\$ 3,807,922</u>	<u>\$ 1,465,390</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - LUBBOCK

STATEMENT OF ACTIVITIES
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	Unrestricted	Temporarily Restricted	Total	2012
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 70,263	\$	\$ 70,263	\$ 485
5750 Revenue from Curricular	146,803		146,803	204,098
Total Local Support	217,066		217,066	204,583
State Program Revenues:				
5810 Foundation School Program Act Revenues		5,823,613	5,823,613	5,449,114
5820 State Program Revenues Distributed by Texas Education Agency		12,353	12,353	56,319
Total State Program Revenues		5,835,966	5,835,966	5,505,433
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency		659,935	659,935	706,303
5940 Federal Revenues Distributed Directly From the Federal Government		18,018	18,018	111,074
Total Federal Program Revenues		677,953	677,953	817,377
Net assets released from restrictions:				
Restrictions satisfied by payments	6,059,813	(6,059,813)		
Total Revenues	6,276,879	454,105	6,730,984	6,527,393
EXPENSES				
11 Instruction	3,412,911		3,412,911	3,054,491
12 Instructional Resources and Media Services	480		480	23,657
13 Curriculum Development and Instructional Staff Development	212,702		212,702	304,454
21 Instructional Leadership	22,130		22,130	
23 School Leadership	523,418		523,418	689,497
33 Health Services	2,007		2,007	2,098
35 Food Service	337,352		337,352	341,897
36 Cocurricular/Extracurricular Activities	127,969		127,969	107,099
41 General Administration	454,475		454,475	318,211
51 Plant Maintenance and Operations	878,974		878,974	1,005,482
52 Security and Monitoring Services	17,323		17,323	2,471
53 Data Processing Services	17,406		17,406	132,301
71 Debt Service	278,559		278,559	302,305
Total Expenses	6,285,705		6,285,705	6,283,963
Change in Net Assets	(8,826)	454,105	445,279	243,430
Net Assets, Beginning of Year	(28,026)	707,191	679,165	435,735
Net Assets, End of Year	\$ (36,852)	\$ 1,161,296	\$ 1,124,444	\$ 679,165

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - WACO

STATEMENT OF ACTIVITIES
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	Unrestricted	Temporarily Restricted	Total	2012
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 79,602	\$	\$ 79,602	\$ 162,552
5750 Revenue from Curricular	668,243		668,243	902,878
Total Local Support	747,845		747,845	1,065,431
State Program Revenues:				
5810 Foundation School Program Act Revenues		25,853,262	25,853,262	22,022,521
5820 State Program Revenues Distributed by Texas Education Agency		194,160	194,160	269,085
Total State Program Revenues		26,047,422	26,047,422	22,291,606
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency		2,189,795	2,189,795	2,055,370
5940 Federal Revenues Distributed Directly From the Federal Government		344,334	344,334	463,149
Total Federal Program Revenues		2,534,129	2,534,129	2,518,520
Net assets released from restrictions:				
Restrictions satisfied by payments	27,333,837	(27,333,837)		
Total Revenues	28,081,682	1,247,713	29,329,395	25,875,557
EXPENSES				
11 Instruction	14,779,890		14,779,890	12,169,950
12 Instructional Resources and Media Services	19,193		19,193	40,851
13 Curriculum Development and Instructional Staff Development	786,892		786,892	884,083
21 Instructional Leadership	100,800		100,800	
23 School Leadership	3,254,404		3,254,404	2,544,536
33 Health Services	14,372		14,372	81,724
35 Food Service	1,224,067		1,224,067	1,054,433
36 Cocurricular/Extracurricular Activities	788,283		788,283	591,167
41 General Administration	1,245,280		1,245,280	1,186,912
51 Plant Maintenance and Operations	3,905,112		3,905,112	3,487,775
52 Security and Monitoring Services	60,182		60,182	28,936
53 Data Processing Services	162,858		162,858	197,750
71 Debt Service	1,956,613		1,956,613	1,299,612
Total Expenses	28,297,943		28,297,943	23,567,729
Change in Net Assets	(216,261)	1,247,713	1,031,452	2,307,828
Net Assets, Beginning of Year	362,129	4,717,813	5,079,942	2,772,114
Net Assets, End of Year	\$ 145,868	\$ 5,965,526	\$ 6,111,394	\$ 5,079,942

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - BROWNSVILLE

STATEMENT OF ACTIVITIES

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	Unrestricted	Temporarily Restricted	Total	2012
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 820	\$	\$ 820	\$ 2,353
5750 Revenue from Curricular	66,814		66,814	132,817
Total Local Support	67,634		67,634	135,170
State Program Revenues:				
5810 Foundation School Program Act Revenues		3,109,378	3,109,378	3,184,933
5820 State Program Revenues Distributed by				
Texas Education Agency		14,510	14,510	40,294
Total State Program Revenues		3,123,888	3,123,888	3,225,227
Federal Program Revenues:				
5920 Federal Revenues Distributed by				
Texas Education Agency		418,561	418,561	487,367
5940 Federal Revenues Distributed Directly				
From the Federal Government		12,780	12,780	
Total Federal Program Revenues		431,340	431,340	487,367
Net assets released from restrictions:				
Restrictions satisfied by payments	3,245,427	(3,245,427)		
Total Revenues	3,313,061	309,801	3,622,862	3,847,764
EXPENSES				
11 Instruction	1,765,182		1,765,182	1,842,522
12 Instructional Resources and Media Services	152		152	26,133
13 Curriculum Development and Instructional				
Staff Development	103,844		103,844	153,949
21 Instructional Leadership	12,888		12,888	
23 School Leadership	370,028		370,028	463,364
33 Health Services	817		817	529
35 Food Service	146,509		146,509	158,385
36 Cocurricular/Extracurricular Activities	76,070		76,070	92,474
41 General Administration	149,791		149,791	240,418
51 Plant Maintenance and Operations	659,575		659,575	770,103
52 Security and Monitoring Services	3,397		3,397	910
53 Data Processing Services	9,587		9,587	13,523
71 Debt Service	3,466		3,466	1,215
Total Expenses	3,301,307		3,301,307	3,763,525
Change in Net Assets	11,754	309,801	321,555	84,239
Net Assets, Beginning of Year	155,951	1,332,027	1,487,978	1,403,739
Net Assets, End of Year	\$ 167,705	\$ 1,641,828	\$ 1,809,533	\$ 1,487,978

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF SCIENCE - HOUSTON

STATEMENT OF ACTIVITIES

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	Unrestricted	Temporarily Restricted	Total	2012
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 242,486	\$	\$ 242,486	\$ 7
5750 Revenue from Curricular	348,988		348,988	475,120
Total Local Support	591,474		591,474	475,127
State Program Revenues:				
5810 Foundation School Program Act Revenues		10,028,462	10,028,462	8,128,959
5820 State Program Revenues Distributed by				
Texas Education Agency		20,180	20,180	36,576
Total State Program Revenues		10,048,642	10,048,642	8,165,534
Federal Program Revenues:				
5920 Federal Revenues Distributed by				
Texas Education Agency		814,604	814,604	534,432
5940 Federal Revenues Distributed Directly				
From the Federal Government		6,000	6,000	287,281
Total Federal Program Revenues		820,604	820,604	821,713
Net assets released from restrictions:				
Restrictions satisfied by payments	9,395,929	(9,395,929)		
Total Revenues	9,987,403	1,473,317	11,460,720	9,462,375
EXPENSES				
11 Instruction	4,869,606		4,869,606	4,257,736
12 Instructional Resources and Media Services	6,597		6,597	27
13 Curriculum Development and Instructional				
Staff Development	240,885		240,885	261,552
21 Instructional Leadership	37,780		37,780	
23 School Leadership	918,106		918,106	705,357
33 Health Services	907		907	3,715
35 Food Service	444,389		444,389	446,007
36 Cocurricular/Extracurricular Activities	241,892		241,892	264,161
41 General Administration	500,475		500,475	474,485
51 Plant Maintenance and Operations	1,798,572		1,798,572	2,001,963
52 Security and Monitoring Services	51,434		51,434	19,524
53 Data Processing Services	46,758		46,758	86,143
71 Debt Service	882,718		882,718	906,514
Total Expenses	10,040,118		10,040,118	9,427,184
Change in Net Assets	(52,714)	1,473,317	1,420,603	35,190
Net Assets, Beginning of Year	249,684	999,899	1,249,583	1,214,392
Net Assets, End of Year	\$ 196,970	\$ 2,473,216	\$ 2,670,186	\$ 1,249,583

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - HOUSTON

STATEMENT OF CASH FLOWS

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	2013	2012
Cash Flows From Operating Activities		
Change In Net Assets	\$ 1,887,012	\$ 527,607
Adjustments To Reconcile Change In Net Assets To Net Cash Provided (Used) By Operating Activities		
Depreciation	1,980,243	2,285,162
(Increase) Decrease in Receivables	(3,453,130)	586,356
(Increase) Decrease in Other Receivables	630,750	(866,633)
(Increase) Decrease in Prepaids	87,954	(55,716)
(Increase) Decrease in Bond Issuance Cost	101,790	(754,220)
Increase (Decrease) in Accounts Payable	(285,773)	304,647
Increase (Decrease) in Wages Payable	1,877,805	41,494
Increase (Decrease) in Payroll Taxes Payable	298,647	
Increase (Decrease) in Accrued Liabilities	478,643	275,350
Increase (Decrease) in Due to State	(139,383)	139,383
Increase (Decrease) in Interest Payable	1,241,175	41,142
Net Cash Provided (Used) by Operating Activities	4,705,733	2,524,572
Cash Flows From Investing Activities		
Purchase of Fixed Assets	(8,241,525)	(3,930,840)
Net Cash Provided (Used) by Investing Activities	(8,241,525)	(3,930,840)
Cash Flows From Financing Activities		
Proceeds From Loans	1,409,503	915,058
Proceeds From Bonds		18,355,194
Repayment of Loans	(5,144,168)	(2,436,201)
Repayment of Bonds	(378,251)	(298,318)
Net Cash Provided (Used) by Financing Activities	(4,112,916)	16,535,733
NET INCREASE (DECREASE) IN CASH	(7,648,708)	15,129,465
CASH AT BEGINNING OF YEAR	19,593,661	4,464,196
CASH AT END OF YEAR	\$ 11,944,953	\$ 19,593,661
Supplemental Disclosures		
Cash Paid During the Year for:		
Interest	\$ 2,980,102	\$ 3,383,408

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - AUSTIN

STATEMENT OF CASH FLOWS

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	2013	2012
Cash Flows From Operating Activities		
Change In Net Assets	\$ 1,355,307	\$ 754,937
Adjustments To Reconcile Change in Net Assets To Net Cash Provided (Used) By Operating Activities		
Depreciation	970,452	972,594
(Increase) Decrease in Accounts Receivable	(2,467,539)	(161,929)
(Increase) Decrease in Deposits		(21,581)
(Increase) Decrease in Bond Issuance Cost	7,404	9,908
Increase (Decrease) in Accounts Payable	(194,249)	(1,272,887)
Increase (Decrease) in Wages Payable	885,480	22,124
Increase (decrease) in Accrued Liabilities	328,933	(15,690)
Increase (Decrease) in Payroll Taxes Payable	169,703	
Increase (Decrease) in Interest Payable	263,803	13,020
Net Cash Provided (Used) by Operating Activities	1,319,294	300,496
Cash Flows From Investing Activities		
Purchase of Fixed Assets	(791,440)	(2,970,647)
Net Cash Provided (Used) by Investing Activities	(791,440)	(2,970,647)
Cash Flows From Financing Activities		
Proceeds From Loans	252,793	93,467
Proceeds From Bonds		435,781
Repayment of Loans	(73,878)	(384,213)
Repayment of Bonds	(72,576)	(5,911)
Net Cash Provided (Used) by Financing Activities	106,339	139,124
NET INCREASE (DECREASE) IN CASH	634,193	(2,531,027)
CASH AT BEGINNING OF YEAR	4,804,885	7,335,912
CASH AT END OF YEAR	\$ 5,439,078	\$ 4,804,885
Supplemental Disclosures		
Cash Paid During the Year for:		
Interest	\$ 1,187,497	\$ 1,118,147

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - SAN ANTONIO

STATEMENT OF CASH FLOWS

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	2013	2012
Cash Flows From Operating Activities		
Change In Net Assets	\$ 1,504,318	\$ (45,086)
Adjustments To Reconcile Change In Net Assets To Net		
Cash Provided (Used) By Operating Activities		
Depreciation	656,962	843,424
(Increase) Decrease in Accounts Receivable	(2,010,620)	(174,229)
(Increase) Decrease in Other Receivables		17,203
(Increase) Decrease in Deposits	(8,800)	(23,750)
(Increase) Decrease in Bond Issuance Cost	15,246	21,172
Net Assets Transferred in from Laredo		2,469,710
Increase (Decrease) in Accounts Payable	(81,943)	169,819
Increase (Decrease) in Wages Payable	650,193	93,293
Increase (Decrease) in Payroll Taxes Payable	121,936	
Increase (Decrease) in Due to State	(45,993)	45,993
Increase (Decrease) in Accrued Liabilities	241,800	(6,951)
Increase (Decrease) in Interest Payable	395,340	16,625
Net Cash Provided (Used) by Operating Activities	1,438,439	3,427,223
Cash Flows From Investing Activities		
Purchase of Fixed Assets	(175,438)	(590,989)
Net Cash Provided (Used) by Investing Activities	(175,438)	(590,989)
Cash Flows From Financing Activities		
Proceeds From Loans	144,612	1,070,223
Proceeds From Bonds		706,521
Repayment of Loans	(419,282)	(1,291,056)
Repayment of Bonds	(196,323)	(168,615)
Net Cash Provided (Used) by Financing Activities	(470,993)	317,073
NET INCREASE (DECREASE) IN CASH	792,008	3,153,307
CASH AT BEGINNING OF YEAR	4,421,024	1,267,717
CASH AT END OF YEAR	\$ 5,213,032	\$ 4,421,024

Supplemental Disclosures

Cash Paid During the Year for:

Interest	\$ 1,137,750	\$ 1,281,547
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See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - EL PASO

STATEMENT OF CASH FLOWS

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	2013	2012
Cash Flows From Operating Activities		
Change In Net Assets	\$ 2,012,552	\$ 1,261,137
Adjustment To Reconcile Change in Net Assets To Net		
Cash Provided (Used) By Operating Activities		
Depreciation	701,818	713,686
(Increase) Decrease in Accounts Receivable	(1,913,602)	(32,696)
(Increase) Decrease in Other Receivables	263,551	(116,574)
(Increase) Decrease in Bond Issuance Cost	394	474
Increase (Decrease) in Accounts Payable	(417,262)	(317,461)
Increase (Decrease) in Wages Payable	624,563	66,109
Increase (Decrease) in Payroll Taxes Payable	115,496	
Increase (Decrease) in Accrued Liabilities	242,600	(146,139)
Increase (Decrease) in Interest Payable	(91,051)	(7,782)
Net Cash Provided (Used) by Operating Activities	1,539,059	1,420,754
Cash Flows From Investing Activities		
Purchase of Fixed Assets	(814,371)	(2,754,906)
Net Cash Provided (Used) by Investing Activities	(814,371)	(2,754,906)
Cash Flows From Financing Activities		
Proceeds From Bonds	854,966	444,875
Repayment of Loans	(123,261)	(66,649)
Repayment of Bonds	(285,044)	
Net Cash Provided (Used) by Financing Activities	446,661	378,226
NET INCREASE (DECREASE) IN CASH	1,171,349	(955,926)
CASH AT BEGINNING OF YEAR	7,746,636	8,702,562
CASH AT END OF YEAR	\$ 8,917,985	\$ 7,746,636

Supplemental Disclosures

Cash Paid During the Year for:

Interest	\$ 849,942	\$ 674,232
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See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - FORT WORTH

STATEMENT OF CASH FLOWS

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	2013	2012
Cash Flows From Operating Activities		
Change In Net Assets	\$ 1,586,700	(62,995)
Adjustments To Reconcile Change In Net Assets To Net Cash Provided (Used) By Operating Activities		
Depreciation	1,169,265	988,588
(Increase) Decrease in Accounts Receivable	(2,552,572)	(429,337)
(Increase) Decrease in Other Receivables	35,706	(2,860)
(Increase) Decrease in Bond Issuance Cost	14,847	41,486
Increase (Decrease) in Accounts Payable	(895,033)	1,667,969
Increase (Decrease) in Wages Payable	977,696	133,349
Increase (Decrease) in Accrued Liabilities	387,892	11,403
Increase (Decrease) in Payroll Taxes Payable	177,839	
Increase (Decrease) in Interest Payable	327,292	56,736
Net Cash Provided (Used) by Operating Activities	1,229,632	2,404,339
Cash Flows From Investing Activities		
Purchase of Fixed Assets	(3,345,765)	(8,637,601)
Net Cash Provided (Used) by Investing Activities	(3,345,765)	(8,637,601)
Cash Flows From Financing Activities		
Proceeds From Loans	916,616	232,417
Proceeds From Bonds	265,500	5,010,525
Repayment of Loans	(357,395)	(475,392)
Repayment of Bonds	(311,972)	(136,613)
Net Cash Provided (Used) by Financing Activities	512,749	4,630,937
NET INCREASE (DECREASE) IN CASH	(1,603,384)	(1,602,325)
CASH AT BEGINNING OF YEAR	8,162,367	9,764,692
CASH AT END OF YEAR	\$ 6,558,983	\$ 8,162,367
<u>Supplemental Disclosures</u>		
Cash Paid During the Year for:		
Interest	\$ 2,005,117	\$ 1,652,036

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HOUSTON SCHOOL OF EXCELLENCE

STATEMENT OF CASH FLOWS

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	2013	2012
Cash Flows From Operating Activities		
Change In Net Assets	\$ 2,342,532	313,234
Adjustment To Reconcile Change In Net Assets To Net Cash Provided (Used) By Operating Activities		
Depreciation	1,594,241	1,907,772
(Increase) Decrease in Accounts Receivable	(3,068,788)	(110,873)
(Increase) Decrease in Other Receivables		(2,200)
(Increase) Decrease in Deposits	(10,000)	
(Increase) Decrease in Bond Issuance Cost	14,067	20,250
Increase (Decrease) in Accounts Payable	163,559	(544,145)
Increase (Decrease) in Wages Payable	1,074,138	10,903
Increase (Decrease) in Accrued Liabilities	(405,951)	842,863
Increase (Decrease) in Payroll Taxes Payable	195,928	
Increase (Decrease) in Interest Payable	528,933	14,680
Net Cash Provided (Used) by Operating Activities	2,428,659	2,452,484
Cash Flows From Investing Activities		
Purchase of Fixed Assets	(2,170,368)	(2,134,247)
Net Cash Provided (Used) by Investing Activities	(2,170,368)	(2,134,247)
Cash Flows From Financing Activities		
Proceeds From Loans	15,917	1,520,703
Proceeds From Bonds		5,105,638
Repayment of Capital Leases	(8,396)	(17,061)
Repayment of Loans	(1,106,269)	(1,885,508)
Repayment of Bonds	(1,000,895)	(69,313)
Net Cash Provided (Used) by Financing Activities	(2,099,643)	4,654,459
NET INCREASE (DECREASE) IN CASH	(1,841,352)	4,972,696
CASH AT BEGINNING OF YEAR	8,497,476	3,524,780
CASH AT END OF YEAR	\$ 6,656,124	\$ 8,497,476
<u>Supplemental Disclosures</u>		
Cash Paid During the Year for:		
Interest	\$ 1,802,954	\$ 1,951,107

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - LUBBOCK

STATEMENT OF CASH FLOWS

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	2013	2012
Cash Flows From Operating Activities		
Change In Net Assets	\$ 445,279	\$ 243,430
Adjustment To Reconcile Change In Net Assets To Net		
Cash Provided (Used) By Operating Activities		
Depreciation	364,788	436,285
(Increase) Decrease in Accounts Receivable	(702,070)	47,942
(Increase) Decrease in Bond Issuance Cost	3,528	7,646
Increase (Decrease) in Accounts Payable	3,080	(75,633)
Increase (Decrease) in Wages Payable	242,952	17,405
Increase (Decrease) in Accrued Liabilities	106,102	481
Increase (Decrease) in Payroll Taxes	51,430	
Increase (Decrease) in Interest Payable	86,631	1,355
Net Cash Provided (Used) by Operating Activities	601,720	678,911
Cash Flows From Investing Activities		
Purchase of Fixed Assets	(42,542)	(34,170)
Net Cash Provided (Used) by Investing Activities	(42,542)	(34,170)
Cash Flows From Financing Activities		
Repayment of Bonds	(48,485)	(35,371)
Net Cash Provided (Used) by Financing Activities	(48,485)	(35,371)
NET INCREASE (DECREASE) IN CASH	510,693	609,370
CASH AT THE BEGINNING OF THE YEAR	1,343,754	734,384
CASH AT END OF YEAR	\$ 1,854,447	\$ 1,343,754
<u>Supplemental Disclosures</u>		
Cash Paid During the Year for:		
Interest	\$ 278,559	\$ 302,305

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - WACO

STATEMENT OF CASH FLOWS

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	2013	2012
Cash Flows From Operating Activities		
Change In Net Assets	\$ 1,031,452	2,307,828
Adjustments To Reconcile Change In Net Assets To Net		
Cash Provided (Used) By Operating Activities		
Depreciation	1,880,275	1,733,615
(Increase) Decrease in Accounts Receivable	(2,828,990)	(770,034)
(Increase) Decrease in Other Receivables	7,764	(19,969)
(Increase) Decrease in Deposits		(134,352)
(Increase) Decrease in Bond Issuance Cost	5,012	6,015
Increase (Decrease) in Accounts Payable	(1,745,504)	2,212,640
Increase (Decrease) in Wages Payable	1,149,365	84,172
Increase (Decrease) in Accrued Liabilities	443,791	(31,985)
Increase (Decrease) in Payroll Taxes Payable	218,349	
Increase (Decrease) in Interest Payable	64,563	43,834
Net Cash Provided (Used) by Operating Activities	226,077	5,431,764
Cash Flows From Investing Activities		
Purchase of Fixed Assets	(1,436,962)	(11,516,077)
Net Cash Provided (Used) by Investing Activities	(1,436,962)	(11,516,077)
Cash Flows From Financing Activities		
Proceeds From Loans	498,113	252,786
Proceeds From Bonds		1,405,951
Repayment of Capital Leases		(7,748)
Repayment of Loans	(194,890)	(129,040)
Repayment of Bonds	(393,190)	(114,027)
Net Cash Provided (Used) by Financing Activities	(89,967)	1,407,922
NET INCREASE (DECREASE) IN CASH	(1,300,852)	(4,676,391)
CASH AT THE BEGINNING OF THE YEAR	8,725,909	13,402,300
CASH AT END OF YEAR	\$ 7,425,057	\$ 8,725,909
<u>Supplemental Disclosures</u>		
Cash Paid During the Year for:		
Interest	\$ 1,956,613	\$ 1,299,612

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - BROWNSVILLE

STATEMENT OF CASH FLOWS

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	2013	2012
Cash Flows From Operating Activities		
Change In Net Assets	\$ 321,555	\$ 84,239
Adjustments To Reconcile Change In Net Assets To Net		
Cash Provided (Used) By Operating Activities		
Depreciation	81,996	95,377
(Increase) Decrease in Accounts Receivable	(354,234)	(8,220)
Increase (Decrease) in Accounts Payable	14,985	17,705
Increase (Decrease) in Wages Payable	163,129	13,128
Increase (Decrease) in Accrued Liabilities	61,919	
Increase (Decrease) in Payroll Taxes Payable	26,269	
Increase (Decrease) in Interest Payable	(699)	120
Net Cash Provided (Used) by Operating Activities	314,920	202,349
Cash Flows From Investing Activities		
Purchase of Fixed Assets	(43,845)	(12,937)
Net Cash Provided (Used) by Investing Activities	(43,845)	(12,937)
Cash Flows From Financing Activities		
Repayment of Bonds	(643)	
Net Cash Provided (Used) by Financing Activities	(643)	
NET INCREASE (DECREASE) IN CASH	270,432	189,412
CASH AT THE BEGINNING OF YEAR	1,170,853	981,441
CASH AT END OF YEAR	\$ 1,441,285	\$ 1,170,853
<u>Supplemental Disclosures</u>		
Cash Paid During the Year for:		
Interest	\$ 3,466	\$

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF SCIENCE - HOUSTON

STATEMENT OF CASH FLOWS

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

Cash Flows From Operating Activities		
Change In Net Assets	\$ 1,420,603	\$ 35,190
Adjustments To Reconcile Change In Net Assets To Net		
Cash Provided (Used) By Operating Activities		
Depreciation	678,430	765,412
(Increase) Decrease in Accounts Receivable	(1,392,551)	(44,632)
(Increase) Decrease in Bond Issuance Cost	7,426	12,554
Increase (Decrease) in Accounts Payable	(26,436)	(868,202)
Increase (Decrease) in Wages Payable	393,970	71,070
Increase (Decrease) in Accrued Liabilities	143,757	5,605
Increase (Decrease) in Payroll Taxes	75,636	
Increase (Decrease) in Interest Payable	251,594	6,578
Net Cash Provided (Used) by Operating Activities	1,552,429	(16,425)
Cash Flows From Investing Activities		
Purchase of Fixed Assets	(107,411)	(398,921)
Net Cash Provided (Used) by Investing Activities	(107,411)	(398,921)
Cash Flows From Financing Activities		
Proceeds From Loans	43,796	130,861
Proceeds From Bonds		318,819
Repayment of Loans	(5,839)	(286,019)
Repayment of Bonds	(57,713)	(21,021)
Net Cash Provided (Used) by Financing Activities	(19,756)	142,640
NET INCREASE (DECREASE) IN CASH	1,425,262	(272,706)
CASH AT BEGINNING OF YEAR	2,567,350	2,840,056
CASH AT END OF YEAR	\$ 3,992,612	\$ 2,567,350
<u>Supplemental Disclosures</u>		
Cash Paid During the Year for:		
Interest	\$ 882,454	\$ 906,250

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - HOUSTON

SCHEDULE OF EXPENSES

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	<u>2013</u>	<u>2012</u>
Expenses		
6100 Payroll Costs	\$ 21,502,044	\$ 18,977,453
6200 Professional and Contracted Services	8,457,985	9,245,247
6300 Supplies and Materials	2,171,891	2,876,872
6400 Other Operating Costs	5,117,490	5,797,024
6500 Debt	<u>3,095,793</u>	<u>3,523,793</u>
Total Expenses	<u>\$ 40,345,202</u>	<u>\$ 40,420,389</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - AUSTIN

SCHEDULE OF EXPENSES

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	<u>2013</u>	<u>2012</u>
Expenses		
6100 Payroll Costs	\$ 11,773,020	\$ 10,248,382
6200 Professional and Contracted Services	5,306,070	6,054,170
6300 Supplies and Materials	1,214,791	1,775,205
6400 Other Operating Costs	1,743,050	1,640,881
6500 Debt	<u>1,195,104</u>	<u>1,128,300</u>
Total Expenses	<u>\$ 21,232,036</u>	<u>\$ 20,846,938</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - SAN ANTONIO

SCHEDULE OF EXPENSES

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	2013	2012
Expenses		
6100 Payroll Costs	\$ 8,034,915	\$ 5,483,922
6200 Professional and Contracted Services	3,916,060	2,350,581
6300 Supplies and Materials	1,091,064	736,859
6400 Other Operating Costs	1,147,579	1,004,577
6500 Debt	<u>1,156,180</u>	<u>1,308,408</u>
Total Expenses	<u>\$ 15,345,799</u>	<u>\$ 10,884,347</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - EL PASO

SCHEDULE OF EXPENSES

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	2013	2012
Expenses		
6100 Payroll Costs	\$ 8,473,366	\$ 6,617,342
6200 Professional and Contracted Services	4,070,667	4,087,355
6300 Supplies and Materials	1,264,992	1,140,575
6400 Other Operating Costs	1,311,471	1,477,758
6500 Debt	<u>850,337</u>	<u>674,705</u>
Total Expenses	<u>\$ 15,970,832</u>	<u>\$ 13,997,735</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - FORT WORTH

SCHEDULE OF EXPENSES

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	2013	2012
Expenses		
6100 Payroll Costs	\$ 12,881,936	\$ 9,925,185
6200 Professional and Contracted Services	5,356,485	5,058,406
6300 Supplies and Materials	1,698,008	2,145,764
6400 Other Operating Costs	1,880,829	1,664,468
6500 Debt	<u>2,024,681</u>	<u>1,699,182</u>
Total Expenses	<u>\$ 23,841,939</u>	<u>\$ 20,493,005</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF EXCELLENCE

SCHEDULE OF EXPENSES

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	2013	2012
Expenses		
6100 Payroll Costs	\$ 13,898,786	\$ 12,861,238
6200 Professional and Contracted Services	7,066,508	7,320,858
6300 Supplies and Materials	1,620,162	2,295,706
6400 Other Operating Costs	2,494,208	2,892,468
6500 Debt	<u>1,818,555</u>	<u>1,973,198</u>
Total Expenses	<u>\$ 26,898,219</u>	<u>\$ 27,343,468</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - LUBBOCK

SCHEDULE OF EXPENSES

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	2013	2012
Expenses		
6100 Payroll Costs	\$ 3,467,698	\$ 3,108,963
6200 Professional and Contracted Services	1,435,938	1,580,625
6300 Supplies and Materials	496,887	492,952
6400 Other Operating Costs	602,143	790,328
6500 Debt	<u>283,040</u>	<u>311,095</u>
Total Expenses	<u>\$ 6,285,705</u>	<u>\$ 6,283,963</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - WACO

SCHEDULE OF EXPENSES

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	2013	2012
Expenses		
6100 Payroll Costs	\$ 14,861,703	\$ 11,982,376
6200 Professional and Contracted Services	5,896,303	5,390,245
6300 Supplies and Materials	2,712,870	2,297,753
6400 Other Operating Costs	2,864,985	2,591,180
6500 Debt	<u>1,962,082</u>	<u>1,306,175</u>
Total Expenses	<u>\$ 28,297,943</u>	<u>\$ 23,567,729</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - BROWNSVILLE

SCHEDULE OF EXPENSES

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	<u>2013</u>	<u>2012</u>
Expenses		
6100 Payroll Costs	\$ 1,846,113	\$ 1,954,950
6200 Professional and Contracted Services	980,812	1,225,730
6300 Supplies and Materials	264,575	308,290
6400 Other Operating Costs	206,341	273,340
6500 Debt	<u>3,466</u>	<u>1,215</u>
Total Expenses	<u>\$ 3,301,307</u>	<u>\$ 3,763,525</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF SCIENCE - HOUSTON

SCHEDULE OF EXPENSES

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013
(With Comparative Totals for the Twelve Month Period Ended August 31, 2012)

	<u>2013</u>	<u>2012</u>
Expenses		
6100 Payroll Costs	\$ 5,146,050	\$ 4,067,482
6200 Professional and Contracted Services	2,502,915	2,536,417
6300 Supplies and Materials	571,869	921,972
6400 Other Operating Costs	928,413	981,375
6500 Debt	<u>890,870</u>	<u>919,938</u>
Total Expenses	<u>\$ 10,040,118</u>	<u>\$ 9,427,184</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - HOUSTON

SCHEDULE OF CAPITAL ASSETS

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 270,053	\$ 11,674,900	\$
1510 Land and Improvements		7,837,301	
1520 Buildings and Improvements		57,936,915	
1539 Furniture and Equipment		3,923,047	35,675
Total Property and Equipment	<u>\$ 270,053</u>	<u>\$ 81,372,163</u>	<u>\$ 35,675</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - AUSTIN

SCHEDULE OF CAPITAL ASSETS

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 187,063	\$ 5,252,015	\$
1510 Land and Improvements:		2,129,350	
1520 Buildings and Improvements:		18,735,746	
1539 Furniture and Equipment		1,767,789	
Total Property and Equipment	<u>\$ 187,063</u>	<u>\$ 27,884,899</u>	<u>\$</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - SAN ANTONIO

SCHEDULE OF CAPITAL ASSETS

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 67,774	\$ 5,145,258	\$
1510 Land and Improvements:		1,718,271	
1520 Buildings and Improvements		19,454,126	
1539 Furniture and Equipment		1,367,295	
Total Property and Equipment	<u>\$ 67,774</u>	<u>\$27,684,950</u>	<u>\$</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - EL PASO

SCHEDULE OF CAPITAL ASSETS

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 61,225	\$ 8,856,760	\$
1510 Land and Improvements:		1,790,950	
1520 Buildings and Improvements:	27,810	13,582,497	
1539 Furniture and Equipment		911,184	
Total Property and Equipment	<u>\$ 89,035</u>	<u>\$25,141,391</u>	<u>\$</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - FORT WORTH

SCHEDULE OF CAPITAL ASSETS

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 211,089	\$ 6,347,894	\$
1510 Land and Improvements:		2,944,614	
1520 Buildings and Improvements		34,811,284	
1539 Furniture and Equipment		2,035,134	
Total Property and Equipment	<u>\$ 211,089</u>	<u>\$ 46,138,926</u>	<u>\$</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF EXCELLENCE

SCHEDULE OF CAPITAL ASSETS

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 206,019	\$ 6,450,105	\$
1510 Land		3,995,277	
1520 Buildings and Improvements	92,649	30,657,453	
1539 Furniture and Equipment		2,755,002	26,001
Total Property and Equipment	<u>\$ 298,668</u>	<u>\$43,857,837</u>	<u>\$ 26,001</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - LUBBOCK

SCHEDULE OF CAPITAL ASSETS

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 31,858	\$ 1,822,589	\$
1510 Land		154,893	
1520 Buildings and Improvements		4,583,389	
1539 Furniture and Equipment		562,103	
Total Property and Equipment	<u>\$ 31,858</u>	<u>\$ 7,122,974</u>	<u>\$</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - WACO

SCHEDULE OF CAPITAL ASSETS

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 368,411	\$ 7,056,646	\$
1510 Land and Improvements:		8,828,501	
1520 Buildings and Improvements		29,843,411	
1539 Furniture and Equipment		2,433,417	16,729
Total Property and Equipment	<u>\$ 368,411</u>	<u>\$ 48,161,975</u>	<u>\$ 16,729</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - BROWNSVILLE

SCHEDULE OF CAPITAL ASSETS

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 15,697	\$ 1,425,588	\$
1520 Buildings and Improvements		410,753	
1539 Furniture and Equipment		120,317	
Total Property and Equipment	<u>\$ 15,697</u>	<u>\$ 1,956,659</u>	<u>\$</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF SCIENCE - HOUSTON

SCHEDULE OF CAPITAL ASSETS

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 52,641	\$ 3,939,971	\$
1510 Land and Improvements:		1,087,500	
1520 Buildings and Improvements		13,829,640	
1539 Furniture and Equipment	36,049	617,782	
Total Property and Equipment	<u>\$ 88,690</u>	<u>\$ 19,474,893</u>	<u>\$</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - HOUSTON

BUDGETARY COMPARISON SCHEDULE

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	from Final Budget
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$12,476,700	\$13,720,984	\$13,659,047	\$ (61,937)
5750 Food Service Sales	<u>702,000</u>	<u>618,204</u>	<u>595,123</u>	<u>(23,081)</u>
Total Local Support	13,178,700	14,339,188	14,254,169	(85,019)
State Program Revenues:				
5810 Foundation School Program Act Revenues	24,364,164	26,277,275	24,256,004	(2,021,271)
5820 State Program Revenues Distributed by Texas Education Agency		<u>99,727</u>	<u>100,338</u>	<u>611</u>
Total State Program Revenues	24,364,164	26,377,002	24,356,342	(2,020,660)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	2,652,672	2,966,119	2,813,588	(152,531)
5940 Federal Revenues Distributed Directly From the Federal Government	<u>290,412</u>	<u>808,115</u>	<u>808,115</u>	
Total Federal Program Revenues	<u>2,943,084</u>	<u>3,774,234</u>	<u>3,621,703</u>	<u>(152,531)</u>
Total Revenues	<u>40,485,948</u>	<u>44,490,424</u>	<u>42,232,214</u>	<u>(2,258,210)</u>
EXPENSES				
11 Instruction	14,408,934	15,153,337	14,496,962	656,375
12 Instructional Resources and Media Services	224,089	6,908	6,846	62
13 Curriculum Development and Instructional Staff Development	3,437,426	2,913,839	2,911,138	2,701
21 Instructional Leadership	1,071,888	853,456	843,389	10,067
23 School Leadership	2,594,419	3,333,091	3,114,041	219,050
33 Health Services	286,588	66,401	64,248	2,153
34 Student (Pupil) Transportation	96,900	96,900	100,140	(3,240)
35 Food Service	1,087,337	1,463,523	1,366,889	96,634
36 Cocurricular/Extracurricular Activities	522,000	652,130	663,193	(11,063)
41 General Administration	6,220,023	7,818,321	7,595,532	222,789
51 Plant Maintenance and Operations	5,848,108	5,805,669	5,416,758	388,911
52 Security and Monitoring Services	95,162	117,419	115,052	2,367
53 Data Processing Services	425,665	693,882	670,913	22,969
71 Debt Service	3,492,141	2,999,686	2,980,102	19,584
Total Expenses	<u>39,810,680</u>	<u>41,974,562</u>	<u>40,345,202</u>	<u>1,629,360</u>
Change in Net Assets	<u>675,268</u>	<u>2,515,862</u>	<u>1,887,012</u>	<u>(628,850)</u>
Net Assets, Beginning of Year	<u>8,286,596</u>	<u>8,286,596</u>	<u>8,286,596</u>	
Net Assets, End of Year	<u>\$ 8,961,864</u>	<u>\$10,802,458</u>	<u>\$10,173,608</u>	<u>\$ (628,850)</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - AUSTIN

BUDGETARY COMPARISON SCHEDULE

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	from Final Budget
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 22,500	\$ 246,556	\$ 246,387	\$ (169)
5750 Food Service Sales	<u>631,173</u>	<u>578,623</u>	<u>576,244</u>	<u>(2,379)</u>
Total Local Support	653,673	825,179	822,631	(2,548)
State Program Revenues:				
5810 Foundation School Program Act Revenues	20,734,626	21,818,681	20,179,984	(1,638,697)
5820 State Program Revenues Distributed by Texas Education Agency		<u>138,774</u>	<u>139,115</u>	<u>341</u>
5830 State Revenues From State of Texas				
Total State Program Revenues	20,734,626	21,957,455	20,319,100	(1,638,355)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	1,331,323	1,468,696	1,377,468	(91,228)
5940 Federal Revenues Distributed Directly From the Federal Government	<u>287,913</u>	<u>68,144</u>	<u>68,144</u>	
Total Federal Program Revenues	<u>1,619,236</u>	<u>1,536,840</u>	<u>1,445,612</u>	<u>(91,228)</u>
Total Revenues	<u>23,007,535</u>	<u>24,319,474</u>	<u>22,587,343</u>	<u>(1,732,131)</u>
EXPENSES				
11 Instruction	11,785,192	11,337,008	11,321,259	15,749
12 Instructional Resources and Media Services	181,064	8,119	7,747	372
13 Curriculum Development and Instructional Staff Development	680,788	524,844	502,289	22,555
21 Instructional Leadership	93,466	75,666	75,030	636
23 School Leadership	1,847,207	1,983,020	1,971,415	11,605
33 Health Services	162,024	4,660	4,413	247
34 Student (Pupil) Transportation	120,230	120,230	122,613	(2,383)
35 Food Service	777,678	595,945	595,862	83
36 Cocurricular/Extracurricular Activities	478,000	559,766	552,571	7,195
41 General Administration	1,261,887	1,068,330	1,055,762	12,568
51 Plant Maintenance and Operations	4,058,363	3,743,227	3,752,952	(9,725)
52 Security and Monitoring Services	33,939	34,220	33,562	658
53 Data Processing Services	54,233	49,563	49,065	498
71 Debt Service	1,428,060	1,187,922	1,187,497	425
Total Expenses	<u>22,962,131</u>	<u>21,292,520</u>	<u>21,232,036</u>	<u>60,484</u>
Change in Net Assets	<u>45,404</u>	<u>3,026,954</u>	<u>1,355,307</u>	<u>(1,671,647)</u>
Net Assets, Beginning of Year	<u>3,502,668</u>	<u>3,502,668</u>	<u>3,502,668</u>	
Net Assets, End of Year	<u>\$ 3,548,072</u>	<u>\$ 6,529,622</u>	<u>\$ 4,857,975</u>	<u>\$ (1,671,647)</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - SAN ANTONIO

BUDGETARY COMPARISON SCHEDULE

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	from Final Budget
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 8,100	\$ 250,196	\$ 248,196	\$ (2,000)
5750 Revenue from Curricular	291,000	384,829	378,188	(6,641)
Total Local Support	299,100	635,025	626,384	(8,641)
State Program Revenues:				
5810 Foundation School Program Act Revenues	14,995,474	15,444,671	14,821,573	(623,098)
Texas Education Agency		36,364	39,583	3,219
Total State Program Revenues	14,995,474	15,481,035	14,861,156	(619,879)
Federal Program Revenues:				
5920 Federal Revenues Distributed by				
Texas Education Agency	951,021	1,370,989	1,351,488	(19,501)
5940 Federal Revenues Distributed Directly				
From Federal Government	292,596	11,259	11,088	(171)
Total Federal Program Revenues	1,243,617	1,382,248	1,362,576	(19,672)
Total Revenues	16,538,191	17,498,308	16,850,117	(648,191)
EXPENSES				
11 Instruction	8,213,525	7,789,900	7,737,504	52,396
12 Instructional Resources and Media Services	92,798	3,415	3,468	(53)
13 Curriculum Development and Instructional				
Staff Development	579,293	466,600	452,343	14,257
21 Instructional Leadership	71,978	60,228	59,982	246
23 School Leadership	1,445,671	1,548,268	1,499,747	48,521
33 Health Services	94,184	8,125	8,142	(17)
35 Food Service	384,200	741,745	759,785	(18,040)
36 Cocurricular/ Extracurricular Activities	198,000	362,478	356,322	6,156
41 General Administration	974,752	762,890	761,908	982
51 Plant Maintenance and Operations	2,737,886	2,480,209	2,444,378	35,831
52 Security and Monitoring Services	43,500	32,171	30,212	1,959
53 Data Processing Services	40,489	93,590	94,259	(669)
71 Debt Service	1,353,436	1,139,210	1,137,750	1,460
Total Expenses	16,229,712	15,488,829	15,345,799	143,030
Change in Net Assets	308,479	2,009,479	1,504,318	(505,161)
Net Assets, Beginning of Year	4,426,651	4,426,651	4,426,651	
Net Assets, End of Year	\$ 4,735,130	\$ 6,436,130	\$ 5,930,969	\$ (505,161)

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - EL PASO

BUDGETARY COMPARISON SCHEDULE

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	from Final Budget
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 85,000	\$ 293,484	\$ 290,232	\$ (3,252)
5750 Food Service Sales	547,000	516,998	497,258	(19,741)
Total Local Support	632,000	810,482	787,489	(22,993)
State Program Revenues:				
5810 Foundation School Program Act Revenues	11,200,000	16,239,610	15,574,937	(664,673)
5820 State Program Revenues Distributed by				
Texas Education Agency	87,880	80,489	73,416	(7,073)
Total State Program Revenues	11,287,880	16,320,099	15,648,353	(671,746)
Federal Program Revenues:				
5920 Federal Revenues Distributed by				
Texas Education Agency	1,247,020	1,571,322	1,516,198	(55,124)
5940 Federal Revenues Distributed Directly				
From the Federal Government	244,500	31,343	31,343	
Total Federal Program Revenues	1,491,520	1,602,665	1,547,541	(55,124)
Total Revenues	13,411,400	18,733,246	17,983,384	(749,862)
EXPENSES				
11 Instruction	6,107,560	8,938,282	8,268,036	670,246
12 Instructional Resources and Media Services	27,780	5,929	6,456	(527)
13 Curriculum Development and Instructional				
Staff Development	223,000	538,493	545,506	(7,013)
21 Instructional Leadership	36,543	51,137	50,000	1,137
23 School Leadership	1,180,000	1,496,705	1,612,686	(115,981)
33 Health Services	4,500	2,381	2,381	(0)
35 Food Service	519,000	720,757	662,023	58,734
36 Cocurricular/ Extracurricular Activities	385,400	408,793	420,662	(11,869)
41 General Administration	1,254,000	788,944	817,099	(28,155)
51 Plant Maintenance and Operations	2,710,000	2,712,822	2,679,335	33,487
52 Security and Monitoring Services	19,100	17,159	17,036	123
53 Data Processing Services	2,565	41,170	39,670	1,500
71 Debt Services	425,100	817,249	849,942	(32,693)
Total Expenses	12,894,548	16,539,821	15,970,832	568,989
Change in Net Assets	516,852	2,193,425	2,012,552	(180,873)
Net Asset, Beginning of Year	6,177,169	6,177,169	6,177,169	
Net Assets, End of Year	\$ 6,694,021	\$ 8,370,594	\$ 8,189,721	\$ (180,873)

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - FORT WORTH

BUDGETARY COMPARISON SCHEDULE
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	from Final
				Budget
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 13,500	\$ 247,619	\$ 247,573	\$ (46)
5750 Revenue from Curricular	<u>608,000</u>	<u>719,408</u>	<u>720,598</u>	<u>1,190</u>
Total Local Support	621,500	967,027	968,171	1,144
State Program Revenues:				
5810 Foundation School Program Act Revenues	23,070,270	22,690,563	22,667,392	(23,171)
5820 State Program Revenues Distributed by Texas Education Agency		<u>178,004</u>	<u>179,233</u>	<u>1,229</u>
Total State Program Revenues	23,070,270	22,868,567	22,846,625	(21,942)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	1,368,560	1,424,430	1,391,405	(33,025)
5940 Federal Revenues Distributed Directly From the Federal Government	<u>290,956</u>	<u>222,437</u>	<u>222,437</u>	
Total Federal Program Revenues	<u>1,659,516</u>	<u>1,646,867</u>	<u>1,613,842</u>	<u>(33,025)</u>
Total Revenues	<u>25,351,286</u>	<u>25,482,461</u>	<u>25,428,639</u>	<u>(53,823)</u>
EXPENSES				
11 Instruction	13,281,322	13,096,754	12,312,004	784,750
12 Instructional Resources and Media Services	223,040	12,049	11,971	78
13 Curriculum Development and Instructional Staff Development	774,589	665,247	646,160	19,087
21 Instructional Leadership	107,857	90,083	89,881	202
23 School Leadership	2,137,857	2,464,919	2,502,412	(37,493)
33 Health Services	231,850	17,882	18,316	(434)
34 Student (Pupil) Transportation	80,000			
35 Food Service	542,000	984,600	916,692	67,908
36 Cocurricular/Extracurricular Activities	448,000	612,349	606,066	6,283
41 General Administration	1,385,702	1,115,702	1,051,582	64,120
51 Plant Maintenance and Operations	4,018,406	3,812,506	3,548,512	263,994
52 Security and Monitoring Services	39,640	61,948	62,428	(480)
53 Data Processing Services	62,429	71,017	70,798	219
71 Debt Service	<u>2,004,000</u>	<u>2,068,523</u>	<u>2,005,117</u>	<u>63,406</u>
Total Expenses	<u>25,336,692</u>	<u>25,073,579</u>	<u>23,841,939</u>	<u>1,231,640</u>
Change in Net Assets	<u>14,594</u>	<u>408,882</u>	<u>1,586,700</u>	<u>1,177,818</u>
Net Assets, Beginning of Year as Restated	<u>4,498,882</u>	<u>4,498,882</u>	<u>4,498,882</u>	
Net Assets, End of Year	<u>\$ 4,513,476</u>	<u>\$ 4,907,764</u>	<u>\$ 6,085,582</u>	<u>\$ 1,177,818</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF EXCELLENCE

BUDGETARY COMPARISON SCHEDULE
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	from Final
				Budget
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 16,200	\$ 381,000	\$ 380,454	\$ (546)
5750 Revenues from Curricular	<u>782,082</u>	<u>944,709</u>	<u>939,609</u>	<u>(5,100)</u>
Total Local Support	798,282	1,325,709	1,320,063	(5,646)
State Program Revenues:				
5810 Foundation School Program Act Revenues	26,733,807	28,176,658	25,827,013	(2,349,645)
5820 State Program Revenues Distributed by Texas Education Agency		<u>87,532</u>	<u>88,153</u>	<u>621</u>
Total State Program Revenues	26,733,807	28,264,190	25,915,166	(2,349,024)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	1,653,452	2,069,204	1,995,190	(74,014)
5940 Federal Revenues Distributed Directly From the Federal Government	<u>406,589</u>	<u>10,332</u>	<u>10,332</u>	
Total Federal Program Revenues	<u>2,060,041</u>	<u>2,079,536</u>	<u>2,005,522</u>	<u>(74,014)</u>
Total Revenues	<u>29,592,130</u>	<u>31,669,435</u>	<u>29,240,751</u>	<u>(2,428,684)</u>
EXPENSES				
11 Instruction	13,906,862	14,351,431	13,146,525	1,204,906
12 Instructional Resources and Media Services	238,430	23,950	22,337	1,613
13 Curriculum Development and Instructional Staff Development	847,104	632,022	666,231	(34,209)
21 Instructional Leadership	121,647	102,844	103,160	(316)
23 School Leadership	2,576,058	3,122,705	2,950,379	172,326
33 Health Services	186,603	16,113	15,241	872
34 Student (Pupil) Transportation	300,000	315,000	295,262	19,738
35 Food Service	1,188,992	1,110,552	1,110,671	(119)
36 Cocurricular/Extracurricular Activities	480,000	764,885	747,049	17,836
41 General Administration	1,585,506	1,126,175	1,230,204	(104,029)
51 Plant Maintenance and Operations	5,284,519	4,610,986	4,647,530	(36,544)
52 Security and Monitoring Services	106,940	103,640	99,418	4,222
53 Data Processing Services	69,823	66,683	61,258	5,425
71 Debt Service	<u>2,689,728</u>	<u>1,660,277</u>	<u>1,802,954</u>	<u>(142,677)</u>
Total Expenses	<u>29,582,212</u>	<u>28,007,263</u>	<u>26,898,219</u>	<u>1,109,044</u>
Change in Net Assets	<u>9,918</u>	<u>3,662,172</u>	<u>2,342,532</u>	<u>(1,319,640)</u>
Net Assets, Beginning of Year as Restated	<u>1,465,390</u>	<u>1,465,390</u>	<u>1,465,390</u>	
Net Assets, End of Year	<u>\$ 1,475,308</u>	<u>\$ 5,127,562</u>	<u>\$ 3,807,922</u>	<u>\$ (1,319,640)</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - LUBBOCK

BUDGETARY COMPARISON SCHEDULE
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	from Final
				Budget
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 925	\$ 74,625	\$ 70,263	\$ (4,362)
5750 Revenue from Curricular	<u>221,000</u>	<u>150,000</u>	<u>146,803</u>	<u>(3,197)</u>
Total Local Support	221,925	224,625	217,066	(7,559)
State Program Revenues:				
5810 Foundation School Program Act Revenues	4,827,000	5,860,013	5,823,613	(36,400)
5820 State Program Revenues Distributed by Texas Education Agency	<u>55,313</u>	<u>12,562</u>	<u>12,353</u>	<u>(209)</u>
Total State Program Revenues	4,882,313	5,872,575	5,835,966	(36,609)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	584,500	692,732	659,935	(32,797)
5940 Federal Revenues Distributed Directly From the Federal Government	<u>65,300</u>	<u>18,018</u>	<u>18,018</u>	
Total Federal Program Revenues	<u>649,800</u>	<u>710,750</u>	<u>677,953</u>	<u>(32,797)</u>
Total Revenues	<u>5,754,038</u>	<u>6,807,950</u>	<u>6,730,984</u>	<u>(76,966)</u>
EXPENSES				
11 Instruction	2,750,000	3,612,766	3,412,911	199,855
12 Instructional Resources and Media Services	25,300	480	480	
13 Curriculum Development and Instructional Staff Development	143,000	204,854	212,702	(7,848)
21 Instructional Leadership	33,540	22,756	22,130	626
23 School Leadership	555,600	531,815	523,418	8,397
33 Health Services	3,200	2,007	2,007	
35 Food Service	283,500	319,600	337,352	(17,752)
36 Cocurricular/ Extracurricular Activities	119,000	118,000	127,969	(9,969)
41 General Administration	650,878	477,327	454,475	22,852
51 Plant Maintenance and Operations	950,300	869,700	878,974	(9,274)
52 Security and Monitoring Services	2,525	17,355	17,323	32
53 Data Processing Services	1,555	16,396	17,406	(1,010)
71 Debt Service	130,345	292,849	278,559	14,290
Total Expenses	<u>5,648,743</u>	<u>6,485,905</u>	<u>6,285,705</u>	<u>200,199</u>
Change in Net Assets	<u>105,295</u>	<u>322,045</u>	<u>445,279</u>	<u>123,233</u>
Net Assets, Beginning of Year	<u>679,165</u>	<u>679,165</u>	<u>679,165</u>	
Net Assets, End of Year	<u>\$ 784,460</u>	<u>\$1,001,210</u>	<u>\$1,124,444</u>	<u>\$ 123,233</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - WACO

BUDGETARY COMPARISON SCHEDULE
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	from Final
				Budget
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 91,900	\$ 79,298	\$ 79,602	\$ 304
5750 Revenue from Curricular	<u>581,000</u>	<u>665,000</u>	<u>668,243</u>	<u>(3,243)</u>
Total Local Support	672,900	744,298	747,845	3,547
State Program Revenues:				
5810 Foundation School Program Act Revenues	25,704,930	25,852,488	25,853,262	774
5820 State Program Revenues Distributed by Texas Education Agency		<u>214,506</u>	<u>194,160</u>	<u>(20,346)</u>
Total State Program Revenues	25,704,930	26,066,994	26,047,422	(19,572)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	2,272,909	2,261,010	2,189,795	(71,215)
5940 Federal Revenues Distributed Directly From the Federal Government		<u>361,329</u>	<u>344,334</u>	<u>(16,995)</u>
Total Federal Program Revenues	<u>2,272,909</u>	<u>2,622,339</u>	<u>2,534,129</u>	<u>(88,210)</u>
Total Revenues	<u>28,680,739</u>	<u>29,433,631</u>	<u>29,329,395</u>	<u>(104,236)</u>
EXPENSES				
11 Instruction	14,651,982	14,896,026	14,779,890	116,136
12 Instructional Resources and Media Services	326,069	19,193	19,193	
13 Curriculum Development and Instructional Staff Development	965,546	787,713	786,892	821
21 Instructional Leadership	123,384	100,040	100,800	(760)
23 School Leadership	2,852,382	3,385,397	3,254,404	130,993
33 Health Services	147,745	14,372	14,372	
35 Food Service	955,500	1,224,067	1,224,067	
36 Cocurricular/ Extracurricular Activities	441,000	787,891	788,283	(392)
41 General Administration	1,633,063	1,245,437	1,245,280	157
51 Plant Maintenance and Operations	3,937,111	3,841,050	3,905,112	(64,062)
52 Security and Monitoring Services	72,500	62,535	60,182	2,354
53 Data Processing Services	69,192	154,684	162,858	(8,174)
71 Debt Services	2,319,434	1,956,613	1,956,613	
Total Expenses	<u>28,494,908</u>	<u>28,475,017</u>	<u>28,297,943</u>	<u>177,074</u>
Change in Net Assets	<u>155,831</u>	<u>958,614</u>	<u>1,031,452</u>	<u>72,839</u>
Net Assets, Beginning of Year	<u>5,079,942</u>	<u>5,079,942</u>	<u>5,079,942</u>	
Net Assets, End of Year	<u>\$ 5,235,773</u>	<u>\$ 6,038,556</u>	<u>\$ 6,111,394</u>	<u>\$ 72,839</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - BROWNSVILLE

BUDGETARY COMPARISON SCHEDULE
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 2,600	\$ 850	\$ 820	\$ (30)
5750 Revenue from Curricular	121,000	67,500	66,814	(686)
Total Local Support	123,600	68,350	67,634	(716)
State Program Revenues:				
5810 Foundation School Program Act Revenues	2,935,300	3,251,954	3,109,378	(142,576)
5820 State Program Revenues Distributed by Texas Education Agency	15,000	14,395	14,510	115
Total State Program Revenues	2,950,300	3,266,349	3,123,888	(142,461)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	440,500	436,651	418,561	(18,090)
5940 Federal Revenues Distributed Directly From the Federal Government		12,780	12,780	
Total Federal Program Revenues	440,500	449,431	431,340	(18,090)
Total Revenues	3,514,400	3,784,130	3,622,862	(161,268)
EXPENSES				
11 Instruction	1,638,000	1,890,842	1,765,182	125,660
12 Instructional Resources and media Services	25,500	150	152	(2)
13 Curriculum Development and Instructional Staff Development	134,400	109,281	103,844	5,437
21 Instructional Leadership	13,450	12,966	12,888	78
23 School Leadership	410,050	339,941	370,028	(30,087)
33 Health Services	550	828	817	11
35 Food Service	175,500	159,700	146,509	13,191
36 Cocurricular / Extracurricular Activities	95,000	75,900	76,070	(170)
41 General Administration	233,500	147,728	149,791	(2,063)
51 Plant Maintenance and Operations	690,000	659,984	659,575	409
52 Security and Monitoring Services	900	3,399	3,397	2
53 Data Processing Services	8,540	9,672	9,587	85
71 Debt Service		3,466	3,466	
Total Expenses	3,425,390	3,413,857	3,301,307	112,550
Change in Net Assets	89,010	370,273	321,555	(48,718)
Net Assets, Beginning of Year	1,487,978	1,487,978	1,487,978	
Net Assets, End of Year	\$ 1,576,988	\$ 1,858,251	\$ 1,809,533	\$ (48,718)

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF SCIENCE - HOUSTON

BUDGETARY COMPARISON SCHEDULE
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 5,400	\$ 242,500	\$ 242,486	\$ (14)
5750 Revenue from Curricular	375,000	349,571	348,988	(583)
Total Local Support	380,400	592,071	591,474	(597)
State Program Revenues:				
5810 Foundation School Program Act Revenues	9,446,870	10,016,689	10,028,462	11,773
5820 State Program Revenues Distributed by Texas Education Agency		20,253	20,180	(73)
Total State Program Revenues	9,446,870	10,036,942	10,048,642	11,700
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	633,318	867,875	814,604	(53,271)
5940 Federal Revenues Distributed Directly From the Federal Government	287,281	6,201	6,000	(201)
Total Federal Program Revenues	920,599	874,076	820,604	(53,472)
Total Revenues	10,747,869	11,503,089	11,460,720	(42,369)
EXPENSES				
11 Instruction	5,027,252	5,371,206	4,869,606	501,600
12 Instructional Resources and Media Services	86,153	6,694	6,597	97
13 Curriculum Development and Instructional Staff Development	303,023	249,232	240,885	8,347
21 Instructional Leadership	45,345	38,345	37,780	565
23 School Leadership	874,704	901,704	918,106	(16,402)
33 Health Services	30,848	914	907	7
35 Food Service	375,000	469,759	444,389	25,370
36 Cocurricular/ Extracurricular Activities	200,000	258,836	241,892	16,944
41 General Administration	626,039	533,139	500,475	32,664
51 Plant Maintenance and Operations	2,072,626	1,986,226	1,798,572	187,654
52 Security and Monitoring Services	11,000	52,500	51,434	1,066
53 Data Processing Services	28,932	49,932	46,758	3,174
71 Debt Service	1,059,300	918,659	882,718	35,941
Total Expenses	10,740,222	10,837,146	10,049,118	797,028
Change in Net Assets	7,647	665,943	1,420,603	754,660
Net Assets, Beginning of Year	1,249,583	1,249,583	1,249,583	
Net Assets, End of Year	\$ 1,257,230	\$ 1,915,526	\$ 2,670,186	\$ 754,660

See accompanying notes to financial statements.

GOMEZ & COMPANY

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To The Board of Directors of
Harmony Public Schools
Houston, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Harmony Public Schools (HPS) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the ten month period then ended, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered HPS's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HPS's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

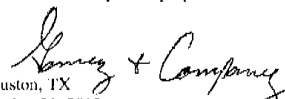
Compliance and Other Matters

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

We noted certain matters that we reported to management of HPS in a separate letter dated October 21, 2013.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Houston, TX
October 21, 2013

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To The Board of Directors of
Harmony Public Schools
Houston, Texas

Report on Compliance for Each Major Federal Program

We have audited Harmony Public Schools (HPS) (a nonprofit organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of HPS's major federal programs for the ten month period ended June 30, 2013. HPS's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of HPS's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about HPS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of HPS's compliance.

Opinion on Each Major Federal Program

In our opinion, HPS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the ten month period ended June 30, 2013.

Report on Internal Control Over Compliance

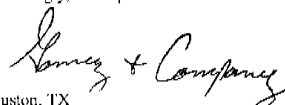
Management of HPS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered HPS's internal control over compliance with the types of requirements that could have a direct and

material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of HPS's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


Houston, TX
October 21, 2013

HARMONY PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

Summary of Audit Results

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

U.S. Department of Education	<u>CFDA Number</u>
Race to the Top-ARRA	84.416A
Passed – Through Texas Education Agency	
Title I, Part A	84.010A
Title II, Part A	84.367A
IDEA B Formula & IDEA B High Cost	84.027A

* denotes cluster

8. A \$481,825 threshold was used to distinguish between Type A and Type B programs as described in section .520 (b) of OMB A-133.

9. Harmony Public Schools does not qualify as a low-risk auditee.

Questioned

Current Year Findings

Cost

No audit findings were noted as per governmental auditing standards and section .510 (a) of OMB A-133

\$ -0-

HARMONY PUBLIC SCHOOLS
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

Summary Schedule of Prior Year Findings

No audit findings were noted as per section .300 (f) of OMB A-133 for the year ended August 31, 2012.

HARMONY PUBLIC SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
RACE TO THE TOP - DISTRICT	84.416M	B416A130301	\$ 1,229,874
HARMONY QUALITY REPLICATION & EXPANSION	84.282M	U282M110010	424,741
Total U.S. Department of Education			<u>1,654,614</u>
U.S. Department of Education			
Passed - Through Texas Education Agency:			
TITLE I, PART A-IMPROVING BASIC EDUCATION	84.010A	13610101015828	473,500
TITLE I, PART A-IMPROVING BASIC EDUCATION	84.010A	13610101031803	195,440
TITLE I, PART A-IMPROVING BASIC EDUCATION	84.010A	13610101071806	594,643
TITLE I, PART A-IMPROVING BASIC EDUCATION	84.010A	1361010101846	1,192,165
TITLE I, PART A-IMPROVING BASIC EDUCATION	84.010A	1361010101858	634,883
TITLE I, PART A-IMPROVING BASIC EDUCATION	84.010A	1361010101862	333,784
TITLE I, PART A-IMPROVING BASIC EDUCATION	84.010A	13610101152805	205,657
TITLE I, PART A-IMPROVING BASIC EDUCATION	84.010A	13610101161807	837,671
TITLE I, PART A-IMPROVING BASIC EDUCATION	84.010A	13610101220813	453,750
TITLE I, PART A-IMPROVING BASIC EDUCATION	84.010A	13610101227816	539,788
IDEA-B FORMULA	84.027A	136600010158286000	221,745
IDEA-B FORMULA	84.027A	136600010318066000	53,485
IDEA-B FORMULA	84.027A	136600010718066000	263,837
IDEA-B FORMULA	84.027A	136600011018466000	528,919
IDEA-B FORMULA	84.027A	136600011018586000	523,526
IDEA-B FORMULA	84.027A	136600011018626000	200,035
IDEA-B FORMULA	84.027A	136600011528056000	114,794
IDEA-B FORMULA	84.027A	136600011618076000	387,773
IDEA-B FORMULA	84.027A	136600012208136000	313,881
IDEA-B FORMULA	84.027A	136600012278166000	332,739
IDEA-B FORMULA	84.027A	136600060718066000	40,998
TITLE III, PART A-LEP	84.365A	13671001015828	15,895
TITLE III, PART A-LEP	84.365A	13671001071806	6,602
TITLE III, PART A-LEP	84.365A	1367100101846	43,050
TITLE III, PART A-LEP	84.365A	1367100101858	34,492
TITLE III, PART A-LEP	84.365A	1367100101862	10,234
TITLE III, PART A-LEP	84.365A	13671001161807	39,737
TITLE III, PART A-LEP	84.365A	13671001220813	8,397
TITLE III, PART A-LEP	84.365A	13671001227816	26,996
TITLE III, PART A-LEP	84.365A	13671001152805	3,878
TITLE III, PART A-LEP	84.365A	13671001031803	3,556
TITLE II, PART A-TEACHER & PR	84.367A	13694501015828	50,214
TITLE II, PART A-TEACHER & PR	84.367A	13694501031803	14,853
TITLE II, PART A-TEACHER & PR	84.367A	13694501071806	48,308
TITLE II, PART A-TEACHER & PR	84.367A	1369450101846	72,657
TITLE II, PART A-TEACHER & PR	84.367A	1369450101858	45,151
TITLE II, PART A-TEACHER & PR	84.367A	1369450101862	8,898
TITLE II, PART A-TEACHER & PR	84.367A	13694501152805	41,054
TITLE II, PART A-TEACHER & PR	84.367A	13694501161807	76,589
TITLE II, PART A-TEACHER & PR	84.367A	13694501220813	39,565
TITLE II, PART A-TEACHER & PR	84.367A	13694501227816	45,081
Total U.S. Department of Education			<u>\$ 9,078,218</u>
U.S. Department of Agriculture			
Passed - Through Texas Education Agency:			
Federal Food Service Reimbursement			
School Breakfast Program (SBP)	10.553	71401201	\$ 85,673
School Breakfast Program (SBP)	10.553	71401301	711,549
National School Lunch Prg-NSLP	10.555	71301201	451,549
National School Lunch Prg-NSLP	10.555	71301301	<u>4,079,218</u>
Total U.S. Department of Agriculture			<u>\$ 5,327,989</u>
Total Expenditures of Federal Awards			<u>\$ 16,060,822</u>

HARMONY PUBLIC SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE TEN MONTH PERIOD ENDED JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of federal awards (the Schedule) includes federal grant activity of HPS under programs of the federal government for the ten month period then ended June 30, 2013. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operation of HPS, it is not intended to and does not present the financial position, changes in net assets or cash flows of HPS.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

HARMONY PUBLIC SCHOOLS
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2012

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HARMONY PUBLIC SCHOOLS

071-806

101-858

220-813

015-828

101-846

227-816

152-805

161-807

031-803

101-862

240-804

(Federal Employer Identification Number: 76-0615245)

CERTIFICATE OF BOARD

August 31, 2012

We, the undersigned, certify that the attached Annual Financial and Compliance Report of Harmony Public Schools was reviewed and approved _____ disapproved for the year ended August 31, 2012, at a meeting of the governing body of said charter school on the _____ day of _____, 20____.

Signature of Board Secretary_____
Signature of Board President

GOMEZ & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

5177 RICHMOND AVE. SUITE 1100
HOUSTON, TEXAS 77056
TEL: (713) 666-5900
FAX: (713) 666-1049
<http://www.gomezandco.com>

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors of
Harmony Public Schools
Houston, Texas

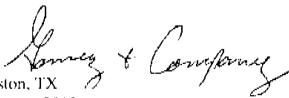
We have audited the accompanying statement of financial position of Harmony Public Schools (a nonprofit organization) (HPS) as of August 31, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of HPS's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of HPS as of August 31, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2013, on our consideration of HPS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.


Houston, TX
January 4, 2013

HARMONY PUBLIC SCHOOLS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2012

ASSETS

Current Assets:	
Cash	\$ 22,828,524
Restricted Cash	44,205,391
Receivables	8,840,385
Other Receivables	1,297,153
Prepays	87,954
Total Current Assets	<u>77,259,408</u>

Property & Equipment:

Land	28,873,193
Buildings and Improvements	209,878,657
Furniture and Equipment	<u>15,138,340</u>
	253,890,190
Less: Accumulated Depreciation	<u>(28,613,744)</u>
	225,276,446

Other Assets:

Deposits	555,646
Bond Issuance Cost	<u>5,064,085</u>
Total Assets	<u>\$ 308,155,585</u>

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable	\$ 6,513,721
Accrued Liabilities	1,185,056
Wages Payable	3,086,767
Interest Payable	1,750,275
Due to State	185,376
Capital Lease Payable	8,396
Current Portion of Notes Payable	7,485,482
Current Portion of Bonds Payable	<u>3,911,782</u>
Total Current Liabilities	24,126,855

Long-term Liabilities:

Notes Payable Net of Current Portion	8,273,953
Bonds Payable Net of Discount/Premium and Current Portion	<u>238,900,751</u>
Total Liabilities	<u>271,301,559</u>

Net Assets:

Unrestricted	10,935,047
Temporarily Restricted	<u>25,918,979</u>
Total Net Assets	<u>36,854,026</u>
Total Liabilities and Net Assets	<u>\$ 308,155,585</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2012

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Federal Grants	\$	\$ 18,290,028	\$ 18,290,028
State and Local Grants		148,926,334	148,926,334
Donations	700,126		700,126
Interest Income	113,722		113,722
Other Income	7,500,319		7,500,319
Net Assets Released From Restrictions	164,658,598	(164,658,598)	
Total Revenues	<u>172,972,765</u>	<u>2,557,764</u>	<u>175,530,529</u>
EXPENSES			
Salaries	74,832,273		74,832,273
Employee Benefits	10,610,597		10,610,597
Payroll Tax Expense	1,569,260		1,569,260
Professional Fees	17,524,847		17,524,847
Occupancy	8,942,449		8,942,449
Equipment Lease	2,103,298		2,103,298
Supplies	14,734,184		14,734,184
Interest	12,571,988		12,571,988
Repairs & Maintenance	3,594,993		3,594,993
Utilities	3,360,979		3,360,979
Travel	2,747,084		2,747,084
Insurance	502,339		502,339
Other Expense	5,879,064		5,879,064
Depreciation	10,644,083		10,644,083
Amortization	274,021		274,021
Total Expenses	<u>169,891,459</u>	<u></u>	<u>169,891,459</u>
Change In Net Assets	3,081,306	2,557,764	5,639,070
Net Assets, Beginning of Year	<u>7,853,741</u>	<u>23,361,215</u>	<u>31,214,956</u>
Net Assets, Ending of Year	<u>\$ 10,935,047</u>	<u>\$ 25,918,979</u>	<u>\$ 36,854,026</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2012

Cash Flows From Operating Activities	
Change in net assets	\$ 5,639,070
Adjustments to reconcile change in net assets to net	
Cash provided (used) by operating activities	
Depreciation	10,644,083
(Increase) Decrease in Accounts Receivable	(831,539)
(Increase) Decrease in Other Receivable	(1,031,339)
(Increase) Decrease in Deposits	(155,933)
(Increase) Decrease in Bond Issuance Cost	(634,716)
Increase (Decrease) in Accounts Payable	1,294,451
Increase (Decrease) in Wages Payable	487,936
Increase (Decrease) in Accrued Liabilities	920,061
Increase (Decrease) in Due to State	185,376
Increase (Decrease) in Interest Payable	184,624
Net Cash Provided (Used) by Operating Activities	<u>16,702,074</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(32,605,824)</u>
Net Cash Provided (Used) by Investing Activities	<u>(32,605,824)</u>
Cash Flows From Financing Activities	
Proceeds from Loans	4,435,037
Proceeds from Bonds	31,720,469
Repayment of Capital Leases	(24,809)
Repayment of Loans	(7,173,596)
Repayment of Bonds	(880,000)
Net Cash Provided (Used) by Financing Activities	<u>28,077,101</u>
NET INCREASE (DECREASE) IN CASH	<u>12,173,351</u>
CASH AT BEGINNING OF YEAR	<u>54,860,564</u>
CASH AT END OF YEAR	<u>\$ 67,033,915</u>

Supplemental Disclosures

Cash Paid During the Year for:

Interest

\$ 12,571,988

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012

A. Organization:

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

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

CHANGE OF ORGANIZATION NAME:

On June 13, 2012 HPS filed a certificate of amendment with the Office of the Secretary of State of Texas to change their organization name from Cosmos Foundation, Inc. to Harmony Public Schools which was approved on June 14, 2012. On August 3, 2012 HPS received approval from TEA to change their charter holder name from Cosmos Foundation, Inc. to Harmony Public Schools for all of the districts.

B. Summary of Significant Accounting Policies:

BASIS OF PRESENTATION

HPS reports its financial information based on the *Financial Accounting Standards Board Accounting Standards Codification 958 Not-for-Profit Entities-205 Presentation of Financial Statements*. Under *FASB ASC 958-205*, an Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

PRINCIPLES OF CONSOLIDATION

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

SUPPORT AND REVENUE

Support and revenue are recorded based on the accrual method.

CASH DONATIONS AND DONATED SERVICES

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

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012

CONTRIBUTIONS

In accordance with *Financial Accounting Standards Board Accounting Standards Codification 958 Not-for-Profit Entities-605 Revenue Recognition*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

B. Summary of Significant Accounting Policies: (Continued)

PROPERTY AND EQUIPMENT

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

PLEDGES AND ACCOUNTS RECEIVABLE

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

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

FUNCTIONAL EXPENSES

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

INCOME TAXES

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

CASH AND CASH EQUIVALENTS

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

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012

B. Summary of Significant Accounting Policies: (Continued)

ESTIMATES

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

C. Pension Plan:

The charter school contributes to the Teacher Retirement System of Texas (TRS), a cost sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the charter school, but are the liability of the State of Texas. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805 respectively. The Texas State legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 1 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal year 2012, 2011 and 2010, and a state contribution rate of 6.0% for fiscal years 2012, 6.644% for fiscal year 2011 and 2010. The charter school's employee contributions to the system for the years ending August 31, 2012 were \$4,647,884 equal to the required contributions for the year. Other contributions made from federal and private grants and from the charter school for salaries above the statutory minimum for the year ending August 31, 2012 was \$-0-.

D. Budget:

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

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012

E. Operating Lease Commitment:

HPS is currently leasing its office equipment and building on a non-cancelable operating lease. HPS minimum annual lease commitment is as follows:

Year months ending August 31,	Amount
2013	\$ 9,296,321
2014	5,542,467
2015	4,178,113
2016	3,201,582
2017	2,169,605
Total	<u>\$ 24,388,088</u>

Operating lease expense amounted to \$11,045,747 for the year ended August 31, 2012.

F. Notes Payable:

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

Note payable to a bank, secured by land and buildings. The note is dated August 5, 2009, and has a variable interest rate, payable in monthly installments of \$79,917 and a face amount of \$6,650,000. The date of maturity is August 31, 2015.	\$ 4,848,629
Note payable to a bank, secured by land and buildings. The note is dated December 28, 2009, and has a 6.5% interest rate, payable in 20 installments of \$97,156 and a face amount of \$4,300,000. The date of maturity is October 5, 2015.	4,106,667
Note payable to a finance company, secured by land and buildings. The note is dated June 15, 2009, and has a 6.15% interest rate, payable in 360 installments of \$39,864 and a face amount of \$4,290,000. The date of maturity is January 1, 2013.	3,589,125
Note payable to a finance company, secured by land and buildings. The note is dated June 15, 2009, and has a 6.25% interest rate, payable in 360 installments of \$15,542 and a face amount of \$2,110,000. The date of maturity is January 1, 2013.	1,490,014
Note payable to a church, secured by land. The note is dated December 9, 2011, has a 5.50% interest rate, payable in 24 monthly installments of \$9,921 and a face amount of \$225,000. The date of maturity is August 1, 2014.	225,000
Revolving line of credit with a bank unsecured, payable on demand with an interest rate of 6.50%. The date of maturity is January 23, 2013. See note H.	1,500,000
Total notes payable	<u>\$ 15,759,435</u>
Less Current Portion	(7,485,482)
Notes Payable	<u>\$ 8,273,953</u>

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012

F. Notes Payable: (Continued)

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

Year ending August 31,	Amount
2013	\$ 7,485,482
2014	920,681
2015	7,353,161
Total	<u>\$ 15,759,324</u>

G. Capital Leases:

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

The first lease expires January 2013. The equipment under capital lease as of August 31, 2012 has a cost of \$41,600, accumulated amortization of \$37,149 and a net book value of \$4,451. Amortization of the equipment is included in depreciation expense.

The second lease expires February 2013. The equipment under capital lease as of August 31, 2011 has a cost of \$36,883, accumulated amortization of \$32,937 and a net book value of \$3,946. Amortization of the equipment is included in depreciation expense.

The future minimum lease payments under capital lease together with their present value as of August 31, 2012 is as follows:

Total minimum lease payments	\$ 8,653
Less amount representing interest (257)
Present value of net minimum lease payments	<u>\$ 8,396</u>

H. Revolving Line of Credit:

HPS, Inc. has a \$1,500,000 revolving line of credit with a bank. All advances on the credit line are payable on demand and carry an interest rate of 6.50%. The credit line is unsecured. HPS, Inc. had draws on the line of credit that totaled to \$1,500,000 as of August 31, 2012.

I. Restricted Cash:

Restricted cash at August 31, 2012 consisted of project funds, debt service, debt service reserve fund and sinking fund bond cash accounts. These funds are to be solely used in the construction and acquisition of new facilities and repayment of bond liabilities and cannot be used for normal operating expenditures.

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012

J. Bonds Payable:

HPS, Inc. has secured bond financing pursuant to Chapter 53 of the Texas Education Code of "Qualified Tax Exempt" Education Revenue Series Bonds, 2007A, 2008A, 2010A, 2011A and 2012A in the amounts of \$28,860,000, \$30,075,000, \$50,090,000, \$58,930,000 and \$31,350,000 respectively. HPS also has Taxable Educational Revenue Bonds, Q Series (Qualified School Construction Bonds) 2010Q and 2011Q in the amounts of \$39,910,000 and \$5,085,000 respectively. The bonds are limited obligations of the issuer payable solely from revenues received by the issuer pursuant to a loan agreement between the issuer and the borrower.

Bonds payable at August 31, 2012 consist of the following:

2007A Bonds, 5.35% interest; principle due annually commencing February 15, 2011 and interest due in semi-annual installments, commencing August 15, 2008; Maturity dates range from 2011 to 2037.	\$ 27,835,000
2008A Bonds, 6.25% interest; principle due annually commencing February 15, 2013 and interest due in semi-annual installments, commencing February 15, 2007; Maturity dates range from 2013 to 2038.	30,075,000
2010A Bonds, 6.0% - 6.2% interest; principle due annually commencing 2028 and interest due in semi-annual installments, commencing February 15, 2011; Maturity dates range from 2028 to 2040.	50,090,000
2010Q Bonds, 8.125% interest; principle is deposited annually to a sinking fund account and interest due in semi-annual installments, commencing February 15, 2011; Bond matures in 2027	39,910,000
2011A Bonds, 8.125% interest; principle due annually commencing May 15, 2013 and interest due in semi-annual installments, commencing November 15, 2011; Maturity dates range from 2013 to 2041.	58,930,000
2011Q Bonds, 8.125% interest; principle due annually commencing May 15, 2013 and interest due in semi-annual installments, commencing November 15, 2011; Maturity dates range from 2013 to 2026.	5,085,000

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012

J. Bonds Payable: (Continued)

2012A Bonds, 4% - 5% interest; principle due annually commencing February 15, 2014 and interest due semi-annually commencing August 15, 2012; Maturity dates range from 2014 to 2042

	31,350,000
Total	\$ 243,275,000
Less unamortized discount	(802,123)
Plus original issue premium	339,656
Less current portion	(3,911,782)
	<u>\$ 238,900,751</u>

Future maturities of long-term debt at August 31, 2011 are as follows:

<u>Year ending August 31,</u>	<u>Amount</u>
2012	\$ 3,911,782
2013	4,586,379
2014	4,767,778
2015	4,951,032
2016	5,151,198
Thereafter	<u>\$ 219,906,831</u>
	243,275,000
Less unamortized discount	(802,123)
Plus original issue premium	339,656
Amount of bond net of discount and premium	<u>\$ 242,812,533</u>

HPS must maintain a debt service fund which is required to maintain a minimum balance for the 2007A, 2008A, 2010A, 2011A and 2012A series bonds in the amounts of \$1,021,296, \$2,499,614, \$5,009,000, \$5,039,469 and \$2,035,125. At August 31, 2012, the debt service funds for the 2007A, 2008A, 2010A, 2011A and 2012A series bonds had a balance of \$1,067,170, \$1,515,265, \$5,031,476, \$5,051,439 and \$2,035,828 respectively. HPS applied for, and was awarded, a grant 2009 from the Texas Credit Enhancement Program in the amount of \$1,000,000 to secure the \$2,023,338 debt service fund requirement for the 2007A series bonds. This grant can be used to secure other debt service reserve funds as deemed necessary.

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012

K. Commitments and Contingencies:

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

L. Health Care Coverage:

During the year ended August 31, 2012, employees of HPS were covered by a group insurance plan. The school paid premiums up to \$525 for teachers, \$625 for assistant principals, \$825 for principals and central office administrators, \$1,025 for assistant superintendents, cluster superintendents, and superintendents, for each campus per month per employee (depending upon coverage selected) to the plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer.

M. Temporarily Restricted Net Assets:

Temporarily restricted net assets at August 31, 2012, are available for the following periods:

Periods after August 31, 2012	
State Funds	\$ 25,918,979
Total restricted funds	<u>\$ 25,918,979</u>

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

State Fund	\$ 146,368,570
Federal Funds	18,290,028
Total restrictions released	<u>\$ 164,658,598</u>

N. Certificate of Deposits:

HISA- El Paso has renewed a \$300,000 eight month certificate of deposit with a variable interest rate, and also invested in a \$1,500,000 twelve month certificate of deposit with a variable interest rate as of August 31, 2012. The certificates of deposits mature on April 20, 2013 and January 23, 2013 respectively. Investments in certificates of deposit total \$1,816,476 at August 31, 2012.

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012

O. Consolidation of Harmony Public Schools:

On June 30, 2012 Harmony Public Schools submitted a request for Consolidation of Districts to the Texas Education Agency for the consolidation of two of its District numbers for the purpose of restructuring and realigning some of their campuses.

Harmony Public Schools previously held eleven (11) District numbers covering thirty-six (36) campuses in several Texas cities. On June 30, 2012 the agency returned and consolidated the following districts:

- Harmony Science Academy – Laredo #240-804 Consolidated its assets under Harmony Science Academy – San Antonio District # 015-828

The consolidation was approved by the Texas Education Agency on June 30, 2012. We understand that the academic history and records of the consolidated charters will continue to exist regardless of the consolidation. Effective June 30, 2012, the consolidation of the two (2) districts were implemented.

As required by TEA, a separate audit report for Harmony Science Academy – Laredo #240-804 for the ten month period ended June 30, 2012 was performed see pages 77 to 82. The assets of Harmony Science Academy – Laredo were transferred and consolidated with Harmony Science Academy – San Antonio. All campus financial activity subsequent to June 30, 2012 is now recorded under Harmony Science Academy – San Antonio.

P. Prior Period Adjustment

Net assets were restated at August 31, 2011 due to reclassification of a bond liability and an overstatement and understatement of bond cost of issuance cash accounts. Below is a table that shows the changes of beginning net assets and reconciles the restated net assets on each district's financial statements. The result of this change had a zero effect on net assets as a whole, but did increase/decrease individual district net assets at August 31, 2011.

The charter school's adjustments are as follows:

Houston – Reclassification of bond liability	\$ (66,733)
Houston – Bond Issuance Cost Transfer to Fort Worth	(32,846)
Fort Worth – Bond Issuance Cost Transfer from Houston	32,846
Excellence – Reclassification of bond liability	66,733
Net effect of the charter school's adjustments	<u>\$ -0-</u>

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012

Q. Elimination Entries:

<u>Description</u>	<u>Balance Before Eliminations</u>	<u>Eliminations</u>	<u>Consolidated Balance</u>
Total Assets	\$ 308,155,585	\$ -	\$ 308,155,585
Total Liabilities	271,301,559	-	271,301,559
Net Assets	36,854,026	-	36,854,026
Total Liabilities & Net Assets	308,155,585		308,155,585
Revenue	187,170,530	(11,640,000)	175,530,530
Expenses	181,531,460	(11,640,000)	169,891,460
Net Income	\$ 5,639,070	-	\$ 5,639,070

Eliminations consist of the following:

District Financial Services	\$ 10,920,000
Rental Income	720,000
Total	<u>\$ 11,640,000</u>

R. Due to State:

During the fiscal year end August 31, 2011 TEA conducted a grant audit of Title I and IDEA B funds. The preliminary report on an audit of the administration of federal awards issued on April 8, 2011 identified question cost of \$ 544,649.47. HSA did not agree with the findings, disputed \$521,346 and submitted their response in July 2011 to TEA. On September 28, 2012 TEA finalized their audit and requested that Harmony Science Academy – Houston #101-846 return \$79,709 and \$59,674 of Title I and IDEA B funds respectively. They also requested that Harmony Science Academy – Laredo #240-804 return \$14,859 and \$31,134 of Title I and IDEA B funds respectively. A liability for the amounts requested totaling \$185,376 was accrued as of August 31, 2012.

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012

GOMEZ & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
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<http://www.gomezandco.com>

INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

S. Guarantee of Bonds:

The Corporation guarantees \$1,245,000 of Series 2010 Y Bonds and \$705,000 of Series 2010 Z Bonds for Lisa Academy, Inc. (an independent charter school district) for property located in Arkansas. The outstanding principal balances on the bonds are \$1,245,000 and \$485,000 respectively at August 31, 2012. This guarantee would require payment by HPS only in the event of default by Lisa Academy, Inc. The security interest in the property would be subrogated to HPS. The related partnership was current with required payments as of August 31, 2012 and management believes likelihood is remote that material payments will be required under this guarantee.

T. Subsequent Event:

HPS submitted a request to change its accounting period to TEA. On August 3, 2012 TEA approved a change in fiscal year from September 1 through August 31 to July 1 through June 30 for all districts under HPS.

On December 11, 2012 the U.S. Department of Education announced that HPS is the recipient of Race to the Top-District funding in the amount of \$29,866,398. The funds will be received over the next four years. HPS joins just sixteen charter schools and independent school districts nationwide in receiving this round of grants.

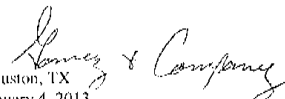
U. Evaluation of Subsequent Events:

HPS has evaluated subsequent events through January 4, 2013, the date which the financial statements were available to be issued.

To The Board of Directors of
Harmony Public Schools
Houston, Texas

We have audited the financial statements of Harmony Public Schools as of and for the year ended August 31, 2012, and have issued our report thereon dated January 4, 2013, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements dated as a whole. The schedules for individual charter school dated August 31, 2012 pages 17 to 76 and the schedules for individual charter school - Laredo dated June 30, 2012, a ten month period, pages 77 to 82 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Houston, TX
January 4, 2013



HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY-HOUSTON
STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2012

ASSETS	
Current Assets:	
Cash	\$ 2,709,476
Restricted Cash	16,884,185
Receivables	1,204,615
Other Receivables	949,338
Prepays	87,954
Total Current Assets	<u>21,835,568</u>
Property & Equipment:	
Land	6,223,837
Buildings and Improvements	51,695,739
Furniture and Equipment	3,571,837
	<u>61,491,413</u>
Less: Accumulated Depreciation	<u>(6,495,974)</u>
	54,995,439
Other Assets:	
Deposits	7,077
Bond Issuance Cost	<u>3,058,823</u>
Total Assets	<u>\$ 79,896,908</u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts Payable	\$ 959,632
Accrued Liabilities	290,884
Wages Payable	478,688
Interest Payable	214,334
Due to State	139,383
Current Portion of Notes Payable	5,090,454
Current Portion of Bonds Payable	<u>1,008,456</u>
Total Current Liabilities	8,181,830
Long-term Liabilities:	
Notes Payable Net of Current Portion	96,405
Bonds Payable Net of Discount and Current Portion	<u>63,332,076</u>
Total Liabilities	<u>71,610,311</u>
Net Assets:	
Unrestricted	3,545,843
Temporarily Restricted	<u>4,740,753</u>
Total Net Assets	<u>8,286,596</u>
Total Liabilities and Net Assets	<u>\$ 79,896,908</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY-AUSTIN
STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2012

ASSETS	
Current Assets:	
Cash	\$ 2,025,018
Restricted Cash	2,779,867
Receivables	<u>987,284</u>
Total Current Assets	5,792,170
Property & Equipment:	
Land	2,129,350
Buildings and Improvements	18,001,868
Furniture and Equipment	<u>1,710,227</u>
	21,841,446
Less: Accumulated Depreciation	<u>(2,141,790)</u>
	19,699,655
Other Assets:	
Deposits	110,814
Bond Issuance Cost	<u>222,343</u>
Total Assets	<u>\$ 25,824,982</u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts Payable	\$ 493,552
Accrued Liabilities	8,338
Wages Payable	363,978
Interest Payable	165,351
Current Portion of Notes Payable	68,994
Current Portion of Bonds Payable	<u>323,933</u>
Total Current Liabilities	1,424,145
Long-term Liabilities:	
Notes Payable Net of Current Portion	112,200
Bonds Payable Net of Discount and Current Portion	<u>20,785,968</u>
Total Liabilities	<u>22,322,314</u>
Net Assets:	
Unrestricted	257,076
Temporarily Restricted	<u>3,245,592</u>
Total Net Assets	<u>3,502,668</u>
Total Liabilities and Net Assets	<u>\$ 25,824,982</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY- SAN ANTONIO
STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2012

ASSETS	
Current Assets:	
Cash	\$ 2,748,886
Restricted Cash	1,672,138
Receivables	706,540
Other Receivables	<u>4,265</u>
Total Current Assets	5,131,828
Property & Equipment:	
Land	1,718,271
Buildings and Improvements	19,369,982
Furniture and Equipment	<u>1,276,001</u>
	22,364,254
Less: Accumulated Depreciation	<u>(1,844,569)</u>
	20,519,686
Other Assets:	
Deposits	23,750
Bond Issuance Cost	<u>379,944</u>
Total Assets	<u>\$ 26,055,208</u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts Payable	\$ 172,447
Accrued Liabilities	14,519
Wages Payable	264,339
Interest Payable	80,181
Due to State	45,993
Current Portion of Notes Payable	500,000
Current Portion of Bonds Payable	<u>447,572</u>
Total Current Liabilities	1,525,051
Long-term Liabilities:	
Bonds Payable Net of Discount and Current Portion	<u>20,103,506</u>
Total Liabilities	<u>21,628,557</u>
Net Assets:	
Unrestricted	2,229,564
Temporarily Restricted	<u>2,197,087</u>
Total Net Assets	<u>4,426,651</u>
Total Liabilities and Net Assets	<u>\$ 26,055,208</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY- EL PASO
STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2012

ASSETS	
Current Assets:	
Cash	\$ 6,064,541
Restricted Cash	1,682,095
Receivables	737,513
Other Receivables	<u>268,115</u>
Total Current Assets	8,752,265
Property & Equipment:	
Land	1,790,950
Buildings and Improvements	13,112,839
Furniture and Equipment	<u>594,281</u>
	15,498,070
Less: Accumulated Depreciation	<u>(1,570,862)</u>
	13,927,208
Other Assets:	
Deposits	37,532
Bond Issuance Cost	<u>114,953</u>
Total Assets	<u>\$ 22,831,959</u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts Payable	\$ 526,333
Accrued Liabilities	6,039
Wages Payable	275,319
Interest Payable	258,614
Current Portion of Notes Payable	122,400
Current Portion of Bonds Payable	<u>414,191</u>
Total Current Liabilities	1,602,894
Long-term Liabilities:	
Notes Payable Net of Current Portion	823,084
Bonds Payable Net of Discount and Current Portion	<u>14,228,812</u>
Total Liabilities	<u>16,654,790</u>
Net Assets:	
Unrestricted	1,957,434
Temporarily Restricted	<u>4,219,735</u>
Total Net Assets	<u>6,177,169</u>
Total Liabilities and Net Assets	<u>\$ 22,831,959</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY- FORT WORTH
STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2012

ASSETS	
Current Assets:	
Cash	\$ 725,937
Restricted Cash	7,436,430
Receivables	1,377,877
Other Receivables	<u>35,706</u>
Total Current Assets	9,575,950
Property & Equipment:	
Land	2,944,614
Buildings and Improvements	31,558,404
Furniture and Equipment	<u>1,942,249</u>
	36,445,267
Less: Accumulated Depreciation	<u>(3,027,621)</u>
	33,417,645
Other Assets:	
Deposits	82,542
Bond Issuance Cost	<u>416,004</u>
Total Assets	<u>\$ 43,492,141</u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts Payable	\$ 1,783,210
Accrued Liabilities	11,403
Wages Payable	420,311
Interest Payable	333,233
Current Portion of Notes Payable	311,438
Current Portion of Bonds Payable	<u>578,885</u>
Total Current Liabilities	3,438,480
Long-term Liabilities:	
Notes Payable Net of Current Portion	1,599,680
Bonds Payable Net of Discount and Current Portion	<u>33,955,099</u>
Total Liabilities	<u>38,993,259</u>
Net Assets:	
Unrestricted	1,552,559
Temporarily Restricted	<u>2,946,323</u>
Total Net Assets	<u>4,498,882</u>
Total Liabilities and Net Assets	<u>\$ 43,492,141</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF EXCELLENCE
STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2012

ASSETS	
Current Assets:	
Cash	\$ 1,649,372
Restricted Cash	6,848,104
Receivables	1,205,512
Other Receivables	<u>2,200</u>
Total Current Assets	9,705,188
Property & Equipment:	
Land	3,995,277
Buildings and Improvements	28,727,026
Furniture and Equipment	<u>2,633,711</u>
	35,356,014
Less: Accumulated Depreciation	<u>(5,556,699)</u>
	29,799,315
Other Assets:	
Deposits	59,781
Bond Issuance Cost	<u>438,620</u>
Total Assets	<u>\$ 40,002,904</u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts Payable	\$ 158,346
Accrued Liabilities	842,863
Wages Payable	444,653
Interest Payable	116,970
Capital Lease Payable	8,396
Current Portion of Notes Payable	1,282,783
Current Portion of Bonds Payable	<u>457,301</u>
Total Current Liabilities	3,311,314
Long-term Liabilities:	
Notes Payable Net of Current Portion	5,367,960
Bonds Payable Net of Discount and Current Portion	<u>29,858,240</u>
Total Liabilities	<u>38,537,514</u>
Net Assets:	
Unrestricted	651,463
Temporarily Restricted	<u>813,927</u>
Total Net Assets	<u>1,465,390</u>
Total Liabilities and Net Assets	<u>\$ 40,002,904</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY- LUBBOCK
STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2012

ASSETS	
Current Assets:	
Cash	\$ 973,960
Restricted Cash	369,794
Receivables	<u>295,479</u>
Total Current Assets	1,639,233
Property & Equipment:	
Land	154,893
Buildings and Improvements	4,573,437
Furniture and Equipment	<u>529,513</u>
	5,257,844
Less: Accumulated Depreciation	<u>(1,418,645)</u>
	3,839,198
Other Assets:	
Deposits	15,800
Bond Issuance Cost	<u>97,420</u>
Total Assets	<u>\$ 5,591,651</u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts Payable	\$ 28,523
Accrued Liabilities	481
Wages Payable	120,524
Interest Payable	26,085
Current Portion of Bonds Payable	<u>121,565</u>
Total Current Liabilities	297,178
Long-term Liabilities:	
Bonds Payable Net of Discount and Current Portion	<u>4,615,309</u>
Total Liabilities	<u>4,912,486</u>
Net Assets:	
Unrestricted	(28,026)
Temporarily Restricted	<u>707,191</u>
Total Net Assets	<u>679,165</u>
Total Liabilities and Net Assets	<u>\$ 5,591,651</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY-WACO
STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2012

ASSETS	
Current Assets:	
Cash	\$ 4,067,631
Restricted Cash	4,658,278
Receivables	1,733,017
Other Receivables	<u>19,969</u>
Total Current Assets	10,478,895
Property & Equipment:	
Land	8,828,501
Buildings and Improvements	28,657,706
Furniture and Equipment	<u>2,198,889</u>
	39,685,096
Less: Accumulated Depreciation	<u>(4,556,270)</u>
	35,128,826
Other Assets:	
Deposits	134,352
Bond Issuance Cost	<u>122,861</u>
Total Assets	<u>\$ 45,864,935</u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts Payable	\$ 2,291,050
Accrued Liabilities	4,927
Wages Payable	475,241
Interest Payable	458,080
Current Portion of Notes Payable	109,414
Current Portion of Bonds Payable	<u>250,052</u>
Total Current Liabilities	3,588,765
Long-term Liabilities:	
Notes Payable Net of Current Portion	274,622
Bonds Payable Net of Discount and Current Portion	<u>36,921,606</u>
Total Liabilities	<u>40,784,993</u>
Net Assets:	
Unrestricted	362,129
Temporarily Restricted	<u>4,717,813</u>
Total Net Assets	<u>5,079,942</u>
Total Liabilities and Net Assets	<u>\$ 45,864,935</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY- BROWNSVILLE
STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2012

ASSETS	
Current Assets:	
Cash	\$ 1,164,469
Restricted Cash	6,384
Receivables	162,883
Other Receivables	18,090
Total Current Assets	<u>1,351,827</u>
Property & Equipment:	
Buildings and Improvements	379,476
Furniture and Equipment	107,749
	487,225
Less: Accumulated Depreciation	<u>(232,512)</u>
	254,713
Other Assets:	
Deposits	<u>24,000</u>
Total Assets	<u>\$ 1,630,541</u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts Payable	\$ 18,256
Wages Payable	62,133
Interest Payable	1,215
Current Portion of Bonds Payable	666
Total Current Liabilities	<u>82,269</u>
Long-term Liabilities:	
Bonds Payable Net of Discount and Current Portion	<u>60,294</u>
Total Liabilities	<u>142,563</u>
Net Assets:	
Unrestricted	155,951
Temporarily Restricted	<u>1,332,027</u>
Total Net Assets	<u>1,487,978</u>
Total Liabilities and Net Assets	<u>\$ 1,630,541</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF SCIENCE- HOUSTON
STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2012

ASSETS	
Current Assets:	
Cash	\$ 699,234
Restricted Cash	1,868,116
Receivables	<u>429,135</u>
Total Current Assets	<u>2,996,484</u>
Property & Equipment:	
Land	1,087,500
Buildings and Improvements	13,802,178
Furniture and Equipment	<u>573,882</u>
	15,463,561
Less: Accumulated Depreciation	<u>(1,768,802)</u>
	13,694,759
Other Assets:	
Deposits	59,998
Bond Issuance Cost	<u>213,117</u>
Total Assets	<u>\$ 16,964,358</u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts Payable	\$ 82,373
Accrued Liabilities	5,604
Wages Payable	181,582
Interest Payable	96,214
Current Portion of Bonds Payable	<u>309,162</u>
Total Current Liabilities	<u>674,935</u>
Long-term Liabilities:	
Bonds Payable Net of Discount and Current Portion	<u>15,039,840</u>
Total Liabilities	<u>15,714,775</u>
Net Assets:	
Unrestricted	249,684
Temporarily Restricted	<u>999,899</u>
Total Net Assets	<u>1,249,583</u>
Total Liabilities and Net Assets	<u>\$ 16,964,358</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - HOUSTON

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 12,922,477		\$ 12,922,477
5750 Revenue from Curricular	1,074,146		1,074,146
Total Local Support	13,996,624		13,996,624
State Program Revenues			
5810 Foundation School Program Act Revenue		23,060,759	23,060,759
5820 State Program Revenues Distributed by Texas Education Agency		201,279	201,279
Total State Program Revenues		23,262,038	23,262,038
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		2,906,054	2,906,054
5940 Federal Revenues Distributed Directly From the Federal Government		783,280	783,280
Total Federal Program Revenues		3,689,334	3,689,334
Net assets released from restrictions: Restrictions satisfied by payments	27,970,434	(27,970,434)	
Total Revenues	41,967,058	(1,019,062)	40,947,996
EXPENSES			
11 Instruction	13,618,075		13,618,075
12 Instructional Resources and Media Service	57,757		57,757
13 Curriculum Development and Instructional Staff Development	3,981,269		3,981,269
21 Instructional Leadership	609,950		609,950
23 School Leadership	2,651,629		2,651,629
31 Guidance, Counseling, and Evaluation			
33 Health Services	53,153		53,153
34 Student (Pupil) Transportation	139,320		139,320
35 Food Service	1,357,278		1,357,278
36 Cocurricular/Extracurricular Activities	808,493		808,493
41 General Administration	7,028,774		7,028,774
51 Plant Maintenance and Operations	6,188,762		6,188,762
52 Security and Monitoring Services	184,506		184,506
53 Data Processing Services	358,015		358,015
71 Debt Service	3,383,408		3,383,408
Total Expenses	40,420,389		40,420,389
Change in Net Assets	1,546,668	(1,019,062)	527,607
Net Assets, Beginning of Year as Restated	1,999,175	5,759,815	7,758,990
Net Assets, End of Year	\$ 3,545,843	\$ 4,740,753	\$ 8,286,596

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - AUSTIN

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 4,988		\$ 4,988
5750 Revenue from Curricular	774,764		774,764
Total Local Support	779,752		779,752
State Program Revenues			
5810 Foundation School Program Act Revenues		18,654,327	18,654,327
5820 State Program Revenues Distributed by Texas Education Agency		176,934	176,934
Total State Program Revenues		18,831,261	18,831,261
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		1,615,522	1,615,522
5940 Federal Revenues Distributed Directly From the Federal Government		375,339	375,339
Total Federal Program Revenues		1,990,862	1,990,862
Net assets released from restrictions: Restrictions satisfied by payments	20,168,849	(20,168,849)	
Total Revenues	20,948,601	653,273	21,601,874
EXPENSES			
11 Instruction	10,496,828		10,496,828
12 Instructional Resources and Media Services	20,146		20,146
13 Curriculum Development and Instructional Staff Development	649,454		649,454
23 School Leadership	1,937,459		1,937,459
31 Guidance, Counseling, and Evaluation			
33 Health Services	3,898		3,898
34 Student (Pupil) Transportation	90,282		90,282
35 Food Service	699,353		699,353
36 Cocurricular/Extracurricular Activities	425,537		425,537
41 General Administration	1,053,045		1,053,045
51 Plant Maintenance and Operations	4,091,896		4,091,896
52 Security and Monitoring Services	23,097		23,097
53 Data Processing Services	237,796		237,796
71 Debt Service	1,118,147		1,118,147
Total Expenses	20,846,938		20,846,938
Change in Net Assets	101,664	653,273	754,937
Net Assets, Beginning of Year	155,412	2,592,319	2,747,731
Net Assets, End of Year	\$ 257,076	\$ 3,245,592	\$ 3,502,668

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - SAN ANTONIO

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 2	\$ 2	\$ 2
5750 Revenue from Curricular	333,840		333,840
Total Local Support	333,841		333,841
State Program Revenues:			
5810 Foundation School Program Act Revenues		9,298,263	9,298,263
5820 State Program Revenues Distributed by Texas Education Agency		71,051	71,051
Total State Program Revenues		9,369,314	9,369,314
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		843,510	843,510
5940 Federal Revenues Distributed Directly From the Federal Government		292,596	292,596
Total Federal Program Revenues		1,136,106	1,136,106
Net assets released from restrictions:			
Restrictions satisfied by payments	11,932,848	(11,932,848)	
Total Revenues	12,266,689	(1,427,428)	10,839,261
EXPENSES			
11 Instruction	5,391,614		5,391,614
12 Instructional Resources and Media Services	24,679		24,679
13 Curriculum Development and Instructional Staff Development	454,446		454,446
23 School Leadership	971,733		971,733
33 Health Services	4,106		4,106
35 Food Service	491,472		491,472
36 Cocurricular/Extracurricular Activities	175,106		175,106
41 General Administration	499,452		499,452
51 Plant Maintenance and Operations	1,513,456		1,513,456
52 Security and Monitoring Services	8,111		8,111
53 Data Processing Services	66,760		66,760
71 Debt Service	1,283,413		1,283,413
Total Expenses	10,884,347		10,884,347
Change in Net Assets	1,382,342	(1,427,428)	(45,086)
Net Assets, Beginning of Year	808,639	1,193,388	2,002,027
Net Assets Transferred In From Taredo	38,583	2,431,127	2,469,710
Net Assets, End of Year	\$ 2,229,564	\$ 2,197,087	\$ 4,426,651

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - EL PASO

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUES			
5740 Other Revenues from Local Sources	\$ 55,494	\$	\$ 55,494
5750 Food Service Sales	663,709		663,709
Total Local Support	719,203		719,203
State Program Revenues:			
5810 Foundation School Program Act Revenues		12,818,245	12,818,245
5820 State Program Revenues Distributed by Texas Education Agency		85,487	85,487
Total State Program Revenues		12,903,732	12,903,732
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		1,391,920	1,391,920
5940 Federal Revenues Distributed Directly From the Federal Government		244,016	244,016
Total Federal Program Revenues		1,635,937	1,635,937
Net assets released from restrictions:			
Restrictions satisfied by payments	13,435,584	(13,435,584)	
Total Revenues	14,154,787	1,104,085	15,258,872
EXPENSES			
11 Instruction	6,530,343		6,530,343
12 Instructional Resources and Media Services	27,411		27,411
13 Curriculum Development and Instructional Staff Development	473,256		473,256
23 School Leadership	1,407,769		1,407,769
33 Health Services	4,672		4,672
35 Food Service	512,544		512,544
36 Cocurricular/Extracurricular Activities	447,502		447,502
41 General Administration	806,014		806,014
51 Plant Maintenance and Operations	2,979,808		2,979,808
52 Security and Monitoring Services	21,344		21,344
53 Data Processing Services	112,841		112,841
71 Debt Service	674,232		674,232
Total Expenses	13,997,735		13,997,735
Change in Net Assets	157,052	1,104,085	1,261,137
Net Assets, Beginning of Year	1,800,382	3,115,650	4,916,032
Net Assets, End of Year	\$ 1,957,434	\$ 4,219,735	\$ 6,177,169

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - FORT WORTH

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 991	\$	\$ 991
5750 Revenue from Curricular	772,348		772,348
Total Local Support	773,339		773,339
State Program Revenues			
5810 Foundation School Program Act Revenue		17,314,988	17,314,988
5820 State Program Revenues Distributed by Texas Education Agency		138,084	138,084
Total State Program Revenues		17,453,072	17,453,072
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		1,420,080	1,420,080
5940 Federal Revenues Distributed Directly From the Federal Government		783,519	783,519
Total Federal Program Revenues		2,203,599	2,203,599
Net assets released from restrictions:			
Restrictions satisfied by payments	19,657,017	(19,657,017)	
Total Revenues	20,430,356	(346)	20,430,010
EXPENSES			
11 Instruction	10,350,996		10,350,996
12 Instructional Resources and Media Service	9,270		9,270
13 Curriculum Development and Instructional Staff Development	790,704		790,704
23 School Leadership	1,840,128		1,840,128
33 Health Services	41,006		41,006
35 Food Service	644,824		644,824
36 Cocurricular/Extracurricular Activities	516,078		516,078
41 General Administration	1,001,600		1,001,600
51 Plant Maintenance and Operations	3,547,542		3,547,542
52 Security and Monitoring Services	23,157		23,157
53 Data Processing Services	75,665		75,665
71 Debt Service	1,652,036		1,652,036
Total Expenses	20,493,005		20,493,005
Change in Net Assets	(62,649)	(346)	(62,995)
Net Assets, Beginning of Year as Restated	1,616,126	2,945,751	4,561,877
Net Assets, End of Year	\$ 1,553,477	\$ 2,945,405	\$ 4,498,882

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF EXCELLENCE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 1,519	\$	\$ 1,519
5750 Revenue from Curricular	1,233,516		1,233,516
Total Local Support	1,235,035		1,235,035
State Program Revenues			
5810 Foundation School Program Act Revenues		23,824,376	23,824,376
5820 State Program Revenues Distributed by Texas Education Agency		204,092	204,092
Total State Program Revenues		24,028,469	24,028,469
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		1,986,609	1,986,609
5940 Federal Revenues Distributed Directly From the Federal Government		406,589	406,589
Total Federal Program Revenues		2,393,198	2,393,198
Net assets released from restrictions:			
Restrictions satisfied by payments	25,975,990	(25,975,990)	
Total Revenues	27,211,025	445,677	27,656,702
EXPENSES			
11 Instruction	12,222,713		12,222,713
12 Instructional Resources and Media Services	183,353		183,353
13 Curriculum Development and Instructional Staff Development	881,359		881,359
23 School Leadership	3,147,388		3,147,388
33 Health Services	12,305		12,305
34 Student (Pupil) Transportation	279,062		279,062
35 Food Service	1,126,724		1,126,724
36 Cocurricular/Extracurricular Activities	781,299		781,299
41 General Administration	1,483,983		1,483,983
51 Plant Maintenance and Operations	5,124,750		5,124,750
52 Security and Monitoring Services	66,409		66,409
53 Data Processing Services	83,016		83,016
71 Debt Service	1,951,107		1,951,107
Total Expenses	27,343,468		27,343,468
Change in Net Assets	(132,444)	445,677	313,234
Net Assets, Beginning of Year as Restated	783,906	368,250	1,152,156
Net Assets, End of Year	\$ 651,463	\$ 813,927	\$ 1,465,390

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - LUBBOCK

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 485	\$	\$ 485
5750 Revenue from Curricular	204,098		204,098
Total Local Support	204,583		204,583
State Program Revenues:			
5810 Foundation School Program Act Revenues		5,449,114	5,449,114
5820 State Program Revenues Distributed by Texas Education Agency		56,319	56,319
Total State Program Revenues		5,505,434	5,505,434
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		706,303	706,303
5940 Federal Revenues Distributed Directly From the Federal Government		111,074	111,074
Total Federal Program Revenues		817,377	817,377
Net assets released from restrictions: Restrictions satisfied by payments	6,078,574	(6,078,574)	
Total Revenues	6,283,157	244,236	6,527,393
EXPENSES			
11 Instruction	3,054,491		3,054,491
12 Instructional Resources and Media Services	23,657		23,657
13 Curriculum Development and Instructional Staff Development	304,454		304,454
23 School Leadership	689,497		689,497
33 Health Services	2,098		2,098
35 Food Service	341,897		341,897
36 Cocurricular/Extracurricular Activities	107,099		107,099
41 General Administration	318,211		318,211
51 Plant Maintenance and Operations	1,005,482		1,005,482
52 Security and Monitoring Services	2,471		2,471
53 Data Processing Services	132,301		132,301
71 Debt Service	302,305		302,305
Total Expenses	6,283,963		6,283,963
Change in Net Assets	(806)	244,236	243,430
Net Assets, Beginning of Year	(27,220)	462,955	435,735
Net Assets, End of Year	\$ (28,026)	\$ 707,191	\$ 679,165

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - WACO

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 162,552	\$	\$ 162,552
5750 Revenue from Curricular	902,878		902,878
Total Local Support	1,065,431		1,065,431
State Program Revenues:			
5810 Foundation School Program Act Revenues		22,022,521	22,022,521
5820 State Program Revenues Distributed by Texas Education Agency		269,085	269,085
Total State Program Revenues		22,291,606	22,291,606
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		2,055,370	2,055,370
5940 Federal Revenues Distributed Directly From the Federal Government		463,149	463,149
Total Federal Program Revenues		2,518,520	2,518,520
Net assets released from restrictions: Restrictions satisfied by payments	22,569,033	(22,569,033)	
Total Revenues	23,634,464	2,241,093	25,875,557
EXPENSES			
11 Instruction	12,169,950		12,169,950
12 Instructional Resources and Media Services	40,851		40,851
13 Curriculum Development and Instructional Staff Development	884,083		884,083
23 School Leadership	2,544,536		2,544,536
33 Health Services	81,724		81,724
35 Food Service	1,054,433		1,054,433
36 Cocurricular/Extracurricular Activities	591,167		591,167
41 General Administration	1,186,912		1,186,912
51 Plant Maintenance and Operations	3,487,775		3,487,775
52 Security and Monitoring Services	28,936		28,936
53 Data Processing Services	197,750		197,750
71 Debt Service	1,299,612		1,299,612
Total Expenses	23,567,729		23,567,729
Change in Net Assets	66,735	2,241,093	2,307,828
Net Assets, Beginning of Year	295,394	2,476,720	2,772,114
Net Assets, End of Year	\$ 362,129	\$ 4,717,813	\$ 5,079,942

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - BROWNSVILLE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 2,353	\$	\$ 2,353
5750 Revenue from Curricular	132,817		132,817
Total Local Support	135,170		135,170
State Program Revenues:			
5810 Foundation School Program Act Revenues		3,184,933	3,184,933
5820 State Program Revenues Distributed by Texas Education Agency		40,294	40,294
Total State Program Revenues		3,225,227	3,225,227
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		487,367	487,367
Total Federal Program Revenues		487,367	487,367
Net assets released from restrictions:			
Restrictions satisfied by payments	3,665,085	(3,665,085)	
Total Revenues	3,800,255	47,509	3,847,764
EXPENSES			
11 Instruction	1,842,522		1,842,522
12 Instructional Resources and Media Services	26,133		26,133
13 Curriculum Development and Instructional Staff Development	153,949		153,949
23 School Leadership	463,364		463,364
33 Health Services	529		529
35 Food Service	158,385		158,385
36 Coextrricular/Extracurricular Activities	92,474		92,474
41 General Administration	240,418		240,418
51 Plant Maintenance and Operations	770,103		770,103
52 Security and Monitoring Services	910		910
53 Data Processing Services	13,523		13,523
71 Debt Service	1,215		1,215
Total Expenses	3,763,525		3,763,525
Change in Net Assets	36,730	47,509	84,239
Net Assets, Beginning of Year	119,221	1,284,518	1,403,739
Net Assets, End of Year	\$ 155,951	\$ 1,332,027	\$ 1,487,978

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF SCIENCE - HOUSTON

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 7	\$	\$ 7
5750 Revenue from Curricular	475,120		475,120
Total Local Support	475,127		475,127
State Program Revenues:			
5810 Foundation School Program Act Revenues		8,128,959	8,128,959
5820 State Program Revenues Distributed by Texas Education Agency		36,576	36,576
Total State Program Revenues		8,165,534	8,165,534
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		534,432	534,432
5940 Federal Revenues Distributed Directly From the Federal Government		287,281	287,281
Total Federal Program Revenues		821,714	821,714
Net assets released from restrictions:			
Restrictions satisfied by payments	8,899,488	(8,899,488)	
Total Revenues	9,374,614	87,761	9,462,375
EXPENSES			
11 Instruction	4,257,736		4,257,736
12 Instructional Resources and Media Services	27		27
13 Curriculum Development and Instructional Staff Development	261,552		261,552
23 School Leadership	705,357		705,357
33 Health Services	3,715		3,715
35 Food Service	446,007		446,007
36 Coextrricular/Extracurricular Activities	264,161		264,161
41 General Administration	474,485		474,485
51 Plant Maintenance and Operations	2,001,963		2,001,963
52 Security and Monitoring Services	19,524		19,524
53 Data Processing Services	86,143		86,143
71 Debt Service	906,514		906,514
Total Expenses	9,427,184		9,427,184
Change in Net Assets	(52,570)	87,761	35,190
Net Assets, Beginning of Year	302,254	912,138	1,214,392
Net Assets, End of Year	\$ 249,684	\$ 999,899	\$ 1,249,583

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - HOUSTON

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2012

Cash Flows From Operating Activities	
Change In Net Assets	\$ 527,607
Adjustments To Reconcile Change In Net Assets To Net	
Cash Provided (Used) By Operating Activities	
Depreciation	2,285,162
(Increase) Decrease in Accounts Receivable	586,356
(Increase) Decrease in Other Receivables	(866,633)
(Increase) Decrease in Prepaids	(55,716)
(Increase) Decrease in Bond Issuance Cost	(754,220)
Increase (Decrease) in Accounts Payable	304,647
Increase (Decrease) in Wages Payable	41,494
Increase (Decrease) in Accrued Liabilities	275,350
Increase (Decrease) in Due to State	139,383
Increase (Decrease) in Interest Payable	41,142
Net Cash Provided (Used) by Operating Activities	<u>2,524,572</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(3,930,840)</u>
Net Cash Provided (Used) by Investing Activities	<u>(3,930,840)</u>
Cash Flows From Financing Activities	
Proceeds From Loans	915,058
Proceeds From Bonds	18,355,194
Repayment of Loans	(2,436,201)
Repayment of Bonds	<u>(298,318)</u>
Net Cash Provided (Used) by Financing Activities	<u>16,535,733</u>
NET INCREASE (DECREASE) IN CASH	15,129,465
CASH AT BEGINNING OF YEAR	<u>4,464,196</u>
CASH AT END OF YEAR	<u>\$ 19,593,661</u>
<u>Supplemental Disclosures</u>	
Cash Paid During the Year for:	
Interest	<u>\$ 3,383,408</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - AUSTIN

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2012

Cash Flows From Operating Activities	
Change In Net Assets	\$ 754,937
Adjustments To Reconcile Change in Net Assets To Net	
Cash Provided (Used) By Operating Activities	
Depreciation	972,594
(Increase) Decrease in Accounts Receivable	(161,929)
(Increase) Decrease in Deposits	(21,581)
(Increase) Decrease in Bond Issuance Cost	9,908
Increase (Decrease) in Accounts Payable	(1,272,887)
Increase (Decrease) in Wages Payable	22,124
Increase (decrease) in Accrued Liabilities	(15,690)
Increase (Decrease) in Interest Payable	<u>13,020</u>
Net Cash Provided (Used) by Operating Activities	<u>300,496</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(2,970,647)</u>
Net Cash Provided (Used) by Investing Activities	<u>(2,970,647)</u>
Cash Flows From Financing Activities	
Proceeds From Loans	93,467
Proceeds From Bonds	435,781
Repayment of Loans	(384,213)
Repayment of Bonds	<u>(5,911)</u>
Net Cash Provided (Used) by Financing Activities	<u>139,124</u>
NET INCREASE (DECREASE) IN CASH	(2,531,027)
CASH AT BEGINNING OF YEAR	<u>7,335,912</u>
CASH AT END OF YEAR	<u>\$ 4,804,885</u>
<u>Supplemental Disclosures</u>	
Cash Paid During the Year for:	
Interest	<u>\$ 1,118,147</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - SAN ANTONIO

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2012

Cash Flows From Operating Activities	
Change In Net Assets	\$ (45,086)
Adjustments To Reconcile Change In Net Assets To Net	
Cash Provided (Used) By Operating Activities	
Depreciation	843,424
(Increase) Decrease in Accounts Receivable	(174,229)
(Increase) Decrease in Other Receivables	17,203
(Increase) Decrease in Deposits	(23,750)
(Increase) Decrease in Bond Issuance Cost	21,172
Net Assets Transferred in from Laredo	2,469,710
Increase (Decrease) in Accounts Payable	169,819
Increase (Decrease) in Wages Payable	93,293
Increase (Decrease) in Due to State	45,993
Increase (Decrease) in Accrued Liabilities	(6,951)
Increase (Decrease) in Interest Payable	16,625
Net Cash Provided (Used) by Operating Activities	<u>3,427,223</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(590,989)</u>
Net Cash Provided (Used) by Investing Activities	<u>(590,989)</u>
Cash Flows From Financing Activities	
Proceeds From Loans	1,070,223
Proceeds From Bonds	706,521
Repayment of Loans	(1,291,056)
Repayment of Bonds	<u>(168,615)</u>
Net Cash Provided (Used) by Financing Activities	<u>317,073</u>
NET INCREASE (DECREASE) IN CASH	3,153,307
CASH AT BEGINNING OF YEAR	<u>1,267,717</u>
CASH AT END OF YEAR	<u>\$ 4,421,024</u>
<u>Supplemental Disclosures</u>	
Cash Paid During the Year for:	
Interest	<u>\$ 1,281,547</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - EL PASO

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2012

Cash Flows From Operating Activities	
Change In Net Assets	\$ 1,261,137
Adjustment To Reconcile Change in Net Assets To Net	
Cash Provided (Used) By Operating Activities	
Depreciation	713,686
(Increase) Decrease in Accounts Receivable	(32,696)
(Increase) Decrease in Other Receivables	(116,574)
(Increase) Decrease in Bond Issuance Cost	474
Increase (Decrease) in Accounts Payable	(317,461)
Increase (Decrease) in Wages Payable	66,109
Increase (Decrease) in Accrued Liabilities	(146,139)
Increase (Decrease) in Interest Payable	<u>(7,782)</u>
Net Cash Provided (Used) by Operating Activities	<u>1,420,754</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(2,754,906)</u>
Net Cash Provided (Used) by Investing Activities	<u>(2,754,906)</u>
Cash Flows From Financing Activities	
Proceeds From Bonds	444,875
Repayment of Loans	<u>(66,649)</u>
Net Cash Provided (Used) by Financing Activities	<u>378,226</u>
NET INCREASE (DECREASE) IN CASH	(955,926)
CASH AT BEGINNING OF YEAR	<u>8,702,562</u>
CASH AT END OF YEAR	<u>\$ 7,746,636</u>
<u>Supplemental Disclosures</u>	
Cash Paid During the Year for:	
Interest	<u>\$ 674,232</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - FORT WORTH

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2012

Cash Flows From Operating Activities	
Change In Net Assets	\$ (62,995)
Adjustments To Reconcile Change In Net Assets To Net	
Cash Provided (Used) By Operating Activities	
Depreciation	988,588
(Increase) Decrease in Accounts Receivable	(429,337)
(Increase) Decrease in Other Receivables	(2,860)
(Increase) Decrease in Bond Issuance Cost	41,486
Increase (Decrease) in Accounts Payable	1,667,969
Increase (Decrease) in Wages Payable	133,349
Increase (Decrease) in Accrued Liabilities	11,403
Increase (Decrease) in Interest Payable	56,736
Net Cash Provided (Used) by Operating Activities	<u>2,404,339</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(8,637,601)</u>
Net Cash Provided (Used) by Investing Activities	<u>(8,637,601)</u>
Cash Flows From Financing Activities	
Proceeds From Loans	232,417
Proceeds From Bonds	5,010,525
Repayment of Loans	(475,392)
Repayment of Bonds	<u>(136,613)</u>
Net Cash Provided (Used) by Financing Activities	<u>4,630,937</u>
NET INCREASE (DECREASE) IN CASH	(1,602,325)
CASH AT BEGINNING OF YEAR	<u>9,764,692</u>
CASH AT END OF YEAR	<u>\$ 8,162,367</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	<u>\$ 1,652,036</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HOUSTON SCHOOL OF EXCELLENCE

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2012

Cash Flows From Operating Activities	
Change In Net Assets	\$ 313,234
Adjustment To Reconcile Change In Net Assets To Net	
Cash Provided (Used) By Operating Activities	
Depreciation	1,907,772
(Increase) Decrease in Accounts Receivable	(110,873)
(Increase) Decrease in Other Receivables	(2,200)
(Increase) Decrease in Bond Issuance Cost	20,250
Increase (Decrease) in Accounts Payable	(544,145)
Increase (Decrease) in Wages Payable	10,903
Increase (Decrease) in Accrued Liabilities	842,863
Increase (Decrease) in Interest Payable	<u>14,680</u>
Net Cash Provided (Used) by Operating Activities	<u>2,452,484</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(2,134,247)</u>
Net Cash Provided (Used) by Investing Activities	<u>(2,134,247)</u>
Cash Flows From Financing Activities	
Proceeds From Loans	1,520,703
Proceeds From Bonds	5,105,638
Repayment of Capital Leases	(17,061)
Repayment of Loans	(1,885,508)
Repayment of Bonds	<u>(69,313)</u>
Net Cash Provided (Used) by Financing Activities	<u>4,654,459</u>
NET INCREASE (DECREASE) IN CASH	4,972,696
CASH AT BEGINNING OF YEAR	<u>3,524,780</u>
CASH AT END OF YEAR	<u>\$ 8,497,476</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	<u>\$ 1,951,107</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - LUBBOCK

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2012

Cash Flows From Operating Activities	
Change In Net Assets	\$ 243,430
Adjustment To Reconcile Change In Net Assets To Net	
Cash Provided (Used) By Operating Activities	
Depreciation	436,285
(Increase) Decrease in Accounts Receivable	47,942
(Increase) Decrease in Bond Issuance Cost	7,646
Increase (Decrease) in Accounts Payable	(75,633)
Increase (Decrease) in Wages Payable	17,405
Increase (Decrease) in Accrued Liabilities	481
Increase (Decrease) in Interest Payable	<u>1,355</u>
Net Cash Provided (Used) by Operating Activities	<u>678,911</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(34,170)</u>
Net Cash Provided (Used) by Investing Activities	<u>(34,170)</u>
Cash Flows From Financing Activities	
Repayment of Bonds	<u>(35,371)</u>
Net Cash Provided (Used) by Financing Activities	<u>(35,371)</u>
NET INCREASE (DECREASE) IN CASH	609,370
CASH AT THE BEGINNING OF THE YEAR	<u>734,384</u>
CASH AT END OF YEAR	<u>\$ 1,343,754</u>

Supplemental Disclosures

Cash Paid During the Year for:	
Interest	<u>\$ 302,305</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - WACO

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2012

Cash Flows From Operating Activities	
Change In Net Assets	\$ 2,307,828
Adjustments To Reconcile Change In Net Assets To Net	
Cash Provided (Used) By Operating Activities	
Depreciation	1,733,615
(Increase) Decrease in Accounts Receivable	(770,034)
(Increase) Decrease in Other Receivables	(19,969)
(Increase) Decrease in Deposits	(134,352)
(Increase) Decrease in Bond Issuance Cost	6,015
Increase (Decrease) in Accounts Payable	2,212,640
Increase (Decrease) in Wages Payable	84,172
Increase (Decrease) in Accrued Liabilities	(31,985)
Increase (Decrease) in Interest Payable	<u>43,834</u>
Net Cash Provided (Used) by Operating Activities	<u>5,431,764</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(11,516,077)</u>
Net Cash Provided (Used) by Investing Activities	<u>(11,516,077)</u>
Cash Flows From Financing Activities	
Proceeds From Loans	252,786
Proceeds From Bonds	1,405,951
Repayment of Capital Leases	(7,748)
Repayment of Loans	(129,040)
Repayment of Bonds	<u>(114,027)</u>
Net Cash Provided (Used) by Financing Activities	<u>1,407,922</u>
NET INCREASE (DECREASE) IN CASH	(4,676,391)
CASH AT THE BEGINNING OF THE YEAR	<u>13,402,300</u>
CASH AT END OF YEAR	<u>\$ 8,725,909</u>

Supplemental Disclosures

Cash Paid During the Year for:	
Interest	<u>\$ 1,299,612</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - BROWNSVILLE

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2012

Cash Flows From Operating Activities	
Change In Net Assets	\$ 84,239
Adjustments To Reconcile Change In Net Assets To Net	
Cash Provided (Used) By Operating Activities	
Depreciation	95,377
(Increase) Decrease in Accounts Receivable	(8,220)
Increase (Decrease) in Accounts Payable	17,705
Increase (Decrease) in Wages Payable	13,128
Increase (Decrease) in Interest Payable	<u>120</u>
Net Cash Provided (Used) by Operating Activities	<u>202,349</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(12,937)</u>
Net Cash Provided (Used) by Investing Activities	<u>(12,937)</u>
NET INCREASE (DECREASE) IN CASH	189,412
CASH AT THE BEGINNING OF YEAR	<u>981,441</u>
CASH AT END OF YEAR	<u>\$ 1,170,853</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF SCIENCE - HOUSTON

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2012

Cash Flows From Operating Activities	
Change In Net Assets	\$ 35,190
Adjustments To Reconcile Change In Net Assets To Net	
Cash Provided (Used) By Operating Activities	
Depreciation	765,412
(Increase) Decrease in Accounts Receivable	(44,632)
(Increase) Decrease in Bond Issuance Cost	12,554
Increase (Decrease) in Accounts Payable	(868,202)
Increase (Decrease) in Wages Payable	71,070
Increase (Decrease) in Other Liabilities	5,605
Increase (Decrease) in Interest Payable	<u>6,578</u>
Net Cash Provided (Used) by Operating Activities	<u>(16,425)</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(398,921)</u>
Net Cash Provided (Used) by Investing Activities	<u>(398,921)</u>
Cash Flows From Financing Activities	
Proceeds From Loans	130,861
Proceeds From Bonds	318,819
Repayment of Loans	(286,019)
Repayment of Bonds	<u>(21,021)</u>
Net Cash Provided (Used) by Financing Activities	<u>142,640</u>
NET INCREASE (DECREASE) IN CASH	(272,706)
CASH AT BEGINNING OF YEAR	<u>2,840,056</u>
CASH AT END OF YEAR	<u>\$ 2,567,350</u>

Supplemental Disclosures

Cash Paid During the Year for:	
Interest	<u>\$ 906,250</u>

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - HOUSTON

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2012

Expenses	
6100 Payroll Costs	\$ 18,977,453
6200 Professional and Contracted Services	9,245,247
6300 Supplies and Materials	2,876,872
6400 Other Operating Costs	5,797,024
6500 Debt	<u>3,523,793</u>
Total Expenses	<u>\$ 40,420,389</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - AUSTIN

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2012

Expenses	
6100 Payroll Costs	\$ 10,248,382
6200 Professional and Contracted Services	6,054,170
6300 Supplies and Materials	1,775,205
6400 Other Operating Costs	1,640,881
6500 Debt	<u>1,128,300</u>
Total Expenses	<u>\$ 20,846,938</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - SAN ANTONIO

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2012

Expenses	
6100 Payroll Costs	\$ 5,483,922
6200 Professional and Contracted Services	2,350,581
6300 Supplies and Materials	736,859
6400 Other Operating Costs	1,004,577
6500 Debt	<u>1,308,408</u>
Total Expenses	<u>\$ 10,884,347</u>

See accompanying notes to financial statements.
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HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - EL PASO

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2012

Expenses	
6100 Payroll Costs	\$ 6,617,342
6200 Professional and Contracted Services	4,087,355
6300 Supplies and Materials	1,140,575
6400 Other Operating Costs	1,477,758
6500 Debt	<u>674,705</u>
Total Expenses	<u>\$ 13,997,735</u>

See accompanying notes to financial statements.
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HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - FORT WORTH

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2012

Expenses	
6100 Payroll Costs	\$ 9,925,185
6200 Professional and Contracted Services	5,058,406
6300 Supplies and Materials	2,145,764
6400 Other Operating Costs	1,664,468
6500 Debt	<u>1,699,182</u>
Total Expenses	<u>\$ 20,493,005</u>

See accompanying notes to financial statements.
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HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF EXCELLENCE

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2012

Expenses	
6100 Payroll Costs	\$ 12,861,238
6200 Professional and Contracted Services	7,320,858
6300 Supplies and Materials	2,295,706
6400 Other Operating Costs	2,892,468
6500 Debt	<u>1,973,198</u>
Total Expenses	<u>\$ 27,343,468</u>

See accompanying notes to financial statements.
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HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - LUBBOCK

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2012

Expenses	
6100 Payroll Costs	\$ 3,108,963
6200 Professional and Contracted Services	1,580,625
6300 Supplies and Materials	492,952
6400 Other Operating Costs	790,328
6500 Debt	<u>311,095</u>
Total Expenses	<u>\$ 6,283,963</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - WACO

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2012

Expenses	
6100 Payroll Costs	\$ 11,982,376
6200 Professional and Contracted Services	5,390,245
6300 Supplies and Materials	2,297,753
6400 Other Operating Costs	2,591,180
6500 Debt	<u>1,306,175</u>
Total Expenses	<u>\$ 23,567,729</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - BROWNSVILLE

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2012

Expenses	
6100 Payroll Costs	\$ 1,954,950
6200 Professional and Contracted Services	1,225,730
6300 Supplies and Materials	308,290
6400 Other Operating Costs	273,340
6500 Debt	<u>1,215</u>
Total Expenses	<u>\$ 3,763,525</u>

See accompanying notes to financial statements.
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HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF SCIENCE - HOUSTON

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2012

Expenses	
6100 Payroll Costs	\$ 4,067,482
6200 Professional and Contracted Services	2,536,417
6300 Supplies and Materials	921,972
6400 Other Operating Costs	981,375
6500 Debt	<u>919,938</u>
Total Expenses	<u>\$ 9,427,184</u>

See accompanying notes to financial statements.
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HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - HOUSTON

SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED AUGUST 31, 2012

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 270,053	\$ 19,323,608	\$
1510 Land and Improvements		6,223,837	
1520 Buildings and Improvements		51,695,739	
1539 Furniture and Equipment		3,536,162	35,675
Total Property and Equipment	<u>\$</u>	<u>\$ 80,779,347</u>	<u>\$</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - AUSTIN

SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED AUGUST 31, 2012

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 4,804,885	\$
1510 Land and Improvements:		2,129,350	
1520 Buildings and Improvements:		18,001,868	
1539 Furniture and Equipment		1,703,094	7,133
Total Property and Equipment	<u>\$</u>	<u>\$ 26,639,197</u>	<u>\$ 7,133</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - SAN ANTONIO

SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED AUGUST 31, 2012

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 4,421,024	\$
1510 Land and Improvements:		1,718,271	
1520 Buildings and Improvements		19,369,982	
1539 Furniture and Equipment		1,276,001	
Total Property and Equipment	<u>\$</u>	<u>\$26,785,278</u>	<u>\$</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - EL PASO

SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED AUGUST 31, 2012

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 164,800	\$ 7,581,836	\$
1510 Land and Improvements:		1,790,950	
1520 Buildings and Improvements:		13,075,189	37,650
1539 Furniture and Equipment		570,444	23,837
Total Property and Equipment	<u>\$ 164,800</u>	<u>\$23,018,419</u>	<u>\$ 61,487</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY • FORT WORTH

SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED AUGUST 31, 2012

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 8,162,367	\$
1510 Land and Improvements:		2,944,614	
1520 Buildings and Improvements		31,558,404	
1539 Furniture and Equipment	20,495	1,915,093	6,661
Total Property and Equipment	<u>\$ 20,495</u>	<u>\$ 44,580,478</u>	<u>\$ 6,661</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF EXCELLENCE

SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED AUGUST 31, 2012

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 354,248	\$ 8,143,228	\$
1510 Land		3,995,277	
1520 Buildings and Improvements	39,850	28,687,176	
1539 Furniture and Equipment		2,607,710	26,001
Total Property and Equipment	<u>\$ 394,098</u>	<u>\$43,433,391</u>	<u>\$ 26,001</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - LUBBOCK

SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED AUGUST 31, 2012

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 1,343,754	\$
1510 Land		154,893	
1520 Buildings and Improvements		4,573,437	
1539 Furniture and Equipment		529,513	
Total Property and Equipment	<u>\$</u>	<u>\$ 6,601,597</u>	<u>\$</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - WACO

SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED AUGUST 31, 2012

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 368,411	\$ 8,357,498	\$
1510 Land and Improvements:		8,828,501	
1520 Buildings and Improvements		28,657,706	
1539 Furniture and Equipment		2,182,160	16,729
Total Property and Equipment	<u>\$ 368,411</u>	<u>\$ 48,025,865</u>	<u>\$ 16,729</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - BROWNSVILLE

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2012

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 1,170,853	\$
1520 Buildings and Improvements		379,476	
1539 Furniture and Equipment		107,749	
Total Property and Equipment	<u>\$</u>	<u>\$ 1,658,078</u>	<u>\$</u>

See accompanying notes to financial statements.
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HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF SCIENCE - HOUSTON

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2012

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 2,567,350	\$
1510 Land and Improvements:		1,087,500	
1520 Buildings and Improvements		13,802,178	
1539 Furniture and Equipment		573,882	
Total Property and Equipment	<u>\$</u>	<u>\$ 18,030,911</u>	<u>\$</u>

See accompanying notes to financial statements.
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HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - HOUSTON
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2012

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - AUSTIN
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2012

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	from Final Budget
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$13,171,300	\$12,931,000	\$12,922,477	\$ (8,523)
5750 Food Service Sales	398,000	1,103,000	1,074,146	(28,854)
Total Local Support	13,569,300	14,034,000	13,996,624	(37,376)
State Program Revenues:				
5810 Foundation School Program Act Revenues	23,442,236	24,005,567	23,060,759	(944,808)
5820 State Program Revenues Distributed by				
Texas Education Agency		200,000	201,279	1,279
Total State Program Revenues	23,442,236	24,205,567	23,262,038	(943,529)
Federal Program Revenues:				
5920 Federal Revenues Distributed by				
Texas Education Agency	2,663,184	3,240,377	2,906,054	(334,323)
5940 Federal Revenues Distributed Directly				
From the Federal Government	610,903	785,637	783,280	(2,357)
Total Federal Program Revenues	3,274,087	4,026,014	3,689,334	(336,680)
Total Revenues	40,285,623	42,265,581	40,947,996	(1,317,585)
EXPENSES				
11 Instruction	13,542,704	14,668,870	13,618,075	1,050,795
12 Instructional Resources and Media Services	272,415	60,972	57,757	3,215
13 Curriculum Development and Instructional				
Staff Development	499,046	3,907,749	3,981,269	(73,520)
21 Instructional Leadership	2,119,764	617,041	609,950	7,091
23 School Leadership	2,069,693	2,652,666	2,651,629	1,037
33 Health Services	165,406	57,576	53,153	4,423
34 Student (Pupil) Transportation		136,000	139,320	(3,320)
35 Food Service	1,011	1,350,500	1,357,278	(6,778)
36 Cocurricular/Extracurricular Activities	195,000	800,500	808,493	(7,993)
41 General Administration	10,407,642	7,552,527	7,028,774	523,753
51 Plant Maintenance and Operations	5,502,005	6,221,291	6,188,762	32,529
52 Security and Monitoring Services	230,544	185,359	184,506	853
53 Data Processing Services	373,605	433,946	358,015	75,931
71 Debt Service	3,130,524	3,457,068	3,383,408	73,660
Total Expenses	38,509,359	42,102,065	40,420,389	1,681,676
Change in Net Assets	1,776,264	163,516	527,607	364,091
Net Assets, Beginning of Year as Restated	7,758,990	7,758,990	7,758,990	
Net Assets, End of Year	\$ 9,535,254	\$ 7,922,506	\$ 8,286,596	\$ 364,091

See accompanying notes to financial statements.

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	from Final Budget
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 13,500	\$ 4,999	\$ 4,988	\$ (11)
5750 Food Service Sales	516,600	778,612	774,764	(3,848)
Total Local Support	530,100	783,611	779,752	(3,859)
State Program Revenues:				
5810 Foundation School Program Act Revenues	17,567,099	18,447,748	18,654,327	206,579
5820 State Program Revenues Distributed by				
Texas Education Agency		184,100	176,934	(7,166)
5830 State Revenues From State of Texas				
Total State Program Revenues	17,567,099	18,631,848	18,831,261	199,413
Federal Program Revenues:				
5920 Federal Revenues Distributed by				
Texas Education Agency	1,552,708	1,645,007	1,615,522	(29,485)
5940 Federal Revenues Distributed Directly				
From the Federal Government	287,913	375,339	375,339	
Total Federal Program Revenues	1,840,621	2,020,346	1,990,862	(29,484)
Total Revenues	19,937,820	21,435,805	21,601,874	166,069
EXPENSES				
11 Instruction	10,234,757	10,739,254	10,496,828	242,426
12 Instructional Resources and Media Services	132,796	21,884	20,146	1,738
13 Curriculum Development and Instructional				
Staff Development	219,042	652,967	649,454	3,513
23 School Leadership	1,599,685	1,953,797	1,937,459	16,338
33 Health Services	112,201	4,134	3,898	236
34 Student (Pupil) Transportation	80,000	96,310	90,282	6,028
35 Food Service	636,600	713,025	699,353	13,672
36 Cocurricular/Extracurricular Activities	380,000	426,607	425,537	1,070
41 General Administration	1,959,785	1,127,382	1,053,045	74,337
51 Plant Maintenance and Operations	3,929,935	4,217,869	4,091,896	125,973
52 Security and Monitoring Services	28,550	23,140	23,097	43
53 Data Processing Services	3,000	219,110	237,796	(18,686)
71 Debt Service	586,253	1,120,660	1,118,147	2,513
Total Expenses	19,902,604	21,316,139	20,846,938	469,201
Change in Net Assets	35,216	119,666	754,937	635,271
Net Assets, Beginning of Year	2,747,731	2,747,731	2,747,731	
Net Assets, End of Year	\$ 2,782,947	\$ 2,867,397	\$ 3,502,668	\$ 635,271

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - SAN ANTONIO

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2012

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 18,016	\$ 2	\$ 2	\$
5750 Revenue from Curricular	209,000	302,750	333,840	31,090
5760 Revenues from Intermediate Services			9,999,999	9,999,999
Total Local Support	227,016	302,752	333,841	31,090
State Program Revenues:				
5810 Foundation School Program Act Revenues	8,491,614	9,250,000	9,298,263	48,263
Texas Education Agency	1,700	71,051	71,051	
Total State Program Revenues	8,493,314	9,321,051	9,369,314	48,263
Federal Program Revenues:				
5920 Federal Revenues Distributed by				
Texas Education Agency	754,944	805,373	843,510	38,137
5940 Federal Revenues Distributed Directly				
From Federal Government	292,596	292,596	292,596	
Total Federal Program Revenues	1,047,540	1,097,969	1,136,106	38,137
Total Revenues	9,767,870	10,721,772	10,839,261	117,489
EXPENSES				
11 Instruction	4,812,984	4,973,535	5,391,614	(418,079)
12 Instructional Resources and Media Services	94,604	27,473	24,679	2,794
13 Curriculum Development and Instructional				
Staff Development	135,090	454,000	454,446	(446)
23 School Leadership	830,449	980,000	971,733	8,267
33 Health Services	34,031	4,240	4,106	134
35 Food Service	300,500	474,988	491,472	(16,484)
36 Cocurricular/ Extracurricular Activities	129,000	166,433	175,106	(8,673)
41 General Administration	1,075,024	500,000	499,452	548
51 Plant Maintenance and Operations	897,000	1,500,000	1,513,456	(13,456)
52 Security and Monitoring Services	20,000	7,616	8,111	(495)
53 Data Processing Services	9,700	61,310	66,760	(5,450)
71 Debt Service	1,265,000	1,245,330	1,283,413	(38,083)
Total Expenses	9,603,382	10,394,925	10,884,347	(489,422)
Change in Net Assets	164,488	326,847	(45,086)	(371,933)
Net Assets, Beginning of Year	2,002,027	2,002,027	2,002,027	
Net Assets Transferred In From Laredo	2,469,710	2,469,710	2,469,710	
Net Assets, End of Year	\$ 4,636,225	\$ 4,798,584	\$ 4,426,651	\$ (371,933)

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - EL PASO

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2012

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 3,600	\$ 64,608	\$ 55,494	\$ (9,114)
5750 Food Service Sales	267,992	663,709	663,709	
Total Local Support	271,592	728,317	719,203	(9,114)
State Program Revenues:				
5810 Foundation School Program Act Revenues	11,741,074	12,146,795	12,818,245	671,450
5820 State Program Revenues Distributed by				
Texas Education Agency		85,487	85,487	
Total State Program Revenues	11,741,074	12,232,282	12,903,732	671,450
Federal Program Revenues:				
5920 Federal Revenues Distributed by				
Texas Education Agency	1,199,901	1,391,920	1,391,920	
5940 Federal Revenues Distributed Directly				
From the Federal Government		244,500	244,016	(484)
Total Federal Program Revenues	1,199,901	1,636,420	1,635,937	(483)
Total Revenues	13,212,567	14,597,019	15,258,872	661,853
EXPENSES				
11 Instruction	6,512,864	6,330,343	6,530,343	(200,000)
12 Instructional Resources and Media Services	108,612	25,959	27,411	(1,452)
13 Curriculum Development and Instructional				
Staff Development	245,162	473,256	473,256	
23 School Leadership	965,761	1,457,892	1,407,769	50,123
33 Health Services	87,057	4,672	4,672	
35 Food Service	455,000	495,621	512,544	(16,923)
36 Cocurricular/Extracurricular Activities	172,992	447,296	447,502	(206)
41 General Administration	1,320,816	794,384	806,014	(11,630)
51 Plant Maintenance and Operations	2,536,500	3,021,917	2,979,808	42,109
52 Security and Monitoring Services	40,500	19,829	21,344	(1,515)
53 Data Processing Services	24,000	112,841	112,841	
71 Debt Services	56,690	669,501	674,232	(4,731)
Total Expenses	12,525,954	13,853,512	13,997,735	(144,224)
Change in Net Assets	686,613	743,508	1,261,137	517,629
Net Asset, Beginning of Year	4,916,032	4,916,032	4,916,032	
Net Assets, End of Year	\$ 5,602,645	\$ 5,659,540	\$ 6,177,169	\$ 517,629

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - FORT WORTH
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2012

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF EXCELLENCE
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2012

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	from Final Budget
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 4,800	\$ 1,025	\$ 991	\$ (34)
5750 Revenue from Curricular	512,000	783,710	772,348	(11,362)
Total Local Support	516,800	784,735	773,339	(11,396)
State Program Revenues:				
5810 Foundation School Program Act Revenues	16,107,649	16,732,696	17,314,988	582,292
5820 State Program Revenues Distributed by Texas Education Agency		138,110	138,084	(26)
Total State Program Revenues	16,107,649	16,870,806	17,453,072	582,266
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	1,390,013	1,448,978	1,420,080	(28,898)
5940 Federal Revenues Distributed Directly From the Federal Government	290,955	997,267	783,519	(213,748)
Total Federal Program Revenues	1,680,968	2,446,245	2,203,599	(242,646)
Total Revenues	18,305,417	20,101,786	20,430,010	328,224
EXPENSES				
11 Instruction	8,714,324	10,060,299	10,350,996	(290,697)
12 Instructional Resources and Media Services	139,294	9,510	9,270	240
13 Curriculum Development and Instructional Staff Development	306,329	853,048	790,704	62,344
23 School Leadership	1,500,016	1,888,422	1,840,128	48,294
33 Health Services	160,089	43,434	41,006	2,429
35 Food Service	515,000	692,000	644,824	47,176
36 Cocurricular/Extracurricular Activities	352,000	506,351	516,078	(9,727)
41 General Administration	1,779,011	983,919	1,001,600	(17,681)
51 Plant Maintenance and Operations	3,089,756	3,695,405	3,547,542	147,863
52 Security and Monitoring Services	56,500	23,742	23,157	585
53 Data Processing Services	23,000	70,350	75,665	(5,315)
71 Debt Service	1,399,144	1,723,144	1,652,036	71,108
Total Expenses	18,034,463	20,549,624	20,493,005	56,619
Change in Net Assets	270,954	(447,838)	(62,995)	384,843
Net Assets, Beginning of Year as Restated	4,561,877	4,561,877	4,561,877	
Net Assets, End of Year	\$ 4,832,831	\$ 4,114,039	\$ 4,498,882	\$ 384,843

See accompanying notes to financial statements.

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	from Final Budget
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 54,515	\$ 1,612	\$ 1,519	\$ (93)
5750 Revenues from Curricular	768,714	1,256,473	1,233,516	(22,957)
Total Local Support	823,229	1,258,085	1,235,035	(23,050)
State Program Revenues:				
5810 Foundation School Program Act Revenues	22,214,232	23,874,376	23,824,376	(50,000)
5820 State Program Revenues Distributed by Texas Education Agency		204,608	204,092	(516)
Total State Program Revenues	22,214,232	24,078,984	24,028,469	(50,515)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	1,908,135	2,079,030	1,986,609	(92,421)
5940 Federal Revenues Distributed Directly From the Federal Government	406,589	410,494	406,589	(3,905)
Total Federal Program Revenues	2,314,724	2,489,524	2,393,198	(96,326)
Total Revenues	25,352,185	27,826,593	27,656,702	(169,891)
EXPENSES				
11 Instruction	12,434,765	12,449,583	12,222,713	226,870
12 Instructional Resources and Media Services	282,776	194,820	183,353	11,467
13 Curriculum Development and Instructional Staff Development	342,085	886,213	881,359	4,854
23 School Leadership	1,985,293	3,209,546	3,147,388	62,158
33 Health Services	161,558	13,006	12,305	701
34 Student (Pupil) Transportation		289,062	279,062	10,000
35 Food Service	682,000	1,186,724	1,126,724	60,000
36 Cocurricular/Extracurricular Activities	575,000	781,419	781,299	120
41 General Administration	2,378,897	1,567,638	1,483,983	83,655
51 Plant Maintenance and Operations	4,436,000	5,302,404	5,124,750	177,654
52 Security and Monitoring Services	71,950	66,908	66,409	499
53 Data Processing Services	43,500	83,178	83,016	162
71 Debt Service	1,873,979	1,963,980	1,951,107	12,873
Total Expenses	25,267,803	27,994,481	27,343,468	651,013
Change in Net Assets	84,382	(167,888)	313,234	481,122
Net Assets, Beginning of Year as Restated	1,152,156	1,152,156	1,152,156	
Net Assets, End of Year	\$ 1,236,538	\$ 984,268	\$ 1,465,390	\$ 481,122

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - LUBBOCK
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2012

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 2,400	\$ 511	\$ 485	\$ (26)
5750 Revenue from Curricular	8,000	205,000	204,098	(902)
Total Local Support	10,400	205,511	204,583	(928)
State Program Revenues:				
5810 Foundation School Program Act Revenues	5,837,617	5,696,654	5,449,114	(247,540)
5820 State Program Revenues Distributed by Texas Education Agency		55,000	56,319	1,319
Total State Program Revenues	5,837,617	5,751,654	5,505,434	(246,220)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	617,770	697,976	706,303	8,327
5940 Federal Revenues Distributed Directly From the Federal Government	82,666	111,074	111,074	
Total Federal Program Revenues	700,436	809,050	817,377	8,327
Total Revenues	6,548,453	6,766,215	6,527,393	(238,822)
EXPENSES				
11 Instruction	3,299,565	3,262,763	3,054,491	208,272
12 Instructional Resources and Media Services	40,037	22,184	23,657	(1,473)
13 Curriculum Development and Instructional Staff Development	169,002	324,258	304,454	19,804
23 School Leadership	437,387	727,835	689,497	38,338
33 Health Services	71,642	2,300	2,098	202
35 Food Service	308,000	350,400	341,897	8,503
36 Cocurricular/Extracurricular Activities		110,000	107,099	2,901
41 General Administration	777,768	312,437	318,211	(5,774)
51 Plant Maintenance and Operations	965,780	1,063,080	1,005,482	57,598
52 Security and Monitoring Services	11,500	2,550	2,471	80
53 Data Processing Services	20,000	125,000	132,301	(7,301)
71 Debt Service	288,211	302,305	302,305	
Total Expenses	6,388,892	6,605,112	6,283,963	321,149
Change in Net Assets	159,561	161,103	243,430	82,327
Net Assets, Beginning of Year	435,735	435,735	435,735	
Net Assets, End of Year	\$ 595,296	\$ 596,837	\$ 679,165	\$ 82,327

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - WACO
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2012

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 83,800	\$ 159,621	\$ 162,552	\$ 2,931
5750 Revenue from Curricular	103,000	902,878	902,878	
Total Local Support	186,800	1,062,499	1,065,431	2,931
State Program Revenues:				
5810 Foundation School Program Act Revenues	20,272,453	22,004,592	22,022,521	17,929
5820 State Program Revenues Distributed by Texas Education Agency		277,024	269,085	(7,939)
Total State Program Revenues	20,272,453	22,281,616	22,291,606	9,990
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	2,029,024	2,117,311	2,055,370	(61,941)
5940 Federal Revenues Distributed Directly From the Federal Government		462,728	463,149	421
Total Federal Program Revenues	2,029,024	2,580,039	2,518,520	(61,519)
Total Revenues	22,488,277	25,924,154	25,875,557	(48,598)
EXPENSES				
11 Instruction	12,050,149	12,421,355	12,169,950	251,405
12 Instructional Resources and Media Services	188,019	40,851	40,851	
13 Curriculum Development and Instructional Staff Development	477,971	895,164	884,083	11,081
23 School Leadership	2,106,783	2,555,663	2,544,536	11,127
33 Health Services	124,617	84,879	81,724	3,155
35 Food Service	750,175	1,074,010	1,054,433	19,577
36 Cocurricular/ Extracurricular Activities		591,167	591,167	
41 General Administration	2,171,518	1,222,529	1,186,912	35,617
51 Plant Maintenance and Operations	2,929,570	3,637,922	3,487,775	150,147
52 Security and Monitoring Services	29,200	28,942	28,936	6
53 Data Processing Services	50,000	197,750	197,750	
71 Debt Services	876,292	1,303,363	1,299,612	3,751
Total Expenses	21,754,294	24,053,595	23,567,729	485,866
Change in Net Assets	733,983	1,870,559	2,307,828	437,269
Net Assets, Beginning of Year	2,772,114	2,772,114	2,772,114	
Net Assets, End of Year	\$ 3,506,097	\$ 4,642,673	\$ 5,079,942	\$ 437,269

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - BROWNSVILLE

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2012

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 3,100	\$ 2,408	\$ 2,353	\$ (55)
5750 Revenue from Curricular	136,000	139,168	132,817	(6,351)
Total Local Support	139,100	141,576	135,170	(6,406)
State Program Revenues:				
5810 Foundation School Program Act Revenues	3,248,829	3,179,304	3,184,933	5,629
5820 State Program Revenues Distributed by Texas Education Agency		41,421	40,294	(1,127)
Total State Program Revenues	3,248,829	3,220,725	3,225,227	4,502
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	227,283	509,461	487,367	(22,094)
Total Federal Program Revenues	227,283	509,461	487,367	(22,094)
Total Revenues	3,615,212	3,871,762	3,847,764	(23,998)
EXPENSES				
11 Instruction	1,720,924	1,720,924	1,842,522	(121,598)
12 Instructional Resources and media Services	32,090	26,252	26,133	119
13 Curriculum Development and Instructional Staff Development	51,048	157,825	153,949	3,876
23 School Leadership	391,048	464,145	463,364	781
33 Health Services	33,304	538	529	9
35 Food Service	135,000	152,405	158,385	(5,980)
36 Cocurricular / Extracurricular Activities	110,000	93,467	92,474	993
41 General Administration	338,018	252,911	240,418	12,493
51 Plant Maintenance and Operations	764,505	777,860	770,103	7,757
52 Security and Monitoring Services	3,160	927	910	17
53 Data Processing Services	2,500	13,643	13,523	120
71 Debt Service		1,215	1,215	
Total Expenses	3,581,597	3,662,112	3,763,525	(101,413)
Change in Net Assets	33,615	209,650	84,239	(125,411)
Net Assets, Beginning of Year	1,403,739	1,403,739	1,403,739	
Net Assets, End of Year	\$ 1,437,354	\$ 1,613,389	\$ 1,487,978	\$ (125,411)

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF SCIENCE - HOUSTON

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2012

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 4,620	\$ 7	\$ 7	\$
5750 Revenue from Curricular	298,000	470,000	475,120	5,120
Total Local Support	302,620	470,007	475,127	5,120
State Program Revenues:				
5810 Foundation School Program Act Revenues	7,687,102	8,384,217	8,128,959	(255,258)
5820 State Program Revenues Distributed by Texas Education Agency		36,482	36,576	94
Total State Program Revenues	7,687,102	8,420,699	8,165,534	(255,165)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	549,067	550,225	534,432	(15,793)
5940 Federal Revenues Distributed Directly From the Federal Government	287,281	287,281	287,281	
Total Federal Program Revenues	836,348	837,506	821,714	(15,792)
Total Revenues	8,826,070	9,728,212	9,462,375	(265,837)
EXPENSES				
11 Instruction	4,307,379	4,704,241	4,257,736	446,505
12 Instructional Resources and Media Services	50,461	27	27	
13 Curriculum Development and Instructional Staff Development	65,507	264,258	261,552	2,706
23 School Leadership	656,052	711,552	705,357	6,195
33 Health Services	12,899	3,750	3,715	35
35 Food Service	290,500	453,000	446,007	6,993
36 Cocurricular/ Extracurricular Activities	235,000	270,000	264,161	5,839
41 General Administration	790,331	486,295	474,485	11,810
51 Plant Maintenance and Operations	1,520,987	1,991,760	2,001,963	(10,203)
52 Security and Monitoring Services	9,500	20,000	19,524	476
53 Data Processing Services	2,000	81,200	86,143	(4,943)
71 Debt Service	846,000	907,000	906,514	486
Total Expenses	8,786,616	9,893,083	9,427,184	465,899
Change in Net Assets	39,454	(164,871)	35,190	200,061
Net Assets, Beginning of Year	1,214,392	1,214,392	1,214,392	
Net Assets, End of Year	\$ 1,253,846	\$ 1,049,521	\$ 1,249,583	\$ 200,061

See accompanying notes to financial statements.

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - LAREDO
STATEMENT OF FINANCIAL POSITION

JUNE 30, 2012

ASSETS	
Current Assets:	
Cash	\$ 2,286,751
Restricted Cash	9,295
Total Current Assets	<u>2,296,046</u>
Property & Equipment:	
Buildings and Improvements	93,832
Furniture and Equipment	302,248
	<u>396,080</u>
Less: Accumulated Depreciation	<u>(135,342)</u>
	260,738
Other Assets:	
Deposits	23,750
Total Assets	<u>\$ 2,580,534</u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts Payable	\$ 17,178
Total Current Liabilities	<u>17,178</u>
Long-term Liabilities:	
Bonds Payable Net of Discount and Current Portion	<u>93,646</u>
Total Liabilities	<u>110,824</u>
Net Assets:	
Unrestricted	38,583
Temporarily Restricted	<u>2,431,127</u>
Total Net Assets	<u>2,469,710</u>
Total Liabilities and Net Assets	<u>\$ 2,580,534</u>

See accompanying notes to financial statements.

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HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - LAREDO

STATEMENT OF ACTIVITIES

FOR THE TEN MONTHS ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 4,225	\$	\$ 4,225
5750 Revenue from Curricular	231,839		231,839
Total Local Support	<u>236,064</u>		<u>236,064</u>
State Program Revenues:			
5810 Foundation School Program Act Revenues		3,858,056	3,858,056
5820 State Program Revenues Distributed by			
Texas Education Agency		32,590	32,590
Total State Program Revenues		<u>3,890,645</u>	<u>3,890,645</u>
Federal Program Revenues:			
5920 Federal Revenues Distributed by			
Texas Education Agency		596,016	596,016
Total Federal Program Revenues		<u>596,016</u>	<u>596,016</u>
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>4,305,696</u>	<u>(4,305,696)</u>	
Total Revenues	<u>4,541,760</u>	<u>180,965</u>	<u>4,722,725</u>
EXPENSES			
11 Instruction	1,938,520		1,938,520
12 Instructional Resources and Media Services	1,614		1,614
13 Curriculum Development and Instructional			
Staff Development	90,311		90,311
23 School Leadership	370,495		370,495
33 Health Services	485		485
35 Food Service	237,311		237,311
36 Cocurricular/Extracurricular Activities	199,306		199,306
41 General Administration	532,868		532,868
51 Plant Maintenance and Operations	1,107,163		1,107,163
52 Security and Monitoring Services	24,381		24,381
53 Data Processing Services	722		722
Total Expenses	<u>4,503,177</u>		<u>4,503,177</u>
Change in Net Assets	<u>38,583</u>	<u>180,965</u>	<u>219,548</u>
Net Assets, Beginning of Year	<u>2,250,162</u>		<u>2,250,162</u>
Net Assets, End of Year	<u>\$ 38,583</u>	<u>\$ 2,431,127</u>	<u>\$ 2,469,710</u>

See accompanying notes to financial statements.

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HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - LAREDO

STATEMENT OF CASH FLOWS
FOR THE TEN MONTHS ENDED JUNE 30, 2012

Cash Flows From Operating Activities	
Change In Net Assets	\$ 219,548
Adjustments To Reconcile Change In Net Assets To Net	
Cash Provided (Used) By Operating Activities	
Depreciation	37,511
(Increase) Decrease in Accounts Receivable	266,642
(Increase) Decrease in Other Receivables	14,883
Increase (Decrease) in Accounts Payable	17,178
Increase (Decrease) in Wages Payable	(65,111)
Increase (Decrease) in Accrued Liabilities	(14,882)
Increase (Decrease) in Interest Payable	<u>(1,683)</u>
Net Cash Provided (Used) by Operating Activities	<u>474,086</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(20,568)</u>
Net Cash Provided (Used) by Investing Activities	<u>(20,568)</u>
Cash Flows From Financing Activities	
NET INCREASE (DECREASE) IN CASH	453,518
CASH AT THE BEGINNING OF YEAR	<u>1,842,528</u>
CASH AT END OF YEAR	<u>\$ 2,296,046</u>

See accompanying notes to financial statements.
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HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - LAREDO

SCHEDULE OF EXPENSES
FOR THE TEN MONTHS ENDED JUNE 30, 2012

Expenses	
6100 Payroll Costs	\$ 2,030,401
6200 Professional and Contracted Services	1,769,104
6300 Supplies and Materials	424,605
6400 Other Operating Costs	<u>279,067</u>
Total Expenses	<u>\$ 4,503,177</u>

See accompanying notes to financial statements.
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HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - LAREDO

SCHEDULE OF CAPITAL ASSETS
FOR THE TEN MONTHS ENDED JUNE 30, 2012

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 2,296,046	\$
1520 Buildings and Improvements		93,832	
1539 Furniture and Equipment		302,248	
Total Property and Equipment	<u>\$</u>	<u>\$ 2,692,126</u>	<u>\$</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - LAREDO

BUDGETARY COMPARISON SCHEDULE
FOR THE TEN MONTHS ENDED JUNE 30, 2012

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 3,100	\$ 4,260	\$ 4,225	\$ (35)
5750 Revenue from Curricular	270,000	230,000	231,839	1,839
Total Local Support	273,100	234,260	236,064	1,804
State Program Revenues:				
5810 Foundation School Program Act Revenues	4,308,914	3,900,000	3,858,056	(41,944)
5820 State Program Revenues Distributed by				
Texas Education Agency		32,000	32,590	590
Total State Program Revenues	4,308,914	3,932,000	3,890,645	(41,355)
Federal Program Revenues:				
5920 Federal Revenues Distributed by				
Texas Education Agency	331,618	642,225	596,016	(46,209)
Total Federal Program Revenues	331,618	642,225	596,016	(46,209)
Total Revenues	4,913,632	4,808,485	4,722,725	(85,760)
EXPENSES				
11 Instruction	2,125,968	1,950,500	1,938,520	11,980
12 Instructional Resources and media Services	46,994	1,600	1,614	(14)
13 Curriculum Development and Instructional Staff Development	68,642	90,000	90,311	(311)
23 School Leadership	404,798	360,000	370,495	(10,495)
33 Health Services	1,250	500	485	15
35 Food Service	230,000	261,000	237,311	23,689
36 Cocurricular / Extracurricular Activities	200,000	211,000	199,306	11,694
41 General Administration	574,271	540,000	532,868	7,132
51 Plant Maintenance and Operations	1,195,073	1,110,000	1,107,163	2,837
52 Security and Monitoring Services	7,250	25,500	24,381	1,119
53 Data Processing Services	2,100	750	722	28
Total Expenses	4,856,346	4,550,850	4,503,177	47,673
Change in Net Assets	57,286	257,635	219,548	(38,087)
Net Assets, Beginning of Year	2,250,162	2,250,162	2,250,162	
Net Assets, End of Year	\$ 2,307,448	\$ 2,507,797	\$ 2,469,710	\$ (38,087)

See accompanying notes to financial statements.

See accompanying notes to financial statements.

GOMEZ & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To The Board of Directors of
Harmony Public Schools
Houston, Texas

We have audited the financial statements of Harmony Public Schools (HPS) as of and for the year ended August 31, 2012, and have issued our report thereon dated January 4, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of HPS is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered HPS's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HPS's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

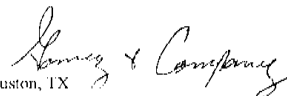
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.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

Compliance and Other Matters

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

We noted certain matters that we reported to management of HPS in a separate letter dated January 4, 2013.

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


Houston, TX
January 4, 2013

GOMEZ & COMPANY

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE, IN ACCORDANCE WITH OMB CIRCULAR A-133

To The Board of Directors of
Harmony Public Schools
Houston, Texas

Compliance

We have audited Harmony Public Schools (HPS) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of HPS's major federal programs for the year ended August 31, 2012. HPS's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of HPS's management. Our responsibility is to express an opinion on HPS's compliance based on our audit.

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

In our opinion, HPS complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2012.

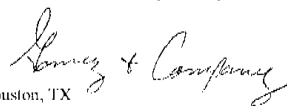
Internal Control Over Compliance

Management of HPS is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered HPS's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of HPS's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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



Houston, TX
January 4, 2013

HARMONY PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2012

Summary of Audit Results

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

	<u>CFDA Number</u>
U.S. Department of Education Harmony Quality Charter Replication & Expansion Grant*	84.282M
Passed Through Texas Education Agency Public Charter School*	84.282A
Education Jobs Fund ARRA Title XIV, SFSEP-ARRA	84.410A
	84.394A
U.S. Department of Treasury 2010 QSCB Direct Subsidy Assistance	21.020
U.S. Department of Agriculture Passed Through Texas Education Agency School Breakfast*	10.553
School Lunch*	10.555

* denotes cluster

8. A \$548,701 threshold was used to distinguish between Type A and Type B programs as described in section .520 (b) of OMB A-133.

9. Harmony Public Schools does not qualify as a low-risk auditee.

Questioned

Current Year Findings

Cost

No audit findings were noted as per governmental auditing standards and section .510 (a) of OMB A-133

\$ -0-

HARMONY PUBLIC SCHOOLS
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2012

Summary Schedule of Prior Year Findings

I. Recording of Financial Data and Maintaining of General Ledger

Condition:

During the audit, key financial entries had to be recorded to HPS's general ledger to correct account balances. Some prior year audit adjustments were not reversed properly, some loan and related assets transaction were not recorded timely, construction payments had to be accrued along with retainage on several projects, and some year-end accruals for accounts payable were not posted. Based on our observation, this condition exists due to lack of qualified senior accounting staff to handle the daily accounting transactions and provide support to management.

Criteria:

HPS's transactions should be recorded in the manner required by generally accepted accounting principles and TEA's FASRG

Effect:

Without recording of key financial entries, and proper coding, HPS may not have an accurate general ledger. Without correct general ledgers, management would have inaccurate information and would not be able to make prudent decisions.

Recommendation:

We recommend that HPS implement procedures and controls to provide for timely recording of financial transactions, month-end entries and year-end closing entries. We also recommend that HPS restructure their accounting department and hire or obtain qualified senior staff experienced in charter school and/or non-profit accounting to assume a supervisory role and provide support to the accounting personnel.

Status:

The 2011 Financial Audit prepared by the Gomez & Company was carefully reviewed by the Superintendent and executive members of HPS. The finding was noted and acknowledged by management. Three months prior to end of the audit year, the leadership of the HPS Central Office along with the board president started to take the following important actions to address this finding. The Central Administration will continue to implement these actions throughout the year to have successful financial operation.

- The Central Office and campus organizational structure were revised in regards to the financial operation and communication between campuses and the central office.
- Chief Financial Officer and several other key financial managers were replaced with qualified personnel.
- Additional staff was hired for the financial department.
- Number of training hours for finance office personnel was increased to adequately address the needs of employees.
- Outside consulting firm hired to review finance department and its operation.
- Financial accounting software was replaced with more effective and efficient online system to address the needs of HPS.

We strongly believe that these actions will resolve the current challenges on financial operation of Harmony Public Schools. We will continue to seek consultation to respond fast growing needs of our organizations. The new CFO, Mr. Yalcin Akyildiz, will be in charge of implementing these changes in timely manner.

HARMONY PUBLIC SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2012

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
FOREIGN LANGUAGES ASSISTANCE	84.293.13	T293B090092	\$ 316,499
HARMONY QUALITY REPLICATION & EXPANSION	84.282M	U282M110010	983,328
Total U.S. Department of Education			<u>1,299,827</u>
U.S. Department of Treasury			
2010 OSC B DIRECT SUBSIDY ASSISTANCE	21.020		2,502,922
Total U.S. Department of Treasury			<u>2,502,922</u>
U.S. Department of Education			
Passed - Through Texas Education Agency:			
TITLE I, PART A-IMPROVING BASI	84.010A	11610101152805	2,157
TITLE I, PART A-IMPROVING BASI	84.010A	11610101101862	13,865
TITLE I, PART A-IMPROVING BASI	84.010A	11610101240804	41,448
TITLE I, PART A-IMPROVING BASI	84.010A	11610101220813	49,150
TITLE I, PART A-IMPROVING BASI	84.010A	12610101101862	93,850
TITLE I, PART A-IMPROVING BASI	84.010A	11610101071806	119,287
TITLE I, PART A-IMPROVING BASI	84.010A	12610101031803	122,864
TITLE I, PART A-IMPROVING BASI	84.010A	12610101152805	160,025
TITLE I, PART A-IMPROVING BASI	84.010A	11610101101846	168,664
TITLE I, PART A-IMPROVING BASI	84.010A	12610101015828	179,356
TITLE I, PART A-IMPROVING BASI	84.010A	12610101220813	272,861
TITLE I, PART A-IMPROVING BASI	84.010A	12610101101858	284,277
TITLE I, PART A-IMPROVING BASI	84.010A	12610101227816	296,194
TITLE I, PART A-IMPROVING BASI	84.010A	12610101071806	300,126
TITLE I, PART A-IMPROVING BASI	84.010A	12610101161807	350,433
TITLE I, PART A-IMPROVING BASI	84.010A	12610101240804	351,296
TITLE I, PART A-IMPROVING BASI	84.010A	12610101101846	732,220
IDEA-B FORMULA	84.027A	116600012408046000	6,479
IDEA-B FORMULA	84.027A	116600010158286000	29,154
IDEA-B FORMULA	84.027A	116600011018466000	38,681
IDEA-B FORMULA	84.027A	126600010318036000	42,288
IDEA-B FORMULA	84.027A	116600012208136000	67,040
IDEA-B FORMULA	84.027A	126600011528056000	82,167
IDEA-B FORMULA	84.027A	126600010158286000	119,620
IDEA-B FORMULA	84.027A	126600010718066000	129,033
IDEA-B FORMULA	84.027A	126600011618076000	208,036
IDEA-B FORMULA	84.027A	126600011018586000	212,075
IDEA-B FORMULA	84.027A	126600012278166000	212,533
IDEA-B FORMULA	84.027A	126600012208136000	216,820
IDEA-B FORMULA	84.027A	126600011018466000	254,239
IDEA-B FORMULA	84.027A	126600012408046000	468,909
2010-11 PUBLIC CHARTER SCHOOL	84.282A	U15900217110001	273,651
TITLE III, PART A-LEP	84.365A	12671001101862	5,212
TITLE III, PART A-LEP	84.365A	12671001031803	5,785
TITLE III, PART A-LEP	84.365A	12671001240804	9,668
TITLE III, PART A-LEP	84.365A	12671001220813	16,702
TITLE III, PART A-LEP	84.365A	12671001071806	17,669

HARMONY PUBLIC SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2012

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Federal Expenditures
TITLE III, PART A-LEP	84.365A	12671001101858	22,154
TITLE III, PART A-LEP	84.365A	12671001227816	25,940
TITLE III, PART A-LEP	84.365A	12671001161807	28,127
TITLE III, PART A-LEP	84.365A	12671001101846	43,426
TITLE II, PART A-TEACHER & PRI	84.367A	12694501101862	22,258
TITLE II, PART A-TEACHER & PRI	84.367A	12694501031803	28,232
TITLE II, PART A-TEACHER & PRI	84.367A	12694501240804	49,767
TITLE II, PART A-TEACHER & PRI	84.367A	12694501152805	54,997
TITLE II, PART A-TEACHER & PRI	84.367A	12694501015828	62,081
TITLE II, PART A-TEACHER & PRI	84.367A	12694501227816	85,668
TITLE II, PART A-TEACHER & PRI	84.367A	12694501101858	88,746
TITLE II, PART A-TEACHER & PRI	84.367A	12694501220813	92,650
TITLE II, PART A-TEACHER & PRI	84.367A	12694501071806	101,576
TITLE II, PART A-TEACHER & PRI	84.367A	12694501161807	141,087
TITLE II, PART A-TEACHER & PRI	84.367A	12694501101846	185,355
TITLE XIV, SISEF - ARRA	84.394A	11557001101858	2,949
TITLE XIV, SISEF - ARRA	84.394A	11557001031803	21,892
TITLE XIV, SISEF - ARRA	84.394A	11557001220813	28,976
TITLE XIV, SISEF - ARRA	84.394A	11557001240804	29,364
TITLE XIV, SISEF - ARRA	84.394A	11557001227816	57,784
TITLE XIV, SISEF - ARRA	84.394A	11557001101862	63,869
TITLE XIV, SISEF - ARRA	84.394A	11557001071806	65,164
TITLE XIV, SISEF - ARRA	84.394A	11557001101846	117,905
EDUCATION JOBS FUND - ARRA	84.410A	11550101031803	77,236
EDUCATION JOBS FUND - ARRA	84.410A	11550101152805	115,148
EDUCATION JOBS FUND - ARRA	84.410A	11550101240804	117,285
EDUCATION JOBS FUND - ARRA	84.410A	11550101101862	124,396
EDUCATION JOBS FUND - ARRA	84.410A	11550101015828	168,487
EDUCATION JOBS FUND - ARRA	84.410A	11550101071806	226,262
EDUCATION JOBS FUND - ARRA	84.410A	11550101227816	349,021
EDUCATION JOBS FUND - ARRA	84.410A	11550101220813	385,380
EDUCATION JOBS FUND - ARRA	84.410A	11550101161807	442,914
EDUCATION JOBS FUND - ARRA	84.410A	11550101101858	487,234
EDUCATION JOBS FUND - ARRA	84.410A	11550101101846	<u>528,378</u>
Total U.S. Department of Education			<u>\$ 10,394,592</u>
U.S. Department of Agriculture			
Passed - Through Texas Education Agency			
Federal Food Service Reimbursement			
School Breakfast Program (SBP)	10.553	71401101	85,299
School Breakfast Program (SBP)	10.553	71401201	507,310
National School Lunch Prog-NSLP	10.555	71301101	498,036
National School Lunch Prog-NSLP	10.555	71301201	<u>3,002,042</u>
Total U.S. Department of Agriculture			<u>4,092,687</u>
Total Expenditures of Federal Awards			<u>\$ 18,290,028</u>

HARMONY PUBLIC SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of federal awards (the Schedule) includes federal grant activity of HPS under programs of the federal government for the year ended August 31, 2012. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operation of HPS, it is not intended to and does not present the financial position, changes in net assets or cash flows of HPS.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

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COSMOS FOUNDATION, INC.
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2011

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(Federal Employer Identification Number: 76-0615245)

CERTIFICATE OF BOARD

August 31, 2011

We, the undersigned, certify that the attached Annual Financial and Compliance Report of Cosmos Foundation, Inc. was reviewed and Y approved _____ disapproved for the year ended August 31, 2011, at a meeting of the governing body of said charter school on the 24th day of January, 2012.



Signature of Board Secretary



Signature of Board President

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GOMEZ & COMPANY

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

COSMOS FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2011

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of Cosmos Foundation, Inc. (a nonprofit organization) (HSA) as of August 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HSA as of August 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2011 on our consideration of HSA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Houston, TX
December 16, 2011

ASSETS

Assets:	
Cash	\$ 54,860,564
Receivables	8,008,846
Other Receivables	321,532
Land	27,850,679
Buildings and Improvements	179,955,661
Furniture and Equipment	13,510,264
Accumulated Depreciation	(17,969,661)
Deposits	399,713
Other Assets	<u>4,429,369</u>
Total Assets	<u>\$ 271,366,966</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts Payable	\$ 5,219,270
Accrued Liabilities	264,995
Wages Payable	2,598,831
Interest Payable	1,565,651
Notes Payable	18,497,994
Capital Lease Payable	33,205
Bond Payable Net of Discount	<u>211,972,064</u>
Total liabilities	<u>240,152,010</u>
Net Assets:	
Unrestricted	7,853,741
Temporarily Restricted	<u>23,361,215</u>
Total net assets	<u>31,214,956</u>
Total Liabilities and Net Assets	<u>\$ 271,366,966</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2011

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Federal Grants	\$	\$ 14,176,454	\$ 14,176,454
State and Local Grants		126,447,384	126,447,384
Donations	1,570,475		1,570,475
Interest Income	91,242		91,242
Other Income	6,385,409		6,385,409
Net Assets Released From Restrictions	134,533,152	(134,533,152)	
Total Revenues	<u>142,580,278</u>	<u>6,090,686</u>	<u>148,670,964</u>
EXPENSES			
Program Services	143,508,876		143,508,876
Total Expenses	<u>143,508,876</u>		<u>143,508,876</u>
Change In Net Assets	<u>(928,598)</u>	<u>6,090,686</u>	<u>5,162,088</u>
Net Assets, Beginning of Year as Restated	<u>8,782,338</u>	<u>17,270,529</u>	<u>26,052,867</u>
Net Assets, Ending of Year	<u>\$ 7,853,741</u>	<u>\$ 23,361,215</u>	<u>\$ 31,214,956</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2011

Cash Flows From Operating Activities	
Change in net assets	\$ 5,162,088
Adjustments to reconcile change in net assets to net	
Cash provided (used) by operating activities	
Depreciation	7,914,027
(Increase) Decrease in Accounts Receivable	588
(Increase) Decrease in Other Receivable	(176,526)
(Increase) Decrease in Other Assets	(1,034,923)
Increase (Decrease) in Accounts Payable	(7,991,074)
Increase (Decrease) in Wages Payable	972,210
Increase (Decrease) in Accrued Liabilities	228,745
Increase (Decrease) in Interest Payable	(1,959,708)
Net Cash Provided (Used) by Operating Activities	<u>3,115,427</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(62,040,289)</u>
Net Cash Provided (Used) by Investing Activities	<u>(62,040,289)</u>
Cash Flows From Financing Activities	
Proceeds from Bonds and Loans	75,238,366
Repayment of Long-Term Debt	(10,181,273)
Net Cash Provided (Used) by Financing Activities	<u>65,057,093</u>
NET INCREASE (DECREASE) IN CASH	<u>6,132,231</u>
CASH AT BEGINNING OF YEAR	<u>48,728,333</u>
CASH AT END OF YEAR	<u>\$ 54,860,564</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	<u>\$ 9,421,111</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2011

A. Organization:

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

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

B. Summary of Significant Accounting Policies:

BASIS OF PRESENTATION

The Corporation reports its financial information based on the *Financial Accounting Standards Board Accounting Standards Codification 958 Not-for-Profit Entities-205 Presentation of Financial Statements*. Under *FASB ASC 958-205*, an Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

PRINCIPLES OF CONSOLIDATION

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

SUPPORT AND REVENUE

Support and revenue are recorded based on the accrual method.

CASH DONATIONS AND DONATED SERVICES

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

CONTRIBUTIONS

In accordance with *Financial Accounting Standards Board Accounting Standards Codification 958 Not-for-Profit Entities-605 Revenue Recognition*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

COSMOS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2011

B. Summary of Significant Accounting Policies: (Continued)

PROPERTY AND EQUIPMENT

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

PLEDGES AND ACCOUNTS RECEIVABLE

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

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

FUNCTIONAL EXPENSES

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

INCOME TAXES

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

CASH AND CASH EQUIVALENTS

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

COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2011

B. Summary of Significant Accounting Policies: (Continued)

ESTIMATES

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

C. Pension Plan:

The charter school contributes to the Teacher Retirement System of Texas (TRS), a cost sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the charter school, but are the liability of the State of Texas. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805 respectively. The Texas State legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800- 223-8778, or by downloading the report from the TRS Internet website, www.trsfstate.tx.us, under the TRS Publications Heading.

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 1 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal year 2009, 2008 and 2007, and a state contribution rate of 6.58% for fiscal years 2009 and 2008 and 6.0% for fiscal year 2007. The charter school's employees contributions to the system for the years ending August 31, 2011 were \$3,816,498, equal to the required contributions for the year. Other contributions made from federal and private grants and from the charter school for salaries above the statutory minimum for the year ending August 31, 2011 was \$-0-.

D. Budget:

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

COSMOS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2011

E. Operating Lease Commitment:

HISA is currently leasing its office equipment and building on a non-cancelable operating lease. HISA minimum annual lease commitment is as follows:

<u>Year months ending August 31,</u>	<u>Amount</u>
2012	\$ 12,763,326
2013	7,213,716
2014	4,287,365
2015	2,939,260
2016	2,074,064
Total	<u>\$ 29,277,731</u>

Operating lease expense amounted to \$11,510,633 for the year ended August 31, 2011.

F. Notes Payable:

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

Note payable to a bank, secured by land and buildings. The note is dated August 5, 2009, and has a variable interest rate and a face amount of \$6,650,000. The date of maturity is August 31, 2015.	\$ 5,524,560
Note payable to a bank, secured by land and buildings. The note is dated December 28, 2009, and has a 6.5% interest rate and a face amount of \$4,300,000. The date of maturity is October 5, 2015.	4,219,190
Note payable to a finance company, secured by land and buildings. The note is dated June 15, 2009, and has a 6.15% interest rate and a face amount of \$4,290,000. The date of maturity is January 1, 2013.	3,834,676
Note payable to a finance company, secured by land and buildings. The note is dated June 15, 2009, and has a 6.25% interest rate and a face amount of \$2,110,000. The date of maturity is January 1, 2013.	1,578,753
Note payable to a construction company, secured by land and buildings. The note is dated February 26, 2011, and has a 3.0% interest rate and a face amount of \$285,372. The date of maturity is March 1, 2012.	167,505
Note payable to a construction company, secured by land and buildings. The note is dated January 17, 2011, and has a 3.0% interest rate and a face amount of \$900,000. The date of maturity is March 1, 2013.	680,031
Note payable to a construction company, secured by land and buildings. The note is dated January 27, 2011, and has a 3.0% interest rate and a face amount of \$991,146. The date of maturity is March 1, 2013.	789,526

COSMOS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2011

F. Notes Payable: (Continued)

Note payable to a bank, secured by furniture and fixtures. The note is dated August 28, 2011, and has a 4.215% interest rate and a face amount of \$703,753. The date of maturity is May 31, 2012.

703,753

Revolving line of credit with a bank unsecured, payable on demand with an interest rate of prime plus 2.50%. See note H.

1,000,000

Total notes payable

\$ 18,497,994

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

<u>Year ending August 31,</u>	<u>Amount</u>
2012	\$ 3,940,212
2013	6,403,402
2014	807,238
2015	7,347,142
Total	<u>\$ 18,497,994</u>

C-99 G. Capital Leases:

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

The first lease expires January 2013. The equipment under capital lease as of August 31, 2011 has a cost of \$41,600, accumulated amortization of \$28,106 and a net book value of \$13,494. Amortization of the equipment is included in depreciation expense.

The second lease expires February 2013. The equipment under capital lease as of August 31, 2011 has a cost of \$36,883, accumulated amortization of \$24,919 and a net book value of \$11,964. Amortization of the equipment is included in depreciation expense.

The third lease expires June 2012. The equipment under capital lease as of August 31, 2011 has a cost of \$29,422, accumulated amortization of \$19,943 and a net book value of \$9,429. Amortization of the equipment is included in depreciation expense.

The future minimum lease payments under capital lease together with their present value as of August 31, 2011 is as follows:

Total minimum lease payments	\$ 37,860
Less amount representing interest	(4,655)
Present value of net minimum lease payments	<u>\$ 33,205</u>

COSMOS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2011

H. Revolving Line of Credit:

HSA, Inc. has a \$2,000,000 revolving line of credit with a bank. All advances on the credit line are payable on demand and carry an interest rate of prime plus 2.50%. The credit line is unsecured. HSA, Inc. had draws on the line of credit that totaled to \$1,000,000 as of August 31, 2011.

I. Bonds Payable:

HSA, Inc. has secured bond financing pursuant to Chapter 53 of the Texas Education Code, \$28,860,000 of "Qualified Tax Exempt" Education Revenue Bonds, Series 2007A and \$1,135,000 Taxable Education Revenue Bonds, Series 2007B. The organization also has \$30,075,000 of "Qualified Tax Exempt" Education Revenue Bonds, Series 2008A and \$980,000 Taxable Educational Revenue Bonds, Series 2008B. The organization also has \$50,090,000 of "Qualified Tax Exempt" Education Revenue Bonds, Series 2010A and \$39,910,000 Taxable Educational Revenue Bonds, Series 2010Q (Qualified School Construction Bonds). The organization also has \$58,930,000 of Education Revenue Bonds, Series 2011A and \$5,085,000 Taxable Education Revenue Bonds, Series 2011Q (Qualified School Construction Bonds - Direct Pay). The bonds are limited obligations of the issuer payable solely from revenues received by the issuer pursuant to a loan agreement between the issuer and the borrower.

Bonds payable at August 31, 2011 consist of the following:

2007A Bonds, 5.35% interest; principle and interest due in semi-annual installments, commencing August 15, 2008; Maturity dates range from 2011 to 2037.	\$ 28,360,000
2008A Bonds, 6.25% interest; principle and interest due in semi-annual installments, commencing February 15, 2007; Maturity dates range from 2013 to 2038.	30,075,000
2008B Bonds, 7.82% interest; principle and interest due in semi-annual installments, commencing February 15, 2007; Maturity dates range from 2013 to 2012.	355,000
2010A Bonds, 6.0% - 6.2% interest; principle and interest due in semi-annual installments, commencing February 15, 2011; Maturity dates range from 2030 to 2040.	50,090,000
2010Q Bonds, 8.125% interest; principle and interest due in semi-annual installments, commencing February 15, 2011; Maturity dates range from 2027 to 2027	39,910,000

COSMOS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2011

I. Bonds Payable: (Continued)

2011A Bonds, 8.125% interest; principle and interest due in semi-annual installments, commencing November 15, 2011; Maturity dates range from 2021 to 2041.	58,930,000
2011Q Bonds, 8.125% interest; principle and interest due in semi-annual installments, commencing November 15, 2011; Maturity dates range from 2013 to 2026.	5,085,000
Total	\$ 212,805,000
Less unamortized discount	(832,936)
Amount of bond net of discount	<u>\$ 211,972,064</u>

Future maturities of long-term debt at August 31, 2011 are as follows:

<u>Year ending August 31,</u>	<u>Amount</u>
2012	\$ 2,770,642
2013	3,788,470
2014	4,188,994
2015	4,607,406
2016	5,038,903
Thereafter	<u>\$ 192,410,585</u>
	212,805,000
Less unamortized discount	(832,936)
Amount of bond net of discount	<u>\$ 211,972,064</u>

HSA must maintain a debt service fund which is required to maintain a minimum balance for the 2007, 2008, 2010, and 2011 series bonds in the amounts of \$1,023,338, \$2,539,513, \$5,009,000, and \$5,039,469 respectively. At August 31, 2011, the debt service funds for the 2007, 2008, 2010, and 2011 series bonds had a balance of \$1,062,903, \$1,594,047, \$5,011,365, and \$5,041,319 respectively. HSA applied for, and was awarded, a grant back in 2009 from the Texas Credit Enhancement Program in the amount of \$1,000,000 securing debt service fund requirement for the series bonds as deemed necessary.

J. Commitments and Contingencies:

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

COSMOS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2011

K. Health Care Coverage:

During the year ended August 31, 2011, employees of HSA were covered by a group insurance plan. The school paid premiums up to \$525 for teachers, \$625 for assistant principals, \$825 for principals and central office administrators, \$1,025 for assistant superintendents, cluster superintendents, and superintendents, for each campus per month per employee (depending upon coverage selected) to the plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer.

L. Temporarily Restricted Net Assets:

Temporarily restricted net assets at August 31, 2011, are available for the following periods:

Periods after August 31, 2011	
State Funds	\$ 23,361,215
Total restricted funds	<u>\$ 23,361,215</u>

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

State Fund	\$ 120,356,698
Federal Funds	14,176,454
Total restrictions released	<u>\$ 134,533,152</u>

M. Certificate of Deposits:

HSA - El Paso has renewed a \$300,000 eight month certificate of deposit with a variable interest rate, and also invested in a \$1,500,000 twelve month certificate of deposit with a variable interest rate as of August 31, 2011. The certificate of deposits mature on August 19, 2012 and January 22, 2012 respectively. Investments in certificates of deposit total \$1,816,476 at August 31, 2011.

N. Consolidation of Harmony Schools:

On June 30, 2010 Cosmos Foundations submitted a request for Consolidation of Charters to the Texas Education Agency for the consolidation of four of its charters for the purpose of restructuring and realigning some of their campuses.

Cosmos Foundation, Inc. previously held fifteen (15) charters covering twenty-five (25) campuses in several Texas cities. On September 1, 2011 the agency returned and consolidated the following charters:

- 101-857 (Harmony School of Innovation - Houston) - Consolidate both campuses under 101-846
- 021-804 (Harmony Science Academy - Byram/College State) - Consolidate under 101-858
- 227-822 (Harmony School of Science - Austin) - Consolidate under 227-816
- 123-806 (Harmony Science Academy - Beaumont) - Consolidate under 101-846

COSMOS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2011

N. Consolidation of Harmony Schools -- (Continued)

The consolidation was approved by the Texas Education Agency on August 11, 2010. We understand that the academic history and records of the consolidated charters will continue to exist regardless of the consolidation. Effective September 1, 2010, the consolidation of the four (4) charters were implemented and reorganized under our remaining eleven (11) charters based on the following schedule:

Clusters	Old CDN	New CDN	Campus Name
Houston #1 (101-846) South	101-846	101-846-001	Harmony Science Academy - Houston High
	101-857	101-846-002	Harmony School of Innovation - Houston
	101-857	101-846-003	Harmony School of Ingenuity
	123-806	101-846-004	Harmony Science Academy - Beaumont
	N/A	101-846-005	Harmony Science Academy - Houston
	N/A	101-846-006	Harmony School of Fine Arts and Technology
Houston #2 (101-858) North	101-858	101-858-001	Harmony School of Excellence
	101-858	101-858-002	Harmony School of Excellence - Endeavor
	021-804	101-858-003	Harmony Science Academy - Byron/Col Sta
	101-846	101-858-004	Harmony Science Academy - Northwest
	N/A	101-858-005	Harmony School of Advancement - High
	N/A	101-858-006	Harmony School of Discovery - Houston
Houston #3 (101-862) West	101-862	101-862-001	Harmony School of Science - Houston
Austin	227-816	227-816-001	Harmony Science Academy - Austin
	227-816	227-816-002	Harmony Science Academy - North Austin
	227-816	227-816-101	Harmony School of Excellence - Austin
	227-822	227-816-102	Harmony School of Science - Austin
Fort Worth	220-813	220-813-001	Harmony Science Academy - Fort Worth
	220-813	220-813-002	Harmony Science Academy - Grand Prairie
	220-813	220-813-004	Harmony Science Academy - Euless
	N/A	220-813-005	Harmony School of Nature
El Paso	071-806	071-806-001	Harmony Science Academy - El Paso
	071-806	071-806-002	Harmony School of Innovation - El Paso
San Antonio	015-828	015-828-001	Harmony Science Academy - San Antonio
	015-828	015-828-002	Harmony School of Innovation - San Antonio
Lubbock	152-805	152-805-001	Harmony Science Academy - Lubbock
	152-805	152-805-002	Harmony Science Academy - Odessa
Dallas	161-807	161-807-001	Harmony Science Academy - Waco
	161-807	161-807-002	Harmony Science Academy - Dallas
	101-846	161-807-003	Harmony School of Innovation - Dallas
	220-813	161-807-004	Harmony Science Academy - Garland
Brownsville	031-803	031-803-001	Harmony Science Academy - Brownsville
Laredo	240-804	240-804-001	Harmony Science Academy - Laredo

COSMOS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2011

O. Prior Period Adjustment

Net assets were restated at August 31, 2010 due to reclassification of a bond liability, overstatements and understatement of accounts payable, and the consolidation process as discussed in Note N. Below is a table that shows the changes of beginning net assets and reconciles the restated net assets on each district's financial statements. The result of this change increased net assets by \$41,696 at August 31, 2010.

The charter school's adjustments are as follows:

Houston - Overstatement of accounts payable	\$ 440,066
San Antonio - Reclassification of bond liability	(302,255)
Fort Worth - Overstatement of accounts payable	398,780
Waco - Overstatement of accounts payable	(797,150)
School of Science Houston - Reclassification of bond liability	302,255

Net effect of the charter school's adjustments	<u>\$ 41,696</u>
--	------------------

District	Report 8/31/10 Net Asset Balance	District Merged In(Out)	Campus Merged In(Out)	Prior Period Adjustment	Restated 8/31/10 Net Asset Balance
HSA-Houston	\$ 4,009,827	\$ 3,661,393	\$(1,103,637)	\$ 440,066	\$ 7,007,648
HSA-Austin	1,093,212	701,228	-	-	1,794,440
HSA-Houston	3,071,850	(3,071,850)	-	-	-
HSA-San Antonio	2,742,153	-	-	(302,255)	2,439,899
HSA-El Paso	3,662,162	-	-	-	3,662,162
HSA-Fort Worth	4,066,584	-	(416,213)	398,780	4,049,151
HSS-Austin	701,228	(701,228)	-	-	-
HSA-Excellence	1,187,988	(427,765)	716,678	-	1,476,902
HSA-Lubbock	534,983	-	-	-	534,983
HSA-Beaumont	589,543	(589,543)	-	-	-
HSA-College Station	(427,765)	427,765	-	-	-
HSA-Waco	1,174,074	-	803,172	(797,150)	1,180,097
HSA-Brownsville	1,239,758	-	-	-	1,239,758
HSS-Houston	482,822	-	-	302,255	785,076
HSA-Laredo	1,882,751	-	-	-	1,882,752
Grand Total	\$ 26,011,170	-	-	\$ 41,696	\$ 26,052,866

COSMOS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2011

P. TEA Compliance Audit:

During the fiscal year end August 31, 2011 TEA conducted a grant audit of Title I and Idea B funds. The preliminary report on an audit of the administration of federal awards issued on April 8, 2011 identified question cost of \$ 544,649.47. HSA does not agree with the findings, disputed \$521,346 and submitted their response in July 2011 to TEA. As of the date of this audit report this matter has not been resolved and therefore no liability has been accrued.

Q. Guarantee of Bonds:

The Corporation guarantees \$1,245,000 of Series 2010 Y Bonds and \$705,000 of Series 2010 Z Bonds for Lisa Academy, Inc. (an independent charter school district) for property located in Arkansas. The outstanding principal balances on the bonds are \$1,245,000 and \$705,000 respectively at August 31, 2011. This guarantee would require payment by the Corporation only in the event of default by Lisa Academy, Inc. The security interest in the property would be subrogated to Cosmos Foundation, Inc. The related partnership was current with required payments as of August 31, 2011 and management believes likelihood is remote that material payments will be required under this guarantee.

R. Subsequent Event:

On September 27, 2011 the U.S. Department of Education had announced that the Corporation is the recipient of \$4,940,897 in U.S. Department of Education grants over the next three years. The Corporation joins just eight charter school organizations nationwide in receiving this round of charter school grants. Harmony Public Schools are high performing K-12 college preparatory charter schools, and represent the state's largest network of charter schools, serving roughly 20,000 Texas students.

The U.S. Department of Education awarded these grants in fiscal year 2011, totaling \$25 million, of which the Corporation received \$4,940,897, to replicate and expand high-quality charter school that have demonstrated success. This series of grants will serve \$1,431,929 for fiscal year 2012, \$1,431,929 for fiscal year 2013 and \$2,077,039 for fiscal year 2014.

S. Evaluation of Subsequent Events:

The Corporation has evaluated subsequent events through December 16, 2011, the date which the financial statements were available to be issued.

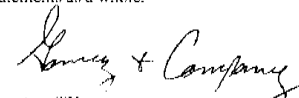
GOMEZ & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
6750 W. LOOP SOUTH, SUITE 520
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INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

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

We have audited the financial statements of Cosmos Foundation, Inc. as of and for the year ended August 31, 2011, and have issued our report thereon dated December 16, 2011, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The Schedules for Individual Charter School are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Houston, TX
December 16, 2011

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - HOUSTON

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2011

ASSETS	
Assets:	
Cash	\$ 4,464,196
Receivables	1,790,971
Other Receivables	115,551
Land	5,612,397
Buildings and Improvements	48,708,311
Furniture and Equipment	3,272,104
Accumulated Depreciation	(4,210,812)
Deposits	7,077
Other Assets	<u>2,304,603</u>
Total Assets	<u>\$ 62,064,399</u>
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts Payable	\$ 654,986
Wages Payable	437,194
Interest Payable	173,192
Accrued Liabilities	15,534
Notes Payable	6,708,001
Bonds Payable Net of Discount	<u>46,216,924</u>
Total Liabilities	<u>54,205,830</u>
Net Assets:	
Unrestricted	6,839,507
Temporarily Restricted	<u>1,019,062</u>
Total Net Assets	<u>7,858,569</u>
Total Liabilities and Net Assets	<u>\$ 62,064,399</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - AUSTIN

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2011

ASSETS	
Assets:	
Cash	\$ 7,335,912
Receivables	825,355
Land	2,129,350
Buildings and Improvements	15,248,270
Furniture and Equipment	1,493,178
Accumulated Depreciation	(1,169,196)
Deposits	89,232
Other Assets	<u>232,251</u>
Total Assets	<u>\$ 26,184,351</u>
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts Payable	\$ 1,766,437
Wages Payable	341,854
Interest Payable	152,331
Accrued Liabilities	24,028
Notes Payable	471,940
Bond Payable Net of Discount	<u>20,680,031</u>
Total Liabilities	<u>23,436,620</u>
Net Assets:	
Unrestricted	1,794,440
Temporarily Restricted	<u>953,291</u>
Total Net Assets	<u>2,747,731</u>
Total Liabilities and Net Assets	<u>\$ 26,184,351</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - SAN ANTONIO

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2011

ASSETS	
Assets:	
Cash	\$ 1,267,717
Receivables	532,311
Other Receivables	21,468
Land	1,718,271
Buildings and Improvements	19,201,710
Furniture and Equipment	853,284
Accumulated Depreciation	(1,001,145)
Other Assets	<u>401,116</u>
Total Assets	<u>\$ 22,994,732</u>
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts Payable	\$ 2,630
Wages Payable	171,046
Interest Payable	63,556
Accrued Liabilities	21,468
Notes Payable	720,833
Bonds Payable Net of Discount	<u>20,013,172</u>
Total Liabilities	<u>20,992,705</u>
Net Assets:	
Unrestricted	<u>2,002,027</u>
Total Net Assets	<u>2,002,027</u>
Total Liabilities and Net Assets	<u>\$ 22,994,732</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - EL PASO

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2011

ASSETS	
Assets:	
Cash	\$ 8,702,562
Receivables	704,817
Other Receivables	151,542
Land	1,790,950
Buildings and Improvements	10,522,887
Furniture and Equipment	429,327
Accumulated Depreciation	(857,177)
Deposits	37,532
Other Assets	<u>115,427</u>
Total Assets	<u>\$ 21,597,866</u>
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts Payable	\$ 843,793
Wages Payable	209,210
Interest Payable	266,396
Accrued Liabilities	152,172
Notes Payable	1,012,133
Bonds Payable Net of Discount	<u>14,198,128</u>
Total liabilities	<u>16,681,833</u>
Net Assets:	
Unrestricted	3,616,052
Temporarily Restricted	<u>1,299,980</u>
Total Net Assets	<u>4,916,032</u>
Total Liabilities and Net Assets	<u>\$ 21,597,866</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - FORT WORTH

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2011

ASSETS

Assets:

Cash	\$ 9,764,692
Receivables	948,540
Land	2,944,614
Buildings and Improvements	23,322,549
Furniture and Equipment	1,540,503
Accumulated Depreciation	(2,039,034)
Deposits	82,542
Other Assets	457,490

Total Assets \$ 37,021,894

LIABILITIES AND NET ASSETS

Liabilities:

Accounts Payable	\$ 115,240
Wages Payable	286,962
Interest Payable	276,497
Notes Payable	2,154,093
Bonds Payable Net of Discount	29,660,072

Total Liabilities 32,492,864

Net Assets:

Unrestricted	4,043,921
Temporarily Restricted	485,110

Total Net Assets 4,529,031

Total Liabilities and Net Assets \$ 37,021,894

COSMOS FOUNDATION, INC.
HARMONY SCHOOL OF EXCELLENCE

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2011

ASSETS

Assets:

Cash	\$ 3,524,780
Receivables	1,094,639
Land	3,959,203
Buildings and Improvements	26,744,762
Furniture and Equipment	2,517,802
Accumulated Depreciation	(3,648,927)
Deposits	59,781
Other Assets	458,870

Total Assets \$ 34,710,909

LIABILITIES AND NET ASSETS

Liabilities:

Accounts Payable	\$ 702,491
Wages Payable	433,750
Interest Payable	102,290
Notes Payable	7,015,548
Capital Leases Payable	25,457
Bond Payable Net of Discount	25,345,951

Total Liabilities 33,625,486

Net Assets:

Unrestricted	1,064,086
Temporarily Restricted	21,337

Total Net Assets 1,085,423

Total Liabilities and Net Assets \$ 34,710,909

See accompanying notes to financial statements.

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See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - LUBBOCK

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2011

ASSETS	
Assets:	
Cash	\$ 734,384
Receivables	343,421
Land	154,893
Buildings and Improvements	4,539,267
Furniture and Equipment	529,513
Accumulated Depreciation	(982,360)
Deposits	15,799
Other Assets	<u>105,066</u>
Total Assets	<u>\$ 5,439,982</u>
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts Payable	\$ 104,154
Wages Payable	103,119
Interest Payable	24,730
Bonds Payable Net of Discount	<u>4,772,245</u>
Total Liabilities	<u>5,004,248</u>
Net Assets:	
Unrestricted	304,174
Temporarily Restricted	<u>131,561</u>
Total Net Assets	<u>435,735</u>
Total Liabilities and Net Assets	<u>\$ 5,439,982</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - WACO

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2011

ASSETS	
Assets:	
Cash	\$ 13,402,300
Receivables	962,983
Land	8,453,501
Buildings and Improvements	17,593,670
Furniture and Equipment	2,121,848
Accumulated Depreciation	(2,822,655)
Other Assets	<u>128,876</u>
Total Assets	<u>\$ 39,840,524</u>
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts Payable	\$ 78,413
Wages Payable	391,069
Interest Payable	414,246
Accrued Liabilities	36,912
Notes Payable	260,289
Capital Lease Payable	7,748
Bonds Payable Net of Discount	<u>35,879,734</u>
Total Liabilities	<u>37,068,410</u>
Net Assets:	
Unrestricted	855,981
Temporarily Restricted	<u>1,916,133</u>
Total Net Assets	<u>2,772,114</u>
Total Liabilities and Net Assets	<u>\$ 39,840,524</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - BROWNSVILLE

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2011

ASSETS	
Assets:	
Cash	\$ 981,441
Receivables	154,663
Other Receivables	18,090
Buildings and Improvements	366,539
Furniture and Equipment	107,749
Accumulated Depreciation	(137,135)
Deposits	<u>24,000</u>
Total Assets	<u>\$ 1,515,348</u>
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts Payable	\$ 549
Wages Payable	49,005
Interest Payable	1,095
Bonds Payable Net of Discount	<u>60,960</u>
Total Liabilities	<u>111,609</u>
Net Assets:	
Unrestricted	918,235
Temporarily Restricted	<u>485,504</u>
Total Net Assets	<u>1,403,739</u>
Total Liabilities and Net Assets	<u>\$ 1,515,348</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCHOOL OF SCIENCE - HOUSTON

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2011

ASSETS	
Assets:	
Cash	\$ 2,840,056
Receivables	384,503
Land	1,087,500
Buildings and Improvements	13,634,431
Furniture and Equipment	342,708
Accumulated Depreciation	(1,003,390)
Deposits	59,995
Other Assets	<u>225,671</u>
Total Assets	<u>\$ 17,571,474</u>
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts Payable	\$ 950,576
Wages Payable	110,511
Interest Payable	89,636
Notes Payable	155,158
Bonds Payable Net of Discount	<u>15,051,200</u>
Total Liabilities	<u>16,357,082</u>
Net Assets:	
Unrestricted	530,584
Temporarily Restricted	<u>683,808</u>
Total Net Assets	<u>1,214,392</u>
Total Liabilities and Net Assets	<u>\$ 17,571,474</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - LAREDO

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2011

ASSETS

Assets:	
Cash	\$ 1,842,528
Receivables	266,642
Other Receivables	14,882
Buildings and Improvements	73,265
Furniture and Equipment	302,248
Accumulated Depreciation	(97,831)
Deposits	23,750
Total Assets	<u>\$ 2,425,484</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Wages Payable	65,111
Interest Payable	1,683
Accrued Liabilities	14,882
Bonds Payable Net of Discount	93,646
Total Liabilities	<u>175,322</u>
Net Assets:	
Unrestricted	1,003,699
Temporarily Restricted	<u>1,246,463</u>
Total Net Assets	<u>2,250,162</u>
Total Liabilities and Net Assets	<u>\$ 2,425,484</u>

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - HOUSTON

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2011

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 10,931,332		\$ 10,931,332
5750 Revenue from Curricular	<u>926,763</u>		<u>926,763</u>
Total Local Support	11,858,095		11,858,095
State Program Revenues:			
5810 Foundation School Program Act Revenue		22,081,085	22,081,085
5820 State Program Revenues Distributed by Texas Education Agency		<u>120,303</u>	<u>120,303</u>
Total State Program Revenues		22,201,388	22,201,388
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		2,547,013	2,547,013
5940 Federal Revenues Distributed Directly From the Federal Government		<u>885,270</u>	<u>885,270</u>
Total Federal Program Revenues		3,432,283	3,432,283
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>24,782,751</u>	<u>(24,782,751)</u>	
Total Revenues	<u>36,640,846</u>	<u>850,921</u>	<u>37,491,766</u>
EXPENSES			
11 Instruction	12,173,145		12,173,145
12 Instructional Resources and Media Service	<u>61,284</u>		<u>61,284</u>
13 Curriculum Development and Instructional Staff Development	422,978		422,978
21 Instructional Leadership	1,545,599		1,545,599
23 School Leadership	1,858,575		1,858,575
31 Guidance, Counseling, and Evaluation			
33 Health Services	139,798		139,798
34 Student (Pupil) Transportation	69,898		69,898
35 Food Service	1,128,837		1,128,837
36 Cocurricular/Extracurricular Activities	593,790		593,790
41 General Administration	9,982,750		9,982,750
51 Plant Maintenance and Operations	4,975,075		4,975,075
52 Security and Monitoring Services	181,077		181,077
53 Data Processing Services	177,109		177,109
71 Debt Service	<u>3,330,931</u>		<u>3,330,931</u>
Total Expenses	<u>36,640,846</u>		<u>36,640,846</u>
Change in Net Assets		<u>850,921</u>	<u>850,921</u>
Net Assets, Beginning of Year as Restated	<u>6,839,507</u>	<u>168,141</u>	<u>7,007,648</u>
Net Assets, End of Year	<u>\$ 6,839,507</u>	<u>\$ 1,019,062</u>	<u>\$ 7,858,569</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - AUSTIN

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2011

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 51,700	\$	\$ 51,700
5750 Revenue from Curricular	513,842		513,842
Total Local Support	565,541		565,541
State Program Revenues:			
5810 Foundation School Program Act Revenues		14,625,964	14,625,964
5820 State Program Revenues Distributed by Texas Education Agency		70,779	70,779
Total State Program Revenues		14,696,743	14,696,743
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		1,152,701	1,152,701
5940 Federal Revenues Distributed Directly From the Federal Government		441,063	441,063
Total Federal Program Revenues		1,593,763	1,593,763
Net assets released from restrictions: Restrictions satisfied by payments	15,337,215	(15,337,215)	
Total Revenues	15,902,756	953,291	16,856,047
EXPENSES			
11 Instruction	7,669,216		7,669,216
12 Instructional Resources and Media Services	131,523		131,523
13 Curriculum Development and Instructional Staff Development	227,392		227,392
23 School Leadership	1,139,375		1,139,375
31 Guidance, Counseling, and Evaluation			
33 Health Services	69,554		69,554
34 Student (Pupil) Transportation	77,781		77,781
35 Food Service	517,212		517,212
36 Cocurricular/Extracurricular Activities	272,508		272,508
41 General Administration	1,554,086		1,554,086
51 Plant Maintenance and Operations	3,623,241		3,623,241
52 Security and Monitoring Services	17,798		17,798
53 Data Processing Services	3,057		3,057
71 Debt Service	600,012		600,012
Total Expenses	15,902,756		15,902,756
Change in Net Assets		953,291	953,291
Net Assets, Beginning of Year	1,794,440		1,794,440
Net Assets, End of Year	\$ 1,794,440	\$ 953,291	\$ 2,747,731

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - SAN ANTONIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2011

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 18,035	\$	\$ 18,035
5750 Revenue from Curricular	265,070		265,070
Total Local Support	283,105		283,105
State Program Revenues:			
5810 Foundation School Program Act Revenues		7,129,484	7,129,484
5820 State Program Revenues Distributed by Texas Education Agency		42,705	42,705
Total State Program Revenues		7,172,189	7,172,189
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		672,912	672,912
5940 Federal Revenues Distributed Directly From the Federal Government		373,060	373,060
Total Federal Program Revenues		1,045,972	1,045,972
Net assets released from restrictions: Restrictions satisfied by payments	8,218,161	(8,218,161)	
Total Revenues	8,501,266		8,501,266
EXPENSES			
11 Instruction	4,530,592		4,530,592
12 Instructional Resources and Media Services	1,107		1,107
13 Curriculum Development and Instructional Staff Development	138,118		138,118
23 School Leadership	606,718		606,718
33 Health Services	73,739		73,739
35 Food Service	327,304		327,304
36 Cocurricular/Extracurricular Activities	138,905		138,905
41 General Administration	936,637		936,637
51 Plant Maintenance and Operations	1,050,575		1,050,575
52 Security and Monitoring Services	18,261		18,261
53 Data Processing Services	8,589		8,589
71 Debt Service	1,108,593		1,108,593
Total Expenses	8,939,137		8,939,137
Change in Net Assets	(437,872)		(437,871)
Net Asset, Beginning of Year as Restated	2,439,899		2,439,899
Net Assets, End of Year	\$ 2,002,027	\$	\$ 2,002,027

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - EL PASO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2011

	Unrestricted	Temporarily Restricted	Total
REVENUES			
5740 Other Revenues from Local Sources	\$ 41,903	\$	\$ 41,903
5750 Food Service Sales	492,265		492,265
Total Local Support	534,167		534,167
State Program Revenues:			
5810 Foundation School Program Act Revenues		9,402,560	9,402,560
5820 State Program Revenues Distributed by Texas Education Agency		54,313	54,313
Total State Program Revenues		9,456,874	9,456,874
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		1,010,834	1,010,834
Total Federal Program Revenues		1,010,834	1,010,834
Net assets released from restrictions:			
Restrictions satisfied by payments	9,213,837	(9,213,837)	
Total Revenues	9,748,004	1,253,870	11,001,875
EXPENSES			
11 Instruction	4,497,749		4,497,749
12 Instructional Resources and Media Services	2,862		2,862
13 Curriculum Development and Instructional Staff Development	142,206		142,206
23 School Leadership	708,323		708,323
33 Health Services	69,778		69,778
35 Food Service	327,305		327,305
36 Cocurricular/Extracurricular Activities	245,985		245,985
41 General Administration	1,105,211		1,105,211
51 Plant Maintenance and Operations	2,518,421		2,518,421
52 Security and Monitoring Services	28,471		28,471
53 Data Processing Services	2,421		2,421
71 Debt Service	99,271		99,271
Total Expenses	9,748,004		9,748,004
Change in Net Assets		1,253,870	1,253,870
Net Assets, Beginning of Year	3,616,052	46,110	3,662,162
Net Assets, End of Year	\$ 3,616,052	\$ 1,299,980	\$ 4,916,032

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - FORT WORTH

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2011

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 91,566	\$	\$ 91,566
5750 Revenue from Curricular	641,883		641,883
Total Local Support	733,449		733,449
State Program Revenues			
5810 Foundation School Program Act Revenue		16,051,384	16,051,384
5820 State Program Revenues Distributed by Texas Education Agency		77,642	77,642
Total State Program Revenues		16,129,026	16,129,026
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		1,199,588	1,199,588
5940 Federal Revenues Distributed Directly From the Federal Government		370,968	370,968
Total Federal Program Revenues		1,570,556	1,570,556
Net assets released from restrictions:			
Restrictions satisfied by payments	17,219,702	(17,219,702)	
Total Revenues	17,953,151	479,879	18,433,031
EXPENSES			
11 Instruction	8,669,693		8,669,693
12 Instructional Resources and Media Service	75,581		75,581
13 Curriculum Development and Instructional Staff Development	252,443		252,443
23 School Leadership	1,381,965		1,381,965
33 Health Services	38,061		38,061
35 Food Service	560,065		560,065
36 Cocurricular/Extracurricular Activities	386,838		386,838
41 General Administration	1,832,164		1,832,164
51 Plant Maintenance and Operations	3,252,267		3,252,267
52 Security and Monitoring Services	97,485		97,485
53 Data Processing Services	113,399		113,399
71 Debt Service	1,293,191		1,293,191
Total Expenses	17,953,151		17,953,151
Change in Net Assets		479,879	479,879
Net Assets, Beginning of Year as Restated	4,043,921	5,231	4,049,151
Net Assets, End of Year	\$ 4,043,921	\$ 485,110	\$ 4,529,031

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCHOOL OF EXCELLENCE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2011

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 207,602	\$	\$ 207,602
5750 Revenue from Curricular	888,775		888,775
Total Local Support	1,096,378		1,096,378
State Program Revenues:			
5810 Foundation School Program Act Revenues		20,444,843	20,444,843
5820 State Program Revenues Distributed by Texas Education Agency		92,828	92,828
Total State Program Revenues		20,537,671	20,537,671
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		1,378,719	1,378,719
5940 Federal Revenues Distributed Directly From the Federal Government		570,096	570,096
Total Federal Program Revenues		1,948,815	1,948,815
Net assets released from restrictions:			
Restrictions satisfied by payments	22,486,486	(22,486,486)	
Total Revenues	23,582,864		23,582,864
EXPENSES			
11 Instruction	10,822,250		10,822,250
12 Instructional Resources and Media Services	217,885		217,885
13 Curriculum Development and Instructional Staff Development	270,997		270,997
23 School Leadership	2,086,161		2,086,161
33 Health Services	121,928		121,928
34 Student (Pupil) Transportation	165,705		165,705
35 Food Service	780,547		780,547
36 Cocurricular/Extracurricular Activities	644,581		644,581
41 General Administration	2,342,129		2,342,129
51 Plant Maintenance and Operations	4,927,255		4,927,255
52 Security and Monitoring Services	73,842		73,842
53 Data Processing Services	870		870
71 Debt Service	1,520,194		1,520,194
Total Expenses	23,974,343		23,974,343
Change in Net Assets	(391,479)		(391,479)
Net Assets, Beginning of Year as Restated	1,455,565	21,337	1,476,902
Net Assets, End of Year	\$ 1,064,086	\$ 21,337	\$ 1,085,423

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - LUBBOCK

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2011

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 242,505	\$	\$ 242,505
5750 Revenue from Curricular	203,381		203,381
Total Local Support	445,887		445,887
State Program Revenues:			
5810 Foundation School Program Act Revenues		4,771,789	4,771,789
5820 State Program Revenues Distributed by Texas Education Agency		29,430	29,430
Total State Program Revenues		4,801,220	4,801,220
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		574,572	574,572
5940 Federal Revenues Distributed Directly From the Federal Government		128,063	128,063
Total Federal Program Revenues		702,636	702,636
Net assets released from restrictions:			
Restrictions satisfied by payments	5,503,855	(5,503,855)	
Total Revenues	5,949,742		5,949,742
EXPENSES			
11 Instruction	2,893,812		2,893,812
12 Instructional Resources and Media Services	8,153		8,153
13 Curriculum Development and Instructional Staff Development	126,419		126,419
23 School Leadership	532,792		532,792
33 Health Services	37,099		37,099
34 Student (Pupil) Transportation	230		230
35 Food Service	319,010		319,010
36 Cocurricular/Extracurricular Activities	125,613		125,613
41 General Administration	567,243		567,243
51 Plant Maintenance and Operations	1,161,595		1,161,595
52 Security and Monitoring Services	1,969		1,969
53 Data Processing Services	10,907		10,907
71 Debt Service	264,146		264,146
Total Expenses	6,048,990		6,048,990
Change in Net Assets	(99,248)		(99,248)
Net Assets, Beginning of Year	403,422	131,561	534,983
Net Assets, End of Year	\$ 304,174	\$ 131,561	\$ 435,735

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - WACO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2011

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 651,214	\$	\$ 651,214
5750 Revenue from Curricular	647,279		647,279
Total Local Support	1,298,493		1,298,493
State Program Revenues:			
5810 Foundation School Program Act Revenues		18,468,917	18,468,917
5820 State Program Revenues Distributed by Texas Education Agency		89,916	89,916
Total State Program Revenues		18,558,833	18,558,833
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		1,341,602	1,341,602
5940 Federal Revenues Distributed Directly From the Federal Government		26,072	26,072
Total Federal Program Revenues		1,367,674	1,367,674
Net assets released from restrictions:			
Restrictions satisfied by payments	18,334,490	(18,334,490)	
Total Revenues	19,632,983	1,592,017	21,225,000
EXPENSES			
11 Instruction	9,964,275		9,964,275
12 Instructional Resources and Media Services	85,808		85,808
13 Curriculum Development and Instructional Staff Development	348,406		348,406
23 School Leadership	1,717,072		1,717,072
33 Health Services	74,146		74,146
35 Food Service	857,090		857,090
36 Cocurricular/Extracurricular Activities	400,675		400,675
41 General Administration	2,009,545		2,009,545
51 Plant Maintenance and Operations	3,322,836		3,322,836
52 Security and Monitoring Services	16,050		16,050
71 Debt Service	837,081		837,081
Total Expenses	19,632,983		19,632,983
Change in Net Assets		1,592,017	1,592,017
Net Assets, Beginning of Year as Restated	855,981	324,116	1,180,097
Net Assets, End of Year	\$ 855,981	\$ 1,916,133	\$ 2,772,114

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - BROWNSVILLE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2011

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 2,503	\$	\$ 2,503
5750 Revenue from Curricular	149,028		149,028
Total Local Support	151,531		151,531
State Program Revenues:			
5810 Foundation School Program Act Revenues		3,158,433	3,158,433
5820 State Program Revenues Distributed by Texas Education Agency		26,692	26,692
Total State Program Revenues		3,185,125	3,185,125
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		380,043	380,043
Total Federal Program Revenues		380,043	380,043
Net assets released from restrictions:			
Restrictions satisfied by payments	3,401,187	(3,401,187)	
Total Revenues	3,552,718	163,981	3,716,698
EXPENSES			
11 Instruction	1,807,043		1,807,043
12 Instructional Resources and Media Services	1,221		1,221
13 Curriculum Development and Instructional Staff Development	74,049		74,049
23 School Leadership	327,784		327,784
33 Health Services	1,090		1,090
35 Food Service	112,627		112,627
36 Cocurricular/Extracurricular Activities	109,618		109,618
41 General Administration	328,510		328,510
51 Plant Maintenance and Operations	779,195		779,195
52 Security and Monitoring Services	8,751		8,751
53 Data Processing Services	2,829		2,829
Total Expenses	3,552,718		3,552,718
Change in Net Assets		163,981	163,981
Net Assets, Beginning of Year	918,235	321,523	1,239,758
Net Assets, End of Year	\$ 918,235	\$ 485,504	\$ 1,403,739

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCHOOL OF SCIENCE - HOUSTON

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2011

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 46,150	\$	\$ 46,150
5750 Revenue from Curricular	241,581		241,581
Total Local Support	287,731		287,731
State Program Revenues:			
5810 Foundation School Program Act Revenues		4,847,379	4,847,379
5820 State Program Revenues Distributed by			
Texas Education Agency		21,539	21,539
Total State Program Revenues		4,868,918	4,868,918
Federal Program Revenues:			
5920 Federal Revenues Distributed by			
Texas Education Agency		314,034	314,034
5940 Federal Revenues Distributed Directly			
From the Federal Government		366,284	366,284
Total Federal Program Revenues		680,317	680,317
Net assets released from restrictions:			
Restrictions satisfied by payments	5,119,919	(5,119,919)	
Total Revenues	5,407,650	429,316	5,836,966
EXPENSES			
11 Instruction	2,372,463		2,372,463
12 Instructional Resources and Media Services	30,954		30,954
13 Curriculum Development and Instructional			
Staff Development	62,011		62,011
23 School Leadership	324,857		324,857
33 Health Services	3,785		3,785
35 Food Service	189,031		189,031
36 Cocurricular/Extracurricular Activities	185,887		185,887
41 General Administration	483,628		483,628
51 Plant Maintenance and Operations	1,383,389		1,383,389
52 Security and Monitoring Services	5,316		5,316
53 Data Processing Services	45		45
71 Debt Service	366,284		366,284
Total Expenses	5,407,650		5,407,650
Change in Net Assets		429,316	429,316
Net Assets, Beginning of Year as Restated	530,584	254,492	785,076
Net Assets, End of Year	\$ 530,584	\$ 683,808	\$ 1,214,392

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - LAREDO

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2011

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 12,508	\$	\$ 12,508
5750 Revenue from Curricular	292,654		292,654
Total Local Support	305,162		305,162
State Program Revenues:			
5810 Foundation School Program Act Revenues		4,813,876	4,813,876
5820 State Program Revenues Distributed by			
Texas Education Agency		25,522	25,522
Total State Program Revenues		4,839,398	4,839,398
Federal Program Revenues:			
5920 Federal Revenues Distributed by			
Texas Education Agency		443,561	443,561
Total Federal Program Revenues		443,561	443,561
Net assets released from restrictions:			
Restrictions satisfied by payments	4,915,549	(4,915,549)	
Total Revenues	5,220,711	367,410	5,588,121
EXPENSES			
11 Instruction	2,410,046		2,410,046
12 Instructional Resources and Media Services	37,828		37,828
13 Curriculum Development and Instructional			
Staff Development	99,490		99,490
23 School Leadership	335,582		335,582
33 Health Services	29,546		29,546
35 Food Service	207,149		207,149
36 Cocurricular/Extracurricular Activities	177,158		177,158
41 General Administration	710,600		710,600
51 Plant Maintenance and Operations	1,199,593		1,199,593
52 Security and Monitoring Services	10,965		10,965
53 Data Processing Services	1,660		1,660
71 Debt Service	1,093		1,093
Total Expenses	5,220,711		5,220,711
Change in Net Assets		367,410	367,410
Net Assets, Beginning of Year	1,003,699	879,053	1,882,752
Net Assets, End of Year	\$ 1,003,699	\$ 1,246,463	\$ 2,250,162

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - HOUSTON

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2011

Cash Flows From Operating Activities	
Change In Net Assets	\$ 850,921
Adjustments To Reconcile Change In Net Assets To Net Cash Provided (Used) By Operating Activities	
Depreciation	1,618,921
(Increase) Decrease in Accounts Receivable	(92,811)
(Increase) Decrease in Other Receivables	(105,757)
(Increase) Decrease in Other Assets	(1,107,037)
Increase (Decrease) in Accounts Payable	(3,603,656)
Increase (Decrease) in Wages Payable	(221,440)
Increase (Decrease) in Accrued Liabilities	(238,300)
Increase (Decrease) in Interest Payable	<u>(142,324)</u>
Net Cash Provided (Used) by Operating Activities	<u>(3,041,483)</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(7,446,473)</u>
Net Cash Provided (Used) by Investing Activities	<u>(7,446,473)</u>
Cash Flows From Financing Activities	
Proceeds From Loans	7,386,448
Repayment of Long-Term Debt	<u>(1,222,631)</u>
Net Cash Provided (Used) by Financing Activities	<u>6,163,817</u>
NET INCREASE (DECREASE) IN CASH	(4,324,139)
CASH AT BEGINNING OF YEAR	<u>8,788,335</u>
CASH AT END OF YEAR	<u>\$ 4,464,196</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	<u>\$ 3,330,931</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - AUSTIN

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2011

Cash Flows From Operating Activities	
Change In Net Assets	\$ 953,291
Adjustments To Reconcile Change in Net Assets To Net Cash Provided (Used) By Operating Activities	
Depreciation	523,439
(Increase) Decrease in Accounts Receivable	(39,617)
(Increase) Decrease in Other Receivables	6,807
(Increase) Decrease in Other Assets	28,539
Increase (Decrease) in Accounts Payable	1,576,517
Increase (Decrease) in Wages Payable	146,690
Increase (Decrease) in Interest Payable	<u>(349,446)</u>
Net Cash Provided (Used) by Operating Activities	<u>2,846,220</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(9,669,253)</u>
Net Cash Provided (Used) by Investing Activities	<u>(9,669,253)</u>
Cash Flows From Financing Activities	
Proceeds From Bonds and Loans	5,533,973
Repayment of Long-Term Debt	<u>(879,952)</u>
Net Cash Provided (Used) by Financing Activities	<u>4,654,021</u>
NET INCREASE (DECREASE) IN CASH	(2,169,012)
CASH AT BEGINNING OF YEAR	<u>9,504,924</u>
CASH AT END OF YEAR	<u>\$ 7,335,912</u>
Supplemental Disclosures	
Cash Paid During the Year for:	
Interest	<u>\$ 600,012</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - SAN ANTONIO

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2011

Cash Flows From Operating Activities	
Change In Net Assets	\$ (437,871)
Adjustments To Reconcile Change In Net Assets To Net Cash Provided (Used) By Operating Activities	
Depreciation	471,179
(Increase) Decrease in Accounts Receivable	(178,923)
(Increase) Decrease in Other Receivables	(21,468)
(Increase) Decrease in Other Assets	24,354
Increase (Decrease) in Accounts Payable	(1,890,693)
Increase (Decrease) in Wages Payable	38,256
Increase (Decrease) in Accrued Liabilities	21,468
Increase (Decrease) in Interest Payable	<u>(343,957)</u>
Net Cash Provided (Used) by Operating Activities	<u>(2,317,655)</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(2,900,228)</u>
Net Cash Provided (Used) by Investing Activities	<u>(2,900,228)</u>
Cash Flows From Financing Activities	
Proceeds From Bonds and Loans	1,852,120
Repayment of Long-Term Debt	<u>(657,853)</u>
Net Cash Provided (Used) by Financing Activities	<u>1,194,267</u>
NET INCREASE (DECREASE) IN CASH	(4,023,616)
CASH AT BEGINNING OF YEAR	<u>5,291,333</u>
CASH AT END OF YEAR	<u>\$ 1,267,717</u>
<u>Supplemental Disclosures</u>	
Cash Paid During the Year for:	
Interest	<u>\$ 1,108,593</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - EL PASO

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2011

Cash Flows From Operating Activities	
Change In Net Assets	\$ 1,253,870
Adjustment To Reconcile Change in Net Assets To Net Cash Provided (Used) By Operating Activities	
Depreciation	480,949
(Increase) Decrease in Accounts Receivable	6,260
(Increase) Decrease in Other Receivables	(120,045)
(Increase) Decrease in Other Assets	(100,905)
Increase (Decrease) in Accounts Payable	304,528
Increase (Decrease) in Wages Payable	117,692
Increase (Decrease) in Accrued Liabilities	152,172
Increase (Decrease) in Interest Payable	<u>235,117</u>
Net Cash Provided (Used) by Operating Activities	<u>2,329,638</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(10,408,501)</u>
Net Cash Provided (Used) by Investing Activities	<u>(10,408,501)</u>
Cash Flows From Financing Activities	
Proceeds From Bonds and Loans	13,237,906
Repayment of Long-Term Debt	<u>(68,763)</u>
Net Cash Provided (Used) by Financing Activities	<u>13,169,143</u>
NET INCREASE (DECREASE) IN CASH	5,090,280
CASH AT BEGINNING OF YEAR	<u>3,612,282</u>
CASH AT END OF YEAR	<u>\$ 8,702,562</u>
<u>Supplemental Disclosures</u>	
Cash Paid During the Year for:	
Interest	<u>\$ 99,271</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - FORT WORTH

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2011

Cash Flows From Operating Activities	
Change In Net Assets	\$ 479,879
Adjustments To Reconcile Change In Net Assets To Net	
Cash Provided (Used) By Operating Activities	
Depreciation	917,481
(Increase) Decrease in Accounts Receivable	303,986
(Increase) Decrease in Other Assets	152,504
Increase (Decrease) in Accounts Payable	(504,354)
Increase (Decrease) in Wages Payable	79,477
Increase (Decrease) in Interest Payable	<u>2,054</u>
Net Cash Provided (Used) by Operating Activities	<u>1,431,027</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(6,350,611)</u>
Net Cash Provided (Used) by Investing Activities	<u>(6,350,611)</u>
Cash Flows From Financing Activities	
Proceeds From Bonds and Loans	12,464,830
Repayment of Long-Term Debt	<u>(358,517)</u>
Net Cash Provided (Used) by Financing Activities	<u>12,106,313</u>
NET INCREASE (DECREASE) IN CASH	7,186,729
CASH AT BEGINNING OF YEAR	<u>2,577,963</u>
CASH AT END OF YEAR	<u>\$ 9,764,692</u>
<u>Supplemental Disclosures</u>	
Cash Paid During the Year for:	
Interest	<u>\$ 1,293,148</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HOUSTON SCHOOL OF EXCELLENCE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2011

Cash Flows From Operating Activities	
Change In Net Assets	\$ (391,479)
Adjustment To Reconcile Change In Net Assets To Net	
Cash Provided (Used) By Operating Activities	
Depreciation	1,631,356
(Increase) Decrease in Accounts Receivable	147,769
(Increase) Decrease in Other Receivables	8,024
(Increase) Decrease in Other Assets	18,473
Increase (Decrease) in Accounts Payable	(3,200,456)
Increase (Decrease) in Wages Payable	168,961
Increase (Decrease) in Accrued Liabilities	(6,418)
Increase (Decrease) in Interest Payable	<u>(552,459)</u>
Net Cash Provided (Used) by Operating Activities	<u>(2,176,229)</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(4,163,795)</u>
Net Cash Provided (Used) by Investing Activities	<u>(4,163,795)</u>
Cash Flows From Financing Activities	
Proceeds From Bonds and Loans	4,786,449
Repayment of Long-Term Debt	<u>(278,422)</u>
Net Cash Provided (Used) by Financing Activities	<u>4,508,027</u>
NET INCREASE (DECREASE) IN CASH	(1,831,997)
CASH AT BEGINNING OF YEAR	<u>5,356,777</u>
CASH AT END OF YEAR	<u>\$ 3,524,780</u>
<u>Supplemental Disclosures</u>	
Cash Paid During the Year for:	
Interest	<u>\$ 1,520,551</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - LUBBOCK

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2011

Cash Flows From Operating Activities	
Change In Net Assets	\$ (99,248)
Adjustment To Reconcile Change In Net Assets To Net	
Cash Provided (Used) By Operating Activities	
Depreciation	534,071
(Increase) Decrease in Accounts Receivable	8,338
(Increase) Decrease in Other Receivable	70,200
(Increase) Decrease in Other Assets	11,420
Increase (Decrease) in Accounts Payable	(338,072)
Increase (Decrease) in Wages Payable	34,081
Increase (Decrease) in Interest Payable	(46,316)
Net Cash Provided (Used) by Operating Activities	<u>174,474</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(851,504)</u>
Net Cash Provided (Used) by Investing Activities	<u>(851,504)</u>
Cash Flows From Financing Activities	
Proceeds From Bonds and Loans	708,966
Repayment of Long-Term Debt	<u>(44,896)</u>
Net Cash Provided (Used) by Financing Activities	<u>664,070</u>
NET INCREASE (DECREASE) IN CASH	(12,960)
CASH AT THE BEGINNING OF THE YEAR	<u>747,344</u>
CASH AT END OF YEAR	<u>\$ 734,384</u>
<u>Supplemental Disclosures</u>	
Cash Paid During the Year for:	
Interest	<u>\$ 264,146</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - WACO

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2011

Cash Flows From Operating Activities	
Change In Net Assets	\$ 1,592,017
Adjustments To Reconcile Change In Net Assets To Net	
Cash Provided (Used) By Operating Activities	
Depreciation	1,101,523
(Increase) Decrease in Accounts Receivable	(145,591)
(Increase) Decrease in Other Assets	6,015
Increase (Decrease) in Accounts Payable	(1,119,485)
Increase (Decrease) in Wages Payable	154,155
Increase (Decrease) in Accrued Liabilities	36,912
Increase (Decrease) in Interest Payable	<u>184,332</u>
Net Cash Provided (Used) by Operating Activities	<u>1,809,878</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(10,484,383)</u>
Net Cash Provided (Used) by Investing Activities	<u>(10,484,383)</u>
Cash Flows From Financing Activities	
Proceeds From Bonds and Loans	21,081,798
Repayment of Long-Term Debt	<u>(241,731)</u>
Net Cash Provided (Used) by Financing Activities	<u>20,840,067</u>
NET INCREASE (DECREASE) IN CASH	12,165,562
CASH AT THE BEGINNING OF THE YEAR	<u>1,236,738</u>
CASH AT END OF YEAR	<u>\$ 13,402,300</u>
<u>Supplemental Disclosures</u>	
Cash Paid During the Year for:	
Interest	<u>\$ 837,081</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - BROWNSVILLE

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2011

Cash Flows From Operating Activities	
Change In Net Assets	\$ 163,981
Adjustments To Reconcile Change In Net Assets To Net Cash Provided (Used) By Operating Activities	
Depreciation	85,363
(Increase) Decrease in Accounts Receivable	95,930
(Increase) Decrease in Other Receivables	126
Increase (Decrease) in Accounts Payable	(56,333)
Increase (Decrease) in Wages Payable	940
Increase (Decrease) in Interest Payable	1,094
Net Cash Provided (Used) by Operating Activities	<u>291,101</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(64,929)</u>
Net Cash Provided (Used) by Investing Activities	<u>(64,929)</u>
Cash Flows From Financing Activities	
Proceeds From Bonds and Loans	<u>60,960</u>
Net Cash Provided (Used) by Financing Activities	<u>60,960</u>
NET INCREASE (DECREASE) IN CASH	287,132
CASH AT THE BEGINNING OF YEAR	<u>694,309</u>
CASH AT END OF YEAR	<u>\$ 981,441</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.
HARMONY SCHOOL OF SCIENCE - HOUSTON

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2011

Cash Flows From Operating Activities	
Change In Net Assets	\$ 429,316
Adjustments To Reconcile Change In Net Assets To Net Cash Provided (Used) By Operating Activities	
Depreciation	403,735
(Increase) Decrease in Accounts Receivable	(117,987)
(Increase) Decrease in Other Assets	16,578
Increase (Decrease) in Accounts Payable	892,028
Increase (Decrease) in Wages Payable	55,884
Increase (Decrease) in Other Liabilities	(3,439)
Increase (Decrease) in Interest Payable	<u>(293,213)</u>
Net Cash Provided (Used) by Operating Activities	<u>1,382,902</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(9,492,647)</u>
Net Cash Provided (Used) by Investing Activities	<u>(9,492,647)</u>
Cash Flows From Financing Activities	
Proceeds From Bonds and Loans	3,183,733
Repayment of Long-Term Debt	<u>(1,569,167)</u>
Net Cash Provided (Used) by Financing Activities	<u>1,614,566</u>
NET INCREASE (DECREASE) IN CASH	(6,495,179)
CASH AT BEGINNING OF YEAR	<u>9,335,235</u>
CASH AT END OF YEAR	<u>\$ 2,840,056</u>

Supplemental Disclosures

Cash Paid During the Year for:	
Interest	<u>\$ 366,020</u>

See accompanying notes to financial statements.

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COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - LAREDO

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2011

Cash Flows From Operating Activities	
Change In Net Assets	\$ 367,410
Adjustment To Reconcile Change In Net Assets To Net	
Cash Provided (Used) By Operating Activities	
Depreciation	47,268
(Increase) Decrease in Accounts Receivable	13,237
(Increase) Decrease in Other Receivable	(14,412)
Increase (Decrease) in Accounts Payable	(51,105)
Increase (Decrease) in Wages Payable	(3,286)
Increase (Decrease) in Other Liabilities	14,882
Increase (Decrease) in Interest Payable	1,683
Net Cash Provided (Used) by Operating Activities	<u>375,677</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(194,084)</u>
Net Cash Provided (Used) by Investing Activities	<u>(194,084)</u>
Cash Flows From Financing Activities	
Proceeds From Bonds and Loans	93,646
Repayment of Long-Term Debt	<u>(15,802)</u>
Net Cash Provided (Used) by Financing Activities	<u>77,844</u>
NET INCREASE (DECREASE) IN CASH	259,437
CASH AT BEGINNING OF YEAR	<u>1,583,091</u>
CASH AT END OF YEAR	<u>\$ 1,842,528</u>

See accompanying notes to financial statements.
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COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - HOUSTON

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2011

Expenses	
6100 Payroll Costs	\$ 15,725,788
6200 Professional and Contracted Services	8,392,144
6300 Supplies and Materials	3,011,244
6400 Other Operating Costs	6,080,901
6500 Debt	<u>3,430,769</u>
Total Expenses	<u>\$ 36,640,846</u>

See accompanying notes to financial statements.
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COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - AUSTIN

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2011

Expenses	
6100 Payroll Costs	\$ 7,858,896
6200 Professional and Contracted Services	5,469,868
6300 Supplies and Materials	911,262
6400 Other Operating Costs	1,051,432
6500 Debt	<u>611,297</u>
Total Expenses	<u>\$ 15,902,756</u>

See accompanying notes to financial statements.
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COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - SAN ANTONIO

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2011

Expenses	
6100 Payroll Costs	\$ 4,488,837
6200 Professional and Contracted Services	1,922,913
6300 Supplies and Materials	572,806
6400 Other Operating Costs	817,813
6500 Debt	<u>1,136,769</u>
Total Expenses	<u>\$ 8,939,137</u>

See accompanying notes to financial statements.
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COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - EL PASO

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2011

Expenses	
6100 Payroll Costs	\$ 4,266,242
6200 Professional and Contracted Services	3,492,139
6300 Supplies and Materials	689,601
6400 Other Operating Costs	1,200,278
6500 Debt	<u>99,745</u>
Total Expenses	<u>\$ 9,748,004</u>

See accompanying notes to financial statements.
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COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - FORT WORTH

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2011

Expenses	
6100 Payroll Costs	\$ 8,658,091
6200 Professional and Contracted Services	4,834,571
6300 Supplies and Materials	1,517,470
6400 Other Operating Costs	1,576,565
6500 Debt	<u>1,366,455</u>
Total Expenses	<u>\$ 17,953,151</u>

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

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2011

Expenses	
6100 Payroll Costs	\$ 11,554,661
6200 Professional and Contracted Services	6,694,004
6300 Supplies and Materials	1,656,994
6400 Other Operating Costs	2,522,319
6500 Debt	<u>1,546,365</u>
Total Expenses	<u>\$ 23,974,343</u>

See accompanying notes to financial statements.
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COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - LUBBOCK

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2011

Expenses	
6100 Payroll Costs	\$ 2,888,728
6200 Professional and Contracted Services	1,650,514
6300 Supplies and Materials	443,806
6400 Other Operating Costs	789,232
6500 Debt	<u>276,710</u>
Total Expenses	<u>\$ 6,048,990</u>

See accompanying notes to financial statements.
-56-

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - WACO

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2011

Expenses	
6100 Payroll Costs	\$ 10,140,588
6200 Professional and Contracted Services	5,318,415
6300 Supplies and Materials	1,546,642
6400 Other Operating Costs	1,783,694
6500 Debt	<u>843,644</u>
Total Expenses	<u>\$ 19,632,983</u>

See accompanying notes to financial statements.
-57-

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - BROWNSVILLE

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2011

Expenses	
6100 Payroll Costs	\$ 1,772,868
6200 Professional and Contracted Services	1,289,794
6300 Supplies and Materials	231,437
6400 Other Operating Costs	<u>258,619</u>
Total Expenses	<u>\$ 3,552,718</u>

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

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2011

Expenses	
6100 Payroll Costs	\$ 2,081,380
6200 Professional and Contracted Services	1,784,451
6300 Supplies and Materials	610,423
6400 Other Operating Costs	547,664
6500 Debt	<u>383,733</u>
Total Expenses	<u>\$ 5,407,650</u>

See accompanying notes to financial statements.
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COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - LAREDO

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2011

Expenses	
6100 Payroll Costs	\$ 2,389,803
6200 Professional and Contracted Services	2,071,989
6300 Supplies and Materials	361,641
6400 Other Operating Costs	396,185
6500 Debt	<u>1,093</u>
Total Expenses	<u>\$ 5,220,711</u>

See accompanying notes to financial statements.
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COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - HOUSTON

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2011

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 4,464,196	\$
1510 Land and Improvements		5,612,397	
1520 Buildings and Improvements		48,708,311	
1539 Furniture and Equipment		3,272,104	
Total Property and Equipment	<u>\$</u>	<u>\$ 62,057,008</u>	<u>\$</u>

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - AUSTIN

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2011

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 7,335,912	\$
1510 Land and Improvements:		2,129,350	
1520 Buildings and Improvements:		15,248,270	
1539 Furniture and Equipment		1,486,045	7,133
Total Property and Equipment	<u>\$</u>	<u>\$ 26,199,577</u>	<u>\$ 7,133</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - SAN ANTONIO

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2011

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 1,267,717	\$
1510 Land and Improvements		1,718,271	
1520 Buildings and Improvements		19,201,710	
1539 Furniture and Equipment		846,198	7,086
Total Property and Equipment	<u>\$</u>	<u>\$ 23,033,896</u>	<u>\$ 7,086</u>

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - EL PASO

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2011

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 8,702,562	\$
1510 Land and Improvements:		1,790,950	
1520 Buildings and Improvements:		10,485,237	37,650
1539 Furniture and Equipment		405,490	23,837
Total Property and Equipment	<u>\$</u>	<u>\$21,384,238</u>	<u>\$ 61,487</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - FORT WORTH

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2011

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 9,764,692	\$
1510 Land and Improvements:		2,944,614	
1520 Buildings and Improvements		23,322,549	
1539 Furniture and Equipment		1,533,842	6,661
Total Property and Equipment	<u>\$</u>	<u>\$ 37,565,696</u>	<u>\$ 6,661</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCHOOL OF EXCELLENCE

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2011

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 3,524,789	\$
1510 Land		3,959,203	
1520 Buildings and Improvements		26,744,762	
1539 Furniture and Equipment		2,506,150	11,652
Total Property and Equipment	<u>\$</u>	<u>\$36,734,895</u>	<u>\$ 11,652</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - LUBBOCK

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2011

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 734,384	\$
1510 Land		154,893	
1520 Buildings and Improvements		4,539,267	
1539 Furniture and Equipment		529,513	
Total Property and Equipment	<u>\$</u>	<u>\$ 5,958,057</u>	<u>\$</u>

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - WACO

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2011

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 13,402,300	\$
1510 Land and Improvements:		8,453,501	
1520 Buildings and Improvements		17,593,670	
1539 Furniture and Equipment		2,105,119	16,729
Total Property and Equipment	<u>\$</u>	<u>\$ 41,554,590</u>	<u>\$ 16,729</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - BROWNSVILLE

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2011

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 981,441	\$
1520 Buildings and Improvements		366,539	
1539 Furniture and Equipment		107,749	
Total Property and Equipment	<u>\$</u>	<u>\$ 1,455,729</u>	<u>\$</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCHOOL OF SCIENCE - HOUSTON

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2011

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 2,840,056	\$
1510 Land and Improvements:		1,087,500	
1520 Buildings and Improvements		13,634,431	
1539 Furniture and Equipment		342,708	
Total Property and Equipment	<u>\$</u>	<u>\$ 17,904,695</u>	<u>\$</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - LAREDO

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2011

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 1,842,528	\$
1520 Buildings and Improvements		73,265	
1539 Furniture and Equipment		302,248	
Total Property and Equipment	<u>\$</u>	<u>\$ 2,218,041</u>	<u>\$</u>

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - HOUSTON

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2011

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$10,612,400	\$10,612,400	\$10,931,332	\$ 318,932
5750 Food Service Sales	569,100	569,100	926,763	357,663
Total Local Support	11,181,500	11,181,500	11,858,095	676,595
State Program Revenues:				
5810 Foundation School Program Act Revenues	19,929,222	22,929,222	22,081,085	(848,137)
5820 State Program Revenues Distributed by Texas Education Agency	165,514	165,514	120,303	(45,211)
Total State Program Revenues	20,094,736	23,094,736	22,201,388	(893,348)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	2,793,204	2,793,204	2,547,013	(246,191)
5940 Federal Revenues Distributed Directly From the Federal Government	107,200	907,200	885,270	(21,930)
Total Federal Program Revenues	2,900,404	3,700,404	3,432,283	(268,121)
Total Revenues	34,176,640	37,976,640	37,491,766	(484,874)
EXPENSES				
11 Instruction	10,768,042	12,553,042	12,173,145	379,897
12 Instructional Resources and Media Services	212,909	62,409	61,284	1,125
13 Curriculum Development and Instructional Staff Development	700,829	700,829	422,978	277,851
21 Instructional Leadership	1,620,875	1,620,875	1,545,599	75,276
23 School Leadership	2,006,829	2,006,829	1,858,575	148,254
31 Guidance, Counseling, and Evaluation				
33 Health Services	124,772	124,772	139,798	(15,026)
34 Student (Pupil) Transportation		75,000	69,898	5,102
35 Food Service	1,023,300	1,023,300	1,128,837	(105,537)
36 Cocurricular/Extracurricular Activities	253,020	253,020	593,790	(340,770)
41 General Administration	9,381,011	9,381,011	9,982,750	(601,739)
51 Plant Maintenance and Operations	4,072,866	5,322,866	4,975,075	347,791
52 Security and Monitoring Services	35,900	35,900	181,077	(145,177)
53 Data Processing Services	210,250	210,250	177,109	33,141
71 Debt Service	3,590,000	3,590,000	3,330,931	259,069
Total Expenses	34,000,603	36,960,103	36,640,846	319,257
Change in Net Assets	176,037	1,016,537	850,921	(165,616)
Net Assets, Beginning of Year	7,007,648	7,007,648	7,007,648	
Net Assets, End of Year	<u>\$ 7,183,685</u>	<u>\$ 8,024,185</u>	<u>\$ 7,858,569</u>	<u>\$ (165,616)</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - AUSTIN

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2011

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - SAN ANTONIO

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2011

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 17,300	\$ 17,300	\$ 51,700	\$ 34,400
5750 Food Service Sales	<u>124,500</u>	<u>539,500</u>	<u>513,842</u>	<u>(25,658)</u>
Total Local Support	141,800	556,800	565,541	8,741
State Program Revenues:				
5810 Foundation School Program Act Revenues	14,270,658	14,270,658	14,625,964	355,306
5820 State Program Revenues Distributed by Texas Education Agency	116,643	116,643	70,779	(45,864)
5830 State Revenues From State of Texas Total State Program Revenues	<u>14,387,301</u>	<u>14,387,301</u>	<u>14,696,743</u>	<u>309,442</u>
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	971,747	971,747	1,152,701	180,954
5940 Federal Revenues Distributed Directly From the Federal Government	80,700	455,700	441,063	(14,637)
Total Federal Program Revenues	<u>1,052,447</u>	<u>1,427,447</u>	<u>1,593,763</u>	<u>166,316</u>
Total Revenues	15,581,548	16,371,548	16,856,047	484,499
EXPENSES				
11 Instruction	7,705,492	7,705,492	7,669,216	36,276
12 Instructional Resources and Media Services	81,900	139,400	131,523	7,877
13 Curriculum Development and Instructional Staff Development	376,822	244,872	227,392	17,480
23 School Leadership	1,291,676	1,291,676	1,139,375	152,301
33 Health Services	100,451	75,351	69,554	5,797
34 Student (Pupil) Transportation	80,000	80,000	77,781	2,219
35 Food Service	389,000	529,000	517,212	11,788
36 Cocurricular/Extracurricular Activities		300,000	272,508	27,492
41 General Administration	1,674,707	1,674,707	1,554,086	120,621
51 Plant Maintenance and Operations	3,423,163	3,423,163	3,623,241	(200,078)
52 Security and Monitoring Services	22,355	22,355	17,798	4,557
53 Data Processing Services	36,500	3,550	3,057	493
71 Debt Service	370,741	665,741	600,012	65,729
Total Expenses	15,552,807	16,155,307	15,902,756	252,551
Change in Net Assets	28,741	216,241	953,291	737,050
Net Assets, Beginning of Year	1,794,440	1,794,440	1,794,440	
Net Assets, End of Year	<u>\$ 1,823,181</u>	<u>\$ 2,010,681</u>	<u>\$ 2,747,732</u>	<u>\$ 737,050</u>

See accompanying notes to financial statements.

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 10,000	\$ 10,000	\$ 18,035	\$ 8,035
5750 Revenue from Curricular	<u>243,500</u>	<u>243,500</u>	<u>265,070</u>	<u>21,570</u>
Total Local Support	253,500	253,500	283,105	29,605
State Program Revenues:				
5810 Foundation School Program Act Revenues	7,267,186	7,267,186	7,129,484	(137,702)
5820 State Program Revenue Distributed by Texas Education Agency	61,541	61,541	42,705	(18,836)
Total State Program Revenues	<u>7,328,727</u>	<u>7,328,727</u>	<u>7,172,189</u>	<u>(156,538)</u>
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	581,198	691,198	672,912	(18,286)
5940 Federal Revenues Distributed Directly From the Federal Government		375,000	373,060	(1,940)
Total Federal Program Revenues	<u>581,198</u>	<u>1,066,198</u>	<u>1,045,972</u>	<u>(20,226)</u>
Total Revenues	8,163,425	8,648,425	8,501,266	(147,159)
EXPENSES				
11 Instruction	4,231,850	4,231,850	4,530,592	(298,742)
12 Instructional Resources and Media Services	21,500	1,150	1,107	43
13 Curriculum Development and Instructional Staff Development	67,452	147,452	138,118	9,334
23 School Leadership	499,132	619,132	606,718	12,414
33 Health Services	29,969	77,969	73,739	4,230
35 Food Service	263,500	338,500	327,304	11,196
36 Cocurricular/Extracurricular Activities	180,000	180,000	138,905	41,095
41 General Administration	1,024,234	1,024,234	936,637	87,597
51 Plant Maintenance and Operations	952,843	952,843	1,050,575	(97,732)
52 Security and Monitoring Services	10,950	10,950	18,261	(7,311)
53 Data Processing Services	7,000	7,000	8,589	(1,589)
71 Debt Service	851,393	1,226,393	1,108,593	117,800
Total Expenses	8,139,823	8,817,473	8,939,137	(121,664)
Change in Net Assets	23,602	(169,048)	(437,871)	(268,823)
Net Assets, Beginning of Year	2,439,899	2,439,899	2,439,899	
Net Assets, End of Year	<u>\$ 2,463,501</u>	<u>\$ 2,270,851</u>	<u>\$ 2,002,027</u>	<u>\$ (268,823)</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - EL PASO
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2011

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - FORT WORTH
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2011

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 0	\$ 45,000	\$ 41,903	\$ (3,097)
5750 Food Service Sales	331,000	331,000	492,265	161,265
Total Local Support	331,000	376,000	534,167	158,167
State Program Revenues:				
5810 Foundation School Program Act Revenues	9,199,814	9,199,814	9,402,560	202,746
5820 State Program Revenues Distributed by				
Texas Education Agency	70,437	70,437	54,313	(16,124)
Total State Program Revenues	9,270,251	9,270,251	9,456,874	186,623
Federal Program Revenues:				
5920 Federal Revenues Distributed by				
Texas Education Agency	982,624	982,624	1,010,834	28,210
Total Federal Program Revenues	982,624	982,624	1,010,834	28,210
Total Revenues	10,583,875	10,628,875	11,001,875	373,000
EXPENSES				
11 Instruction	4,322,935	4,322,935	4,497,749	(174,814)
12 Instructional Resources and Media Services	0	3,000	2,862	138
13 Curriculum Development and Instructional				
Staff Development	216,603	150,594	142,206	8,388
23 School Leadership	636,276	736,276	708,323	27,953
33 Health Services	0	75,000	69,778	5,222
35 Food Service	446,000	346,000	327,305	18,695
36 Cocurricular/Extracurricular Activities	60,000	260,000	245,985	14,015
41 General Administration	1,143,855	1,143,855	1,105,211	38,644
51 Plant Maintenance and Operations	2,340,550	2,340,550	2,518,421	(177,871)
52 Security and Monitoring Services	17,000	30,000	28,471	1,529
53 Data Processing Services	10,000	2,500	2,421	79
71 Debt Services	135,501	105,501	99,271	6,230
Total Expenses	9,328,720	9,516,211	9,748,004	(231,793)
Change in Net Assets	1,255,155	1,112,664	1,253,870	141,206
Net Asset, Beginning of Year	3,662,162	3,662,162	3,662,162	
Net Assets, End of Year	<u>\$ 4,917,317</u>	<u>\$ 4,774,826</u>	<u>\$ 4,916,032</u>	<u>\$ 141,206</u>

See accompanying notes to financial statements.

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 53,000	\$ 53,000	\$ 91,566	\$ 38,566
5750 Revenue from Curricular	541,310	541,310	641,883	100,573
Total Local Support	594,310	594,310	733,449	139,139
State Program Revenues:				
5810 Foundation School Program Act Revenues	15,451,162	15,451,162	16,051,384	600,222
5820 State Program Revenues Distributed by				
Texas Education Agency	116,927	0	77,642	77,642
Total State Program Revenues	15,568,089	15,451,162	16,129,026	677,864
Federal Program Revenues:				
5920 Federal Revenues Distributed by				
Texas Education Agency	1,194,084	1,194,084	1,199,588	5,504
5940 Federal Revenues Distributed Directly				
From the Federal Government			370,968	370,968
Total Federal Program Revenues	1,194,084	1,194,084	1,570,556	376,472
Total Revenues	17,356,483	17,239,556	18,433,031	1,193,475
EXPENSES				
11 Instruction	8,429,313	8,429,313	8,669,693	(240,380)
12 Instructional Resources and Media Services	97,365	97,365	75,581	21,784
13 Curriculum Development and Instructional				
Staff Development	174,007	264,007	252,443	11,564
23 School Leadership	1,289,718	1,289,718	1,381,965	(92,247)
33 Health Services	148,846	41,304	38,061	3,243
35 Food Service	481,000	571,000	560,065	10,935
36 Cocurricular/Extracurricular Activities	365,000	365,000	386,838	(21,838)
41 General Administration	2,030,788	2,030,788	1,832,164	198,624
51 Plant Maintenance and Operations	2,445,423	3,345,423	3,252,267	93,156
52 Security and Monitoring Services	36,000	106,000	97,485	8,515
53 Data Processing Services	49,100	120,100	113,399	6,701
71 Debt Service	1,680,590	1,431,372	1,293,191	138,181
Total Expenses	17,227,150	18,091,390	17,953,151	138,239
Change in Net Assets	129,333	(851,834)	479,879	1,331,713
Net Assets, Beginning of Year	4,049,151	4,049,151	4,049,151	
Net Assets, End of Year	<u>\$ 4,178,484</u>	<u>\$ 3,197,317</u>	<u>\$ 4,529,031</u>	<u>\$ 1,331,713</u>

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCHOOL OF EXCELLENCE

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2011

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - LUBBOCK

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2011

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 43,770	\$ 223,770	\$ 207,603	\$ (16,167)
5750 Revenues from Curricular	892,852	892,852	888,775	(4,077)
Total Local Support	936,622	1,116,622	1,096,378	(20,244)
State Program Revenues:				
5810 Foundation School Program Act Revenues	20,900,653	20,900,653	20,444,843	(455,810)
5820 State Program Revenues Distributed by Texas Education Agency	166,846	93,571	92,828	(743)
Total State Program Revenues	21,067,499	20,994,224	20,537,671	(456,553)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	1,447,465	1,447,465	1,378,719	(68,746)
5940 Federal Revenues Distributed Directly From the Federal Government	55,900	575,900	570,096	(5,804)
Total Federal Program Revenues	1,503,365	2,023,365	1,948,815	(74,550)
Total Revenues	23,507,486	24,134,211	23,582,864	(551,347)
EXPENSES				
11 Instruction	10,961,072	10,961,072	10,822,250	138,822
12 Instructional Resources and Media Services	222,169	222,169	217,885	4,284
13 Curriculum Development and Instructional Staff Development	365,732	278,732	270,997	7,735
23 School Leadership	2,092,575	2,092,575	2,086,161	6,414
33 Health Services	102,752	102,752	121,928	(19,176)
34 Student (Pupil) Transportation		175,000	165,705	9,295
35 Food Service	636,500	811,500	780,547	30,953
36 Cocurricular/Extracurricular Activities	472,000	647,000	644,581	2,419
41 General Administration	2,559,301	2,559,301	2,342,129	217,172
51 Plant Maintenance and Operations	3,933,830	4,983,830	4,927,255	56,575
52 Security and Monitoring Services	31,200	78,700	73,842	4,858
53 Data Processing Services	28,000	950	870	80
71 Debt Service	1,975,062	1,575,062	1,520,194	54,868
Total Expenses	23,380,193	24,488,643	23,974,343	514,300
Change in Net Assets	127,293	(354,432)	(391,479)	(37,047)
Net Assets, Beginning of Year	1,476,902	1,476,902	1,476,902	
Net Assets, End of Year	\$ 1,604,195	\$ 1,122,470	\$ 1,085,423	\$ (37,047)

See accompanying notes to financial statements.

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 131,000	\$ 255,000	\$ 242,505	\$ (12,495)
5750 Revenue from Curricular	131,000	131,000	203,381	72,381
Total Local Support	131,000	386,000	445,887	59,887
State Program Revenues:				
5810 Foundation School Program Act Revenues	5,142,630	5,142,630	4,771,789	(370,841)
5820 State Program Revenues Distributed by Texas Education Agency	39,867	39,867	29,430	(10,437)
Total State Program Revenues	5,182,497	5,182,497	4,801,220	(381,277)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	503,588	503,588	574,572	70,984
5940 Federal Revenues Distributed Directly From the Federal Government		135,000	128,063	(6,937)
Total Federal Program Revenues	503,588	638,588	702,636	64,048
Total Revenues	5,817,085	6,207,085	5,949,742	(257,343)
EXPENSES				
11 Instruction	2,808,744	2,808,744	2,893,812	(85,068)
12 Instructional Resources and Media Services	72,971	9,000	8,153	847
13 Curriculum Development and Instructional Staff Development	74,769	128,269	126,419	1,850
23 School Leadership	574,331	574,331	532,792	41,539
33 Health Services	77,928	41,628	37,099	4,529
34 Transportation			230	(230)
35 Food Service	282,000	33,000	319,010	(286,010)
36 Cocurricular/Extracurricular Activities	61,000	61,000	125,613	(64,613)
41 General Administration	606,260	606,260	567,243	39,017
51 Plant Maintenance and Operations	837,820	1,230,320	1,161,595	68,725
52 Security and Monitoring Services	3,200	3,200	1,969	1,231
53 Data Processing Services	10,000	10,000	10,907	(907)
71 Debt Service	325,000	282,500	264,146	18,354
Total Expenses	5,734,023	5,788,252	6,048,990	(260,738)
Change in Net Assets	83,062	418,833	(99,248)	(518,081)
Net Assets, Beginning of Year	534,983	534,983	534,983	
Net Assets, End of Year	\$ 618,045	\$ 953,816	\$ 435,735	\$ (518,081)

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - WACO

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2011

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - BROWNSVILLE

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2011

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 94,000	\$ 689,000	\$ 651,214	\$ (37,786)
5750 Revenue from Curricular	359,100	659,100	647,279	11,821
Total Local Support	453,100	1,348,100	1,298,493	(49,607)
State Program Revenues:				
5810 Foundation School Program Act Revenues	18,692,941	18,692,941	18,468,917	(224,024)
5820 State Program Revenues Distributed by Texas Education Agency	115,402	115,402	89,916	(25,486)
Total State Program Revenues	18,808,343	18,808,343	18,558,833	(249,510)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	1,074,137	1,374,137	1,341,602	(32,535)
5940 Federal Revenues Distributed Directly From the Federal Government	26,800	26,800	26,072	(728)
Total Federal Program Revenues	1,100,937	1,400,937	1,367,674	(33,263)
Total Revenues	20,362,380	21,557,380	21,225,000	(332,380)
EXPENSES				
11 Instruction	9,296,304	9,296,304	9,964,275	(667,971)
12 Instructional Resources and Media Services	146,929	146,929	85,808	61,121
13 Curriculum Development and Instructional Staff Development	311,512	311,512	348,406	(36,894)
23 School Leadership	1,432,820	1,432,820	1,717,072	(284,252)
33 Health Services	90,428	90,428	74,146	16,282
35 Food Service	743,000	868,000	857,090	10,910
36 Cocurricular/ Extracurricular Activities	280,340	430,340	400,675	29,665
41 General Administration	2,415,557	2,224,417	2,009,545	214,872
51 Plant Maintenance and Operations	3,389,488	3,389,488	3,322,836	66,652
52 Security and Monitoring Services	38,900	38,900	16,050	22,850
71 Debt Services	1,096,997	896,997	837,081	59,916
Total Expenses	19,242,275	19,126,135	19,632,983	(506,848)
Change in Net Assets	1,120,105	2,431,245	1,592,017	(839,228)
Net Assets, Beginning of Year	1,180,097	1,180,097	1,180,097	
Net Assets, End of Year	\$ 2,300,202	\$ 3,611,342	\$ 2,772,113	\$ (839,228)

See accompanying notes to financial statements.

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 5,080	\$ 5,080	\$ 2,503	\$ (2,577)
5750 Revenue from Curricular	184,500	184,500	149,028	(35,472)
Total Local Support	189,580	189,580	151,531	(38,049)
State Program Revenues:				
5810 Foundation School Program Act Revenues	3,167,181	3,167,181	3,158,433	(8,748)
5820 State Program Revenues Distributed by Texas Education Agency	38,847	38,847	26,692	(12,155)
Total State Program Revenues	3,206,028	3,206,028	3,185,125	(20,903)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	377,703	377,703	380,043	2,340
Total Federal Program Revenues	377,703	377,703	380,043	2,340
Total Revenues	3,773,311	3,773,311	3,716,698	(56,613)
EXPENSES				
11 Instruction	1,726,500	1,726,500	1,807,043	(80,543)
12 Instructional Resources and media Services	17,500	1,250	1,221	29
13 Curriculum Development and Instructional Staff Development	63,235	63,235	74,049	(10,814)
23 School Leadership	330,536	330,536	327,784	2,752
33 Health Services	33,053	1,100	1,090	10
35 Food Service	135,500	135,500	112,627	22,873
36 Cocurricular / Extracurricular Activities	146,000	146,000	109,618	36,382
41 General Administration	375,529	375,529	328,510	47,019
51 Plant Maintenance and Operations	722,900	722,900	779,195	(56,295)
52 Security and Monitoring Services	4,100	4,100	8,751	(4,651)
53 Data Processing Services	8,000	8,000	2,829	5,171
Total Expenses	3,562,853	3,514,650	3,552,718	(38,068)
Change in Net Assets	210,458	258,661	163,981	(94,680)
Net Assets, Beginning of Year	1,239,758	1,239,758	1,239,758	
Net Assets, End of Year	\$ 1,450,216	\$ 1,498,419	\$ 1,403,739	\$ (94,680)

See accompanying notes to financial statements.

COSMOS FOUNDATION, INC.
HARMONY SCHOOL OF SCIENCE - HOUSTON

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2011

COSMOS FOUNDATION, INC.
HARMONY SCIENCE ACADEMY - LAREDO

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2011

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 13,100	\$ 50,600	\$ 46,150	\$ (4,450)
5750 Revenue from Curricular	226,000	226,000	241,581	15,581
Total Local Support	239,100	276,600	287,731	11,131
State Program Revenues:				
5810 Foundation School Program Act Revenues	4,396,863	4,396,863	4,847,379	450,516
5820 State Program Revenues Distributed by Texas Education Agency	39,170	21,539	21,539	(0)
Total State Program Revenues	4,436,033	4,418,402	4,868,918	450,516
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	462,293	317,293	314,034	(3,259)
5940 Federal Revenues Distributed Directly From the Federal Government		375,000	366,284	(8,716)
Total Federal Program Revenues	462,293	692,293	680,317	(11,976)
Total Revenues	5,137,426	5,387,295	5,836,966	449,671
EXPENSES				
11 Instruction	2,030,230	2,480,230	2,372,463	107,767
12 Instructional Resources and Media Services	42,469	32,469	30,954	1,515
13 Curriculum Development and Instructional Staff Development	123,174	64,434	62,011	2,423
23 School Leadership	316,470	316,470	324,857	(8,387)
33 Health Services	32,317	4,017	3,785	232
35 Food Service	190,800	190,800	189,031	1,769
36 Cocurricular/ Extracurricular Activities	156,000	156,000	185,887	(29,887)
41 General Administration	478,249	478,249	483,628	(5,379)
51 Plant Maintenance and Operations	1,035,585	1,420,585	1,383,389	37,196
52 Security and Monitoring Services	7,500	7,500	5,316	2,184
53 Data Processing Services	5,500	50	45	5
71 Debt Service	133,322	375,000	366,284	8,716
Total Expenses	4,551,616	5,525,804	5,407,650	118,154
Change in Net Assets	585,809	(138,510)	429,316	567,826
Net Assets, Beginning of Year	785,076	785,076	785,076	
Net Assets, End of Year	\$ 1,370,885	\$ 646,566	\$ 1,214,392	\$ 567,826

See accompanying notes to financial statements.

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 15,100	\$ 15,100	\$ 12,508	\$ (2,592)
5750 Revenue from Curricular	271,000	271,000	292,654	21,654
Total Local Support	286,100	286,100	305,162	19,062
State Program Revenues:				
5810 Foundation School Program Act Revenues	4,671,439	4,671,439	4,813,876	142,437
5820 State Program Revenues Distributed by Texas Education Agency	46,984	46,984	25,522	(46,984)
Total State Program Revenues	4,718,423	4,718,423	4,839,398	120,975
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	474,096	474,096	443,561	(30,535)
Total Federal Program Revenues	474,096	474,096	443,561	(30,535)
Total Revenues	5,478,619	5,478,619	5,588,121	109,502
EXPENSES				
11 Instruction	2,330,864	2,330,864	2,410,046	(79,182)
12 Instructional Resources and Media Services	48,618	37,828	37,828	0
13 Curriculum Development and Instructional Staff Development	81,350	81,350	99,490	(18,140)
23 School Leadership	472,410	344,410	335,582	8,828
33 Health Services	35,017	35,017	29,546	5,471
35 Food Service	247,000	247,000	207,149	39,851
36 Cocurricular/ Extracurricular Activities	182,000	182,000	177,158	4,842
41 General Administration	704,382	704,382	710,600	(6,218)
51 Plant Maintenance and Operations	1,176,467	1,176,467	1,199,593	(23,126)
52 Security and Monitoring Services	4,000	4,000	10,965	(6,965)
53 Data Processing Services	5,000	5,000	1,660	3,340
71 Debt Service	1,500	1,500	1,093	407
Total Expenses	5,288,608	5,149,818	5,220,711	(70,893)
Change in Net Assets	190,011	328,801	367,410	38,609
Net Assets, Beginning of Year	1,882,752	1,882,752	1,882,752	
Net Assets, End of Year	\$ 2,072,763	\$ 2,211,553	\$ 2,250,162	\$ 38,609

See accompanying notes to financial statements.

GOMEZ & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
6750 W. LOOP SOUTH, SUITE 520
HOUSTON, TEXAS 77401
TEL: (713) 666-5900
FAX: (713) 666-1049
<http://www.gomezandco.com>

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of Cosmos Foundation, Inc. (HSA) as of and for the year ended August 31, 2011, and have issued our report thereon dated December 16, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. Item 1

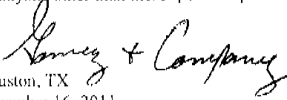
Compliance and Other Matters

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

We noted certain matters that we reported to management of Cosmos Foundation, Inc. in a separate letter dated December 16, 2011.

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

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


Houston, TX
December 16, 2011

GOMEZ & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
6750 W. LOOP SOUTH, SUITE 520
HOUSTON, TEXAS 77401
TFF: (713) 666-5000
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited Cosmos Foundation, Inc.'s (HSA) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of HSA's major federal programs for the year ended August 31, 2011. HSA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of HSA's management. Our responsibility is to express an opinion on HSA's compliance based on our audit.

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

In our opinion, HSA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2011.

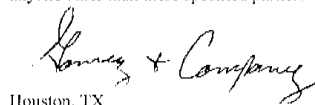
Internal Control Over Compliance

Management of HSA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered HSA's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of HSA's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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



Houston, TX
December 16, 2011

COSMOS FOUNDATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2011

Summary of Audit Results

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

U.S. Department of Education	<u>CUDA Number</u>
Passed – Through Texas Education Agency	
Title I, Part A*	84.010A
Title I, Part A - ARRA*	84.389A
IDEA-B Formula*	84.027A
IDEA-B Formula-ARRA*	84.391A
Title XIV, SFSF-ARRA	84.394A
U.S. Department of Treasury	
2010 QSCB Direct Subsidy Assistance	21.020

* denotes cluster

8. A \$300,000.00 threshold was used to distinguish between Type A and Type B programs as described in section .520 (b) of OMB A-133.
9. Cosmos Foundation, Inc. does not qualify as a low-risk auditee.

COSMOS FOUNDATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2011

Current Year Findings

Questioned
Costs

I. Recording of Financial Data and Maintaining of General Ledger

Condition:

During the audit, key financial entries had to be recorded to HSA's general ledger to correct account balances. Some prior year audit adjustments were not reversed properly, some loan and related assets transaction were not recorded timely, construction payments had to be accrued along with retainage on several projects, and some year-end accruals for accounts payable were not posted. Based on our observation, this condition exists due to lack of qualified senior accounting staff to handle the daily accounting transactions and provide support to management.

Criteria:

HSA's transactions should be recorded in the manner required by generally accepted accounting principles and TEA's FASRG

Effect:

Without recording of key financial entries, and proper coding, HSA may not have an accurate general ledger. Without correct general ledgers, management would have inaccurate information and would not be able to make prudent decisions.

Recommendation:

We recommend that HSA implement procedures and controls to provide for timely recording of financial transactions, month-end entries and year-end closing entries. We also recommend that HSA restructure their accounting department and hire or obtain qualified senior staff experienced in charter school and/or non-profit accounting to assume a supervisory role and provide support to the accounting personnel.

Status:

The 2011 Financial Audit prepared by the Gomez & Company was carefully reviewed by the Superintendent and executive members of HSA. The finding was noted and acknowledged by management. Three months prior to end of the audit year, the leadership of the HSA Central Office along with the board president started to take the following important actions to address this finding. The Central Administration will continue to implement these actions throughout the year to have successful financial operation.

- The Central Office and campus organizational structure were revised in regards to the financial operation and communication between campuses and the central office.
- Chief Financial Officer and several other key financial managers were replaced with qualified personnel.
- Additional staff was hired for the financial department.
- Number of training hours for finance office personnel was increased to adequately address the needs of employees.
- Outside consulting firm hired to review finance department and its operation.
- Financial accounting software was replaced with more effective and efficient online system to address the needs of HSA.

We strongly believe that these actions will resolve the current challenges on financial operation of Harmony Public Schools. We will continue to seek consultation to respond fast growing needs of our organizations. The new CFO, Mr. Yalcin Akyildiz, will be in charge of implementing these changes in timely manner.

COSMOS FOUNDATION, INC.

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2011

Summary Schedule of Prior Year Findings

No audit findings were noted as per section .300 (f) of OMB A-133 for the year ended August 31, 2010.

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COSMOS FOUNDATION, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2011

Federal Grants/ Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
FOREIGN LANGUAGES ASSISTANCE	84.293.D	1293B090092	\$ 285,165
Total U.S. Department of Education			285,165
U.S. Department of Treasury			
2010 QSCB DIRECT SUBSIDY ASSISTANCE	21.020		2,880,105
Total U.S. Department of Treasury			2,880,105
U.S. Department of Education			
Passed - Through Texas Education Agency:			
TITLE I, PART A-IMPROVING BASI	84.010A	10610101031803	1,340
TITLE I, PART A-IMPROVING BASI	84.010A	10610101101846	5,494
TITLE I, PART A-IMPROVING BASI	84.010A	10610101161807	8,619
TITLE I, PART A-IMPROVING BASI	84.010A	10610101227816	3,819
TITLE I, PART A-IMPROVING BASI	84.010A	10610101240804	47
TITLE I, PART A-IMPROVING BASI	84.010A	11610101015828	170,758
TITLE I, PART A-IMPROVING BASI	84.010A	11610101031803	132,892
TITLE I, PART A-IMPROVING BASI	84.010A	11610101071806	301,467
TITLE I, PART A-IMPROVING BASI	84.010A	11610101101846	726,614
TITLE I, PART A-IMPROVING BASI	84.010A	11610101101858	230,424
TITLE I, PART A-IMPROVING BASI	84.010A	11610101101862	91,154
TITLE I, PART A-IMPROVING BASI	84.010A	11610101152805	124,024
TITLE I, PART A-IMPROVING BASI	84.010A	11610101161807	239,623
TITLE I, PART A-IMPROVING BASI	84.010A	11610101220813	277,394
TITLE I, PART A-IMPROVING BASI	84.010A	11610101227816	224,816
TITLE I, PART A-IMPROVING BASI	84.010A	11610101240804	132,037
TITLE I, PART A - ARRA/STIMULU	84.389A	10551001015828	4,690
TITLE I, PART A - ARRA/STIMULU	84.389A	10551001031803	2,672
TITLE I, PART A - ARRA/STIMULU	84.389A	10551001071806	107,067
TITLE I, PART A - ARRA/STIMULU	84.389A	10551001101846	260,276
TITLE I, PART A - ARRA/STIMULU	84.389A	10551001101858	51,507
TITLE I, PART A - ARRA/STIMULU	84.389A	10551001101862	18,994
TITLE I, PART A - ARRA/STIMULU	84.389A	10551001152805	14,369
TITLE I, PART A - ARRA/STIMULU	84.389A	10551001161807	1,475
TITLE I, PART A - ARRA/STIMULU	84.389A	10551001220813	43,612
TITLE I, PART A - ARRA/STIMULU	84.389A	10551001227816	15,017
TITLE I, PART A - ARRA/STIMULU	84.389A	10551001240804	4,993
IDEA-B FORMULA	84.027A	116600010318036000	61,376
IDEA-B FORMULA	84.027A	116600010718066000	140,265
IDEA-B FORMULA	84.027A	116600011018466000	384,521
IDEA-B FORMULA	84.027A	116600011018586000	182,971
IDEA-B FORMULA	84.027A	116600011018626000	19,821
IDEA-B FORMULA	84.027A	116600011528056000	103,890
IDEA-B FORMULA	84.027A	116600011618076000	341,110
IDEA-B FORMULA	84.027A	116600012208136000	257,879
IDEA-B FORMULA	84.027A	116600012278166000	237,296
IDEA-B FORMULA	84.027A	116600012408046000	52,923
IDEA-B FORMULA	84.027A	106600012408046000	\$ 4,122

COSMOS FOUNDATION, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2011

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Federal Expenditures
IDEA-B FORMULA	84.027A	116600010158286000	\$ 105,005
IDEA-B FORMULA - ARRA	84.391A	10554001015828	16,925
IDEA-B FORMULA - ARRA	84.391A	10554001071806	18,626
IDEA-B FORMULA - ARRA	84.391A	1055400101846	28,467
IDEA-B FORMULA - ARRA	84.391A	1055400101858	2,353
IDEA-B FORMULA - ARRA	84.391A	1055400101862	36,485
IDEA-B FORMULA - ARRA	84.391A	10554001152805	11,780
IDEA-B FORMULA - ARRA	84.391A	10554001227816	6,046
IDEA-B FORMULA - ARRA	84.391A	10554001227822	5,607
IDEA-B FORMULA - ARRA	84.391A	10554001240804	4,381
TITLE IV, PART A-SAFE & DRUG-F	84.186A	10691001031803	310
TITLE IV, PART A-SAFE & DRUG-F	84.186A	1069100101858	548
TITLE IV, PART A-SAFE & DRUG-F	84.186A	10691001161807	325
TITLE IV, PART A-SAFE & DRUG-F	84.186A	10691001227816	27
2010-11 PUBLIC CHARTER SCHOOL	84.282A	115900217110001	176,349
TITLE II, PART D-ENHANCING EDU	84.318X	1063000101858	268
TITLE II, PART D-ENHANCING EDU	84.318X	10630001220813	779
TITLE III, PART A-LEP	84.365A	1167100101846	26,122
TITLE II, PART A-TEACHER & PRI	84.367A	1069450101846	8,664
TITLE II, PART A-TEACHER & PRI	84.367A	10694501227816	2,595
TITLE II, PART A-TEACHER & PRI	84.367A	11694501015828	74,606
TITLE II, PART A-TEACHER & PRI	84.367A	11694501031803	29,860
TITLE II, PART A-TEACHER & PRI	84.367A	11694501071806	43,957
TITLE II, PART A-TEACHER & PRI	84.367A	1169450101846	86,092
TITLE II, PART A-TEACHER & PRI	84.367A	1169450101858	105,609
TITLE II, PART A-TEACHER & PRI	84.367A	1169450101862	27,862
TITLE II, PART A-TEACHER & PRI	84.367A	11694501152805	36,834
TITLE II, PART A-TEACHER & PRI	84.367A	11694501161807	147,844
TITLE II, PART A-TEACHER & PRI	84.367A	11694501220813	72,447
TITLE II, PART A-TEACHER & PRI	84.367A	11694501227816	100,408
TITLE II, PART A-TEACHER & PRI	84.367A	11694501240804	24,122
TITLE II, D TECHNOLOGY - ARRA	84.386A	1055300101846	10,983
TITLE II, D TECHNOLOGY - ARRA	84.386A	1055300101858	615
TITLE II, D TECHNOLOGY - ARRA	84.386A	10553001227816	342
TITLE XIV, SESE - ARRA	84.394A	10557001152805	59,506
TITLE XIV, SESE - ARRA	84.394A	11557001015828	120,499
TITLE XIV, SESE - ARRA	84.394A	11557001031803	38,956
TITLE XIV, SESE - ARRA	84.394A	11557001071806	22,840
TITLE XIV, SESE - ARRA	84.394A	1155700101846	451,458
TITLE XIV, SESE - ARRA	84.394A	1155700101858	217,631
TITLE XIV, SESE - ARRA	84.394A	1155700101862	31,586
TITLE XIV, SESE - ARRA	84.394A	1155700101807	62,770
TITLE XIV, SESE - ARRA	84.394A	11557001220813	259,687
TITLE XIV, SESE - ARRA	84.394A	11557001227816	214,926
TITLE XIV, SESE - ARRA	84.394A	11557001240804	60,238
Total U.S. Department of Education			<u>\$ 7,734,966</u>

COSMOS FOUNDATION, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2011

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Passed - Through Texas Education Agency			
Federal Food Service Reimbursement			
School Breakfast Program (SBP)	10.553	71401101	\$ 544,518
National School Lunch Prg.-NSLP	10.555	71301001	413,416
National School Lunch Prg.-NSLP	10.555	71301101	2,518,284
Total U.S. Department of Agriculture			<u>3,276,217</u>
Total Expenditures of Federal Awards			<u>\$ 14,176,454</u>

COSMOS FOUNDATION, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of federal awards (the Schedule) includes federal grant activity of HSA under programs of the federal government for the year ended August 31, 2011. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operation of HSA, it is not intended to and does not present the financial position, changes in net assets or cash flows of HSA.

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APPENDIX D

FORM OF BOND COUNSEL OPINION

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July 15, 2014

\$101,555,000
CITY OF HOUSTON HIGHER EDUCATION FINANCE CORPORATION
EDUCATION REVENUE AND REFUNDING BONDS
(HARMONY PUBLIC SCHOOLS)
SERIES 2014A

City of Houston Higher Education Finance Corporation
c/o Bracewell & Giuliani LLP
711 Louisiana Street, Suite 2300
Houston, Texas 77002

Regions Bank, as Trustee
1717 St. James Place, 5th Floor
Houston, Texas 77056

Ladies and Gentlemen:

We have been engaged by Harmony Public Schools (formerly Cosmos Foundation, Inc.) (the “Company”) to serve as bond counsel in connection with the issuance by the City of Houston Higher Education Finance Corporation (the “Issuer”) of its Education Revenue and Refunding Bonds (Harmony Public Schools) Series 2014A (the “Bonds”). The Bonds are issued pursuant to a Trust Indenture and Security Agreement, dated as of July 1, 2014 (the “Trust Indenture”) by and between the Issuer and Regions Bank, as trustee (the “Trustee”) and further secured by a promissory note issued under the terms of the Master Trust Indenture and Security Agreement, dated as of May 1, 2007 (the “Master Indenture”), by and between Issuer and Regions Bank, as master trustee (the “Master Trustee”), as supplemented from time to time through and including Supplemental Master Trust Indenture No. 18, dated as of July 1, 2014 (the “Supplemental Indenture”), by and between the Issuer and the Master Trustee (the Supplemental Indenture and together with the Master Indenture, the “Master Indenture as Supplemented”). The proceeds of the Bonds will be loaned by the Issuer to the Company, pursuant to a Loan Agreement, dated as of July 1, 2014 (the “Loan Agreement”) by and between the Issuer and the Company. Under the Loan Agreement, the Company has agreed to make payments to or for the account of the Issuer in amounts necessary to pay when due the principal of, premium, if any, and interest on the Bonds. Such payments and the rights of the Issuer under the Loan Agreement (except certain rights to indemnification, rebate payments and administrative fees) and the Note (as defined below) are pledged and assigned by the Issuer under the Indenture to the Trustee as security for the Bonds. A capitalized term not otherwise defined herein shall have the

meaning assigned to such term in the Master Indenture as Supplemented, the Trust Indenture and the Loan Agreement. The Bonds are payable solely from the Trust Estate established under the Trust Indenture.

We have acted as Bond Counsel for the sole purpose of rendering an opinion with respect to (i) the legality and validity of the Bonds under the Constitution and laws of the State of Texas and (ii) the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the Company or the disclosure thereof in connection with the offer and sale of the Bonds.

In our capacity as Bond Counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the authorization and issuance of the Bonds on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Board of Directors of the Company and the Board of Directors of the Issuer, and certain certificates and other documents of representatives of the Issuer, the Trustee, the Company, and of others. We have also examined such portions of the Constitution and statutes of the State of Texas, and such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, regulations and published rulings of the Internal Revenue Service (the "Service"), as we have deemed necessary for the purposes of this opinion.

In our capacity as Bond Counsel, we have examined certain proceedings pertaining to the bonds that are being refunded by the Bonds (the "Refunded Bonds") of the Board of Directors of the Company, Regions Bank (the "Escrow Agent") and the report (the "Report") of Grant Thornton LLP, which verifies the sufficiency of the deposits made with the Escrow Agent for the defeasance of the Refunded Bonds and the mathematical accuracy of certain computations of the yield on the Bonds and the obligations acquired with the proceeds of the Bonds and the firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds.

We have also examined such portions of the Constitution and statutes of the State of Texas, and such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, regulations and published rulings of the Internal Revenue Service (the "Service"), as we have deemed necessary for the purposes of this opinion.

As to questions of fact material to our opinion, we have relied, with your permission, upon representations of the Issuer and the Company contained in the Trust Indenture and the Loan Agreement, the certified proceedings and other certifications of public officials furnished to us, and certifications, documents, and other information furnished to us by or on behalf of the Company, the Issuer, Raymond James & Associates, Inc. and Jefferies LLC (the "Underwriters"), and others, without undertaking to verify the same by independent investigation.

We have assumed, with your permission, and without independent verification (i) the genuineness of certificates, records and other documents and the accuracy and completeness of the statements contained therein; (ii) the due authorization, execution and delivery of the Trust Indenture by the Trustee, and the validity and binding effect of the Trust Indenture on the Trustee; (iii) that all documents and certificates submitted to us as originals are accurate and complete; (iv) that all documents and certificates submitted to us as copies are true and correct copies of the originals thereof; and (v) that all information submitted to us was accurate and complete. No information has come to our attention that is inconsistent with the material facts that have been certified by the Issuer, the Company and others, and upon which we have relied in our opinions.

Based on the foregoing, and subject to the matters set forth herein, we are of the opinion that under existing law:

1. The Trust Indenture has been duly authorized, executed and delivered by the Issuer and is a legal, valid and binding obligation of the Issuer enforceable against the Issuer in accordance with its terms. The Issuer has assigned its rights, title, and interest in and to the Series 2014A Note (the "Note"), the Loan Agreement (except for certain rights of the Issuer to indemnification and payment of its fees and expenses) and amounts on deposit or held for the credit of the funds and accounts held by the Trustee pursuant to the terms of the Trust Indenture and all amounts held therein (other than the Rebate Fund) and has granted a valid security interest therein, to the Trustee pursuant to the Indenture as security for the Bonds. The Trust Indenture validly and effectively creates the security interest that it purports to create and no additional instrument of conveyance, assignment, or transfer is necessary to create such security interest. No filing or recording of any document not filed or recorded is required as of this date to perfect or maintain the security interest created by the Trust Indenture. The Master Indenture as Supplemented has been duly authorized, executed and delivered by the Company and is a legal valid and binding obligation of the Company enforceable against the Company in accordance with its terms. The Company has assigned its rights, title and interest in and to the Adjusted Revenues (as defined in the Master Indenture as Supplemented) and has granted a valid security interest therein to the Master Trustee pursuant to the Master Indenture as Supplemented as security for the Note. The Master Indenture as Supplemented validly and effectively creates the security interest that it purports to create and no additional instrument of conveyance, assignment or transfer is necessary to create such security interest. No filing or recording of any document not filed or recorded is required as of the date to perfect or maintain the security interest created by the Master Indenture as Supplemented.

2. The Bonds have been duly authorized, executed, issued and delivered by the Issuer, and are legal, valid and binding special obligations of the Issuer entitled to the benefits and security of the Trust Indenture and that all conditions precedent provided in the Trust Indenture relating to the authentication and delivery of the Bonds have occurred. The Bonds are limited obligations of the Issuer payable solely from the Trust Estate under the Trust Indenture and the revenues derived therefrom. The Bonds are not obligations of the City of Houston, Texas, nor of any political corporation, subdivision or agency of the State of Texas.

3. Interest on the Bonds is excludable from gross income of the holders of the Bonds for federal income tax purposes under existing law and is not included in computing the alternative minimum taxable income of individuals or, except as described below, corporations.

4. The Loan Agreement has been duly authorized, executed and delivered by the Issuer and is a legal, valid and binding obligation of the Issuer enforceable against the Issuer in accordance with its terms.

5. Upon the execution of the Note by the Company and the authentication thereof by the Master Trustee, such Note will be the valid and binding obligations of the Company enforceable in accordance with their terms.

6. The escrow agreement between the Company and the Escrow Agent (the “Escrow Agreement”) has been duly executed and delivered and constitutes a binding and enforceable agreement in accordance with its terms; the establishment of the Escrow Fund pursuant to the Escrow Agreement and the deposit made therein constitute the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds; in reliance upon the accuracy of the calculations contained in the Report, the Refunded Bonds, having been discharged and paid, are no longer outstanding and the lien on and pledge of Adjusted Revenues and the Collateral described in the trust indentures associated with the Refunded Bonds will be appropriately and legally defeased; the holders of the Refunded Bonds may obtain payment of the principal of, redemption premium, if any, and interest in the Refunded Bonds only out of the funds provided therefor now held in escrow for that purpose by the Escrow Agent pursuant to the terms of the Escrow Agreement; and therefore the Refunded Bonds are deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor in such Escrow Agreement.

Interest on the Bonds owned by a corporation, other than an “S” corporation or a qualified mutual fund, real estate investment trust (“REIT”), real estate mortgage investment conduit (“REMIC”), or financial asset securitization investment trust (“FASIT”), will be included in such corporation’s adjusted current earnings for purposes of calculating such corporation’s alternative minimum taxable income. A corporation’s alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

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

The opinions expressed herein are limited to the extent that (i) the performance and enforceability of the Trust Indenture, the Bonds and the Loan Agreement may be subject to applicable bankruptcy, reorganization, moratorium or other similar laws affecting generally the enforcement of creditors’ rights; (ii) general equitable principles may limit the availability of equitable remedies, including, but not limited to, the remedy of specific performance; and (iii) the enforceability of provisions relating to indemnification may be limited by public policy or applicable securities law.

In rendering these opinions, we have relied, with your permission, on, among other things, certificates signed by officers of the Issuer, the Company and the Underwriters with respect to certain material facts, estimates and expectations which are solely within the knowledge of the Issuer, the Company and the Underwriters, respectively, and which we have not independently verified. In addition, in rendering the opinions set forth in paragraph 3, we have assumed continuing compliance with the covenants in the Loan Agreement and the Trust Indenture pertaining to those sections of the Code that affect the status of the Company as an organization described in Section 501(c)(3) of the Code and the exclusion from gross income of interest on the Bonds for federal income tax purposes. If the certificates upon which we have relied are determined to be inaccurate or incomplete, or the Issuer or the Company fails to comply with such covenants, interest on the Bonds could become includable in gross income from the date of their original delivery, regardless of the date on which the event causing such inclusion occurs.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain foreign corporations doing business in the United States of America, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and individuals otherwise qualifying for the earned income tax credit.

The opinions expressed herein are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the Issuer as the taxpayer. We observe that the Company has covenanted in the Loan Agreement not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, would adversely affect the excludability of interest on the Bonds from gross income for federal income tax purposes.

The foregoing opinions speak only as of the date hereof and only in connection with the Bonds and may not be applied to any other transaction. We do not undertake to advise you of matters which may come to our attention subsequent to the date hereof that may affect our legal opinion and conclusions expressed herein. Further, the foregoing opinions are specifically limited to the laws of the State of Texas and, to the extent applicable, the federal laws of the United States of America.

Very truly yours,

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APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

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APPENDIX E

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated as of July 1, 2014 (the “*Continuing Disclosure Agreement*”), is executed and delivered by and among Harmony Public Schools, a Texas non-profit corporation (the “*Borrower*”) and Regions Banks, as dissemination agent (the “*Dissemination Agent*”), in connection with the issuance by City of Houston Higher Education Finance Corporation (the “*Issuer*”) of its \$101,555,000 Education Revenue and Refunding Bonds (Harmony Public Schools), Series 2014A (the “*Bonds*”). The Bonds are being issued pursuant to a Trust Indenture and Security Agreement, dated as of July 1, 2014 (the “*Bond Indenture*”) between the Issuer and Regions Bank, as trustee (the “*Trustee*”). The proceeds of the sale of the Bonds will be loaned to the Borrower pursuant to the terms of a Loan Agreement, dated as of July 1, 2014 (the “*Loan Agreement*”). Capitalized terms used but not otherwise defined herein shall have the meanings assigned to them in the Bond Indenture and the Loan Agreement.

Section 1. Purpose of Agreement

Inasmuch as the Bonds are limited obligations of the Issuer, no financial or operating data concerning it is material to any decision to purchase, hold or sell the Bonds, and the Issuer has not covenanted to provide such information. The Borrower has undertaken all responsibilities for any continuing disclosure to holders of the Bonds as described herein.

This Continuing Disclosure Agreement is being executed and delivered by the Borrower for the benefit of the registered owners of the Bonds (for such purpose beneficial owners of the Bonds shall also be considered registered owners of the Bonds) and to assist Raymond James and Associates, Inc., or its successors in interest, and Jefferies LLC (the “*Underwriters*”) in complying with paragraph (b)(5) of Securities and Exchange Commission (“*SEC*”) Rule 15c2-12 (17 C.F.R. § 240.15c2-12) (the “*Rule*”). This Continuing Disclosure Agreement constitutes the written undertaking required by the Rule. Each and every filing made hereunder shall be disseminated by transmission to the Municipal Securities Rulemaking Board (the “*MSRB*”) through the Electronic Municipal Market Access (“*EMMA*”) System at www.emma.msrb.org or any successor system that the MSRB may prescribe. Such filings will be in the format and will be accompanied by the identifying information prescribed by the MSRB.

Section 2. Defined Terms

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

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

“*Official Statement*” means the Official Statement dated July 2, 2014 pertaining to the Bonds.

Section 3. Annual Reports

Each year, the Borrower shall cause the Dissemination Agent to provide for dissemination in the manner required under this Continuing Disclosure Agreement, within six months after the end of the immediately preceding fiscal year, commencing with the fiscal year ending June 30, 2014, an Annual Report for the immediately preceding fiscal year which shall include all annual information pertinent to such fiscal year as provided below:

(i) **Audited Financials:** Each Annual Report shall include a copy of the Borrower’s annual audited financial statements for the immediately preceding fiscal year, together with a copy of any accompanying management letter and a copy of the accompanying audit report; provided, however, that such annual audited financial statements may be submitted separately from the balance of the Annual Report and that, if such audited financial statements are not available within six months of the end of the immediately preceding fiscal year, then the Borrower shall provide unaudited financial statements by that date and shall subsequently provide the pertinent audited financial statements as soon as they become available. Such financial statements shall be prepared in accordance with the accounting principles prescribed by the Texas State Board of Education or such other accounting principles as the Borrower may be required to employ from time to time pursuant to State law or regulation. In addition, the Annual Report shall include a calculation of (a) the Borrower’s Debt Service Coverage Ratio required by Section 5.8 of the Loan

Agreement, (b) the Operating Reserves required to be maintained in accordance with Section 5.11 of the Loan Agreement, and (c) shall identify the amount of unrestricted cash and cash equivalents held at the end of each fiscal year.

(ii) Updated Table Data from Appendix B to the Official Statement. Each Annual Report shall include updated financial information and operating data with respect to the Borrower of the general type included in Appendix B to the Official Statement including in the following tables, but subject to adjustments as may be noted below:

- (i) TABLE 1: CHARTER SCHOOLS;
- (ii) TABLE 5: PROFESSIONAL STAFF AND FACULTY;
- (iii) TABLE 6: HISTORICAL AND FUTURE PROJECTED ENROLLMENT, provided, however, that only historical data will be provided;
- (iv) TABLE 7: WAITING LIST DATA;
- (v) TABLE 8: STUDENT RETENTION DATA; and
- (vi) TABLE 10: ACCOUNTABILITY RATINGS.

Each Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by specific reference other information provided pursuant to this Continuing Disclosure Agreement. If the Borrower fails to provide any Annual Report within the time periods required hereby, then the Borrower shall promptly send a notice of such failure to the Dissemination Agent and the Dissemination Agent shall promptly file such notice with the MSRB. So long as any bonds issued for the benefit of the Borrower remain outstanding, if the Borrower changes its fiscal year, it shall provide notice of such event prior to the next date by which the Borrower otherwise would be required to provide financial information and operating data pursuant to this section.

Section 4. Interim Reports

The Borrower intends to voluntarily cause the Dissemination Agent to provide Interim Reports, consisting of copies of:

- (i) quarterly, unaudited income statements and balance sheets within sixty days of the end of each fiscal quarter; and
- (ii) the Borrower's annual fiscal year budget within sixty days of the commencement of each fiscal year.

Each Interim Report may be submitted as a single document or as separate documents comprising a package, and may include by specific reference other information provided pursuant to this Agreement. The interim reports shall be in the form shown in the Official Statement and shall include a comparison of budgeted and actual results. If the Borrower does not provide the interim information contemplated by **clause (i)** or **(ii)** of this Section, it shall not constitute a failure hereunder and shall not give rise to a requirement to provide notice to the MSRB or otherwise.

Section 5. Material Events

The Borrower agrees to provide or cause to be provided, in a timely manner (but not in excess of ten business days after the occurrence of the event), notice of the occurrence of any of the following events with respect to the Bonds ("*Reportable Events*");

- (a) principal and interest payment delinquencies;
- (b) nonpayment related defaults, if material;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;

(f) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds;

(g) modifications to rights of the Registered Owners, if material;

(h) Bond calls, if material (other than mandatory sinking fund redemptions), and tender offers;

(i) defeasances;

(j) release, substitution, or sale of property securing repayment of the Bonds, if material;

(k) rating changes;

(l) bankruptcy, insolvency, receivership or similar event of the Borrower;

(m) the consummation of a merger, consolidation, or acquisition involving the Borrower or the sale of all or substantially all of the assets of the Borrower, other than in the ordinary course of business, the entry into a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(n) appointment of a successor or additional trustee or the change of the name of a trustee, if material.

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

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

Section 6. Annual Investor Call

The Borrower intends to hold an annual investor call for the purpose of reviewing the previous year's financial results. Such investor call shall be preceded by notice of such call filed by the Dissemination Agent with EMMA at least seven days in advance of such call, and shall be held within 30 days of the filing of the Annual Report. If the Borrower fails to conduct the annual investor call within the time period required hereby, it shall not constitute a failure hereunder, and it shall not give rise to a requirement to provide notice to the MSRB or otherwise.

Section 7. Dissemination Agent; Initial Dissemination Agent

The Borrower has engaged the Dissemination Agent to assist it in disseminating information hereunder. At least 30 calendar days prior to the due date of any Annual Report or Interim Report, the Dissemination Agent shall notify the Borrower of its obligation to file such Annual Report or Interim Report. The Borrower shall be responsible for the content and preparation of the Annual Report, the Interim Report and Reportable Event reports (collectively, the "Reports"). The Reports shall be delivered in electronic form suitable to be filed with the MSRB in accordance with its procedures, and shall be deemed to have been delivered upon receipt of electronic mail thereof. The period of review of the Reports by the Dissemination Agent shall commence at the time of such delivery. Until further notice is given by the Dissemination Agent, the email address to which the Reports shall be sent is doug.milner@regions.com and doloris.lynn@regions.com. The Borrower shall send the Reports required by this Continuing Disclosure Agreement to the Dissemination Agent at least 5 business days prior to the date on which such Reports are required to be disseminated by the Dissemination Agent as provided herein. If such Report is an Annual Report, it shall contain the information specified under the caption Annual Report in **Appendix A**. If such Report is an Interim Report, it shall contain the information specified under the caption Interim Report in **Appendix A**. If such Report is a Reportable Event Report, the Borrower shall specify the Reportable Event. Unless otherwise agreed to, the Dissemination Agent shall, as soon as practicable but not later than 3 business days of receipt of the Annual Reports and Interim Reports review the Annual Reports and Interim Reports to confirm that each of them contains the items under the applicable caption. If the Dissemination Agent determines that an item has not been so included, it will promptly deliver a written request to the Borrower for such item. The Dissemination Agent shall not be responsible for the content of the Reports. The Dissemination Agent shall not be responsible for the failure of the Borrower to provide any the Reports or the

failure of the Borrower to respond to a request for an item in any Annual or Interim Report. The Dissemination Agent shall forward the Reports to (i) the MSRB, as described herein and (ii) any Registered or Beneficial Owner of the Bonds who requests such information in writing to the Dissemination Agent or the Borrower.

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

The Dissemination Agent will not have any fiduciary duties nor will it have responsibilities or obligations other than those expressly assumed by it in this Continuing Disclosure Agreement. No implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Continuing Disclosure Agreement or otherwise exist against the Dissemination Agent. Without limiting the generality of the foregoing sentences, the use of the term “agent” in this Agreement with reference to the Dissemination Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties.

If the Borrower does not provide to the Dissemination Agent a copy of an Annual Report or an Interim Report by the applicable dates required herein or an item as described herein relating to such Report, the Dissemination Agent shall send a notice to the MSRB, the Borrower and the Participating Underwriter in substantially the form attached as **Exhibit B**. If the Borrower files any report directly with MSRB, the Borrower shall promptly provide the Dissemination Agent with a certificate or other documentation reasonably required by the Dissemination Agent that the filing of such report was made in a timely manner on or before the date required herein (or if not as of such date, specifying the date of filing) and that such filing contained the information required by this Disclosure Agreement.

The Borrower agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, fees, expenses and liabilities which it may incur arising out of the disclosure of information pursuant to this Continuing Disclosure Agreement or arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent’s gross negligence or willful misconduct, as the case may be. The obligations of the Borrower under this Section shall survive resignation or removal of the Dissemination Agent, termination of this Agreement and payment of the Bonds. **The indemnification of the Dissemination Agent and as provided in this Section shall remain in full force and effect if losses directly or indirectly result from, arises out of, or relate to, or is asserted to have resulted from arisen out of or related to, the sole or contributory negligence of any of the Dissemination Agent, but not the gross or willful misconduct of the Dissemination Agent.**

Section 8. Termination of Obligations

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

Section 9. Enforceability and Remedies

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

This Continuing Disclosure Agreement shall be enforceable by or on behalf of any registered owner of the Bonds. This Continuing Disclosure Agreement is also enforceable on behalf of the registered owners of the Bonds by the Trustee, and the Trustee may, and upon the written direction of the registered owners of not less than 25% of the aggregate outstanding principal amount of the Bonds or an Underwriter for the Bonds shall, proceed to protect and enforce the rights of the registered owners of the Bonds pursuant to this Continuing Disclosure Agreement; provided

that in all cases the Trustee shall be entitled to the indemnification and other provisions of the Bond Indenture with regard to any actions, and prior to proceeding at the request or direction of the Underwriter the Trustee may require the same types of indemnification and related protections from the Underwriter to which the Trustee would otherwise be entitled under the Bond Indenture if so requested or directed by the registered owners.

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

Section 10. Amendment

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

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

(b) This Continuing Disclosure Agreement, as amended or with the provision so waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not materially impair the interest of registered owners of the Bonds, as determined either by parties unaffiliated with the Borrower (which shall include nationally recognized bond counsel, or any other party determined by such counsel to be unaffiliated), or by approving vote of registered owners of the Bonds.

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

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Section 11. Counterparts

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

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

HARMONY PUBLIC SCHOOLS

By: _____
Title: _____

REGIONS BANK
as Dissemination Agent

By: _____
Title: _____

EXHIBIT A

Regions Bank, Dissemination Agent
[Address]

Re: Continuing Disclosure Agreement between Harmony Public Schools and Regions Banks, as Dissemination Agent

Pursuant to the Agreement referred to above the following is delivered to you for filing pursuant to the terms of the Agreement: (Check documents being delivered):

Annual Report

- audited financial statements for the immediately preceding fiscal year;
- copy of any accompanying management letter; and
- copy of the accompanying audit report.
- Updated Table Data from Appendix B to the Official Statement including updated financial information and operating data with respect to the Borrower of the general type included in Appendix B to the Official Statement.
 - TABLE 1: CHARTER SCHOOLS;
 - TABLE 5: PROFESSIONAL STAFF AND FACULTY;
 - TABLE 6: HISTORICAL AND FUTURE PROJECTED ENROLLMENT,
 - TABLE 7: WAITING LIST DATA;
 - TABLE 8: STUDENT RETENTION DATA; and
 - TABLE 10: ACCOUNTABILITY RATINGS.

Interim Reports

- quarterly, unaudited income statements and balance sheets within sixty days of the end of each fiscal quarter; and
- the Borrower's annual fiscal year budget within sixty days of the commencement of each fiscal year.

Event Report

Specify _____

Very truly yours:

HARMONY PUBLIC SCHOOLS

By: _____
Name:
Title.

EXHIBIT B

NOTICE TO MSRB OF FAILURE TO FILE REPORT

Issuer:

Issue:

Borrower:

Dissemination Agent: Regions Bank

Participating Underwriter:

Date of Issue:

NOTICE IS HERBY GIVEN that Harmony Public Schools has not provided the [Annual Report] [Interim Report] with respect to the above-specified Bonds as required by the Continuing Disclosure Agreement, dated as of _____, by an between the Borrower, Harmony Public Schools and the Dissemination Agent

DATED: _____

REGIONS BANK

By: _____
Name: _____
Title: _____

APPENDIX F

EXCERPTS OF THE MASTER INDENTURE, THE BOND INDENTURE AND THE LOAN AGREEMENT

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APPENDIX F

EXCERPTS OF THE MASTER INDENTURE, THE BOND INDENTURE AND THE LOAN AGREEMENT

The following are selected provisions of certain of the financing documents relating to the Bonds. These excerpts should be qualified by reference to other portions of such financing documents referred to elsewhere in this Official Statement, and all references and summaries pertaining to such financing documents in this Official Statement are, separately and in whole, qualified by reference to the exact terms of such financing documents, copies of which may be obtained from the Issuer or Harmony Public Schools. Section and article references contained in the following excerpts are to sections and articles, as appropriate, contained in the respective financing document excerpted below. Provisions included herein are in substantially final form, but may change prior to closing and may thereafter be amended in accordance with the respective terms of the financing documents.

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MASTER TRUST INDENTURE

GRANTING CLAUSES

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

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

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

(c) all accounts, bank accounts, general intangibles, Contract Rights, and related rights of the Company (each as defined in the UCC), whether now owned or hereafter acquired or arising and wherever located;

(d) any and all other property of every kind and nature from time to time hereafter, by delivery or by writing of any kind, conveyed, pledged, assigned or transferred as additional security hereunder by the Company or by anyone on its behalf to the Master Trustee, subject to the terms thereof, including without limitation, funds of the Company held by the Master Trustee as security for the Notes;

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

(f) the lien of the Leasehold Mortgage (as hereinafter defined); and

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

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

TO HAVE AND TO HOLD IN TRUST, upon the terms herein set forth, subject to Section 210 hereof, for the equal and proportionate benefit, security, and protection of all Holders of the Notes issued under and secured by this Master Indenture without privilege, priority or distinction as to the lien or otherwise of any of the Notes over any other; provided, however, that if the Company shall pay, or cause to be paid, the principal of the Notes or the obligations secured thereby and the redemption or prepayment premium, if any, and the interest and any other amounts due or to become due thereon in full at the times and in the manner mentioned in the Notes according to the true intent and meaning thereof, and the Company shall keep, perform and observe all the covenants and conditions pursuant to the terms of this Master Indenture to be kept, performed and observed by it, and shall pay or cause to be paid to the Master Trustee all sums of money due or to become due to it in accordance with the terms and provisions hereof, then upon such final payment this Master Indenture and the rights hereby granted and the restrictions

hereby incurred shall cease, determine and be void; otherwise this Master Indenture shall be and remain in full force and effect. Notwithstanding anything in this Master Indenture to the contrary, when all of the Notes are no longer Outstanding, the Master Trustee may execute a release of the lien of this Master Indenture on the Deed of Trust and any property of the Company encumbered thereby.

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

ARTICLE I

DEFINITIONS

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

“Adjusted Revenues” means, for any period of calculation, the total of all operating and nonoperating revenues of the Company, including but not limited to State Revenues, federal and local funds for school lunches and other food programs, special education, and transportation, including accounts receivable and rights to receive the same plus investment and other income or loss of the Company for such period; provided, however, that no determination thereof shall take into account (a) income derived from Defeasance Obligations that are irrevocably deposited in escrow to pay the principal of or interest on Debt or Related Bonds, (b) any gains or losses resulting from the early extinguishment of Debt, the sale, exchange or other disposition of Property not in the ordinary course of business, or the reappraisal, reevaluation or write-up of assets, or any other extraordinary gains or losses, (c) gifts, grants (excluding grants from the State), bequests or donations and income thereon restricted as to use by the donor or grantor for a purpose inconsistent with the payment of debt service on Debt or Related Bonds or Notes (i.e., unrelated to the purposes for which such obligations were issued), (d) net unrealized gain (losses) on investments and Financial Products Agreements and (e) proceeds of borrowing. Notwithstanding any provision herein to the contrary, State Revenues received by each of the Borrower’s campuses will be used in accordance with Section 12.107(a) of the Texas Education Code, as amended.

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

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

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

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

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

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

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

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

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

“Available Revenues” means, for any period of determination thereof, the amount of excess (deficit) of Adjusted Revenues over Expenses for such period, plus any gifts, grants, requests or donations and income thereon restricted as to use by the donor or grantor for the sole purpose of paying Expenses of the Company, but less: (a) unrealized pledges for such period to make a donation, gift, or other charitable contribution to the extent encumbered, as permitted herein to secure the payment of Debt that is not Long Term Debt, and (b) insurance (other than business interruption) and condemnation proceeds.

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

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

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

“Bond Trustee” means Amegy Bank National Association, as trustee (the “Bond Trustee”) pursuant to that certain Trust Indenture and Security Agreement, dated as of May 1, 2007, among the Texas Public Finance Authority Charter School Finance Corporation and the Bond Trustee.

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

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

“Consent,” “Order,” and “Request” means a written consent, order or request signed in the name of the Company and delivered to the Master Trustee by the President of the Governing Body, the President, an Executive or Senior Vice President, the Chief Financial Officer or any other Person designated by the Company to execute any such instrument on behalf of the Company as evidenced by an Officer’s Certificate.

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

“Debt” means all:

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

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

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

(iv) all indebtedness (other than items described under Section 201(b)(iii)) secured by any mortgage, lien, charge, encumbrance, pledge or other security interest upon property owned by the Company whether or not the Company has assumed or become liable for the payment thereof.

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

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

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

“Deposit Account Control Agreement” means the Deposit Account Control Agreement, dated May 1, 2007, entered into among the Company, the Master Trustee and the Depository Bank, and any other deposit account control agreement entered into by the Company, the Master Trustee and a Depository Bank from time to time.

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

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

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

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

“Fiscal Year” means any twelve-month period beginning on September 1 of any calendar year and ending on August 31 of the following year or such other twelve-month period selected by the Company as the fiscal year for the Company; provided that, if any Bond Insurer is providing bond insurance for any series of Related Bonds Outstanding, such Bond Insurer shall pre-approve in writing any change to such Fiscal Year and Company shall give written notice of any such change to the Master Trustee.

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

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

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

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

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

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

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

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

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

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

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

“Maximum Annual Debt Service” means, as of any date of calculation, the highest Annual Debt Service Requirements (excluding the final maturity payment for any Debt) with respect to all Outstanding Debt for any succeeding Fiscal Year.

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

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

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

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

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

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

- (i) Notes theretofore cancelled by the Master Trustee or the Paying Agent;
- (ii) Notes for whose payment or redemption money (or Defeasance Obligations to the extent permitted by Section 902 of this Master Indenture) in the necessary amount has been theretofore deposited with the Master Trustee or any Paying Agent for such Notes in trust for the Holders of such Notes pursuant to this Master Indenture or any Supplemental Master Indenture authorizing such Notes; provided, that if such

Notes are to be redeemed, notice of such redemption has been duly given pursuant to this Master Indenture or irrevocable provision therefor satisfactory to the Master Trustee has been made; and

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

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

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

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

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

"Property" means any and all rights, titles and interests of the Company in and to any and all property located upon a Participating Campus whether real or personal, tangible or intangible, and wherever situated including cash.

"Qualified Provider" means any financial institution or insurance company which is a party to a Financial Products Agreement if the unsecured long term debt obligations of such financial institution or insurance company (or of the parent or a subsidiary of such financial institution or insurance company if such parent or subsidiary guarantees the performance of such financial institution or insurance company under such Financial Products Agreement), or obligations secured or supported by a letter of credit, contract, guarantee, agreement, insurance policy or surety bond issued by such financial institution or insurance company (or such guarantor parent or subsidiary), are rated in one of the two highest rating categories of a Rating Service at the time of the execution and delivery of the Financial Products Agreement.

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

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

"Related Bond Documents" means the Related Bonds, Related Bond Indenture, the Related Loan Documents, and the Related Deed of Trust.

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

"Related Bonds" means the bonds with respect to which any Notes are issued and any other revenue bonds or similar obligations issued by any state of the United States or any municipal corporation or other political subdivision formed under the laws thereof or any constituted authority, agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, the proceeds of

which are loaned or otherwise made available to the Company in consideration, whether in whole or in part, of the execution, authentication and delivery of a Note or Notes to such governmental issuer.

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

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

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

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

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

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

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

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

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

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

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

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

“Series 2007 Notes” shall mean any Notes issued pursuant to a Supplemental Master Indenture and secured by this Master Indenture to evidence payment obligations of the Company with respect to the Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Cosmos Foundation) Series 2007A and the Texas Public Finance Authority Charter School Finance Corporation Education Taxable Education Revenue Bonds (Cosmos Foundation) Series 2007B.

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

“State” means the State of Texas.

“State Revenues” means, for any period of time for which calculated, the total of all moneys received by the Company from the State during such period directly attributable to Participating Campuses.

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

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

“TCEP Note” means the Note issued pursuant to a Supplemental Master Indenture and secured by this Master Indenture to evidence payment obligations of the Company with respect to that certain Guaranty Agreement, dated May 1, 2007 between the Company and the Texas Public Finance Authority Charter School Finance Corporation.

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

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

ARTICLE II

ISSUANCE AND FORM OF NOTES

Section 201. Series, Amount and Denomination of Notes.

(a) At any time and from time to time after the execution and delivery of this Master Indenture, Notes shall be issued under this Master Indenture in series issued pursuant to a Supplemental Master Indenture. Each series shall be designated to differentiate the Notes of such series from the Notes of any other series. Notes shall be issued as fully registered notes with the Notes of each series to be lettered and numbered MR-1 upwards (with such prefix as may be designated in the Supplemental Master Indenture authorizing any series). The aggregate principal amount of Notes of each series that may be created under this Master Indenture is not limited, except by the additional Long Term Debt limitations provided in this Master Indenture. A series of Notes may consist of a single Note or more than one Note.

(b) Notes may be issued hereunder to evidence (i) any type of Debt, including without limitation any Debt in a form other than a promissory note (such as commercial paper, bonds, or similar debt instruments), (ii) any obligation to make payments pursuant to a Financial Products Agreement, or (iii) debt consisting of an obligation to reimburse payments made under a letter of credit, surety bond, bond insurance policy, standby bond purchase agreement or similar credit or liquidity support obtained to secure payment of other Debt. The Supplemental Master Indenture pursuant to which any Notes are issued may provide for such supplements or amendments to the provisions hereof, including without limitation Article II hereof, as are necessary to permit the issuance of such Notes hereunder. Any Note evidencing obligations under a Financial Products Agreement shall be equally and ratably secured hereunder with all other Notes issued hereunder, except as otherwise expressly provided herein; provided, however, that (i) to be secured hereunder, the Master Trustee must receive, at the time of execution and delivery of such Financial Products Agreement, an Officer’s Certificate stating that such Financial Products Agreement was entered into by the Company with a Qualified Provider, as provided hereunder, and is entitled to the benefits of the Master Indenture and (ii) such Note, with respect to such Financial Products Agreement, shall be deemed to be Outstanding hereunder solely for the purpose of receiving payment hereunder and the Qualified Provider shall not be entitled to exercise any rights of a Holder hereunder unless amounts payable by the Company are due and unpaid.

Section 202. Conditions to Issuance of Notes. Any Note or series of Notes shall be authenticated by the Master Trustee and delivered to the lender or purchaser only upon its receipt of the following:

(a) An Officer's Certificate stating (1) that no Event of Default under this Master Indenture has occurred or will result from the issuance of such Note or series of Notes; (2) that the Governing Body has authorized or approved the issuance of such Note or series of Notes; and (3) that the Supplemental Master Indenture relating thereto authorizes such Debt and that such Supplemental Master Indenture complies with the provisions of Article VIII hereof;

(b) An original executed counterpart of a Supplemental Master Indenture providing for the issuance of such Note or series of Notes; such Supplemental Master Indenture shall set forth the purpose for which the Debt evidenced thereby is being incurred, the principal amount, maturity date or dates, interest rate or rates and the other pertinent terms of the Note or series of Notes and the name of the Company; and

(c) Other than in connection with the Series 2006 Notes, an Opinion of Counsel to the effect that (1) the conditions to issuance of any particular Note or series of Notes set forth in this Section 202 and in Sections 212 and 407 of this Master Indenture have been satisfied, (2) upon the execution of such Note or series of Notes by the Company and the authentication thereof by the Master Trustee, such Notes will be the valid and binding obligations of the Company enforceable in accordance with its (their) terms, subject to the customary bankruptcy, insolvency and equitable principles exceptions and such other exceptions as may be acceptable to the initial payee thereof, (3) registration of such Note or series of Notes under the Securities Act of 1933, as amended, is not required, or, if such registration is required, that the Company has complied with all applicable provisions of said Act and (4) qualification of the Master Indenture and any Supplemental Master Trust Indenture providing for the issuance of such Note or series of Notes under the Trust Indenture Act of 1939 is not required, or if such qualification is required, that the Company has complied with all applicable provisions of such Act.

(d) The title insurance policy, or endorsement thereof, required by Section 212 or 408, if necessary.

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

Section 203. Execution, Authentication and Delivery.

(a) Notes shall be executed by the Company through the chairman of its Governing Body or its president or any officer authorized by the Governing Body and attested to by the secretary or an assistant secretary of the Company, as appropriate, and Notes may have the corporate seal impressed or reproduced thereon. The signature of any officer on the Notes may be manual or facsimile.

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

(c) At any time, and from time to time, after the execution and delivery of this Master Indenture, the Company may deliver executed Notes to the Master Trustee together with the Supplemental Master Indenture creating such series; and upon the receipt of the Supplemental Master Indenture, the Master Trustee shall authenticate and deliver such Notes as in this Master Indenture and the relevant Supplemental Master Indenture provided.

(d) No Note shall be entitled to any benefit under this Master Indenture or be valid or obligatory for any purpose, unless there appears on or attached to such Note a certificate of authentication substantially in the form set forth below executed by the Master Trustee by its manual signature, and such certificate upon any Note shall be conclusive evidence, and the only evidence, that such Note has been duly authenticated and delivered hereunder. The form of certificate of authentication shall be as follows:

CERTIFICATE OF AUTHENTICATION

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

Date of Authentication:

AMEGY BANK NATIONAL ASSOCIATION,
as Master Trustee, or its agent

By: _____

Authorized Signature

Section 204. Form and Terms of Notes. The Notes of each series of Notes shall contain such terms, and be in substantially the form set forth in the Supplemental Master Indenture creating such series, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Master Indenture and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any regulatory body, or as may, consistently herewith, be determined by the officers executing such Notes, as evidenced by their signing of the Notes. The Notes of any series or the relevant Supplemental Master Indenture may contain additional (or different) representations, warranties, covenants, defaults and remedies and other provisions which do not contradict the terms of this Master Indenture, to the extent provided in the related Supplemental Master Indenture, and such additional terms shall supplement and be in addition to the terms of this Master Indenture. Unless the Notes of a series have been registered under the Securities Act of 1933, as amended, each Note of such series shall be endorsed with a legend which shall read substantially as follows: "This Note has not been registered under the Securities Act of 1933, as amended."

Section 205. Registration, Transfer and Exchange.

(a) The Company shall cause to be kept at the corporate trust office of the Master Trustee in Houston, Texas, or the payment office of the Master Trustee in Houston, Texas, a register (sometimes herein referred to as the "Note Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Notes and of transfers of Notes. The Master Trustee is hereby appointed Note Registrar (the "Note Registrar") for the purpose of registering Notes and transfers of Notes as herein provided. The Master Trustee may delegate any of its duties hereunder pursuant to the terms of a Supplemental Master Indenture. In such case, the Note Register may consist of one or more records of ownership of the various series of Notes and any part of such register may be maintained by the agent of the Master Trustee relating to such series.

(b) Upon surrender for transfer of any Note at the office or agency of the Company in a Place of Payment, the Company shall execute, and the Master Trustee or its designated agent shall authenticate and deliver, in the name of the designated transferee, one or more new Notes of any Authorized Denominations, of a like aggregate principal amount, series, Stated Maturity and interest rate.

(c) At the option of the Holder, Notes may be exchanged for Notes of any Authorized Denomination, of a like aggregate principal amount, series, Stated Maturity and interest rate, upon the surrender of the Notes to be exchanged at such office or agency. Whenever any Notes are so surrendered for exchange, the Master Trustee or its designated agent shall authenticate and deliver the Notes which the Note Holder making the exchange is entitled to receive.

(d) All Notes issued upon any transfer or exchange of Notes shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Master Indenture as the Notes surrendered upon such transfer or exchange.

(e) Every Note presented or surrendered for transfer or exchange shall (if so required by the Company or the Master Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Master Trustee or its designated agent duly executed by the Holder thereof or his attorney duly authorized in writing.

(f) No charge shall be made for any transfer or exchange of Notes, and any transfer or exchange of Notes shall be made without expense or without charge to Holders.

Section 206. Mutilated, Destroyed, Lost and Stolen Notes.

(a) If (i) any mutilated Note is surrendered to the Master Trustee or the Paying Agent, and the Master Trustee receives evidence to its satisfaction of the destruction, loss or theft of any Note, and (ii) there is delivered to the Master Trustee such security or indemnity as may be required by the Master Trustee to save each of the Master Trustee and the Company harmless, then, in the absence of notice to the Company or the Master Trustee that such Note has been acquired by a bona fide purchaser, the Company shall execute and, upon its request, the Master Trustee shall authenticate and deliver in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Note, a new Note of like tenor, series, interest rate and principal amount, bearing a number not contemporaneously outstanding.

(b) In case any such mutilated, destroyed, lost or stolen Note has become or is about to become due and payable, the Company may, in its discretion, instead of issuing a new Note, pay such Note.

(c) Upon the issuance of any new Note under this Section, the Master Trustee or its designated agent under any Supplemental Master Indenture may require the payment by the Company of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Master Trustee) connected therewith.

(d) Every new Note issued pursuant to this Section in lieu of any destroyed, lost or stolen Note shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Note shall be at any time enforceable by anyone, and shall be entitled to all the benefits and security of this Master Indenture equally and proportionately with any and all other Notes duly issued hereunder.

(e) The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes.

Section 207. Method of Payment of Notes.

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

(b) Subject to the foregoing provisions of this Section 207, each Note delivered under this Master Indenture upon transfer of or in exchange for or in lieu of any other Note shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Notes.

Section 208. Persons Deemed Owners. The Company, the Master Trustee and any agent thereof may treat the Person in whose name any Note is registered as the owner of such Note for the purpose of receiving payment of principal of (and premium, if any) and interest on such Note and for all other purposes whatsoever whether or not such payment is past due, and neither the Company, the Master Trustee, nor any agent of the Company or the Master Trustee shall be affected by notice to the contrary.

Section 209. Cancellation. All Notes surrendered for payment, redemption, transfer or exchange shall, if delivered to any Person other than the Master Trustee, be delivered to the Master Trustee and, if not already cancelled or required to be otherwise delivered by the terms of the Supplemental Master Indenture authorizing the series of Notes of which such Note is a part, shall be promptly cancelled by the Master Trustee. The Company may at any time deliver to the Master Trustee for cancellation any Notes previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and all Notes so delivered shall be promptly cancelled by the Master Trustee. No Notes shall be authenticated in lieu of or in exchange for any Notes cancelled as provided in this Section, except as expressly permitted by this Master Indenture. All cancelled Notes held by the Master Trustee shall be disposed of according to the retention policies of the Master Trustee.

Section 210. Security for Notes.

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

(b) To the extent that any Debt which is permitted to be issued pursuant to this Master Indenture is not issued directly in the form of a Note, a Note may be issued hereunder and pledged as security for the payment of such Debt in lieu of directly issuing such Debt as a Note hereunder.

Section 211. Mortgage, Pledge and Assignment; Further Assurances.

(a) Subject only to the provisions of this Master Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein and in order to secure the payment of the Notes and the performance of the duties and obligations of the Company under the Notes and this Master Indenture, the Company has pledged and assigned unto the Master Trustee and its successors and assigns forever, and granted a security interest thereunto in, among other things, all of the Adjusted Revenues and any other amounts (including proceeds of the sale of Bonds) held in the Revenue Fund to secure the payment of the principal of and interest on the Notes in accordance with their terms and the provisions of this Master Indenture and the Deed of Trust. Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery of the Notes and the execution of the Deposit Account Control Agreement, without any physical delivery thereof or further act.

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

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

(b) The Company shall, at its own expense, take all necessary action to maintain and preserve the security interest in the property granted by this Master Indenture and the Deed of Trust so long as any Notes are Outstanding. In addition, the Company shall, immediately after the execution and delivery of this Agreement and thereafter from time to time, cause the Deed of Trust and any financing statements in respect thereof to be filed, registered and recorded in such manner and in such

places as may be required by law in order to fully perfect and protect such security interest and from time to time will perform or cause to be performed any other act as provided by law and will execute or cause to be executed and filed as provided herein any and all continuation statements as required for such perfection and protection. Copies of all filings and recordings hereunder shall be promptly filed with the Master Trustee and any Bond Insurer. Except to the extent it is exempt therefrom, the Company shall pay or cause to be paid all filing, registration and recording fees and all expenses incident to the preparation, execution and acknowledgment of such instruments of perfection, and all federal or state fees and other similar fees, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of the Deed of Trust and such instruments of perfection. The Master Trustee shall not be responsible for the sufficiency of or the recording of this instrument, any supplemental indenture, any mortgage, deed of trust, other security or other instruments of further assurance.

The Master Trustee shall confirm, on an annual basis, the filing of continuation statements by the Company required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents and, if necessary, make such filings as may be required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents.

(c) The Company covenants not to take any action that would create or allow any liens to exist, except any Permitted Encumbrances (as defined in the Deed of Trust), on any real property owned by the Company other than a lien arising in connection with the issuance of additional Debt. The Company has not heretofore made a pledge of, granted a lien on or security interest in, or made an assignment or sale of the collateral granted hereunder that ranks on a parity with or prior to the lien granted hereunder that will remain outstanding on the Closing Date. The Company has not described such collateral in a UCC financing statement that will remain effective on the Closing Date. The Company will not hereafter make or suffer to exist any pledge or assignment of, lien on, or security interest in the collateral described hereunder that ranks prior to or on parity with the lien granted hereunder, or file any financing statement describing any such pledge, assignment, lien or security interest, except as expressly permitted by the Bond Documents. The security interest granted hereunder is and shall be prior to any judicial lien hereafter imposed on such collateral to enforce a judgment against the Issuer on a simple contract.

(d) The Company covenants that all Adjusted Revenues will be deposited into the account (or accounts) that is subject of a Deposit Account Control Agreement hereunder.

Section 212. Additional Debt.

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

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

(2) Parity Pledge. Such Debt shall be secured on parity with respect to the Trust Estate and shall be payable by the issuer solely from the Adjusted Revenues and other amounts derived from the loan agreement relating to such debt (except to the extent paid out of moneys attributable to the proceeds derived from the sale of the additional Debt or to income from the temporary investment thereof); provided, however, the terms of any Supplemental Master Indenture hereafter delivered under this Master Indenture may expressly relinquish any right to any of the collateral provided in the Trust Estate, and such debt shall be payable solely from the Adjusted Revenues and other amounts paid out of moneys attributable to the proceeds derived from the sale of additional parity Debt or to income from the temporary investment thereof;

(3) Sufficient funds must be evidenced as follows:

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

(B) Projected Coverage for Additional Debt. An Independent Management Consultant selected by the Company and approved by each Bond Insurer provides a written report setting forth projections which indicate that the estimated Available Revenues are equal to at least 1.00 times Maximum Annual Debt Service for all Debt then Outstanding, including the proposed additional Debt, in the Fiscal

Year immediately following the completion of the Project being financed. The report of the Independent consultant shall take into account (i) the audited results of operations and verified enrollment of the Project for the most recently completed Fiscal Year and (ii) the projected enrollment for the Fiscal Year immediately following the completion of the new Project, and shall assume that the proposed additional Debt shall have been outstanding for the entire year;

(4) Alternate Coverage for Additional Debt. In lieu of the requirements described in Section 212(a)(3) above, the Company may deliver an Officer's Certificate stating that, based on the audited results of the operations for the most recently completed Fiscal Year, the Available Revenues equal at least 1.10 times Maximum Annual Debt Service on all Debt then Outstanding as well as the additional Debt;

(5) [RESERVED];

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

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

(8) Title Insurance. So long as the Trust Estate contains the lien of the Deed of Trust upon any real property of the Company, the Company shall obtain and provide to the Master Trustee an endorsement of the title insurance policy, if permitted by the laws of the State, issued in connection with the Debt increasing the coverage thereunder by an amount equal to the aggregate principal amount of the additional Debt; provided, however, when all Related Bonds issued prior to the Series 2014A Bonds are no longer outstanding, the Company shall only be required to obtain such endorsements or increase the coverage under such policy to the extent that additional Debt is secured by a Deed of Trust.

The satisfaction of the conditions set forth in paragraphs (1) through (8) above shall be evidenced to the Master Trustee. The Master Trustee may rely on an Opinion of Counsel that items (1) through (8) were completed.

(b) Refunding. If additional Debt is being issued for the purpose of refunding any Outstanding Debt, the report required by Sections 212(a)(3) and (4) to be delivered shall not apply so long as both the total and Maximum Annual Debt Service Requirements on all Outstanding Debt after issuance of the additional Debt will not exceed both the total and the Maximum Annual Debt Service Requirements on all Outstanding Debt prior to the issuance of such additional Debt.

(c) Completion Debt. In the event such additional Debt is being issued or incurred for the purpose of completing any Project (as that term is defined from time to time in connection with the issuance of additional Debt) for which additional Debt is issued or incurred, such series of completion bonds may be issued in amounts not to exceed 10% of the principal amount of the Debt originally issued for such Project upon delivery of an Officer's Certificate that such additional Debt is required to fund the costs of completion; provided that, such additional Debt must comply with any applicable requirements imposed by the Related Bond Indenture and Related Loan Documents.

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

(e) Compliance with Insurer Requirements. Notwithstanding the foregoing, if any Bond Insurer is providing bond insurance for any series of Related Bonds Outstanding, such conditions and requirements as are set forth in the Related Bond Indenture and Related Loan Documents related to such series of Related Bonds shall be met prior to the issuance of additional Debt, as evidenced by the written approval or appropriate waiver of such Bond Insurer delivered to the Master Trustee.

(f) Exemption. The TCEP Note, the Series 2007 Notes and related Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds, Series 2007A and Taxable Education Revenue Bonds, Series 2007B (Cosmos Foundation) shall not be considered additional Debt and are not subject to the provisions of this Section 212.

(g) Except for the parity additional Debt and any subordinate Debt authorized by this Section 212, no other additional Debt shall be issued by the Company, whether or not issued under this Master Trust Indenture, without the prior written consent of each Bond Insurer.

Section 213. Insurance. (a) The Company shall at all times following completion of any Related Project, keep and maintain such Related Project insured against such risks and in such amounts, with such deductible provisions, as are customary in connection with the operation of facilities of the type and size comparable to the Related Project and consistent with the requirements of state law. Subject to subsection (c) hereof, the Company shall carry and maintain, or cause to be carried and maintained, and pay or cause to be paid timely the premiums for, at least the following insurance with respect to the Related Project and the Company:

(1) insurance coverage for buildings and contents, including steam boilers, fired pressure vessels and certain other machinery for fire, lightning, windstorm and hail, explosion, aircraft and vehicles, sprinkler leakage, elevator, and all other risks of direct physical loss, at all times in an amount not less than the replacement cost of the Related Project as originally determined to be \$16,700,000 on the Closing Date of the Series 2007 Bonds and subsequently determined after construction is completed on any properties covered under the Deed of Trust;

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

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

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

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

(6) business interruption insurance covering actual losses in gross revenues from the Related Project resulting directly from necessary interruption of the operation of the Company caused by damage to or destruction (resulting from fire and lightning; accident to a fired pressure vessel or machinery; and other perils, including windstorm and hail, explosion, civil commotion, aircraft and vehicles, sprinkler leakage, smoke, vandalism and malicious mischief, and accident) to real or personal property constituting part of the Related Project, less charges and expenses which do not necessarily continue during the interruption of business, for such length of time as may be required with the exercise of due diligence and dispatch to rebuild, repair, or replace such properties as have been damaged or destroyed (but in no event less than 12 months) with limits equal to at least 100 percent of the maximum annual principal and interest requirements on the Outstanding Bonds for the current or any subsequent Fiscal Year.

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

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

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

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

ARTICLE III

REDEMPTION OR PREPAYMENT OF NOTES

Section 301. Redemption or Prepayment. Notes of each series shall be subject to optional and mandatory redemption or prepayment (subject to Section 602) in whole or in part and may be redeemed prior to Stated Maturity only as provided in the Supplemental Master Indenture creating such series. Unless otherwise provided by the Supplemental Master Indenture creating a series of Notes, the provisions of Sections 302 through 305 of this Master Indenture shall also apply to the redemption of Notes.

Section 302. Election to Redeem or Prepay; Notice to Master Trustee. The Company shall notify the Master Trustee in writing of the election of the Company to redeem or prepay all or any portion of the Notes of any series, together with the redemption or prepayment date and the principal amount of Notes of each Stated Maturity and series to be redeemed or prepaid, at least 60 days prior to the redemption or prepayment date fixed by the Company, unless a shorter notice shall be satisfactory to the Master Trustee.

Section 303. Deposit of Redemption or Prepayment Price. On or prior to any redemption or prepayment date, the Company shall deposit with the Master Trustee or its designated agent an amount of money sufficient to pay the redemption or prepayment price of all the Notes which are to be redeemed or prepaid on such date.

Section 304. Notes Payable on Redemption or Prepayment Date.

(a) Notice of redemption or prepayment having been given as aforesaid, and the monies for redemption or prepayment having been deposited as described in Section 303, the Notes to be redeemed or prepaid shall become due and payable on the redemption or prepayment date at the redemption or prepayment price therein specified, and from and after such date such Notes shall cease to bear interest. Upon surrender of any such Note for redemption or prepayment in accordance with said notice, such Note shall be paid by the Company at the redemption or prepayment price. Installments of interest whose Stated Maturity is on or prior to the redemption date shall be payable to the registered Note Holders on the relevant Record Dates according to their terms.

(b) If any Note called for redemption shall not be so paid upon surrender thereof for redemption, the principal (and premium, if any) shall, until paid, bear interest from the redemption date at the rate borne by the Note.

Section 305. Notes Redeemed or Prepaid in Part. Any Note which is to be redeemed or prepaid only in part shall be surrendered at a Place of Payment (with, if the Company or the Master Trustee so requires, due endorsement by, or a written instrument of transfer satisfactory in form to, the Company and the Master Trustee, and duly executed by the Holder thereof or by his attorney who has been duly authorized in writing) and the Company shall execute and the Master Trustee shall authenticate and deliver without service charge a new Note or Notes of the same series, interest rate and maturity, and of any Authorized Denomination, to the Holder of such Note as requested by such Holder in aggregate principal amount equal to and in exchange for the unredeemed or unpaid portion of the principal of the Note so surrendered.

ARTICLE IV

COVENANTS OF THE COMPANY

Section 401. Payment of Debt Service. The Company unconditionally and irrevocably covenants that it will promptly pay the principal of, premium, if any, and interest and any other amount due on every Note issued under this Master Indenture at any time at the place, on the dates and in the manner provided in said Notes according to the true intent and meaning thereof. Notwithstanding any schedule of payments upon the Notes set forth in the Notes, the Company unconditionally and irrevocably covenants and agrees to make payments upon each Note and be liable therefor at the times and in the amounts (including principal, interest and premium, if any) equal to the amounts to be paid as interest, principal at maturity or by mandatory sinking fund redemption, or premium, or purchase price, if any, upon any Notes or Related Bonds from time to time outstanding.

Section 402. Rating. The Company covenants that it will not knowingly take any action that would likely result in the reduction of the then current municipal ratings of the Notes (or any other indebtedness secured by the Notes) by Fitch, Inc., Moody's Investors Services, Inc., or Standard & Poors Ratings Services, Inc.

Section 403. Money for Note Payments to be Held in Trust; Appointment of Paying Agents.

(a) The Company may appoint a Paying Agent for each series of the Notes.

(b) Each such Paying Agent appointed by the Company shall be (i) a corporation organized and doing business under the laws of the United States of America or of any state, (ii) authorized under such laws to exercise corporate trust powers, (iii) have a combined capital and surplus of at least \$50,000,000, and (iv) be subject to supervision or examination by federal or state authority.

(c) Subject to Section 207 hereof, the Company will, on or prior to each due date of the principal of (and premium, if any) or interest or any other amounts on any Notes, deposit with the Master Trustee which shall thereupon deposit such with the Paying Agent, a sum sufficient to pay the principal (and premium, if any) or interest or purchase price so becoming due and any other amounts due in accordance with the terms of the Notes and this Master Indenture, such sum to be held in trust for the benefit of the Holders of such Notes, and the Company will promptly notify the Master Trustee of its action or failure so to act unless such Paying Agent is the Master Trustee.

(d) The Company will cause each Paying Agent other than the Master Trustee to execute and deliver to the Master Trustee an instrument in which such Paying Agent shall agree with the Master Trustee, subject to the provisions of this Subsection, that such Paying Agent will

(1) hold all sums held by it for the payment of principal of (and premium, if any) or interest or any other amounts on the Notes in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;

(2) give the Master Trustee notice of any default by the Company or any other obligor upon the Notes in the making of any such payment of principal (and premium, if any) or interest or any other amounts; and

(3) upon request by the Master Trustee, pay to the Master Trustee all sums so held in trust by such Paying Agent forthwith at any time during the continuance of such default.

(e) For the purpose of obtaining the satisfaction and discharge of this Master Indenture or for any other purpose, the Company may at any time by Order direct any Paying Agent to pay to the Master Trustee all sums held in trust by such Paying Agent, such sums to be held by the Master Trustee upon the same trusts as those upon which such sums were held by such Paying Agent. Upon such payment by any Paying Agent to the Master Trustee, such Paying Agent shall be released from all further liability with respect to such money.

(f) Subject to applicable escheat laws of the State, any money deposited in trust with the Master Trustee or any Paying Agent for the payment of the principal of (and premium, if any) or interest on any Notes and remaining unclaimed for the later of (i) the first anniversary of the Stated Maturity of the Notes or the installment of interest for the payment of which such money is held or (ii) two years after such principal (and premium, if any) or interest has become due and payable shall to the extent permitted by law be paid to the Company on its Request (which Request shall include the Company's representation that it is entitled to such funds under applicable escheatment laws and its agreement to comply with such laws) and the Holder of such Note shall thereafter, to the extent of any legal right or claim, be deemed to be an unsecured general creditor, and shall look only

to the Company for payment thereof, and all liability of the Master Trustee or such Paying Agent with respect to such trust money, and all liability of the Company, shall thereupon cease; provided, however, that the Master Trustee or such Paying Agent, before being required to make any such repayment, may publish notice in an Authorized Newspaper at the expense of the Company that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company; provided further, notwithstanding the foregoing, the Master Trustee shall be entitled to deliver any such funds to any escheatment authority in accordance with the Master Trustee's customary procedures. The Master Trustee shall hold any such funds in trust uninvested (without liability for interest accrued after the date of deposit or other compensation) for the benefit of holders entitled thereto.

Section 404. Notice of Non-Compliance. Promptly upon the discovery of any default, the Company will deliver to the Master Trustee a written statement describing each default and status thereof which has not been cured or waived under any Note. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default.

Section 405. Corporate Existence. Subject to Sections 501 and 502, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, rights (charter and statutory), and franchises; provided, however, that the Company shall not be required to preserve any right or franchise if the Governing Body shall determine that the preservation thereof is no longer desirable in the conduct of its business and that the loss thereof is not disadvantageous in any material respect to the Holders of the Notes.

Section 406. Revenue Fund.

(a) There is hereby created by the Company and established with the Master Trustee the special fund of the Company designated the "Cosmos Education Revenue Fund" (herein referred to as the "Revenue Fund"). The Revenue Fund shall contain a principal account (the "Principal Account") and an interest account (the "Interest Account") and such other accounts as the Master Trustee finds necessary or desirable, provided, the Master Trustee shall have no duty to establish and maintain the Revenue Fund prior to the occurrence and continuance of an Event of Default. The money deposited to the Revenue Fund, together with all investments thereof and investment income therefrom, shall be held in trust and applied solely as provided in this Section and in Section 606.

(b) If, and only if, an Event of Default under this Master Indenture shall occur, the Company shall deposit, within five (5) business days from the date of receipt, with the Master Trustee, for credit to the Revenue Fund all of its Adjusted Revenues, including without limitation amounts subject to the Deposit Account Control Agreement for which a Notice of Exclusive Control has been delivered, (except to the extent otherwise provided by or inconsistent with any permitted instrument creating any mortgage, lien, charge, encumbrance, pledge or other security interest granted, created, assumed, incurred or existing) as well as any insurance and condemnation proceeds, beginning on the first day of such Event of Default thereof and on each day thereafter, until no default under Section 601(a) of this Indenture then exists.

(c) Immediately upon receipt of any payments to the Master Trustee for deposit into the Revenue Fund, the Master Trustee shall withdraw and pay or deposit from the amounts on deposit in the Revenue Fund the following amounts in the order indicated:

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

on the fifth Business Day before the end of each month immediately preceding such Interest Payment Date shall be in an amount to provide, together with amounts then on deposit in the Principal Account, the balance of the principal maturing or subject to mandatory sinking fund redemption on such Interest Payment Date. There shall be paid from the Principal Account equally and ratably to the Holder of each instrument evidencing a Note the amount of principal payments due on each Note, whether at maturity or earlier mandatory redemption (other than by reason of acceleration of maturity or other demand for payment), as such principal becomes due;

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

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

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

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

Section 407. Insurance and Condemnation Proceeds Fund.

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

(b) Immediately upon receipt of any payments to the Master Trustee for deposit into the Insurance and Condemnation Fund, the Master Trustee shall transfer such amounts to the Related Bond Trustee in accordance with the Related Indenture to which such insurance or condemnation proceeds relate for use pursuant to such Related Indenture and the Related Loan Documents for such Related Project.

Section 408. Title Insurance. The Company shall obtain and deliver to the Master Trustee on or prior to the closing date of any Debt a standard ALTA owner’s policy of title insurance and a standard ALTA mortgage loan policy of title insurance issued by a title insurance company acceptable to the Master Trustee, showing the Master Trustee and any Bond Insurer as insured parties, as their interests may appear, with respect to the Mortgaged Property, together with such endorsements as may be required by the Master Trustee and any Bond Insurer, in an aggregate amount not less than the principal amount of the Debt outstanding (including the Debt to be issued) secured by the Mortgaged Property (as defined in the Deed of Trust). The policies shall insure that the Company has fee title in the Mortgaged Property and the Master Trustee has a valid first lien on the Company’s interest in the Mortgaged Property described in the Deed of Trust; subject to Permitted Encumbrances and subject to the Master Trustee’s protection in Section 703(n) hereof. There shall be deleted in such policies to the satisfaction of any Bond Insurer the standard exceptions for discrepancies, encroachments, overlaps, conflicts in boundary lines, servitudes or such other matters that would be disclosed by an accurate survey and inspection of the Mortgaged Property, for mechanics’ and materialmen’s liens, or for rights or claims of parties in possession and easements and claims of easements not shown on the public records.

Section 409. Waiver of Certain Covenants. The Company may omit in any particular instance to comply with any covenant or condition set forth in Sections 402 through 407 hereof if before or after the time for such compliance the Holders of the same percentage in principal amount of all Notes then Outstanding the consent of which would be required to amend the provisions hereof to permit such noncompliance and each Bond Insurer shall either waive such compliance in such instance or generally waive compliance with such covenant or condition, but no such waiver shall extend to or affect such covenant or condition except to the extent so expressly waived and, until such waiver shall become effective, the obligations of the Company and the duties of the Master Trustee in respect of any such covenant or condition shall remain in full force and effect.

ARTICLE V

CONSOLIDATION, MERGER, CONVEYANCE AND TRANSFER

Section 501. Consolidation, Merger, Conveyance, or Transfer Only on Certain Terms. In addition to any other requirements set forth in the Related Bond Documents, the Company covenants and agrees that it will not consolidate with or merge into any corporation or convey or transfer its properties substantially as an entirety to any Person, unless:

(a) all of the following conditions exist:

(1) the Person formed by such consolidation or into which the Company merges or the Person which acquires substantially all of the properties of the Company as an entirety shall be a Person organized and existing under the laws of the United States of America or any state or the District of Columbia and shall expressly assume by instrument supplemental hereto executed and delivered to the Master Trustee, the due and punctual payment of the principal (and premium, if any) and interest on the Notes and any other amounts due thereunder or in accordance with this Master Indenture and the performance and observance of every covenant and condition hereof on the part of the Company to be performed or observed;

(2) an Officer's Certificate shall be delivered to the Master Trustee to the effect that such consolidation, merger or transfer shall not, immediately after giving effect to such transaction, cause a default hereunder to occur and be continuing;

(3) the Company shall have delivered to the Master Trustee and Related Bond Trustee an Officer's Certificate and Opinion of Counsel, each stating that such consolidation, merger, conveyance, or transfer and such supplemental instrument comply with this Article and that all conditions precedent relating to such transaction provided for herein have been complied with, and a Favorable Opinion of Bond Counsel; and

(4) the consent of each Bond Insurer shall have been obtained.

Section 502. Successor Corporation Substituted. Upon any consolidation or merger, or any conveyance or transfer of the properties and assets of the Company substantially as an entirety in accordance with Section 501, the successor Person formed by such consolidation or into which the Company is merged or to which such conveyance or transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company hereunder with the same effect as if such successor Person had been named as the Company herein.

ARTICLE VI

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

Section 601. Events of Default. "Event of Default," whenever used herein means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) default in the payment of the principal of (premium, if any) or interest or any other amount due on any Note when due (giving effect to any applicable period of grace, if any); or

(b) default in the performance, or breach, of any covenant or agreement on the part of the Company contained in this Master Indenture (other than a covenant or agreement the default in the performance or observance of which is elsewhere in this Section specifically addressed) and continuance of such default or breach for a period of 30 days after a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder has been given by registered or certified mail by (i) the Holders of at least 25% in principal amount of Notes then Outstanding, or (ii) any Bond Insurer, or (iii) the Master Trustee to the Company (with a copy to the Master Trustee in the case of notice by the Holders); provided that if such default under this Section 601(b) can be cured by the Company but cannot be cured within the 30-day curative period described above, it shall not constitute an Event of Default if corrective action is instituted by the Company within such 30-day period and diligently pursued until the default is corrected; or

(c) a decree or order by a court having jurisdiction in the premises shall have been entered adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization or arrangement of the Company under the federal Bankruptcy Code of 1978, as amended (the "Bankruptcy Code"), or any other similar applicable

federal or state law, and such decree or order shall have continued undischarged and unstayed for a period of 90 days; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of the Company or the Company's property, or for the winding up or liquidation of the Company or the Company's affairs, shall have been entered, and such decree or order shall have remained in force undischarged and unstayed for a period of 90 days; or

(d) the Company shall institute proceedings to be adjudicated a voluntary bankruptcy, or shall consent to the institution of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization or arrangement under the Bankruptcy Code or any other similar applicable federal or state law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of it or of its property, or shall make assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or corporate action shall be taken by the Company in furtherance of any of the aforesaid purposes;

(e) an event of default, as therein defined, under any instrument or agreement under which any Note may be incurred or secured, or under any Related Bond Documents occurs and is continuing beyond any applicable period of grace, if any;

(f) a Qualified Provider under a Financial Products Agreement which is secured by a Note notifies the Master Trustee that an event of default under the Swap Agreement, as therein defined, has occurred and is continuing beyond the applicable grace period, if any.

Section 602. Acceleration of Maturity In Certain Cases; Rescission and Annulment.

(a) If an Event of Default occurs and is continuing, then and in every such case the Master Trustee may, and upon the request of: (i) the Holders of not less than 25% in principal amount of the Notes Outstanding with the consent of the Majority Insurers (or, in the case of any Event of Default described in clause (e) above resulting in the loss of any exclusion from gross income of interest on, or the invalidity of, any Debt secured by a pledge of Notes, the Holders of not less than 25% in principal amount of the Notes Outstanding of the affected series) or (ii) any Bond Insurer, shall, by a notice in writing to the Company, accelerate the Maturity of the Notes, and upon any such declaration such principal (premium, if any) and interest and any other amount due on any Note shall become immediately due and payable.

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

- (1) the Company has caused to be paid or deposited with the Master Trustee a sum sufficient to pay:
 - (i) all overdue installments of interest on all Notes;
 - (ii) the principal of (and premium, if any, on) any Notes which have become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the Notes as well as any other amounts due and owing as provided in such Notes; and
 - (iii) all sums paid or advanced by the Master Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Master Trustee, its agents and counsel; and
- (2) all Events of Default, other than the non-payment of the principal of Notes which have become due solely by such acceleration, have been cured or waived as provided in Section 613.

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

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

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

(a) The Company covenants that if:

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

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

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

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

(b) If the Company fails to pay any of the foregoing amounts forthwith upon demand, the Master Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, and may prosecute such proceeding to judgment or final decree, and may enforce the same, against the Company and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the Property of the Company.

(c) If an Event of Default occurs and is continuing, the Master Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Notes and other obligations secured hereunder by such appropriate judicial proceedings as the Master Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Master Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy, including without limitation proceeding under the UCC as to all or any part of the Trust Estate, and the Company hereby covenants and agrees with the Master Trustee that the Master Trustee shall have and may exercise with respect to the Trust Estate all the rights, remedies and powers of a secured party under the UCC as in effect in the State of Texas.

(d) If an Event of Default occurs and is continuing, the Master Trustee shall, at the direction of each Bond Insurer, provide a Notice of Exclusive Control to the Company's Depository Bank.

(e) If an Event of Default occurs and is continuing, the Mortgage Trustee may foreclose on any property subject to the Deed of Trust.

Section 604. Master Trustee May File Proofs of Claim.

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

(1) to file and prove a claim for the whole amount of principal (and premium, if any) and interest and any other amounts owing and unpaid in respect of the Notes and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Master Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Master Trustee, its agents and counsel) and of the Holders of Notes allowed in such judicial proceeding; and

(2) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

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

(b) Nothing herein contained shall be deemed to authorize the Master Trustee to authorize or consent to or accept or adopt on behalf of any Holder of Notes any plan of reorganization, arrangement, adjustment or composition affecting the

Notes or the rights of any Holder thereof, or to authorize the Master Trustee to vote in respect of the claim of any Holder of Notes in any such proceeding.

Section 605. Master Trustee May Enforce Claims Without Possession of Notes. All rights of action and claims under this Master Indenture or the Notes may be prosecuted and enforced by the Master Trustee without the possession of any of the Notes or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Master Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Master Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Notes in respect of which such judgment has been recovered.

Section 606. Application of Money Collected. Any money collected by the Master Trustee pursuant to this Article and any proceeds of any sale (after deducting the costs and expenses of such sale, including a reasonable compensation to the Master Trustee, its agents and counsel, and any taxes, assessments, or liens prior to the lien of this Indenture, except any thereof subject to which such sale shall have been made), whether made under any power of sale herein granted or pursuant to judicial proceedings, together with, in the case of an entry or sale as otherwise provided herein, any other sums then held by the Master Trustee as part of the Trust Estate, shall be deposited in the Revenue Fund created by this Master Indenture, shall be applied in the order specified in Section 406, at the date or dates fixed by the Master Trustee and, in case of the distribution of such money on account of principal (or premium, if any), upon presentation of the Notes and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid.

Section 607. Limitation on Suits. No Holder of any Note shall have any right to institute any proceeding, judicial or otherwise, with respect to this Master Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

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

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

Section 608. Unconditional Right of Holders of Notes to Receive Principal, Premium and Interest. Notwithstanding any other provision in this Master Indenture, the Holder of any Note shall have the right which is absolute and unconditional to receive payment of the principal of (and premium, if any) and interest on such Note, but (without waiving or impairing any rights such Holder may have under any other instrument or agreement) solely from the sources provided in this Master Indenture, on the respective Stated Maturities expressed in such Note (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

Section 609. Restoration of Rights and Remedies. If the Master Trustee or any Holder of Notes has instituted any proceeding to enforce any right or remedy under this Master Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Master Trustee or to such Holder of Notes, then and in every such case the Company, the Master Trustee and the Holders of Notes shall, subject to any determination in such proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and remedies of the Master Trustee and the Holders of Notes shall continue as though no such proceeding had been instituted.

Section 610. Rights and Remedies Cumulative. No right or remedy herein conferred upon or reserved to the Master Trustee or to the Holders of Notes is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 611. Delay or Omission Not Waiver. No delay or omission of the Master Trustee or of any Holder of any Note to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Master Trustee or to the Holders of Notes may be exercised from time to time, and as often as may be deemed expedient, by the Master Trustee or by the Holders of Notes, as the case may be.

Section 612. Control by Holders of Notes. The Holders of a majority in principal amount of the Outstanding Notes shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Master Trustee or exercising any trust or power conferred on the Master Trustee, provided that such direction shall not be in conflict with any rule of law or with this Master Indenture, and provided further that the Master Trustee shall have the right to decline to comply with any such request in accordance with Section 703(e) hereof or if the Master Trustee shall be advised by counsel (who may be its own counsel) that the action so directed may not lawfully be taken or the Master Trustee in good faith shall determine that such action would be unjustly prejudicial to the Holders of the Notes not parties to such direction. The Master Trustee may take any other action deemed proper by the Master Trustee which is not inconsistent with such direction.

Section 613. Waiver of Past Defaults.

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

- (1) a default in the payment of the principal of (or premium, if any) or interest or any other amount on any Note; or
- (2) a default in respect of a covenant or provision hereof which under Article VIII cannot be modified or amended without the consent of the Holder of each Outstanding Note affected.

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

Section 614. Undertaking for Costs. All parties to this Master Indenture agree, and each Holder of any Note by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Master Indenture, or in any suit against the Master Trustee for any action taken or omitted by it as Master Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Master Trustee, to any suit instituted by any Holder of Notes, or group of Holders of Notes, holding in the aggregate more than 10% in principal amount of the Outstanding Notes, or to any suit instituted by any Holder of Notes for the enforcement of the payment of the principal of (or premium, if any) or interest on any Note on or after the respective Stated Maturities expressed in such Note (or, in the case of redemption, on or after the redemption date).

Section 615. Waiver of Stay or Extension Laws. The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Master Indenture; and the Company (to the extent that it may lawfully do so), hereby expressly waives all benefit or advantage of any such law, and covenants (to the extent that it may lawfully do so) that it will not hinder, delay or impede the execution of any power herein granted to the Master Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

Section 616. No Recourse Against Others. No recourse under or upon any obligation, covenant or agreement contained in this Master Indenture or any indenture supplemental hereto, or in any Note, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, or against any past, present or future director, officer or employee, as such, of the Master Trustee or the Company or of any successor corporation, either directly or through the Company, whether by virtue of any constitution or statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that this Master Indenture and the Notes are solely corporate obligations, and that no

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

Section 617. Third Party Beneficiary. The parties hereto expressly recognize that each Bond Insurer is a third party beneficiary of this Master Indenture, entitled, but not obligated, to enforce any right, remedy, or claim conferred, given or granted hereunder. Each of the parties hereto expressly acknowledges and agrees that, irrespective of any action taken or omitted to be taken by each Bond Insurer under or in connection with this Master Indenture or otherwise in connection with any Related Bonds, the sole liability and obligation of each Bond Insurer in connection with any Related Bonds and this Master Indenture shall be those obligations which are expressly undertaken by each Bond Insurer in its municipal bond insurance policy issued in connection with any Related Bonds.

ARTICLE VII

CONCERNING THE MASTER TRUSTEE

Section 701. Duties and Liabilities of Master Trustee.

(a) The Master Trustee accepts and agrees to execute the trusts imposed upon it by this Master Indenture, but only upon the terms and conditions set forth herein, and no implied covenants or obligations shall be read into this Master Indenture against the Master Trustee.

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

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

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

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

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

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

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

Section 702. Notice of Defaults. Within 60 days after the occurrence of any default of which the Master Trustee is deemed to have knowledge hereunder, the Master Trustee shall transmit by mail to all Holders of Notes and each Bond Insurer notice of such default, unless such default shall have been cured or waived or unless corrective action to cure such default has been instituted and is being pursued such that such default does not constitute an Event of Default; provided, however, that except in the case of a default in the payment of the principal of (or premium, if any) or interest on any Notes or in the payment

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

Section 703. Certain Rights of Master Trustee.

(a) The Master Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties and shall not be required to verify the accuracy of any information or calculations required to be included therein or attached thereto.

(b) Any request or direction of the Company shall be sufficiently evidenced by a Request; and any resolution of the Governing Body may be evidenced to the Master Trustee by a Board Resolution.

(c) Whenever in the administration of this Master Indenture the Master Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Master Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officer’s Certificate.

(d) The Master Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(e) The Master Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Master Indenture at the request or direction of any of the Holders of the Notes pursuant to the provisions of this Master Indenture, unless such Holders shall have offered to the Master Trustee reasonable security or indemnity satisfactory to it against the costs, expenses and liabilities which might be incurred by it in connection with such request or direction and for the payment of the Master Trustee’s fees in connection therewith.

(f) The Master Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document, but the Master Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Master Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney and to take such memoranda from and in regard thereto as may be reasonably desired. The Master Trustee shall have no obligation to perform any of the duties of the Company under this Master Indenture.

(g) The Master Trustee may execute any of the trusts or powers hereunder either directly or by or through agents or attorneys or may act or refrain from acting in reliance upon the opinion or advice of such agents or attorney, but the Master Trustee shall not be held liable for any negligence or misconduct of any such agent or attorney appointed by it with due care. The Master Trustee may act upon the opinion or advice of attorney or agent selected by it in the exercise of reasonable care or, if selected or retained by the Company, approved by the Master Trustee in the exercise of such care. The Master Trustee shall not be responsible for any loss or damage resulting from any action or nonaction based on its good faith reliance upon such opinion or advice. The Master Trustee may in all cases pay reasonable compensation to any attorney or agent retained or employed by it in connection herewith.

(h) The Master Trustee shall not be required to take notice or be deemed to have notice of any Event of Default hereunder unless the Master Trustee shall be specifically notified of such Event of Default in writing by the Company or by the Holder of an Outstanding Note, and in the absence of such notice the Master Trustee may conclusively assume that no Event of Default exists; provided, however, that the Master Trustee shall be required to take and be deemed to have notice of its failure to receive the moneys necessary to make payments when due of principal, premium, if any, or interest on any Note.

(i) The Master Trustee shall not be liable for any error of judgment made in good faith by its officers, unless it shall be proved that the Master Trustee was negligent in ascertaining the pertinent facts.

(j) The Master Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with any direction of the Holders of the Outstanding Notes permitted to be given by them under this Master Indenture.

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

(l) The permissive right of the Master Trustee to do things enumerated in this Master Indenture shall not be construed as a duty and the Master Trustee shall not be answerable for other than its negligence or willful misconduct in accordance with the terms of this Master Indenture.

(m) The Master Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

(n) The Master Trustee shall not be responsible for monitoring the existence of or determining whether any lien or encumbrance or other charge including without limitation any Permitted Encumbrance (as defined in the Deed of Trust) exists against the Project or the Trust Estate.

Section 704. Not Responsible For Recitals or Issuance of Notes. The recitals contained herein and in the Notes (other than the certificate of authentication on such Notes) shall be taken as the statements of the Company and the Master Trustee assumes no responsibility for their correctness. The Master Trustee makes no representations as to the validity or sufficiency of this Master Indenture or of the Notes. The Master Trustee shall not be accountable for the use or application by the Company of any of the Notes or of the proceeds of such Notes, for the use or application of any money paid over by the Master Trustee in accordance with the provisions of this Master Indenture or for the use and application of money received by any Paying Agent.

Section 705. Master Trustee May Own Notes. The Master Trustee or other agent of the Company, in its individual or any other capacity, may become the owner or pledgee of Notes and may otherwise deal with the Company with the same rights it would have if it were not Master Trustee or such other agent.

Section 706. Moneys to Be Held in Trust. All moneys received by the Master Trustee shall, until used or applied as herein provided (including payment of moneys to the Company under the next to last paragraph of Section 403), be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law. The Master Trustee shall be under no liability for interest on any moneys received by it hereunder other than such interest as it expressly agrees to pay.

Section 707. Compensation and Expenses of Master Trustee.

(a) The Company hereby agrees:

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

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

(3) to indemnify the Master Trustee, its directors, employees, agents and affiliates (including without limitation, the Master Trustee as Paying Agent hereunder) (collectively, the "Indemnitees") for, and to defend and hold them harmless against, loss, liability, claims, proceedings, suits, demands, penalties, costs and expenses, including without limitation, the costs and expenses of outside and in house counsel and experts and their staffs and all expenses of document location, duplication and shipment and of preparation to defend and defending any of the foregoing ("Losses"), that may be imposed on, incurred by or asserted against any Indemnatee in respect of (i) any loss, or damage to any property, or injury to or death of any person, asserted by or on behalf of any Person arising out of, resulting from, or in any way connected with the Project, or the conditions, occupancy, use, possession, conduct or management of, or any work done in or about the Project or from the planning, design, acquisition or construction of

any Project facilities or any part thereof, (ii) the issuance of any Notes or Related Bonds, or the Company's or the Issuer's, as the case may be, authority therefore; (iii) this Master Indenture and any instrument related thereto, (iv) the Master Trustee's execution, delivery and performance of the Master Indenture, except in respect of any Indemnitee to the extent such Indemnitee's negligence or bad faith caused such the Loss, and (v) compliance with or attempted compliance with or reliance on any instruction or other direction upon which the Master Trustee may rely under the Master Indenture or any instrument related thereto. The Company further agrees to indemnify the Indemnitees against any Losses as a result of (1) any untrue statement or alleged untrue statement of any material fact or the omission or alleged omission to state a materially fact necessary to make the statements made not misleading in any statement, information or material furnished by the Company to the Master Trustee or the Holder of any Note, including, but not limited to, any disclosure document utilized in connection with the sale of any Related Bonds; or (2) the inaccuracy of the statement contained in any section of any Related Bond Indenture relating to environmental representations and warranties. The foregoing indemnification shall include, without limitation, indemnification for any statement or information concerning the Company or its officer and members or its Property contained in any official statement or other offering document furnished to the Master Trustee or the purchaser of any Notes or Related Bonds that is untrue or incorrect in any material respect, and any omission from such official statement or other offering document of any statement or information which should be contained therein for the purpose for which the same is to be used or which is necessary to make the statements therein concerning the Company, its officers and members and its Property not misleading in any material respect. The foregoing is in addition to any other rights, including rights to indemnification, to which the Master Trustee may otherwise be entitled, including without limitation, pursuant to the Deed of Trust.

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

Section 708. Corporate Master Trustee Required; Eligibility. There shall at all times be a Master Trustee hereunder which shall be a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$50,000,000, subject to supervision or examination by Federal or state authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Master Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

Section 709. Resignation and Removal; Appointment of Successor.

(a) No resignation or removal of the Master Trustee and no appointment of a successor Master Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Master Trustee under Section 710.

(b) The Master Trustee may resign at any time by giving written notice thereof to the Company and any Bond Insurer. If an instrument of acceptance by a successor Master Trustee shall not have been delivered to the Master Trustee within 30 days after the giving of such notice of resignation, the resigning Master Trustee may petition any court of competent jurisdiction for the appointment of a successor Master Trustee.

(c) The Master Trustee may be removed at any time by act (i) of the Holders of a majority in principal amount of the Outstanding Notes, with the consent of the Bond Insurers of a majority of the aggregate principal amount of the Related Bonds Outstanding or (ii) the Bond Insurers of a majority of the aggregate principal amount of the Related Bonds Outstanding, delivered to the Master Trustee and the Company.

(d) If at any time:

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

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

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

(e) If the Master Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Master Trustee for any cause, the Company shall promptly appoint a successor Master Trustee. If, within six months after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Master Trustee shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Notes delivered to the Company and the retiring Master Trustee, the successor Master Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Master Trustee and supersede the successor Master Trustee appointed by the Company. If no successor Master Trustee shall have been so appointed by the Company or the Holders of Notes and accepted appointment in the manner hereinafter provided, the Master Trustee or any Holder of Notes who has been a bona fide Holder of a Note for at least 6 months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Master Trustee.

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

Section 710. Acceptance of Appointment by Successor.

(a) Every successor Master Trustee appointed hereunder shall execute, acknowledge and deliver to the Company and to the retiring Master Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Master Trustee shall become effective and such successor Master Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Master Trustee; but, on Request of the Company or the successor Master Trustee, such retiring Master Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Master Trustee all the rights, powers and trusts of the retiring Master Trustee, and shall duly assign, transfer and deliver to the successor Master Trustee all property and money held by such retiring Master Trustee hereunder. Upon request of any such successor Master Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Master Trustee all such rights, powers and trusts.

(b) No successor Master Trustee shall accept its appointment unless at the time of such acceptance such successor Master Trustee shall be qualified and eligible under this Article.

Section 711. Merger or Consolidation. Any corporation into which the Master Trustee may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Master Trustee shall be a party, or any corporation acquiring and succeeding to all or substantially all of the municipal corporate trust business of the Master Trustee, shall be the successor Master Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, to the extent operative, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Notes shall have been authenticated, but not delivered, by the Master Trustee then in office, any successor by merger or consolidation to such authenticating Master Trustee may adopt such authentication and deliver the Notes so authenticated with the same effect as if such successor Master Trustee had itself authenticated such Notes.

Section 712. Release of Property. At the request of a majority of the Holders of the Notes and with the consent of each Bond Insurer, if any, the Master Trustee shall execute and deliver in recordable form any releases of Property encumbered hereby or by the Deed of Trust.

Section 713. Partial Release of Real Property Included in Deed of Trust. (a) The Master Trustee shall consent to the release of portions of the real property included in the Deed of Trust upon receipt of a written Request for such release and a Certificate of an Authorized Representative providing that:

- (1) the requested release is for a facility funded solely with restricted donations (the "Endowed Facility");
- (2) the Endowed Facility is solely owned by the Company;
- (3) the Company has no outstanding Debt incurred in connection with the construction of the Endowed Facility;

(4) the real property requested for release is limited to the immediate area occupied by the Endowed Facility and, upon release thereof, does not materially impair the value of the aggregate real property then-securing all outstanding Debt; and

(5) the Endowed Facility is complete.

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

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

- (1) a Certificate of an Authorized Representative requesting the release;
- (2) the identification of the facility and land requested for release (the "Released Facility");
- (3) an appraisal of the Facility and land that remain subject to the Deed of Trust (the "Retained Facility");
- (4) evidence that cash, letter of credit or securities have been deposited with the Master Trustee that, together with the appraised value of the Retained Facility, equal at least 50% of the principal amount of all Notes Outstanding hereunder; and
- (5) a Supplemental Master Indenture, pursuant to Section 801(n) permitting the substitution of cash, letter of credit or securities for real property in the Trust Estate.

ARTICLE VIII

SUPPLEMENTS

Section 801. Supplemental Master Indentures Without Consent of Holders of Notes. Without the consent of the Holders of any Notes, but with the consent of each Bond Insurer, the Company, when authorized by a Board Resolution, and the Master Trustee at any time may enter into or consent to one or more indentures supplemental hereto, subject to Section 803 hereof, for any of the following purposes:

- (a) to cure any ambiguity or to correct or supplement any provision herein or therein which may be inconsistent with any other provision herein or therein, or to make any other provisions with respect to matters or questions arising under this Master Indenture which shall not be inconsistent with this Master Indenture, provided such action shall not adversely affect the interests of the Holder of any Notes;
- (b) to grant to or confer upon the Master Trustee for the benefit of the Holders of the Notes any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Holders of the Notes and the Master Trustee, or either of them, to add to the covenants of the Company for the benefit of the Holders of the Notes or to surrender any right or power conferred hereunder upon the Company;
- (c) to assign and pledge under this Master Indenture additional revenues, properties or collateral;
- (d) to evidence the succession of another corporation to the agreements of the Master Trustee, or a successor thereof hereunder;
- (e) to evidence the succession of another Person to the Company, or successive successions, and the assumption by the successor Person of the covenants, agreements and obligations of the Company as permitted by this Master Indenture;
- (f) to modify or supplement this Master Indenture in such manner as may be necessary or appropriate to qualify this Master Indenture under the Trust Indenture Act of 1939 as then amended, or under any similar federal or state statute or regulation, including provisions whereby the Master Trustee accepts such powers, duties, conditions and restrictions hereunder and the Company undertakes such covenants, conditions or restrictions additional to those contained in this Master Indenture as would be necessary or appropriate so to qualify this Master Indenture; provided, however, that nothing herein contained shall be

deemed to authorize inclusion in this Master Indenture or in any indenture supplemental hereto, provisions referred to in Section 316(a)(2) of the said Trust Indenture Act or any corresponding provision provided for in any similar statute hereafter in effect;

- (g) to provide for the refunding or advance refunding of any Note, in whole or in part as permitted hereunder;
- (h) to provide for the issuance of the Notes or any additional series of Notes as permitted hereunder;
- (i) to permit a Note to be secured by new security which may or may not be extended to all Note Holders or to establish special funds or accounts under this Master Indenture;
- (j) to allow for the issuance of any series of Notes in uncertificated form;
- (k) to make any other change which does not materially adversely affect the Holders of any of the Notes and, in the opinion of each Related Bond Trustee, does not materially adversely affect the owners of the Related Bonds with respect to which it acts as trustee, including without limitation any modification, amendment or supplement to this Master Indenture or any indenture supplemental hereto or any amendment thereto in such a manner as to establish or maintain exemption of interest on any Related Bonds under a Related Bond Indenture from federal income taxation under applicable provisions of the Code;

(l) so long as no Event of Default has occurred and is continuing under this Master Indenture and so long as no event which with notice or the passage of time or both would become an Event of Default under this Master Indenture has occurred and is continuing, to make any other change herein or therein which, in the judgment of an Independent Management Consultant approved by each Bond Insurer, if any, a copy of whose report shall be filed with the Master Trustee:

- (1) is in the best interest of the Company;
- (2) does not materially adversely affect the Holder of any Note;
- (3) provided that, with respect to each applicable series of Related Bonds, an Opinion of Counsel acceptable to the Master Trustee, and on which the Master Trustee may conclusively rely, to the effect that the amendment proposed to be adopted by such Supplemental Master Indenture will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on such Related Bonds otherwise entitled to such exclusion; and
- (4) provided that, no such amendment, directly or indirectly, shall (A) change the provisions of this clause (l), (B) make any modification of the type prohibited Section 802 hereof, or (C) make a modification intended to subordinate the right to payment of a Holder of any Note to the right of payment of any Holder of any other Note or any other Debt;

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

(n) to release the Deed of Trust or, pursuant to Section 703(b) herein, portions of property contained therein from the Master Trust Estate upon receipt and deposit with the Master Trustee sufficient assets, cash, letters of credit or other guarantee and written confirmation from each Rating Service that such change will not result in a withdrawal or reduction in its credit rating assigned to any series of Notes or Related Bonds; and

(o) to modify, eliminate or add to the provisions of this Master Indenture if the Master Trustee shall have received (1) written confirmation from each Rating Service that such change will not result in a withdrawal or reduction of its credit rating assigned to any series of Notes or Related Bonds, as the case may be, and (2) a Board Resolution to the effect that, in the judgment of the Company, such change is necessary to permit the Company to affiliate or merge with one or more other charter schools on acceptable terms and such change and affirmation are in the best interests of the Holders of the Outstanding Notes.

Section 802. Supplemental Indentures With Consent of Holders of Notes.

(a) With the consent of each Bond Insurer and with the consent of the Holders of not less than a majority in principal amount of the Outstanding Notes, by Act of said Holders delivered to the Company and the Master Trustee, the Company, when authorized by a Board Resolution, and the Master Trustee may enter into or consent to an indenture or indentures supplemental hereto (subject to Section 803 hereof) for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Master Indenture or of modifying in any manner the rights of the Holders of

the Notes under this Master Indenture; provided, however, that no such Supplemental Master Indenture shall, without the consent of the Holder of each Outstanding Note affected thereby:

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

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

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

(b) It shall not be necessary for any Act of Holders of Notes under this Section to approve the particular form of any proposed Supplemental Master Indenture, but it shall be sufficient if such Act of Holders of Notes shall approve the substance thereof, as presented in written form to the Holders of the Notes by the Company.

Section 803. Execution of Supplemental Indentures. In executing, or accepting the additional trusts created by, any Supplemental Master Indenture permitted by this Article or the modifications thereby of the trusts created by this Master Indenture, the Master Trustee shall be entitled to receive, and (subject to Section 701) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such Supplemental Master Indenture or consent is authorized or permitted by this Master Indenture. The Master Trustee may, but shall not (except to the extent required in the case of a Supplemental Master Indenture entered into under Section 801(d)) be obligated to, enter into any such Supplemental Master Indenture or consent which affects the Master Trustee's own rights, duties or immunities under this Master Indenture or otherwise.

Section 804. Effect of Supplemental Master Indentures. Upon the execution of any Supplemental Master Indenture under this Article, this Master Indenture shall, with respect to each series of Notes to which such Supplemental Master Indenture applies, be modified in accordance therewith, and such Supplemental Master Indenture shall form a part of this Master Indenture for all purposes, and every Holder of Notes thereafter or theretofore authenticated and delivered hereunder shall be bound thereby.

Section 805. Notes May Bear Notation of Changes. Notes authenticated and delivered after the execution of any Supplemental Master Indenture pursuant to this Article may bear a notation in form approved by the Master Trustee as to any matter provided for in such Supplemental Master Indenture. If the Company or the Master Trustee shall so determine, new Notes so modified as to conform, in the opinion of the Master Trustee and the Company, to any such Supplemental Master Indenture may be prepared and executed by the Company and authenticated and delivered by the Master Trustee in exchange for Notes then Outstanding.

ARTICLE IX

SATISFACTION AND DISCHARGE OF MASTER INDENTURE

Section 901. Satisfaction and Discharge of Master Indenture.

(a) If at any time the Company shall have paid or caused to be paid the principal of (and premium, if any) and interest and all other amounts due and owing on all the Notes Outstanding hereunder, as and when the same shall have become due and payable, and if the Company shall also pay or provide for the payment of all other sums payable hereunder by the Company and shall have paid all of the Master Trustee's fees and expenses pursuant to Section 707 hereof, then this Master Indenture shall cease to be of further effect (except as to (i) rights of registration of transfer and exchange, (ii) substitution of mutilated, defaced, or apparently destroyed, lost or stolen Notes, (iii) rights of Holders to receive payments of principal thereof (and premium, if any) and interest thereon and remaining obligations of the Company to make mandatory sinking fund payments, (iv) the rights, remaining obligations, if any, and immunities of the Master Trustee hereunder and (v) the rights of the Holders as beneficiaries hereof with respect to the property so deposited with the Master Trustee payable to all or any of them) and the Master Trustee, on the Request accompanied by an Officer's Certificate and an Opinion of Counsel to the effect that the

conditions precedent to the satisfaction and discharge of this Master Indenture have been fulfilled and at the cost and expense of the Company, shall execute proper instruments acknowledging satisfaction of and discharging this Master Indenture.

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

Section 902. Notes Deemed Paid. Unless otherwise provided in the supplemental indenture establishing any such series of Notes, Notes of any series shall be deemed to have been paid if:

(a) in case said Notes are to be redeemed on any date prior to their Stated Maturity, the Company by Request shall have given to the Master Trustee in form satisfactory to it irrevocable instructions to give notice of redemption of such Notes on said redemption date;

(b) there shall have been deposited with the Master Trustee either money sufficient, or Defeasance Obligations the principal of and the interest on which will provide money sufficient without reinvestment (as established by an Officer's Certificate delivered to the Master Trustee accompanied by a report of an Independent Accountant setting forth the calculations upon which such Officer's Certificate is based), to pay when due the principal of (and premium, if any) and interest due and to become due on said Notes on and prior to the Maturity thereof;

(c) in the event said Notes are not by their terms subject to redemption within the next 45 days, the Company by Request shall have given the Master Trustee in form satisfactory to it irrevocable instructions to give a notice to the Holders of such Notes that the deposit required by clause (b) of this Section 902 above has been made with the Master Trustee and that said Notes are deemed to have been paid in accordance with this Section and stating such Maturity date upon which moneys are to be available for the payment of the principal of (and premium, if any) and interest on said Notes.

Section 903. Application of Trust Money. The Defeasance Obligations and money deposited with the Master Trustee pursuant to Section 902 and principal or interest payments on any such Defeasance Obligations shall be held in trust, shall not be sold or reinvested, and shall be applied by it, in accordance with the provisions of the Notes and this Master Indenture, to the payment, either directly or through any Paying Agent as the Master Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money or Defeasance Obligations were deposited; provided that, upon delivery to the Master Trustee of an Officer's Certificate (accompanied by the report of an Independent Accountant setting forth the calculations upon which such Officer's Certificate is based) establishing that the money and Defeasance Obligations on deposit following the taking of the proposed action will be sufficient for the purposes described in subsection (b) of Section 902, any money received from principal or interest payments on Defeasance Obligations deposited with the Master Trustee or the proceeds of any sale of such Defeasance Obligations, if not then needed for such purpose, shall, upon Request be reinvested in other Defeasance Obligations or disposed of as requested by the Company. For purposes of any calculation required by this Article, any Defeasance Obligation which is subject to redemption at the option of its issuer, the redemption date for which has not been irrevocably established as of the date of such calculation, shall be assumed to cease to bear interest at the earliest date on which such obligation may be redeemed at the option of the issuer thereof and the principal of such obligation shall be assumed to be received at its Stated Maturity.

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

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THE SERIES 2014A BOND INDENTURE
TRUST INDENTURE AND SECURITY AGREEMENT

GRANTING CLAUSES

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that to secure the payment of the Bond Obligations and the performance of the covenants herein contained and to declare the terms and conditions on which the Outstanding Bonds are secured, and in consideration of the premises, of the purchase of the Series 2014A Bonds by the Bondholders thereof, and for other good and valuable consideration, the receipt and sufficiency of all of which are hereby acknowledged, the Issuer by these presents does grant, bargain, sell, alien, remise, release, convey, assign, transfer, mortgage, hypothecate, pledge, set over, and confirm to the Trustee, forever, all and singular the following described properties, and grant a security interest therein for the purposes herein expressed, to-wit:

GRANTING CLAUSE FIRST

All right, title, and interest of the Issuer in and to the Agreement, including all amounts payable thereunder, including but not limited to the Loan Payments, the Notes, any and all security heretofore or hereafter granted or held for the payment thereof, and the present and continuing right to bring actions and proceedings under the Agreement or for the enforcement thereof and to do any and all things which the Issuer is or may become entitled to do thereunder, but excluding the amounts agreed to be paid by the Company pursuant to Sections 4.7, 5.1 and 5.6 of the Agreement (the “*Issuer’s Unassigned Rights*”); and

GRANTING CLAUSE SECOND

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

GRANTING CLAUSE THIRD

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

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

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

UPON CONDITION that, if the Issuer, or its successors or assigns shall well and truly pay, or cause to be paid, the principal of (and premium, if any) and interest on the Series 2014A Bonds according to the true intent and meaning thereof, or there shall be deposited with the Trustee such amounts in such form in order that no Bonds shall remain Outstanding as herein defined and provided, and shall pay or cause to be paid to the Trustee all sums of money due or to become due to it in accordance with the terms and provisions of the Bond Documents, then upon the full and final payment of all such sums and amounts secured hereby or upon such deposit, this Indenture and the rights, titles, liens, security interests, and assignments herein granted shall cease, determine, and be void and this grant shall be released by the Trustee in due form at the expense of the Issuer, except only as herein provided; otherwise this grant to be and shall remain in full force and effect;

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

Bondholders, except as herein otherwise expressly provided, as follows:

ARTICLE 1

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

Section 101. Construction of Terms; Definitions.

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

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

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

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

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

“**Act**” means Chapter 53 of the Texas Education Code, including particularly Sections 53.35(b) and Section 53.48 of such Chapter.

“**Agreement**” means the Loan Agreement, dated as of the date of this Indenture, between the Issuer and the Company relating to the loan of the proceeds of the Series 2014A Bonds.

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

“**Authorized Denominations**” means, with respect to the Series 2014A Bonds, \$5,000 and any integral multiple thereof.

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

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

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

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

“Bond Counsel” means an attorney or firm of attorneys nationally recognized as having expertise in the practice of tax exempt municipal finance law as approved by the Company.

“Bond Obligations” means all principal of (and premium, if any) and interest on the Series 2014A Bonds and any other amounts which may be owed by the Company to, or on behalf of, the Issuer or the Trustee under the Bond Documents.

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

“Bond Year” has the meaning given to such term in the Agreement.

“Bonds” means the Series 2014A Bonds and any bonds issued upon transfer thereof or in exchange therefor or in lieu thereof.

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

“Book-Entry-Only Form” or **“Book-Entry-Only System”** means, with respect to the Series 2014A Bonds, a form or system, as applicable, under which (a) the ownership of beneficial interests in the Series 2014A Bonds may be transferred only through a book-entry, and (b) physical bond certificates in fully registered form are registered only in the name of a Depository or its nominee as Bondholder, with the physical bond certificates held in the custody of the Depository.

“Business Day” means any day which is not a Saturday, Sunday, legal holiday, or a day on which banking institutions in The City of New York, New York or in the cities where the Corporate Trust Office of the Trustee or its payment office are located or are authorized by law or executive order to close.

“Closing Date” means the date on which the Series 2014A Bonds are first authenticated and delivered to the initial purchasers thereof against payment therefor.

“Commissioner of Education” means the Commissioner of Education of the State of Texas.

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

“Computation Date” has the meaning given to such term in the Agreement.

“Consent,” “Order” and **“Request”** of any specified Person mean, respectively, a written consent, order, or request signed in the name of such Person and delivered to the Trustee by (i) an authorized officer of the Issuer or (ii) an Authorized Representative of the Issuer, as the case may be.

“Construction Consultant” means the respective construction consultant for a Participating Campus.

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

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

“Costs of Issuance” means the cost of financing, legal, printing and other costs attributable to the issuance of the Series 2014A Bonds within the meaning of Section 147(g) of the Code.

“Debt Service” means as of any particular date of computation, with respect to the Series 2014A Bonds and with respect to any period, the aggregate of the amounts to be paid or set aside by the Issuer as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on the Series 2014A Bonds; assuming in the case of Bonds required to be redeemed or prepaid as to principal prior to maturity that the principal amounts thereof will be redeemed prior to maturity in accordance with the mandatory redemption provisions applicable thereto.

“Debt Service Fund” means the special trust fund created pursuant to Section 403 of this Indenture.

“Deed of Trust” has the meaning assigned the term in the Related Deed of Trust Master Indenture.

“Defeasance Obligations” means obligations now or hereafter authorized in Section 1207.062(b), Texas Government Code.

“Depository” means any securities depository that is a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended, operating and maintaining, with its participants or otherwise, a Book-Entry-Only System to record ownership of beneficial interests in the Series 2014A Bonds, and to effect transfers of the Series 2014A Bonds, in Book-Entry-Only Form. The initial Depository for the Series 2014A Bonds shall be DTC.

“DTC” means The Depository Trust Company, New York, New York, the initial securities depository of the Book Entry-Only System described in Section 211 hereof. DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended.

“Eligible Securities” means, to the extent permitted by law, obligations or securities now or hereafter authorized as investments under the Public Funds Investment Act, Chapter 2256, Texas Government Code, maturing or redeemable at the option of the Trustee, or marketable, prior to the maturities thereof, at such time or times as to enable disbursements to be made from the Debt Service Fund, the Construction Fund and the Rebate Fund in accordance with the terms hereof. The Trustee has no obligation or duty to determine whether an Eligible Security is permitted by law.

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

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

“Favorable Opinion of Bond Counsel” means an unqualified opinion from Bond Counsel, delivered to and in form and substance satisfactory to the Issuer and the Trustee to the effect that such action does not violate the laws of the State (including the Act), the Code and the Indenture and will not adversely affect the exclusion of interest on the Series 2014A Bonds from gross income for purposes of federal income taxation.

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

“Government Obligations” as used in Section 1002 hereof means (1) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States, (2) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Company approves the refunding, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; and (3) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the Company approves the refunding, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

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

“Initial Bond” means the initial Series 2014A Bond authorized in Section 210 herein.

“Interest Payment Date” means each February 15 and August 15, commencing February 15, 2015.

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

“Issuer” means the City of Houston Higher Education Finance Corporation, a non-stock, non-profit corporation organized under the Act.

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

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

“Master Indenture” means that certain Master Trust Indenture and Security Agreement, dated as of May 1, 2007, between the Company and the Master Trustee, as heretofore or hereafter amended or supplemented from time to time in accordance with its terms.

“Master Note” means the promissory note in the form attached to the Supplemental Master Trust Indenture as Exhibit “A” which is secured by the Master Indenture, executed by the Company and dated the Closing Date in the principal amount of the Series 2014A Bonds.

“Master Trustee” means Regions Bank, an Alabama state banking corporation, as successor to Amegy Bank National Association, with a corporate trust office in Houston, Texas, serving as master trustee pursuant to the Master Indenture or any successor thereto pursuant to the provisions of the Master Indenture.

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

“Note” means the Series 2014A Note.

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

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

- (i) Bonds theretofore canceled by the Trustee or delivered to the Trustee for cancellation;
- (ii) Bonds for whose payment or redemption money (or Defeasance Obligations to the extent permitted by Section 1002 of this Indenture) in the necessary amount has been theretofore deposited with the Trustee or any paying agent for such Bonds in trust for the Bondholders pursuant to this Indenture; provided, that, if such Bonds are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or irrevocable provision therefor satisfactory to the Trustee has been made;
- (iii) Bonds upon transfer of or in exchange for or in lieu of which other Bonds have been authenticated and delivered pursuant to this Indenture; and
- (iv) Bonds alleged to have been destroyed, lost, or stolen which have been paid as provided in Section 205.

provided, however, that in determining whether the holders of the requisite principal amount of Outstanding Bonds have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Bonds owned of record or beneficially by the Company or any other obligor upon the Series 2014A Bonds or the Note or such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds that the Responsible Officer knows to be so owned shall be so disregarded. Bonds so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Bonds and that the pledgee is not the Company or any other obligor upon the Series 2014A Bonds or the Note or such other obligor.

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

"Permanent School Fund Guarantee" means the guarantee program that is described under Subchapter C, Chapter 45, Texas Education Code.

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

"Place of Payment" for the Series 2014A Bonds means a city or any political subdivision thereof designated as such in the Series 2014A Bonds.

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

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

"Rating Service" means each nationally recognized securities rating service which at the time has a credit rating assigned to the Series 2014A Bonds.

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

"Record Date" means the close of business for the Trustee on the first day of the calendar month in which such Interest Payment Date occurs regardless of whether such day is a Business Day.

"Refunded Bonds" means the Texas Public Finance Authority Charter School Finance Corporation's Education Revenue Bonds (Cosmos Foundation, Inc.), Series 2007A and the La Vernia Higher Education Finance Corporation's Education Revenue Bonds (Cosmos Foundation, Inc.), Series 2008A.

"Regulations" means the applicable proposed, temporary or final Income Tax Regulations promulgated under the Code or, to the extent applicable to the Code, under the Internal Revenue Code of 1954, as such regulations may be amended or supplemented from time to time.

"Requisition Certificate" means any Requisition Certificate in substantially the form attached as Exhibit B to this Indenture.

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

"Series 2014A Bonds" means the City of Houston Higher Education Finance Corporation Education Revenue and Refunding Bonds (Harmony Public Schools) Series 2014A, authorized to be issued pursuant to Section 201 of this Indenture.

"Special Record Date" has the meaning set forth in Section 206 hereof.

"Sponsoring Entity" has the meaning ascribed to such term in the first recital hereof.

“**State**” means the State of Texas.

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

“**Supplemental Master Trust Indenture**” shall mean the Supplemental Master Trust Indenture No. 18, dated as of July 1, 2014, between the Company and the Master Trustee.

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

“**Trustee**” means Regions Bank, an Alabama state banking corporation, with a corporate trust office in Houston, Texas, serving as Trustee pursuant to this Indenture or any successor thereto pursuant to the provisions of this Indenture.

Section 102. Effect of Headings and Table of Contents. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 103. Form of Documents Delivered to Trustee. Every certificate and every Opinion of Counsel with respect to compliance with a condition or covenant provided for in this Indenture shall include a statement that the person making such certification or opinion has read such covenant or condition and the definitions relating thereto, has made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether such covenant or condition has been complied with, and a statement whether such condition or covenant has been complied with. In any case where several matters are required to be certified by or covered by an opinion of any specified Person, it is not necessary that all such matters be certified by or covered by the opinion of only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

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

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

Section 104. Acts of Bondholders.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Bondholders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Bondholders in person or by its agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee, and, where it is hereby expressly required, to the Issuer. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the “Act” of the Bondholders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent, shall be sufficient for any purpose of this Indenture and (subject to Section 801) conclusive in favor of the Trustee and the Issuer, if made in the manner provided in this Section.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by the certificate of any notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by an officer of a corporation or a member of a partnership on behalf of such corporation or partnership, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

(c) The ownership of Bonds shall be proved by the Bond Register.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other Act by any Bondholder shall bind every Bondholder issued upon the transfer thereof or in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Issuer in reliance thereon, whether or not notation of such action is made upon such Bond.

Section 105. Notice Addresses. Any request, demand, authorization, direction, notice, consent, waiver or Act of Bondholders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(1) the Trustee by any Bondholder or by any specified Person shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with and actually received by a Responsible Officer of the Trustee at its Corporate Trust Office located at 1717 St. James Place, 5th Floor, Houston, Texas 77056, or at any other address subsequently furnished in writing to the Bondholders and the other parties to the Bond Documents by the Trustee;

(2) the Issuer by any Bondholder or by any specified Person shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid, to the Issuer addressed to it at Bracewell & Giuliani LLP, 711 Louisiana Street, Suite 2300, Houston, Texas, 77002-2770, Attention: Barron Wallace, or at any other address subsequently furnished in writing to the Trustee and the Company by the Issuer;

(3) the Company by any Bondholder or by any specified Person shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid, to the Company addressed to it at Harmony Public Schools, 9321 West Sam Houston Parkway South, Houston, Texas, 77477, Attention: Superintendent, or at any other address subsequently furnished in writing to the Trustee and the Issuer by the Company;

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

Section 106. Notices to Bondholders; Waiver. Where this Indenture provides for notice to Bondholders of any event such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Bondholder affected by such event, at his address as it appears on the Bond Register, not later than the latest date, and not earlier than the earliest date, prescribed for the delivery of such notice. In any case where notice to Bondholders is given as provided herein, neither the failure to send such notice, nor any default in any notice so sent to any particular Bondholder shall affect the sufficiency of such notice with respect to other Bondholders. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Bondholders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Section 107. Successors and Assigns. All covenants and agreements in this Indenture by the Issuer and the Trustee shall bind their respective successors and assigns, whether so expressed or not.

Section 108. Severability Clause. In case any provision in this Indenture or in the Series 2014A Bonds or any application thereof shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions and applications shall not in any way be affected or impaired thereby.

Section 109. Benefits of Indenture. Nothing in this Indenture or in the Series 2014A Bonds, express or implied, shall give to any Person, other than the parties hereto, their successors hereunder, any separate trustee or co-trustee appointed hereunder, the Company, and the Bondholders, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 110. Governing Law. This Indenture shall be governed, in all respects including validity, interpretation and effect by, and shall be enforceable in accordance with, the laws of the State.

Section 111. Directors, Officers, Employees, and Agents Exempt from Personal Liability. No recourse under or upon any obligation, covenant, or agreement contained in this Indenture, or in any Bond, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, or against any past, present, or future director, officer, or employee, as such, of the Issuer or the Trustee, or of any successor corporation, either directly or through the Issuer or the

Trustee, whether by virtue of any constitution or statute or rule of law, or by the enforcement of any assessment, judgment, or penalty, or otherwise; it being expressly understood that this Indenture and the Series 2014A Bonds are solely corporate obligations, and that no such personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, directors, officers, or employees, as such, of the Issuer, the Trustee, or any other successor corporation, or any of them, because of the creation of indebtedness hereby authorized, or under or by reason of the obligations, covenants, or agreements contained in this Indenture or the Series 2014A Bonds or implied therefrom, and that any and all such personal liability either at common law or equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, director, officer, or employee, as such, are hereby expressly waived and released as a condition of, and in consideration for, the execution of this Indenture and the issuance of the Series 2014A Bonds.

ARTICLE II

ARTICLE IIAUTHORIZATION AND TERMS OF BONDS; ISSUANCE AND FORM OF BONDS

Section 201. Authorization and Form of Bonds.

(a) The Series 2014A Bonds shall be designated “City of Houston Higher Education Finance Corporation Education Revenue and Refunding Bonds (Harmony Public Schools) Series 2014A.” The aggregate principal amount of Series 2014A Bonds is \$101,555,000. The Series 2014A Bonds shall be numbered separately from RA-1 upwards. The Series 2014A Bonds shall be issued only in fully registered form in Authorized Denominations. The Series 2014A Bonds shall be issued for the purpose of providing funds to be loaned by the Issuer to the Company for the construction and acquisition or refinancing of the Project; refunding the Refunded Bonds; paying capitalized interest and paying a portion of the costs of issuance of the Series 2014A Bonds.

(b) The Series 2014A Bonds and the Guarantee Endorsement of the Commissioner of Education, respectively, shall be substantially in the form set forth in Exhibit A attached hereto, with such appropriate variations, omissions, and insertions as are permitted or required by this Indenture and may have endorsed thereon such legends or text as may be necessary or appropriate to conform to any applicable rules and regulations of any governmental authority or any usage or requirement of law with respect thereto. The Series 2014A Bonds may be typewritten, printed, lithographed, engraved or produced in similar manner. If any Bond is printed, any portion of the text of the Bond may be printed on the back of the Bond with an appropriate reference placed on the front of the Bond.

Section 202. Terms of Bonds. (a) The Series 2014A Bonds shall be dated as of July 1, 2014, shall mature on February 15 in the years and in the amounts set forth below, and shall bear interest at the following rates from the later of (i) the date of delivery or (ii) the most recent Interest Payment Date to which interest has been paid or provided for:

<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>
2/15/2015	\$ 1,000,000	1.500%
2/15/2016	2,175,000	3.000%
2/15/2017	2,250,000	4.000%
2/15/2018	2,355,000	5.000%
2/15/2019	2,470,000	5.000%
2/15/2020	2,605,000	5.000%
2/15/2021	2,735,000	5.000%
2/15/2022	2,885,000	5.000%
2/15/2023	3,025,000	5.000%

2/15/2024	3,190,000	5.000%
2/15/2025	3,350,000	5.000%
2/15/2026	3,500,000	5.000%
2/15/2027	3,455,000	5.000%
2/15/2028	3,890,000	5.000%
2/15/2029	4,100,000	5.000%
2/15/2030	4,310,000	5.000%
2/15/2031	4,540,000	5.000%
2/15/2032	4,770,000	5.000%
2/15/2033	5,025,000	5.000%
2/15/2034	5,285,000	5.000%
2/15/2038	19,025,000	4.000%
2/15/2044	15,615,000	4.000%

(b) The Series 2014A Bonds shall be subject to optional and mandatory redemption prior to maturity in the manner provided in the form of Bond set forth in Exhibit A attached hereto.

(c) Interest on the Series 2014A Bonds shall be paid on each Interest Payment Date until the principal thereof shall have been paid or provided for. Interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

(d) Amounts due with respect to the Series 2014A Bonds shall be payable in lawful money of the United States. Payment of principal, premium, if any, and interest on the Series 2014A Bonds not in Book-Entry Form shall be paid by check mailed to the registered holder thereof at his or her address as it appears on the Bond Register on the Record Date. Upon written request of a registered Bondholder of at least \$1,000,000 in principal amount of Bonds or all of any series of the Series 2014A Bonds, all payments of principal, premium, if any, and interest on the Series 2014A Bonds shall be paid by wire transfer (at the risk and expense of such registered Bondholder) in immediately available funds to an account in the United States designated by such registered Bondholder upon written notice before a Record Date to the Trustee. CUSIP number identification with appropriate dollar amounts for each CUSIP number must accompany all payments of principal, premium, if any, and interest, whether by check or by wire transfer. Principal of, premium, if any, and interest on the Series 2014A Bonds that are in Book-Entry Form will be paid in immediately available funds to DTC or its nominee, as the case may be, as Bondholder.

Section 203. Execution, Authentication and Delivery. The Series 2014A Bonds shall be executed on behalf of the Issuer by its President or its Vice President and attested to by its Secretary. The signature of any of these officers on the Series 2014A Bonds may be manual or facsimile.

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

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

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

Prior to the initial delivery by the Trustee (in its capacity as Bond Registrar) of the Series 2014A Bonds, there shall be delivered to the Trustee:

- (a) a Board Resolution of the Issuer authorizing the issuance, execution and delivery of the Series 2014A Bonds;
- (b) an Issuer Order (i) to register the Series 2014A Bonds with the Stated Maturity, principal amount and other terms provided in the Order, and (ii) to authenticate and deliver the Series 2014A Bonds to the original purchasers upon payment to the Trustee for deposit or payment in accordance with the provisions of this Indenture of the sum specified in such Order;
- (c) the Master Note of the Company, duly executed by the Company on behalf of itself and duly authenticated by the Master Trustee, payable to the Trustee or properly endorsed or assigned to the Trustee;
- (d) executed counterparts of each of the Bond Documents;
- (e) an Opinion of Counsel to each party to a Bond Document to the effect that each such Bond Document has been duly authorized, executed and delivered by that party and that the Bond Document as amended or supplemented constitutes a legal, valid, binding and enforceable obligation of that party subject to customary exceptions;
- (f) the Opinion of Counsel specified in Section 202(c) of the Master Indenture;
- (g) an Officer's Certificate of the Company (i) approving the issuance and delivery of the Series 2014A Bonds, and (ii) certifying that there then exists no event of default under the Bond Documents or any outstanding documents by which the Company is bound;
- (h) an opinion of Bond Counsel to the effect that (i) this Indenture has been duly authorized, executed and delivered by the Issuer and constitutes a valid and binding obligation of the Issuer enforceable in accordance with its terms, and that all conditions precedent provided in this Indenture relating to the authentication and delivery of the Series 2014A Bonds have occurred, (ii) the Series 2014A Bonds have been duly authorized, executed, issued and delivered by the Issuer, are the legal and valid limited obligations of the Issuer, and are entitled to the benefits and security of this Indenture, (iii) the Series 2014A Bonds and the offering or sale of the Series 2014A Bonds are not required to be registered under the Securities Act of 1933, and the Indenture is exempt from qualification as an indenture pursuant to the Trust Indenture Act of 1939 and (iv) interest on the Series 2014A Bonds is excludable from gross income of the holders of the Series 2014A Bonds for federal income tax purposes; and
- (i) the Initial Bond, together with the approval of the Series 2014A Bonds by the Attorney General of Texas as evidenced by his approving opinion thereon and initial registration of the Series 2014A Bonds by the Comptroller of Public Accounts of the State of Texas.

Section 204. Registration, Transfer and Exchange. The Trustee is hereby appointed as Bond Registrar (the "**Bond Registrar**") for the purpose of registering Bonds and transfers of Bonds as herein provided. The Issuer shall cause to be kept at a corporate trust office or the principal payment office of the Bond Registrar or Bond Registrars for the Series 2014A Bonds, a register or registers (sometimes herein referred to as the "**Bond Register**") in which, subject to such reasonable regulations as it may prescribe, the Issuer shall provide for the registration of Bonds and of transfers of Bonds. The Bond Registrar shall keep the Bond Register with respect to the Series 2014A Bonds at its principal payment office in Houston, Texas.

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

At the option of the Bondholder, Bonds may be exchanged for Bonds of any Authorized Denomination, of a like aggregate principal amount, series, Stated Maturity and interest rate, upon the surrender of the Series 2014A Bonds to be exchanged at such office or agency. Whenever any Bonds are so surrendered for exchange, the Issuer shall execute, and the Bond Registrar shall authenticate and deliver, the Series 2014A Bonds that the Bondholder making the exchange is entitled to receive.

All Bonds issued upon any transfer or exchange of Bonds shall be the valid obligations of the Issuer, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Series 2014A Bonds surrendered upon such transfer or exchange.

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

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

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

Section 205. Mutilated, Destroyed, Lost and Stolen Bonds. If (a) any mutilated Bond is surrendered to the Bond Registrar, or the Bond Registrar receives evidence to its satisfaction of the destruction, loss or theft of any Bond, and (b) there is delivered to the Bond Registrar such security or indemnity as may be required by it to save each of the Issuer and the Bond Registrar harmless, then, in the absence of notice to the Issuer or the Bond Registrar that such Bond has been acquired by a bona fide purchaser, the Issuer shall execute and upon its request the Bond Registrar shall authenticate and deliver in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Bond, a new Bond of like tenor, series, interest rate and principal amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Bond has become or is about to become due and payable, the Issuer in its discretion may (and upon Company Order shall), instead of issuing a new Bond, pay such Bond.

Upon the issuance of any new Bond under this Section, the Issuer and the Bond Registrar may require the payment by the Bondholder of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Bond Registrar) connected therewith.

Every new Bond issued pursuant to this Section in lieu of any destroyed, lost or stolen Bond shall constitute an original additional contractual obligation of the Issuer, whether or not the destroyed, lost or stolen Bond shall be at any time enforceable by anyone, and shall be entitled to all the benefits and security of this Indenture equally and proportionately with any and all other Bonds duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Bonds.

Section 206. Payment of Interest on Bonds; Interest Rights Preserved. Interest on any Bond that is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Bond is registered at the close of business on the Record Date for such interest.

Any interest on any Bond that is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "**Defaulted Interest**") shall forthwith cease to be payable to the holder thereof on the relevant Record Date by virtue of having been such Bondholder; and such Defaulted Interest shall be paid by the Issuer (but only from the sources provided herein), to the Persons in whose names the Series 2014A Bonds are registered at the close of business on a special record date ("**Special Record Date**") for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Trustee, as agent of the Issuer, shall determine the amount of Defaulted Interest proposed to be paid on each Bond and the date of the proposed payment, and at the same time the Issuer shall deposit (but only from the sources provided herein) with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when

deposited to be held in trust for the benefit of Persons entitled to such Defaulted Interest. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 nor less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Issuer and the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the date and amount of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be sent, to each Bondholder at his address as it appears in the Bond Register, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been sent as aforesaid, such Defaulted Interest shall be paid to the Persons in whose names the Series 2014A Bonds are registered on such Special Record Date.

Subject to the foregoing provisions of this Section, each Bond delivered under this Indenture upon transfer of or in exchange for or in lieu of any other Bond shall carry the rights to interest accrued and unpaid, and to accrue, that were carried by such other Bonds.

Section 207. Persons Deemed Owners. The Issuer, the Trustee, the Authenticating Agent, the Bond Registrar, and any of their respective agents may treat the Person in whose name any Bond is registered as the owner of such Bond for the purpose of receiving payment of principal of (and premium, if any), and (subject to Section 206) interest on, such Bond and for all other purposes whatsoever whether or not such Bond be overdue, and except as otherwise provided in this Indenture, neither the Issuer, the Trustee, nor any agent of the Issuer or the Trustee shall be affected by notice to the contrary.

Section 208. Cancellation. All Bonds surrendered for payment, redemption, transfer or exchange shall, if delivered to any Person other than the Bond Registrar be delivered to the Bond Registrar and, if not already canceled, shall be promptly canceled by it. The Issuer or the Company may at any time deliver to the Bond Registrar for cancellation any Bonds previously authenticated and delivered hereunder that the Issuer or the Company may have acquired in any lawful manner whatsoever, and all Bonds so delivered shall be promptly canceled by the Bond Registrar. No Bonds shall be authenticated in lieu of or in exchange for any Bonds canceled as provided in this Section, except as expressly permitted by this Indenture. All canceled Bonds held by the Bond Registrar shall be maintained or disposed of according to the retention policies of the Bond Registrar in effect from time to time.

Section 209. Limited Liability of Issuer. NEITHER THE SPONSORING ENTITY, THE STATE NOR A STATE AGENCY, ANY POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE SHALL BE OBLIGATED TO PAY THE SERIES 2014A BONDS OR THE INTEREST THEREON AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SPONSORING ENTITY, THE STATE, OR ANY STATE AGENCY, POLITICAL CORPORATION OR POLITICAL SUBDIVISION OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2014A BONDS. HOWEVER, THE SERIES 2014A BONDS WILL BE GUARANTEED BY THE CORPUS OF THE PERMANENT SCHOOL FUND OF THE STATE OF TEXAS PURSUANT TO THE BOND GUARANTEE PROGRAM ADMINISTERED BY THE TEXAS EDUCATION AGENCY. SUCH GUARANTEE IS SUBJECT TO THE RULES AND REGULATIONS OF THE TEXAS EDUCATION AGENCY AND SHALL BE REMOVED IN ITS ENTIRETY UPON DEFEASANCE OF THE BONDS. THE ISSUER HAS NO TAXING POWER.

All obligations of the Issuer hereunder are limited, and are payable solely from and to the extent of money provided by or for the account of the Company, and it is a condition of each undertaking of the Issuer contained herein that, all such undertakings shall be performed at the expense of the Company. The Issuer shall not be required to advance its own funds in connection with the performance of any duty under this Indenture.

Section 210. Initial Bond. Pending the preparation of definitive Bonds, the Issuer will execute, and the Bond Registrar shall deliver the Initial Bond, which may be printed, lithographed, typewritten, mimeographed or otherwise produced, substantially of the tenor of the definitive Bonds in lieu of which it is issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Initial Bond may determine, as evidenced by their execution of such Initial Bond.

Upon the issuance of the Initial Bond, the Issuer will cause definitive Bonds to be prepared without unreasonable delay. After the preparation of definitive Bonds, the Initial Bond shall be exchangeable for definitive Bonds upon surrender of the Initial Bond at the office of the Trustee in a Place of Payment, without charge to the Bondholder. Upon surrender for cancellation of the Initial Bond, the Issuer shall execute and the Bond Registrar shall authenticate and deliver in exchange therefor a like principal amount of definitive Bonds of Authorized Denominations. Until so exchanged, the Initial Bond shall in all respects be entitled to the same benefits under this Indenture as definitive Bonds so long as it shall have attached to it an executed registration certificate of the Comptroller of Public Accounts of the State of Texas, in the form set forth in Exhibit A.

Section 211. Book-Entry-Only System.

(a) The Series 2014A Bonds may and initially shall be registered under a Book-Entry-Only System maintained by a Depository. Notwithstanding any inconsistent provisions in this Indenture to the contrary, the provisions of this Section 211 shall govern at any time the Series 2014A Bonds are issued and Outstanding in Book-Entry-Only Form.

(b) Under the Book-Entry-Only System, the Series 2014A Bonds shall be issued in the form of a separate, single, fully registered and immobilized bond certificate representing the aggregate principal amount of the Series 2014A Bonds. Except as provided herein, the ownership of such Bonds shall be registered in the Bond Register in the name of Cede & Co., as nominee of The Depository Trust Company, which will serve as initial Depository for the Series 2014A Bonds. Ownership of beneficial interests in the Series 2014A Bonds shall be shown by book-entry on the system maintained and operated by the Depository and its participants and indirect participants (such participants and indirect participants being collectively referred to as the “**Participants**”), and transfers of ownership of beneficial interests shall be made only by the Depository and its Participants by book-entry, and the Issuer, the Company and the Trustee shall have no responsibility therefor. The Depository will be required to maintain records of the positions of Participants in the Series 2014A Bonds, and the Participants and persons acting through Participants will be required to maintain records of the purchasers of beneficial interests in the Series 2014A Bonds (the “**Beneficial Owners**”). Except as provided in subsections (i) of this Section 211, the Series 2014A Bonds shall not be transferable or exchangeable, except for transfer to another Depository or to another nominee of a Depository.

(c) With respect to Bonds registered in the Bond Register in the name of the Depository or its nominee, the Issuer, the Company and the Trustee shall have no responsibility or obligation to any Participant or to any Beneficial Owner for whom a Participant acquires an interest in the Series 2014A Bonds. NEITHER THE ISSUER, THE COMPANY, NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE PARTICIPANTS OR THE BENEFICIAL OWNERS OF THE SERIES 2014A BONDS WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY THE DEPOSITORY OR ANY PARTICIPANT; (ii) THE PAYMENT BY THE DEPOSITORY OR ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF, OR INTEREST, AND PREMIUM, IF ANY, ON OR REDEMPTION PRICE OF THE SERIES 2014A BONDS; (iii) THE DELIVERY BY THE DEPOSITORY OR ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO HOLDERS UNDER THE TERMS OF THIS INDENTURE; (iv) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2014A BONDS; OR (v) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY THE DEPOSITORY AS OWNER OF THE SERIES 2014A BONDS. NEITHER THE ISSUER, THE COMPANY NOR THE TRUSTEE HAS ANY DIRECT OBLIGATION OR RESPONSIBILITY TO PARTICIPANTS OR BENEFICIAL OWNERS.

(d) So long as the Series 2014A Bonds or any portions thereof are registered in the name of a Depository or any nominee thereof, all payments of principal of (premium, if any) or interest on the Series 2014A Bonds or redemption price of such Bonds shall be made only to or upon the order of such Depository on the dates and at the times provided for such payment under this Indenture and at the address indicated for such Depository in the Bond Register kept by the Bond Registrar by transfer of immediately available funds; provided that the Trustee has received sufficient funds from the sources described in the Indenture and the Agreement to make such payment. Each such payment to the Depository or its nominee shall be valid and effective to fully satisfy and discharge all liability of the Issuer or the Trustee with respect to the principal of (premium, if any) or interest on the Series 2014A Bonds and redemption price with respect to the Series 2014A Bonds so registered to the extent of the sum or sums so paid. In the event of the redemption of less than all of the Series 2014A Bonds Outstanding of any Stated Maturity, the Trustee shall not require surrender by the Depository or its nominee of the Series 2014A Bonds so purchased or redeemed, and the Depository may retain such Bonds. In the event of partial redemption of the Series 2014A Bonds, the Depository shall make an appropriate notation on the Series 2014A Bonds as to the amount of such partial redemption; provided that the Depository shall deliver to the Trustee, upon request, a written confirmation of such partial redemption and thereafter the records maintained by the Trustee shall be conclusive as to the amount of the Series 2014A Bonds of such Stated Maturity which have been redeemed. The Issuer, the Company and the Trustee shall not be liable for the failure of the Depository to properly indicate on the Series 2014A Bonds the payment of such principal or redemption price.

(e) All transfers of beneficial ownership interests in the Series 2014A Bonds when issued in Book-Entry-Only Form shall be effected by procedures promulgated by the Depository with its Participants for recording and transferring the ownership of beneficial interest in each of such Bonds.

(f) The Issuer, the Company, the Bond Registrar, and the Trustee and any of their respective agents may treat the Depository (or its nominee) as the sole and exclusive Bondholder of the Series 2014A Bonds registered in its name for the purposes of payment of the principal of (premium, if any) or interest on the Series 2014A Bonds or redemption price with respect to the Series 2014A Bonds, selecting the Series 2014A Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Bondholders under this Indenture, registering the transfer of Bonds, obtaining any consent or other action

to be taken by Bondholders and for all other purposes whatsoever; and the Issuer, the Company and the Trustee shall not be affected by any notice to the contrary.

(g) So long as the Series 2014A Bonds are registered in the name of the Depository or any nominee thereof, all notices required or permitted to be given to the holders of such Bonds under this Indenture shall be given to the Depository. In connection with any notice or other communication to be provided to Bondholders pursuant to this Indenture by the Issuer, the Company or the Trustee with respect to any consent or other action to be taken by Bondholders, the Depository shall consider the date of receipt of notice requesting such consent or other action as the record date for such consent or other action, provided that the Issuer or the Trustee may establish a special record date for such consent or other action. The Issuer or the Trustee shall give the Depository notice of such special record date not less than 15 calendar days in advance of such special record date to the extent possible.

(h) Any successor Trustee, in its written acceptance of its duties under this Indenture, shall agree to take any actions necessary from time to time to comply with the requirements of such Depository.

(i) The Depository may determine to discontinue providing its services with respect to the Series 2014A Bonds at any time by giving reasonable written notice to the Trustee and the Issuer and discharging its responsibilities with respect thereto under applicable law. Under such circumstance (if there is not a successor Depository), Bond certificates will be delivered as described elsewhere in Article II of this Indenture. Upon receipt of such notice from the Depository, the Trustee shall provide a copy of the notice to the Company. The Company, in its sole discretion, and without the consent of any other Person, may terminate the services of the Depository with respect to the Series 2014A Bonds if the Company determines that: (i) the Depository is unable to discharge its responsibilities with respect to the Series 2014A Bonds; or (ii) a continuation of the requirement that all of the Series 2014A Bonds be registered in the Bond Register in the name of the nominee of the Depository is not in the best interest of the Beneficial Owners. In the event that no substitute Depository is found by the Company or restricted registration is no longer in effect, Bond certificates will be delivered as described in Article II of this Indenture. Upon the termination of the services of the Depository with respect to the Series 2014A Bonds pursuant to this Section 211(i), after which no successor Depository willing to undertake the functions of the Depository hereunder can be found that, in the opinion of the Company, is willing and able to undertake such functions upon reasonable and customary terms, the Series 2014A Bonds shall no longer be restricted to being registered in the Bond Register in the name of the nominee of the Depository, but may be registered in the name or names and in such maturities and principal amounts as the Depository shall designate in writing to the Bond Registrar in accordance with the provisions elsewhere in Article II of this Indenture, but without any liability on the part of the Issuer or the Bond Registrar for the accuracy of such designation. Upon the termination of the services of the Depository with respect to the Series 2014A Bonds for any reason and the appointment of a successor Depository, all references in this Indenture to the Depository shall refer to such successor Depository. Whenever the Depository requests the Issuer, the Company and the Trustee to do so, the Issuer, the Company and the Trustee shall cooperate with the Depository in taking appropriate action after reasonable notice to arrange for another Depository to maintain custody of certificates evidencing the Series 2014A Bonds.

(j) So long as any Bonds are registered in the name of the nominee of the Depository, a legend prescribed by the Depository to that effect may be printed on such Bond certificate.

ARTICLE III

REDEMPTION OF BONDS

Section 301. Redemption. The Series 2014A Bonds shall be subject to redemption as set forth in the form of Bond in Exhibit A hereto.

Section 302. Election to Redeem; Notice to Trustee. The election of the Company to redeem any Bonds shall be evidenced by a Board Resolution delivered to the Issuer. In case of any redemption at the election of the Company, the Company shall, at least 35 Business Days prior to the redemption date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee in writing of such redemption date and of the principal amount of Bonds of each Stated Maturity to be redeemed.

Section 303. Selection by Trustee of Bonds to be Redeemed. If less than all of the Series 2014A Bonds of a particular Stated Maturity are called for redemption, the particular Bonds or portions thereof to be redeemed shall be redeemed by the Trustee in accordance with the written direction of the Company; provided, however, that portions of Bonds shall be redeemed in Authorized Denominations and that no redemption shall result in a Bond being held in less than an Authorized Denomination.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Bonds shall relate, in the case of any Bond redeemed or to be redeemed only in part, to the portion of the principal of such Bond that has been or is to be redeemed.

Section 304. Notice of Redemption. (a) Not less than 30 days prior to any redemption date, but not more than 60 days prior to any redemption date, the Trustee shall cause notice of the call for any redemption identifying the Series 2014A Bonds or portions thereof to be redeemed to be given in the name of the Issuer, to the holders of each Bond to be redeemed at the address shown on the Bond Register on the date such notices are sent. Any notice sent as provided in this Section shall be conclusively presumed to have been duly given, irrespective of whether received.

Each notice of redemption shall state at a minimum, the complete official name of the issue, including series designation, CUSIP number, amounts called of each Stated Maturity (for partial calls), date of the notice, the date of issue, interest rate, maturity date of the Series 2014A Bonds called for redemption, the redemption date, the redemption price, the place or places of redemption, and appropriate address or addresses with name of contact person and telephone number. Unless moneys sufficient to pay the principal of and premium, if any, and interest on the Series 2014A Bonds to be redeemed shall have been received by the Trustee prior to the giving of such notice of redemption, such notice shall state that said redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for such redemption. If sufficient moneys are not received, such notice shall be of no force and effect, the Issuer shall not redeem such Bonds and the Trustee shall give notice, in the manner in which the notice of redemption was given, to the effect that the Series 2014A Bonds have not been redeemed.

(b) If any of the Series 2014A Bonds are redeemed pursuant to an advance refunding, notice of such advance refunding and redemption shall be given in the same manner as above provided, and within the same time period with respect to the actual redemption date.

Section 305. Deposit of Redemption Price. Subject to any condition to such redemption, on or prior to any redemption date, the Company shall deposit with the Trustee or with a Paying Agent an amount of money sufficient to pay the redemption price, premium, if any, and interest accrued thereon to the date fixed for redemption of all the Series 2014A Bonds which are to be redeemed on such date.

Section 306. Bonds Payable on Redemption Date. Notice of redemption having been given as aforesaid, and the deposit described in Section 305 having been made, and all conditions to such redemption having been fulfilled, the Series 2014A Bonds so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified and from and after such date such Bonds shall cease to bear interest. If, however, funds available to pay the redemption price have not been so deposited on the redemption date, the redemption will be cancelled. Upon surrender of any such Bond for redemption in accordance with said notice, such Bond shall be paid by the Issuer at the redemption price. Installments of interest whose Stated Maturity is on or prior to the redemption date shall be payable to the holders of such Bonds registered as such on the relevant Record Dates according to their terms.

If any Bond called for redemption shall not be so paid upon surrender thereof for redemption, the principal shall, until paid, bear interest from the redemption date at the rate borne by the Bond.

Section 307. Bonds Redeemed in Part. Any Bond which is to be redeemed only in part shall be surrendered at a Place of Payment (with, if the Issuer or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Issuer and the Trustee duly executed by, the holder of such Bond or his attorney duly authorized in writing) and the Issuer shall execute and the Trustee shall authenticate and deliver to the holder of such Bond without service charge, a new Bond or Bonds of the same interest rate and Stated Maturity and of any Authorized Denomination as requested by such Bondholder in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Bond so surrendered.

ARTICLE IV

FUNDS AND INVESTMENTS

Section 401. Establishment of Funds; Source of Payment of the Series 2014A Bonds. (a) The Issuer hereby establishes with the Trustee the Proceeds Fund, the Debt Service Fund, the Construction Fund and the Rebate Fund (collectively, the “*Funds*”). The Issuer reserves the right to establish additional trust funds or accounts from time to time.

(b) The Series 2014A Bonds and all payments by the Issuer hereunder are not and shall never become general obligations of the Issuer, but are special and limited obligations payable solely out of the Trust Estate and other payments made

by the Company under the Agreement. Loan Payments made pursuant to the Agreement by the Company are to be made directly to the Trustee for the account of the Issuer and shall be deposited pursuant to the provisions of Section 4.1 of the Agreement. No covenant or agreement contained in the Series 2014A Bonds or in this Indenture shall be deemed to be the covenant or agreement of any officer, director, agent, or employee of the Issuer in his or her individual capacity and neither the members of the Board of Directors of the Issuer nor any official executing or authenticating the Series 2014A Bonds shall be liable personally on the Series 2014A Bonds or be subject to any personal liability or accountability, by reason of the issuance or authentication thereof.

Section 402. Proceeds Fund. There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated its “Harmony Education Revenue and Refunding Bonds Series 2014A Proceeds Fund” (herein referred to as the “Proceeds Fund”). The proceeds of the sale of the Series 2014A Bonds shall be deposited into the Proceeds Fund and immediately transferred by the Trustee to the Debt Service Fund, and the Construction Fund (all established under this Indenture) and all as specified in the Issuer Order to authenticate and deliver the Series 2014A Bonds.

Section 403. Debt Service Fund.

(a) There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated its “Harmony Education Revenue and Refunding Bonds Series 2014A Debt Service Fund” (herein referred to as the “**Debt Service Fund**”). The money deposited to the Debt Service Fund, together with all investments thereof and investment income therefrom, shall be held in trust and applied solely as provided in this Section and Section 707. The Trustee shall create a Capitalized Interest Subaccount within the Debt Service Fund. On the date of issuance of the Series 2014A Bonds, the Trustee shall deposit into the Capitalized Interest Subaccount any capitalized interest, accrued interest and additional proceeds on the Series 2014A Bonds as set forth in the Company Order, for the purpose of paying a portion of the interest coming due on the Series 2014A Bonds on the applicable Interest Payment Dates.

(b) The Trustee shall deposit to the credit of the Debt Service Fund immediately upon receipt (1) amounts due and payable by the Company pursuant to Section 4.1(a) or (b) of the Agreement and the terms of the Master Note; (2) any other amounts required hereunder; and (3) any other amounts delivered to the Trustee specifically for deposit thereto.

(c) On each Interest Payment Date, the Trustee shall withdraw money first from the Capitalized Interest Subaccount then from the applicable account of the Debt Service Fund in an amount sufficient to pay the Bondholders principal and interest on the Series 2014A Bonds.

Section 404. Reserved.

Section 405. Rebate Fund.

(a) There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated as its “Harmony Education Revenue and Refunding Bonds Series 2014A Rebate Fund” (herein referred to as the “**Rebate Fund**”). The money deposited to the Rebate Fund, together with all investments thereof and investment income therefrom shall be held in trust and applied solely as provided in this Section.

(b) The Trustee shall deposit or transfer to the credit of the Rebate Fund each amount delivered to the Trustee by the Company for deposit thereto and each amount directed by the Company to be transferred thereto.

(c) (i) Within five days after each receipt or transfer of funds to the Rebate Fund in accordance with Section 5.3(n)(i)(B) of the Agreement (and in any event within 60 days after each Computation Date), the Trustee shall withdraw from the Rebate Fund and pay to the United States of America the balance of the Rebate Fund.

(ii) Within five days after receipt from the Company of any amount pursuant to Section 5.3(n)(i)(B) of the Agreement, the Trustee shall withdraw such amount from the Rebate Fund and pay such amount to the United States of America.

(iii) All payments to the United States of America pursuant to this Section shall be made by the Trustee for the account and in the name of the Issuer and shall be paid by draft posted by registered United States Mail (return receipt requested), addressed to the appropriate IRS address accompanied by the relevant IRS Form 8038-T (or to such other applicable successor information return specified by the IRS) described in Section 5.3(n)(i)(B) or Section 5.3(n)(i)(C) of the Agreement, as the case may be.

(d) The Trustee shall preserve copies of all statements and forms received from the Company pursuant to Section 5.3(n) of the Agreement and all records maintained by it of transactions in the Rebate Fund and shall deliver such materials to the Company and, if requested, shall deliver copies thereof to the Issuer within 60 days following the retirement of all of the Series 2014A Bonds.

(e) The Trustee may conclusively rely on the instructions of the Company with regard to any actions to be taken by it pursuant to this Section and shall have no liability for any consequences of any failure of the Company to supply accurate or sufficient instructions.

If at any time during the term of this Indenture the Issuer, the Trustee, or the Company desires to take any action which would otherwise be prohibited by the terms of this Section, such Person shall be permitted to take such action if it shall first obtain and provide to the other Persons named herein a Favorable Opinion of Bond Counsel.

Section 406. Construction Fund.

(a) There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated its “Harmony Education Revenue and Refunding Bonds Series 2014A Construction Fund” (herein referred to as the “**Construction Fund**”). The money deposited in the Construction Fund, including all money therein and all investments thereof, shall be held in trust and applied solely as provided in this Section. The Construction Fund shall contain a Refinancing Account, a Reimbursement Account, a Project Account, an Insurance Proceeds Account and a Costs of Issuance Account. The Trustee shall have the authority to create subaccounts within the Project Account of the Construction Fund as is necessary and convenient for the administration of such Account. The Trustee may transfer funds between subaccounts in the Project Account as needed to fund all or any portion of the Project.

(b) The Trustee shall deposit to the credit of the Construction Fund or any account or subaccount therein all amounts paid to the Trustee by the Issuer or the Company specifically for deposit to the credit of the Construction Fund and the proceeds of the Series 2014A Bonds to the extent specified by the Company Order.

(c) The Trustee shall disburse amounts in the Refinancing Account and the Reimbursement Account of the Construction Fund on the Closing Date following receipt of and in accordance with a Requisition Certificate. The Trustee may rely fully on any Requisition Certificate, and shall not be required to make any investigation in connection therewith. Such amounts may be disbursed without the consent of any Construction Consultant.

(d) The Trustee shall disburse amounts in the Costs of Issuance Account on or after the Closing Date upon receipt of a Requisition Certificate. Such amounts may be disbursed without the consent of any Construction Consultant.

(e) At Closing, the Trustee shall disburse amounts from the Project Account as specified in the Company Order. The Trustee shall disburse amounts in the Project Account of the Construction Fund to pay or reimburse the Company for all other Project Costs no later than three Business Days following receipt of and in accordance with a properly completed and executed Requisition Certificate in substantially the form of Exhibit B to this Indenture. The Trustee may rely fully on any Requisition Certificate in substantially the form of Exhibit B to this Indenture, and shall not be required to make any investigation in connection therewith. If such Requisition Certificate is to pay for goods, services or work performed on any Project, it shall include the approval of the Construction Consultant; provided, that, the approval of a Construction Consultant shall not be required for the purchase of real property.

(f) On the earlier of the end of the fifth Bond Year or receipt of the Officer’s Certificate required by Section 3.5 of the Agreement, the Trustee shall transfer any amount then on deposit in the Construction Fund to the Debt Service Fund unless the Trustee has received from the Company a requisition certificate for all or any portion of such amounts for payment of incurred but unpaid Project Costs. To the extent the amounts are transferred to the Debt Service Fund, such amounts may be used to (i) pay principal or interest on the Series 2014A Bonds, subject to the limitations described in Section 1.148-6(d)(3) of the Regulations or (ii) redeem Bonds in Authorized Denominations, to the maximum degree permissible, and at the earliest dates at which the Series 2014A Bonds may be redeemed under this Indenture; provided, however, if the Series 2014A Bonds may not be redeemed, the Series 2014A Bonds may be defeased in accordance with Section 1.141-12 of the Regulations.

(g) Any moneys remaining in the Costs of Issuance Account ninety (90) days after the Closing Date and not needed to pay unpaid Costs of Issuance shall be deposited in the Project Account of the Construction Fund. Upon final disbursement and/or transfer, the Trustee shall close the Costs of Issuance Account.

(h) In furtherance and not in limitation of this Section 406 hereof, all payments made from the Refinancing Account, the Insurance Proceeds Account, the Reimbursement Account, the Project Account or the Costs of Issuance Account

pursuant to a written requisition from the Company in the form set forth in Exhibit B shall be presumed to be made properly and the Trustee shall not be required to see the application of any payments made from the Refinancing Account, the Insurance Proceeds Account, the Reimbursement Account, the Project Account or the Costs of Issuance Account or to inquire into the purposes for which withdrawals are being made from such Accounts.

(i) Notwithstanding any other provision contained herein, no disbursement of moneys from the Project Account of the Construction Fund shall be made unless the conditions specified in Section 3.3 of the Agreement have been satisfied.

(j) Any funds remaining in the Construction Fund or any sub-account thereto after the Project is certified or deemed "complete" pursuant to Section 3.5 of the Agreement shall be transferred to the Debt Service Fund to redeem Bonds pursuant to the procedures set forth in Exhibit A hereto regarding "Mandatory Redemption with Excess Proceeds."

Section 407. Investment of Bond Proceeds. Pending the disbursement of any amounts deposited from the proceeds of the Series 2014A Bonds to any Fund, such proceeds may only be invested at the direction of the Company in direct obligations or obligations unconditionally guaranteed by the United States of America as more particularly described in Section 2256.009, Texas Government Code.

Section 408. Investment of Funds.

(a) Except as provided in Section 407, pending disbursement of the amounts on deposit in any Fund, the Trustee shall promptly invest and reinvest such amounts in the particular Eligible Securities specified in any Company Order; provided that, if no such Company Order is delivered to the Trustee, the Trustee shall invest and reinvest such amount in Regions Cash Sweep Account Deposit Fund. All such investments shall be credited to the fund, account or subaccount from which the money used to acquire such investments shall have come. The Trustee shall not be obligated to verify that an investment specified in any Company Order is being made in Eligible Securities.

(b) All income and profits on investments in the Debt Service Fund, the Construction Fund and the Rebate Fund shall be credited to those respective Funds. All losses on investments shall be charged against the fund and account to which such investments are credited. The Trustee may make any investment through its own trust department. As amounts invested are needed for disbursement from any fund or account, the Trustee shall cause a sufficient amount of the investments credited to that fund to be redeemed or sold and converted into cash to the credit of that fund. The Trustee may rely on the written instructions of the Company in investing money in any Fund or account, and shall not be accountable for any depreciation in the value of the investments made in accordance with the provisions of this Article IV or for any losses incurred upon any authorized disposition thereof.

(c) The Company by its execution of the Agreement covenants to restrict the investment of money in the Funds in such manner and to such extent, if any, as may be necessary so that the Series 2014A Bonds will not constitute arbitrage bonds under Section 148 of the Code and the Regulations.

(d) The Issuer and the Company (by their execution of the Agreement) acknowledge that to the extent that regulation of the Comptroller of the Currency or other applicable regulatory agency grant the Issuer or the Company the right to receive brokerage confirmation of security transactions as they occur, the Issuer and the Company waive receipt of such confirmations. The Trustee shall furnish to the Company a periodic statement, made at least yearly, that includes details of all investment transactions made by the Trustee.

Section 409. Trustee and Issuer Relieved From Responsibility. The Trustee and the Issuer shall be fully protected in relying upon any Company Order relating to investments and disbursements from any Fund, and shall not be liable for any losses or for interest on the Series 2014A Bonds becoming includable in gross income for federal income tax purposes as a result of complying with any such Company Order, and shall not be required to ascertain any facts with respect to any such Order.

ARTICLE V

COVENANTS OF THE ISSUER

Section 501. Payment of Debt Service; Limited Obligations. The Issuer will duly and punctually pay the principal of (and premium, if any) and interest on the Series 2014A Bonds in accordance with the terms of the Series 2014A Bonds and this Indenture; provided, however, that the Series 2014A Bonds and the other obligations of the Issuer provided for herein shall be limited obligations of the Issuer and shall be payable by the Issuer solely out of the Trust Estate and the revenues derived therefrom or in connection with the Bond Documents. The Series 2014A Bonds and the other expense reimbursement

obligations of the Issuer provided for herein shall never be payable out of any other funds of the Issuer except the Trust Estate and such revenues.

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

Section 502. Money for Bond Payments to be Held in Trust; Appointment of Paying Agents. The Issuer shall appoint a Paying Agent in each Place of Payment for the Series 2014A Bonds. Each such Paying Agent appointed by the Issuer shall be a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$10,000,000 and subject to supervision or examination by federal or state authority. The Issuer will, prior to each due date of the principal of (and premium, if any) or interest on any Bonds, deposit or cause to be deposited (but only from the sources provided herein) with a Paying Agent a sum sufficient to pay the principal (and premium, if any) or interest so becoming due, such sum to be held in trust for the benefit of the holders of such Bonds. Each Paying Agent for the Series 2014A Bonds shall provide the CUSIP number for the Bond with each payment of interest on and the principal or the redemption price of any Bond, specifying the amount paid in respect of each CUSIP number. The Paying Agents shall make payment of interest or the redemption price of any Bond, upon written request of a registered Bondholder of at least \$1,000,000 in principal amount of Bonds, by wire transfer (at the risk and expense of such registered Bondholder) in immediately available funds to an account designated by such registered Bondholder upon written notice to the Trustee prior to the Record Date.

The Issuer hereby appoints the Trustee as the initial Paying Agent for the Series 2014A Bonds. The Trustee shall accept such appointment by executing this Indenture in such capacity on the signature page hereto.

The Issuer will cause each Paying Agent other than the Trustee to execute and deliver to the Trustee and the Company an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will

- (1) hold all sums held by it for the payment of principal of (and premium, if any) or interest on Bonds in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;
- (2) give the Trustee notice of any default by the Issuer (or any other obligor upon the Series 2014A Bonds) in the making of any such payment of principal (and premium, if any) or interest; and
- (3) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

The Issuer may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, by Company Order, direct any Paying Agent to pay to the Trustee all sums held in trust by such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

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

Any bank or trust company with or into which any Paying Agent may be merged or consolidated, or to which the assets and business of such Paying Agent may be sold, shall be deemed the successor of such Paying Agent for the purposes of this Indenture. If the position of Paying Agent shall become vacant for any reason, the Issuer shall, within 30 days thereafter, appoint such bank or trust company as shall be specified by the Company and acceptable to the Trustee and located in the same city as such Paying Agent to fill such vacancy; provided, however, that if the Issuer shall fail to appoint a successor Paying Agent within said period, the Trustee shall make such appointment. No removal, resignation or termination of the Paying Agent shall take effect until a successor shall be appointed. Notice of the designation of a successor Paying Agent shall be sent by the Trustee by first-class mail to each Bondholder.

Section 503. Instruments of Further Assurance. The Issuer covenants that to the extent of its power to do so, it will do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered, such indentures supplemental hereto and such further acts, instruments and transfers as the Trustee may reasonably require for the better assigning, pledging and confirming unto the Trustee of the Trust Estate assigned and the revenues pledged hereunder all at the expense of the Company. The Issuer has not heretofore made a pledge of, granted a lien on or security interest in, or made an assignment or sale of the collateral granted hereunder that ranks on a parity with or prior to the lien granted hereunder that will remain outstanding on the Closing Date. The Issuer has not described such collateral in a UCC financing statement that will remain effective on the Closing Date. The Issuer will not hereafter make or suffer to exist any pledge or assignment of, lien on, or security interest in the collateral described hereunder that ranks prior to or on parity with the lien granted hereunder, or file any financing statement describing any such pledge, assignment, lien or security interest, except as expressly permitted by the Bond Documents. The security interest granted hereunder is and shall be prior to any judicial lien hereafter imposed on such collateral to enforce a judgment against the Issuer on a simple contract.

Section 504. Maintenance of Rights. The Issuer will use its best efforts to perform and observe all obligations to be performed by it under the Bond Documents. The Issuer will maintain the validity and effectiveness of the Bond Documents and, except as permitted hereby, take no action, and not knowingly omit to take any reasonable action, the taking or omission of which might release any party from its liabilities or obligations under the Bond Documents, or result in the surrender, termination, amendment, or modification of, or impair the validity of, any Bond Document. The Issuer agrees that the Trustee, subject to the conditions thereof, may enforce for and on behalf of the Bondholders all of the covenants and agreements of the parties to the Bond Documents (other than the Trustee) as set forth in the Bond Documents, whether or not the Issuer is in default hereunder. The Trustee shall either (i) file continuation statements as may be required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents, or (ii) confirm, on an annual basis, the filing of continuation statements by the Issuer required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents and, if necessary, make such filings as may be required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents. The Trustee is hereby authorized to make such filings.

Section 505. Corporate Existence. Subject to Article VI, the Issuer will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and rights (charter and statutory); provided, however, that the Issuer shall not be required to preserve any right if its Governing Body shall determine that the preservation thereof is no longer desirable in the conduct of the affairs of the Issuer and that the loss thereof is not disadvantageous in any material respect to the Bondholders.

Section 506. Limitations on Liens, Debt and Disposition of Assets. Except as permitted or contemplated in this Indenture, the Issuer covenants that it will not: (i) create any mortgage, lien, encumbrance, pledge, charge or other exception to title (other than those created by this Indenture) upon or against any of the properties or assets constituting the Trust Estate, or any revenues derived therefrom or any other funds held by the Trustee for the benefit of the Bondholders superior to or ranking on parity with the lien created by this Indenture; (ii) sell, lease, transfer, convey or otherwise dispose of all or any part of the Trust Estate or its interest therein except subject to the interests of the Trustee created by this Indenture; (iii) create, incur or assume any debt secured by the Trust Estate or the Issuer's interest therein or the revenues pledged herein; or (iv) knowingly take any other action that will impair the lien of this Indenture on the Trust Estate.

Section 507. Tax Covenants.

(a) The Issuer will not knowingly take any action, or omit to take any action, which action or omission, will adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2014A Bonds, and in the event of such action or omission will promptly, upon receiving knowledge thereof, take all lawful actions, based on advice of counsel and at the expense of the Company, as may rescind or otherwise negate such action or omission.

(b) The Issuer will not knowingly use or direct the use of any portion of the proceeds of the Series 2014A Bonds, including any investment income earned on such proceeds, directly or indirectly, to make or finance loans to Persons who are not Exempt Persons. For purposes of the preceding sentence, a loan to an organization described in Section 501(c)(3) of the Code for

use with respect to an unrelated trade or business, determined according to Section 513(a) of the Code, constitutes a loan to a person who is not an Exempt Person.

(c) The Issuer agrees that until the final Maturity of the Series 2014A Bonds, it will not knowingly use or direct the use of any money on deposit in any fund or account maintained in connection with the Series 2014A Bonds, whether or not such money was derived from the proceeds of the sale of the Series 2014A Bonds or from any other source, in a manner that would cause the Series 2014A Bonds to be “arbitrage bonds,” within the meaning of Section 148 of the Code. In the event the Company notifies the Issuer that it is necessary to restrict or limit the yield on the investment of moneys held by the Trustee pursuant to this Indenture, or to use such moneys in any certain manner to avoid the Series 2014A Bonds being considered arbitrage bonds, the Issuer at the direction of the Company shall instruct the Trustee to take such action as is necessary to restrict or limit the yield on such investment or to use such moneys in accordance with such written direction.

(d) The Issuer will not knowingly take any action which would result in all or any portion of the Series 2014A Bonds being treated as “federally guaranteed” within the meaning of Section 149(b)(2) of the Code.

(e) The Issuer shall file, or cause to be filed, all information returns required to be filed with respect to the Series 2014A Bonds pursuant to Section 149(e) of the Code.

(f) For purposes of this Section 507, the Issuer’s compliance shall be based solely on acts or omissions by the Issuer and no acts or omissions of, or directed by, the Company, the Trustee or any other Persons shall be attributed to the Issuer.

All officers, employees and agents of the Issuer are authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the Issuer as of the date of delivery of the Series 2014A Bonds. In complying with the foregoing covenants, the Issuer may rely from time to time upon a Favorable Opinion of Bond Counsel.

Section 508. Change in Law. To the extent that published rulings of the IRS, or amendments to the Code or the Regulations modify the covenants of the Issuer or the Trustee which are set forth in this Indenture or which are necessary for interest on any issue of the Series 2014A Bonds to be excludable from gross income for federal income tax purposes, the Trustee and the Issuer will comply with such modifications, as described in an Opinion of Counsel delivered to the Issuer and the Trustee.

ARTICLE VI

CONSOLIDATION, MERGER, CONVEYANCE OR TRANSFER

Section 601. Consolidation, Merger, Conveyance, or Transfer Only on Certain Terms. The Issuer shall not consolidate with or merge into any other corporation or convey or transfer the Trust Estate substantially as an entirety to any Person, unless:

(a) such consolidation, merger, conveyance, or transfer shall be on such terms as shall fully preserve the lien and security hereof and the rights and powers of the Trustee and the Bondholders hereunder;

(b) the corporation formed by such consolidation or into which the Issuer is merged or the Person which acquires by conveyance or transfer the Trust Estate substantially as an entirety shall be organized and existing under the laws of the United States of America or any state or the District of Columbia and shall execute and deliver to the Trustee an indenture supplemental hereto in form satisfactory to the Trustee, meeting the requirements of Section 602 and containing:

(1) an assumption by such surviving or successor corporation or such transferee of the due and punctual payment of the principal of (and premium, if any) and interest on all the Series 2014A Bonds and the performance and observance of every covenant and condition of this Indenture to be performed or observed by the Issuer, subject, however, to the same limitations and conditions as are herein or in the Series 2014A Bonds provided, and

(2) a grant, conveyance and transfer complying with Section 602;

(c) immediately after giving effect to such transaction, no Event of Default hereunder (nor any event which, with the giving of notice or the elapse of time or both, would become an Event of Default as a result of such transaction) shall have occurred and be continuing;

(d) the Trustee shall have received a Favorable Opinion of Bond Counsel; and

(e) the Issuer, at the expense of the Company, shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each of which shall state that such consolidation, merger, conveyance, or transfer and such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

Section 602. Successor Issuer Substituted. Upon any consolidation or merger or any conveyance or transfer of the Trust Estate substantially as an entirety in accordance with Section 601, the successor corporation formed by such consolidation or into which the Issuer is merged or the Person to which such conveyance or transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under this Indenture with the same effect as if such successor had been named as the Issuer herein. If the supplemental indenture required by Section 601 shall contain a grant, conveyance and transfer, in terms sufficient to include and subject to the lien of this Indenture all and singular the properties described in the granting clauses hereof, whereupon such successor may cause to be executed, in its own name or in the name of the Issuer prior to such succession, and delivered to the Trustee for authentication, any Bonds issuable hereunder; and upon request of such successor, and subject to all the terms of this Indenture, the Trustee shall authenticate and deliver any Bonds which shall have been previously executed and delivered by the Issuer to the Trustee for authentication, and any Bonds which such successor shall thereafter, in accordance with this Indenture, cause to be executed and delivered to the Trustee for such purpose. Such changes in phraseology and form (but not in substance) may be made in such Bonds as may be appropriate in view of such consolidation, merger, conveyance, or transfer.

ARTICLE VII

REMEDIES OF THE TRUSTEE AND HOLDERS OF BONDS IN EVENT OF DEFAULT

Section 701. Events of Default. "Event of Default," whenever used herein means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(1) default in the payment of (i) the principal of (and premium, if any) any Bond at its Maturity or (ii) an installment of interest on any Bond at the Stated Maturity for such installment; or

(2) default in the performance, or breach, of any covenant or agreement on the part of the Issuer contained in this Indenture (other than a covenant or agreement whose performance or observance is elsewhere in this Section specifically dealt with) and continuance of such default or breach for a period of 30 days after there has been given, by registered or certified mail, to the Issuer and the Company by the Trustee, or to the Issuer, the Company and the Trustee by the holders of at least 25% in principal amount of Bonds then Outstanding, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; provided that if such default can be cured by the Issuer but cannot be cured within the 30-day curative period described above, it shall not constitute an Event of Default if corrective action is instituted by the Issuer within such 30-day period and diligently pursued until the default is corrected, provided, however, if such default or breach shall last longer than 90 days, it shall constitute an Event of Default hereunder; or

(3) a decree or order by a court having jurisdiction in the premises shall have been entered adjudging the Company bankrupt or insolvent, or approving as properly filed a petition seeking reorganization or arrangement of the Company under the federal Bankruptcy Code or any other similar applicable federal or state law, and such decree or order shall have continued undischarged and unstayed for a period of 90 days; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of the Company or of the Company's property, or for the winding up or liquidation of the Company's affairs, shall have been entered, and such decree or order shall have remained in force undischarged and unstayed for a period of 90 days; or

(4) the Company shall institute proceedings to be adjudicated a voluntary bankruptcy, or shall consent to the institution of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization or arrangement under the federal Bankruptcy Code or any other similar applicable federal or state law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of it or of its property, or shall make assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or corporate action shall be taken by the Company in furtherance of any of the aforesaid purposes; or

(5) the maturity of any Note issued under the Master Indenture shall be accelerated unless such acceleration has been rescinded and annulled pursuant to the Master Indenture; or

(6) receipt by the Trustee of written notice from the Master Trustee that the Notes have been accelerated under the Master Indenture; or

(7) an "Event of Default" has occurred under any of the Bond Documents as the term "Event of Default" is therein defined.

If any portion of a Loan Payment shall not be paid at the time therein specified, the Trustee shall promptly give telephonic or facsimile notice to the Master Trustee and any Person that may execute an Officer's Certificate on behalf of the Company of such failure and shall promptly thereafter confirm such notice by telex, facsimile or letter to the other parties to the Bond Documents unless such amount is immediately thereafter paid.

Section 702. Acceleration. So long as the Series 2014A Bonds are guaranteed by the Permanent School Fund, the Series 2014A Bonds may not be accelerated.

Section 703. Collection of Indebtedness. The Issuer covenants that if:

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

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

the Issuer will, upon demand of the Trustee, pay (but solely from the Trust Estate and the revenues pledged by this Indenture to such payment) to it, for the benefit of the Bondholders, the whole amount then due and payable on such Bonds for principal (and premium, if any) and interest, with interest upon the overdue principal (and premium, if any); and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If the Issuer fails to pay any of the foregoing amounts forthwith upon demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, and may prosecute such proceeding to judgment or final decree, and may enforce the same against the Issuer or any other obligor upon the Series 2014A Bonds and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property constituting a part of the Trust Estate of the Issuer or any other obligor upon the Series 2014A Bonds, wherever situated.

Section 704. Suits for Enforcement by Trustee. If an Event of Default occurs and is continuing, the Trustee may proceed to protect and enforce its rights and the rights of the Bondholders by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

Section 705. Trustee May File Proofs of Claim. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Issuer, the Company or any other obligor upon the Series 2014A Bonds or property of the Issuer, of the Company or of such other obligor or their creditors, the Trustee (irrespective of whether the Trustee shall have made any demand on the Issuer, the Company or such other Obligor for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise,

(i) to file and prove a claim for the whole amount of principal (and premium, if any) and interest owing and unpaid in respect of the Series 2014A Bonds and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Bondholders allowed in such judicial proceeding, and

(ii) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

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

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Bondholder any plan of reorganization, arrangement, adjustment or composition affecting the Series 2014A Bonds or the rights of any Bondholder, or to authorize the Trustee to vote in respect of the claim of any Bondholder in any such proceeding.

Section 706. Trustee May Enforce Claims Without Possession of Bonds. All rights of action and claims under this Indenture or the Series 2014A Bonds may be prosecuted and enforced by the Trustee without the possession of any of the Series 2014A Bonds or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Bondholders in respect of which such judgment has been recovered to the extent of the obligations then owing to such Persons.

Section 707. Application of Money Collected. (a) Any money collected by the Trustee pursuant to this Article and any other sums then held by the Trustee as part of the Trust Estate shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Series 2014A Bonds and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

- (1) First: To the payment of all amounts due the Trustee under this Indenture;
- (2) Second: To the payment of the amounts then due and unpaid upon the Series 2014A Bonds, for interest, in respect of which or for the benefit of which such money has been collected; ratably without preference or priority of any kind, according to the amounts due and payable on such Bonds for interest;
- (3) Third: To the payment of the amounts then due and unpaid upon the Series 2014A Bonds, for principal (and premium, if any), in respect of which or for the benefit of which such money has been collected; ratably without preference or priority of any kind, according to the amounts due and payable on such Bonds for principal (and premium, if any); and
- (4) Fourth: To the Debt Service Fund, any remaining amounts of money so collected.

(b) If the Master Trustee has accelerated the Notes, the portion of the master trust estate allocable to the Series 2014A Bonds under Section 406(c)(2) of the Master Indenture shall be applied to purchase Defeasance Obligations for deposit with the Trustee to defease all or a portion of the Series 2014A Bonds in inverse order of maturity through the earlier of their Maturity or first Optional Redemption date as set forth in the form of Bond attached hereto as Exhibit A.

Section 708. Limitation on Suits. Subject to Section 713(i) hereof, no Bondholder shall have the right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

- (a) such Bondholder has previously given written notice to the Trustee of a continuing Event of Default;
- (b) the holders of not less than 25 percent in principal amount of the Outstanding Bonds shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;
- (c) the Bondholders have offered to the satisfaction of the Trustee indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;
- (d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

it being understood and intended that no one or more holders of the Series 2014A Bonds shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other

holders of the Series 2014A Bonds, or to obtain or to seek to obtain priority or preference over any other holders of the Series 2014A Bonds, to take any action that would affect the validity of the lien of this Indenture on the Trust Estate, or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all the holders of the Series 2014A Bonds to the extent of the amounts then owing to such Persons.

Section 709. Unconditional Right of Bondholders to Receive Principal, Premium and Interest. Notwithstanding any other provision in this Indenture, any Bondholder shall have the right which is absolute and unconditional to receive payment of the principal of (and premium, if any) and interest on such Bond, but solely from the sources provided in this Indenture, on the respective Stated Maturities expressed in such Bond (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Bondholder.

Section 710. Restoration of Rights and Remedies. If the Trustee or any holder of the Series 2014A Bonds has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or such Bondholder, then and in every such case the Issuer, the Trustee, the Company, and the Bondholders shall, subject to any determination in such proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and remedies of the Trustee and the Bondholders shall continue as though no such proceeding had been instituted.

Section 711. Rights and Remedies Cumulative. No right or remedy herein conferred upon or reserved to the Trustee or the Bondholders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 712. Delay or Omission Not Waiver. No delay or omission of the Trustee or any Bondholder to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Indenture or by law to the Trustee or the Bondholders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or the Bondholders, as the case may be.

Section 713. Control by Bondholders. Subject to Section 803(e) herein, each of the holders of a majority in principal amount of the Outstanding Bonds shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee, provided that:

- (i) such direction shall not be in conflict with any rule of law or with this Indenture, and
- (ii) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

Section 714. Waiver of Past Defaults. Each of the holders of not less than a majority in principal amount of the Outstanding Bonds may waive any past default hereunder and its consequences, except:

- (a) a default in the payment of the principal of (or premium, if any) or interest on any Bond, or
- (b) a default in respect of a covenant or provision hereof which under Article IX cannot be modified or amended without the consent of the holder of each Outstanding Bond affected.

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

Section 715. Undertaking for Costs. All parties to this Indenture agree, and each Bondholder by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding in the aggregate more than 10% in principal amount of the Outstanding Bonds, or to any suit instituted by any Bondholder for the enforcement of the

payment of the principal of (or premium, if any) or interest on any Bond on or after the respective Stated Maturities expressed in such Bond (or, in the case of redemption, on or after the redemption date).

Section 716. Waiver of Stay or Extension Laws. The Issuer covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Issuer (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants (to the extent it may lawfully do so) that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

Section 717. No Recourse Against Others. No recourse under or upon any obligation, covenant or agreement contained in this Indenture or any indenture supplemental hereto, or in the Agreement, or in any Bond or any Note, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, or against any past, present or future director, officer or employee, as such, of the Issuer, the Company or the Sponsoring Entity or of any successor corporation, either directly or through the Issuer, the Company or the Sponsoring Entity, whether by virtue of any constitution or statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that this Indenture and the Agreement and the Series 2014A Bonds and the Notes are solely corporate obligations, and that no such personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, directors, officers or employees, as such, of the Issuer, the Company or the Sponsoring Entity or any successor corporation, or any of them, because of the creation of indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Indenture or in the Agreement or in any of the Series 2014A Bonds or any of the Notes or implied therefrom; and that any and all such personal liability, either at common law or in equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, director, officer or employee, as such, are hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issue of such Bonds or any of the Notes.

Section 718. Expenses Payable under Indenture. All expenses incurred in carrying out this Indenture shall be payable solely from funds derived by the Issuer from the Company. Anything in this Indenture to the contrary notwithstanding, the performance by the Issuer of all duties and obligations imposed upon it hereby, the exercise by it of all powers granted to it hereunder, the carrying out of all covenants, agreements and promises made by it hereunder, and liability of the Issuer for all warranties and other covenants herein shall be limited solely to the Trust Estate; and the Issuer shall not be required to effectuate any of its duties, obligations, powers or covenants except from, and to the extent of, such moneys, revenues, proceeds, and payments.

Section 719. Termination of Default. Once an Event of Default has been cured in accordance with the provisions of this Indenture, such Event of Default will be deemed to no longer exist and the Trustee shall notify the Company in writing that such Event of Default has been cured and all corrective actions under this Indenture shall immediately cease unless or until another Event of Default shall occur.

ARTICLE VIII

CONCERNING THE TRUSTEE

Section 801. Duties and Liabilities of Trustee.

(a) The Trustee accepts and agrees to execute the specific trusts imposed upon it by this Indenture, but only upon the terms and conditions set forth herein, and no implied covenants or obligations shall be read into this Indenture against the Trustee.

(b) In case any Event of Default (of which the Responsible Officer has actual knowledge or is deemed to have actual knowledge under Section 803(h) hereof) has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a reasonably prudent man would exercise or use under the circumstances in the conduct of his own affairs.

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

(1) this subsection shall not be construed to limit the effect of subsection (a) of this Section or Section 803;

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

(3) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with any direction given to the Trustee under Section 702 of this Indenture or at the direction of the holders of not less than a majority in aggregate principal amount of Bonds then Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture; and

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

(d) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section and Sections 803 and 813.

Section 802. Notice of Defaults. Within 60 days after the occurrence of any default hereunder of which the Trustee has knowledge of hereunder, the Trustee shall send to all Bondholders, notice of such default, unless such default shall have been cured or waived or unless corrective action to cure such default has been instituted and is being pursued such that such default does not constitute an Event of Default; provided, however, that except in the case of a default in the payment of the principal of (or premium, if any) or interest on any Bonds or in the payment of any sinking or purchase fund installment, the Trustee shall be protected in withholding such notice from the Bondholders if and so long as the board of directors, the executive committee or a trust committee of directors and/or Responsible Officers of the Trustee in good faith determine that the withholding of such notice is in the interest of the Bondholders; provided, further, that in the case of any default of the character specified in Section 701(2) hereof no such notice to Bondholders shall be given until at least 30 days after the occurrence thereof. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default.

The Trustee shall mail, first-class postage prepaid, to each Rating Service then-rating the Series 2014A Bonds notice of any of the following events, whenever:

(a) the Trustee, pursuant to the Indenture, has resigned or been removed and a successor Trustee has been appointed, such notice to be mailed within ten Business Days after the appointment of such successor Trustee;

(b) an amendment or supplement to the Bond Documents executed or consented to by the Trustee or of which the Trustee has received written notice is to be entered into, such notice and a copy of such amendment or supplement to such Rating Service to be mailed at least ten Business Days prior to the effective date of such amendment or supplement and within three Business Days after the receipt of such written notice by the Trustee;

(c) the Trustee receives a Company Request pursuant to Section 302 which directs the Trustee to redeem all the Outstanding Bonds, such notice to be mailed within ten Business Days after the receipt of such Company Request (and to specify the Redemption Date requested thereby); or

(d) all Bonds shall be deemed to have been paid or defeased as provided in Article X hereof.

Section 803. Certain Rights of Trustee.

(a) The Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties and shall not be required to verify the accuracy of any information or calculations required to be included therein or attached thereto;

(b) Any request or direction of any Person mentioned herein shall be sufficiently evidenced by a Request of such Person; and any resolution of the Governing Body of any Person may be evidenced to the Trustee by a Board Resolution of such Person;

(c) Whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officer's Certificate;

(d) The Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(e) The Trustee shall be under no obligation to exercise any of the discretionary rights or powers vested in it by this Indenture at the request or direction of any of the Bondholders pursuant to the provisions of this Indenture, unless such Bondholders shall have offered to the Trustee reasonable security or indemnity satisfactory to it against the costs, expenses and liabilities which might be incurred by it in connection with such request or direction and for the payment of the Trustee's fees in connection therewith;

(f) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Issuer, personally or by agent or attorney and to take copies of such memoranda from and in regard thereto as may be reasonably be desired; provided that, the Trustee shall have no obligation to perform any of the duties of the Issuer under this Indenture or of the Company under any of the Bond Documents;

(g) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys, but the Trustee shall not be held liable for any negligence or misconduct of any such agent or attorney appointed with due care;

(h) The Trustee shall not be required to take notice or be deemed to have notice of any default hereunder unless the Responsible Officer shall be specifically notified of such default in writing by the Issuer or the Company or by the holder of an Outstanding Bond, and in the absence of such notice the Trustee may conclusively assume that no default exists; provided, however, that the Trustee shall be required to take and be deemed to have notice of its failure to receive the moneys necessary to make payments when due of Debt Service;

(i) The Trustee shall not be liable for any error of judgment made in good faith by its officers, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

(j) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with any written direction of the Bondholders of the applicable percentage of the holders of Outstanding Bonds permitted to be given by them under this Indenture;

(k) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it;

(l) The Trustee may seek the approval of the Bondholders by any means it deems appropriate and not inconsistent with the terms of this Indenture or the Master Indenture in connection with the giving of any consent or taking of any action in its capacity as holder of any Note;

(m) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty to take such action;

(n) The Trustee shall not be required to give any bond or surety in respect of the execution of the trusts and powers established by this Indenture; and

(o) The Trustee shall not be responsible for monitoring the existence of or determining whether any lien or encumbrance or other charge including without limitation any Permitted Encumbrance (as defined in any Deed of Trust) exists against the Project or the Trust Estate.

Notwithstanding the aforesaid, the Trustee shall be required to pay the Bondholders at the times required under this Indenture so long as moneys are available therefor.

Section 804. Not Responsible For Recitals or Issuance of Bonds. The recitals contained herein and in the Series 2014A Bonds (other than the certificate of authentication on such Bonds) shall be taken as the statements of the Issuer and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the value or condition of the Trust Estate or any part thereof, or as to the title of the Issuer thereto or as to the adequacy, sufficiency or perfection of the security afforded thereby or hereby; as to the validity or genuineness of any securities at any time pledged and deposited with the Trustee hereunder; as to the validity or sufficiency of this Indenture, the other Bond Documents, or of the Series 2014A Bonds; or as to the correctness or sufficiency of any statement made in connection with the offer or sale of the Series 2014A Bonds. The Trustee shall not be accountable for the use or application by the Issuer or the Company of any of the Series 2014A Bonds or of the proceeds of such Bonds.

Section 805. Trustee May Own Bonds. The Trustee or any other agent appointed hereunder, in its individual or any other capacity, may become the owner or pledgee of Bonds and may otherwise deal with the Issuer with the same rights it would have if it were not Trustee or such other agent.

Section 806. Moneys to Be Held in Trust. All moneys received by the Trustee shall, until used or applied as herein provided (including payment of moneys to the Company under Section 1001), be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any moneys received by it hereunder other than such interest as it expressly agrees in writing with the Issuer or the Company to pay.

Section 807. Compensation and Expenses of Trustee and Paying Agent. The Issuer agrees, but solely from the Trust Estate and the revenues pledged by this Indenture to such payment,

(1) to pay to the Trustee, Bond Registrar, Authenticating Agent, and Paying Agent from time to time, when due, reasonable compensation for all services rendered by them hereunder, including extraordinary services during the existence of a default, which shall not be limited by any law limiting the compensation of the trustee of an express trust; and

(2) except as otherwise expressly provided herein, to reimburse the Trustee and the Paying Agent upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee or such Paying Agent in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel and securities or transaction charges to the extent not waived by the Trustee as a result of its receipt of compensation with respect to such securities or transactions) except any such expense, disbursement or advance as determined by a non-appealable court of competent jurisdiction to have been primarily the result of the negligence or bad faith of such Person.

Nothing in this Section 807 shall affect or otherwise diminish the obligations of the Company to pay compensation and indemnification to the Trustee in accordance with the Agreement as security for the performance of the obligations of the Issuer under this Section and the obligations of the Company under Sections 4.7(b) and 5.1(h) of the Agreement. As such security for the performance of the obligations of the Issuer under this Section the Trustee shall have a lien prior to the Series 2014A Bonds upon all property and funds held or collected by the Trustee as such.

When the Trustee incurs expenses or renders services in connection with any bankruptcy or insolvency proceeding, such expenses (including the fees and expenses of its counsel) and the compensation for such services are intended to constitute expenses of administration under any bankruptcy law or law relating to creditors' rights generally.

Section 808. Corporate Trustee Required; Eligibility. There shall at all times be a Trustee hereunder which shall be a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$50,000,000, subject to supervision or examination by federal or state authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

Section 809. Resignation and Removal; Appointment of Successor.

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee under Section 810.

(b) The Trustee may resign at any time by giving sixty (60) days written notice thereof to the Issuer and the Company. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

(c) The Trustee may be removed at any time by an act of the holders of a majority in principal amount of the Outstanding Bonds, in each case delivered to the Trustee and the Issuer.

(d) If at any time:

(1) the Trustee shall cease to be eligible under Section 808 and shall fail to resign after written request by the Issuer or by any such Bondholder, or

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

then, in any such case, (i) the Issuer by an Issuer Request may remove the Trustee and (ii) subject to Section 714, any Bondholder who has been a bona fide holder of a Bond for at least 6 months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, the Issuer, by an Issuer Request, at the direction of the Company, shall promptly appoint a successor Trustee. If, within 3 months after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee shall be appointed by Act of the holders of a majority in principal amount of the Outstanding Bonds delivered to the Issuer and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the successor Trustee appointed by the Issuer. If no successor Trustee shall have been so appointed by the Issuer or the Bondholders and accepted appointment in the manner hereinafter provided, the Trustee or any Bondholder who has been a bona fide Bondholder for at least 6 months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.

(f) So long as no default or Event of Default has occurred and is continuing hereunder, the Issuer authorizes the Company at any time, to remove the Trustee and appoint a substitute Trustee and notify the Issuer promptly of such an occurrence.

(g) The Company shall give, or cause to be given, notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee by mailing written notice of such event by first-class mail, postage prepaid, to the Bondholders at their addresses as shown in the Bond Register. Each notice shall include the name and address of the applicable corporate trust office or payment office of the successor Trustee.

Section 810. Acceptance of Appointment by Successor. Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Issuer and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on request of the Issuer or the successor Trustee, such retiring Trustee shall execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee, and shall duly assign, transfer and deliver to the successor Trustee, any and all property and money held by such retiring Trustee hereunder. Upon request of any such successor Trustee, the Issuer shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts.

No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

Section 811. Merger or Consolidation. Any corporation into which the Trustee may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all of the municipal corporate trust business of the Trustee, shall be the successor Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, to the extent operative, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Bonds shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger or consolidation to such

authenticating Trustee may adopt such authentication and deliver the Series 2014A Bonds so authenticated with the same effect as if such successor Trustee had itself authenticated such Bonds.

Section 812. Authenticating Agent. There may (and whenever the Trustee shall not maintain an office or agent in each Place of Payment there shall) be an Authenticating Agent appointed by the Trustee with power to act on its behalf and subject to its direction in the authentication and delivery of the Series 2014A Bonds in connection with delivery of Bonds pursuant to Section 203 and transfers and exchanges under Sections 204, 205 and 307, as fully to all intents and purposes as though the Authenticating Agent had been expressly authorized by those Sections to authenticate and deliver the Series 2014A Bonds. For all purposes of this Indenture, the authentication and delivery of the Series 2014A Bonds by the Authenticating Agent pursuant to this Section shall be deemed to be the authentication and delivery of the Series 2014A Bonds “by the Trustee”.

The Trustee is hereby appointed Authenticating Agent with respect to the Series 2014A Bonds.

Each Authenticating Agent shall at all times be a bank or trust company having an office or agent in a Place of Payment, and shall at all times be a corporation organized and doing business under the laws of the United States or of any state with a combined capital and surplus of at least \$50,000,000 and authorized under such laws to exercise corporate trust powers and subject to supervision or examination by federal or state authority. If such corporation publishes reports of condition at least annually pursuant to law or the requirements of such authority, then for the purposes of this Section the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

Any corporation into which any Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, consolidation, or conversion to which any Authenticating Agent shall be a party, or any corporation succeeding to the corporate trust business of any Authenticating Agent, shall be the successor of the Authenticating Agent hereunder, if such successor corporation is otherwise eligible under this Section, without the execution or filing of any further act on the part of the parties hereto or the Authenticating Agent or such successor corporation.

Any Authenticating Agent may at any time resign by giving written notice of resignation to the Trustee, the Issuer and the Company. The Trustee may at any time terminate the agency of any Authenticating Agent by giving written notice of termination to such Authenticating Agent and to the Issuer and the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time any Authenticating Agent shall cease to be eligible under this Section, the Trustee shall promptly appoint a successor Authenticating Agent and shall give written notice of such appointment to the Issuer and the Company.

The Trustee shall be entitled to be reimbursed for any reasonable compensation paid by the Trustee to the Authenticating Agent for its service subject to Sections 803 and 807. The provisions of Sections 207, 803, 804, and 805 of this Indenture shall be applicable to any Authenticating Agent.

Section 813. Trustee Liability for Agents. Notwithstanding anything contained herein to the contrary, the Trustee shall not be liable for any failure of the Paying Agent or the Authenticating Agent to perform in accordance with this Indenture any duty required or authorized herein to be performed by such Person or for any other acts or omissions of such Person.

Section 814. Facsimile and Electronic Transmissions. The Trustee agrees to accept and act upon instructions or directions pursuant to this Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that: (a) subsequent to such transmission of written instructions and/or directions the Trustee shall forthwith receive the originally executed instructions and/or directions in a timely manner, (b) such originally executed instructions and/or directions shall be signed by a person as may be designated and authorized to sign for the party signing such instructions and/or directions, and (c) the Trustee shall have received an incumbency certificate listing such designated persons and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the Issuer or the Company elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee’s understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee’s reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The Issuer and the Company agree to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

ARTICLE IX

SUPPLEMENTS AND AMENDMENTS

Section 901. Supplemental Indentures and Amendatory Agreements Without Consent of Bondholders. Without the consent of the Bondholders, the Issuer, when authorized by a Board Resolution, and the Trustee at any time upon receipt of Company Consent, may enter into or consent to one or more indentures supplemental hereto, subject to Section 903 hereof, or amendments to the Agreement for any of the following purposes:

- (1) to evidence the succession of another Person to the Issuer or the Company, or successive successions, and the assumption by the successor Person of the covenants, agreements and obligations of the Issuer as permitted by this Indenture or the Company as permitted by the Agreement;
- (2) to add to the covenants of the Issuer or the Company for the benefit of the Bondholders, to surrender any right or power herein or therein conferred upon the Issuer or the Company;
- (3) to cure any ambiguity or to correct or supplement any provision herein or therein which may be inconsistent with any other provision herein or therein, or to make any other provisions with respect to matters or questions arising under this Indenture or the Agreement which shall not be inconsistent with this Indenture, provided such action shall not adversely affect the interests of the Bondholders;
- (4) to modify or supplement this Indenture in such manner as may be necessary to qualify this Indenture under the Trust Indenture Act of 1939 as then amended, or under any similar federal or state statute or regulation, including provisions whereby the Trustee accepts such powers, duties, conditions and restrictions hereunder and the Issuer or the Company undertakes such covenants, conditions or restrictions additional to those contained in this Indenture as would be necessary or appropriate so to qualify this Indenture; provided, however, that nothing herein contained shall be deemed to authorize inclusion in this Indenture or in any indenture supplemental hereto, provisions referred to in Section 316(a)(2) of the said Trust Indenture Act or any corresponding provision provided for in any similar statute hereafter in effect;
- (5) in connection with any other change herein or therein which, in the judgment of a Management Consultant, a copy of whose report shall be filed with the Trustee, (a) is in the best interest of the Company and (b) does not materially adversely affect any Bondholder; provided that no such change shall be made if within 30 days of its receipt of such Management Consultant's report, the Trustee shall have obtained a report from another Management Consultant indicating that in its opinion either clause (a) or clause (b) of this subsection (5) is not satisfied; provided further, that the Trustee shall be under no duty to retain another such Management Consultant; or
- (6) to modify or supplement this Indenture in such manner as may be necessary or appropriate to cause the rating assigned to the Series 2014A Bonds by each Rating Service to maintain an investment grade rating on the Series 2014A Bonds from each Rating Service.

Section 902. Supplemental Indentures and Amendatory Agreements With Consent of Bondholders. With the consent of the holders of not less than a majority in principal amount of the Outstanding Bonds affected by such supplemental indenture, by Act of such Bondholders delivered to the Issuer, the Company, the Trustee and the Rating Service, and the Issuer, when authorized by a Board Resolution, and the Trustee may, upon receipt of a Company Consent, enter into or consent to an indenture or indentures supplemental hereto (subject to Section 903 hereof), amendments to the Agreement for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture, or the Agreement or of modifying in any manner the rights of the Bondholders under this Indenture or the Agreement; provided, however, that no such supplemental indenture or amendment shall, without the consent of each Bondholder affected thereby:

- (1) change the Stated Maturity of the principal of, or any installment of interest on, any Bonds or any date for mandatory redemption thereof, or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, or change the coin or currency in which, any Bonds or the interest thereon is payable, or impair or subordinate the lien of this Indenture on the Trust Estate or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the redemption date), or
- (2) reduce the percentage in principal amount of the Outstanding Bonds, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required

for any waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture, or

(3) modify any of the provisions of this Section or Section 713, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of each Bondholder affected thereby.

It shall not be necessary for any act of Bondholders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such act of Bondholders shall approve the substance thereof.

Section 903. Execution of Supplemental Indentures. In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture and in consenting to any amendment to the Agreement or to any indenture supplemental to this Indenture, the Trustee shall be entitled to receive, and (subject to Section 801) shall be fully protected in relying upon, a Favorable Opinion of Bond Counsel and an Opinion of Counsel stating that the execution of such supplemental indenture or consent is authorized or permitted by this Indenture. The Trustee may, but shall not (except to the extent required in the case of a supplemental indenture entered into under Section 901(4)) be obligated to, enter into any such supplemental indenture or consent which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise. The Trustee shall not execute any supplemental indenture without the Consent of the Company.

Section 904. Effect of Supplemental Indentures. Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes, and every Bondholder thereafter or theretofore authenticated and delivered hereunder shall be bound thereby.

Section 905. Bonds May Bear Notation of Changes. Bonds authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Issuer or the Trustee shall so determine, new Bonds so modified as to conform, in the opinion of the Trustee and the Issuer, to any such supplemental indenture may be prepared and executed by the Issuer and authenticated and delivered by the Trustee in exchange for Bonds then Outstanding.

ARTICLE X

SATISFACTION AND DISCHARGE OF INDENTURE; UNCLAIMED MONEYS

Section 1001. Satisfaction and Discharge of Indenture. Whenever the following conditions shall exist, namely:

(a) all Bonds theretofore authenticated and delivered have been cancelled by the Trustee or delivered to the Trustee for cancellation, excluding, however:

(1) Bonds alleged to have been destroyed, lost, or stolen which have been replaced or paid as provided in Section 205, except for any such Bond which, prior to the satisfaction and discharge of this Indenture, has been presented to the Trustee with a claim of ownership and enforceability by the holder thereof and where enforceability has not been determined adversely against such Bondholder by a court of competent jurisdiction,

(2) Bonds, other than those referred to in paragraph (1) above, for the payment or redemption of which the Issuer or the Company has deposited or caused to be deposited with the Trustee at the Maturity thereof in trust for such purpose funds (which shall be immediately available for payment) in an amount sufficient to pay and discharge the entire indebtedness on such Bonds for principal (and premium, if any) and interest to such Maturity, and

(3) Bonds deemed no longer Outstanding as a result of the deposit or escrow of money or Defeasance Obligations or both as described in Section 1002;

(b) the Issuer or the Company has paid or caused to be paid all other sums payable by the Issuer or the Company, if any, hereunder and under the Agreement (in addition to amounts due and payable by the Company pursuant to Section 4.1(a) or (b) of the Agreement and the terms of the Master Note); and

(c) there has been delivered to the Trustee an Opinion of Counsel stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with;

then, upon Issuer Request (which the Issuer shall make upon Company Order), this Indenture and the lien, rights, and interests created hereby shall cease, determine, and become null and void (except as to any surviving rights of transfer, exchange, or tender of Bonds herein or therein provided for) and the Trustee and each co-trustee and separate trustee, if any, then acting as such hereunder shall, at the expense of the Company, execute and deliver a termination statement and such instruments of satisfaction and discharge as may be necessary (in form and substance satisfactory to Company) and pay, assign, transfer, and deliver to the Company or upon Company Order all cash, securities, and other property then held by it hereunder as a part of the Trust Estate.

In the absence of an Issuer Request as aforesaid, the payment of all Outstanding Bonds shall not render this Indenture inoperative.

Notwithstanding the satisfaction and discharge of this Indenture the obligations of the Issuer and the Company to the Trustee under Section 807 shall survive unless otherwise agreed by the Trustee in writing.

Section 1002. Payment of Bonds.

(a) All of the Series 2014A Bonds shall be deemed to have been paid for purposes of this Indenture if (a) there has been deposited with the Trustee in trust in a segregated account either (i) moneys in an amount, or (ii) Defeasance Obligations, the principal of and interest on which will, when due, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, (as established by a report of an independent certified public accountant setting forth the calculations upon which such report is based) provide moneys in an amount, which, together with any moneys deposited with or held by the Trustee at the same time and available for such purpose pursuant to this Indenture, will be sufficient to pay when due and payable the principal, premium, if any, and interest due and payable and to become due and payable on and prior to the respective redemption dates or Maturity dates on all of the Series 2014A Bonds, or (iii) a combination of (i) and (ii), and (b) in case any of such Bonds are to be redeemed on any date prior to their Stated Maturity, the Company (1) has given to the Trustee irrevocable written instructions instructing the Trustee to effect the redemption of such Bonds on such date and to give notice of such redemption to Bondholders prior to said date as provided in Exhibit A to this Indenture, and (2) has provided for a rating on the defeased Bonds; and (c) in the event such Bonds are not to be redeemed within the 60 days next succeeding the date of such deposit with the Trustee, the Issuer has given irrevocable written instructions to the Trustee to give notice to the Bondholders advising that the deposit required by clause (a) of this paragraph above has been made with the Trustee and that the Series 2014A Bonds are deemed to have been paid in accordance with this Article and stating such Maturity or redemption date or dates upon which money is to be available for the payment of the principal, premium, if any, and interest on such Bonds. The Trustee shall not be required to accept any deposit of Defeasance Obligations pursuant to clause (ii) or (iii) during the continuance of an Event of Default. For purposes of this Section, Government Obligations issued or held in the name of the Trustee in book-entry form on the books of the Department of Treasury of the United States of America shall be deemed to be deposited with the Trustee.

Any Defeasance Obligations deposited with the Trustee pursuant to this Section shall mature on such dates as shall be required for the aforesaid purpose. Such Defeasance Obligations shall not contain provisions permitting the redemption thereof at the option of the issuer thereof. If the Series 2014A Bonds are defeased as provided for herein, the Permanent School Fund Guarantee of the Series 2014A Bonds shall automatically be removed in its entirety.

(b) Any release under this Section shall be without prejudice to the right of the Trustee to be paid reasonable compensation for all services rendered by it under this Indenture and all its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees, incurred on and about the administration of trusts created by this Indenture and the performance of its powers and duties under this Indenture.

Section 1003. Application of Trust Money. The Defeasance Obligations and money deposited with the Trustee pursuant to Section 1002 and principal or interest payments on any such Defeasance Obligations shall be held in trust, shall not be sold or reinvested, and shall be applied by it, in accordance with the provisions of the Series 2014A Bonds and this Indenture, to the payment, either directly or through any Paying Agent as the Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money or Defeasance Obligations were deposited; provided that, upon delivery to the Trustee of an Officer's Certificate (accompanied by the report of an Independent certified public accountant setting forth the calculations upon which such Officer's Certificate is based) establishing that the money and Defeasance Obligations on deposit following the taking of the proposed action will be sufficient for the purposes described in Section 1002(a), any money received from principal or interest payments on Defeasance Obligations deposited with the Trustee or the proceeds of any sale of such Defeasance Obligations, if not then needed for such purpose, shall, upon Company Request be reinvested in other Defeasance Obligations or disposed of as requested by the Company. For purposes of any calculation

required by this Article, any Defeasance Obligation which is subject to redemption at the option of its issuer, the redemption date for which has not been irrevocably established as of the date of such calculation, shall be assumed to cease to bear interest at the earliest date on which such obligation may be redeemed at the option of the issuer thereof and the principal of such obligation shall be assumed to be received at its stated maturity.

ARTICLE XI

MISCELLANEOUS

Section 1101. Execution in Counterparts. This Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument. Delivery of an executed counterpart of this Indenture by facsimile or electronic transmission shall be equally as effective as delivery of an original executed counterpart of this Indenture.

Section 1102. Final Agreement. This written Indenture represents the final agreement between the parties and may not be contradicted by evidence of prior, contemporaneous, or subsequent oral agreements of the parties. There are no unwritten oral agreements between the parties.

1.

[Remainder of page intentionally left blank]

2.

THE SERIES 2014A LOAN AGREEMENT

LOAN AGREEMENT

ARTICLE I

DEFINITIONS AND INTERPRETATIONS

Section 1.1 Construction of Terms; Definitions. (a) For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:

(1) “Agreement” means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more agreements supplemental hereto entered into pursuant to the applicable provisions hereof.

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

(3) The terms defined in this Article have the meanings assigned to them in this Article, and include the plural as well as the singular. The terms used herein but defined in the Indenture and not defined herein have the meanings assigned to them in the Indenture and the Master Indenture. Reference to any Bond Document means that Bond Document as amended or supplemented from time to time. Reference to any party to a Bond Document means that party and its permitted successors and assigns.

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

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

“Additions” means any and all real or personal property or any interest therein wherever located or used (i) which is desirable in the business of the Company; (ii) the cost of construction, acquisition or development of which is properly chargeable to the property accounts of the Company, in accordance with generally accepted accounting principles; and (iii) which is deemed for federal income tax purposes to be owned by the Company.

“Affiliate” of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, “control” when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the power to appoint and remove its directors, the ownership of voting securities, by contract, or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Bond Counsel” means an attorney or firm of attorneys nationally recognized as experienced in the field of bonds of governmental issuers appointed by the Issuer and satisfactory to the Trustee.

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

“Bond Year” has the meaning set forth in Section 5.3 herein.

“Capital Expenditures” means, as of the date of determination thereof, the aggregate of the costs paid (otherwise than by incurring or acquiring Property subject to purchase money obligations) prior to such date by the Company in connection with the construction, acquisition or development of the Project or Additions, as the case may be, and properly chargeable to the property accounts of the owner thereof in accordance with generally accepted accounting principles and so charged, including, without limitation, payments made for labor, salaries, overhead, materials, interest, taxes, engineering, accounting, legal

expenses, superintendence, insurance, casualty liabilities, rentals, start-up expenses, financing charges and expenses and all other items (other than operating or maintenance expenses) in connection with such construction, acquisition or development and so properly chargeable and, in the case of capital expenditures for Additions consisting of an acquired facility, including the cost of any franchises, rights or property, other than Additions, acquired as a part of such going business for which no separate or distinct consideration shall have been paid or apportioned.

“Claims” means all claims, investigations, lawsuits, causes of action and other legal actions and proceedings of whatever nature brought against (whether by way of direct action, counter claim, cross action or impleader) or otherwise involving any Indemnified Party, even if groundless, false, or fraudulent, so long as the claim, lawsuit, cause of action or other legal action or proceeding is alleged or determined, directly or indirectly, to arise out of, to result from, to relate to or to be based upon, in whole or in part: (a) the issuance of the Series 2014A Bonds, (b) the duties, activities, acts or omissions (even if negligent) of any Person in connection with the issuance of the Series 2014A Bonds, the obligations of the various parties arising under the Bond Documents or the administration of any of the Bond Documents, or (c) the duties, activities, acts or omissions (even if negligent) of any Person in connection with the design, construction, installation, operation, use, occupancy, maintenance or ownership of the Project or any part thereof.

“Closing Date” means the date of closing of the issuance of the Series 2014A Bonds.

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

“Commissioner of Education” means the Commissioner of Education of the State of Texas.

“Computation Date” has the meaning set forth in Section 5.3 herein.

“Debt” shall have the meaning assigned to such term in the Master Indenture.

“Fiscal Year” means any twelve-month period beginning on September 1 of any calendar year and ending on August 31 of the following year or such other twelve-month period selected by the Company as the fiscal year for the Company; provided that, the Company shall give written notice of any such change to the Issuer and the Trustee.

“Highest Lawful Rate means the maximum rate of nonusurious interest (determined as provided in this Agreement) applicable to each loan made to the Company under this Agreement allowed from time to time by applicable law as is now in effect or, to the extent allowed by applicable law, such higher rate as may hereafter be in effect.

“Indemnified Party” shall mean one or more of the Issuer, the Governing Body of the Issuer, the Sponsoring Entity and any of their successors, officers, directors or commissioners.

“Indenture” means the Trust Indenture and Security Agreement, dated as of the date of this Agreement, between the Issuer and Regions Bank, as trustee, securing the Series 2014A Bonds.

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

“Loan Payments” means the amounts described in Section 4.1(a) and Section 4.1(b) of this Agreement.

“Losses” means losses, costs, damages, expenses, judgments, and liabilities of whatever nature (including, but not limited to, reasonable attorney’s, accountant’s and other professional’s fees, litigation and court costs and expenses, amounts paid in settlement and amounts paid to discharge judgments and amounts

payable by an Indemnified Party to any other Person under any arrangement providing for indemnification of that Person) directly or indirectly resulting from arising out of or relating to one or more Claims.

“Opinion of Counsel” means a written opinion of counsel, who may (except as otherwise expressly provided) be counsel to any party to a Bond Document, and shall be satisfactory to the Trustee.

“Organizational Documents” of any corporation means the articles of incorporation, certificate of incorporation, corporate charter or other document pursuant to which such corporation was organized, and its bylaws, each as amended from time to time, and as to any other Person, means the instruments pursuant to which it was created and which govern its powers and the authority of its representatives to act on its behalf.

“Participating Campuses” means, collectively, the charter school campuses and facilities of the Company so designated under any Supplemental Master Indenture.

“Permanent School Fund” shall mean the Permanent School Fund of the State of Texas administered pursuant to Subchapter C, Chapter 45, Texas Education Code.

“Plans and Specifications” means the plans and specifications for the Project, as the same may be prepared or amended from time to time as provided in Section 3.1 hereof, on file at the principal business office of the Company and available at all times for inspection by the Issuer.

“Project” means the Project described in Exhibit “A” hereto.

“Project Costs” means costs permitted to be paid out of proceeds of the Bonds by the Act and by the Code including costs related to the Project (excluding the Costs of Issuance).

“Regulated Chemical” means any substance, the presence of which requires investigation, permitting, control or remediation under any federal, state or local statute, regulation, ordinance or order, including without limitation:

- a) any substance defined as “hazardous waste” under the Resource Conservation and Recovery Act, (42 U.S.C. §6901 et seq.);
- b) any substance defined as a “hazardous substance” under the Comprehensive Environmental Response, Compensation and Liability Act, (42 U.S.C. §9601 et seq.);
- c) any substance defined as a “hazardous material” under the Hazardous Materials Transportation Act (49 U.S.C. §1800 et seq.);
- d) any substance defined under any Texas statute analogous to (a), (b) or (c), to the extent that said statute defines any term more expansively;
- e) asbestos;
- f) urea formaldehyde;
- g) polychlorinated biphenyls;
- h) petroleum, or any distillate or fraction thereof;
- i) any hazardous or toxic substance designated pursuant to the laws of the State; and
- j) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority.

“Series 2014A Note” means the tax-exempt master indenture note in the form attached to the Supplemental Master Trust Indenture as Exhibit “A,” which is secured by the Master Indenture executed by the Company and dated the Closing Date in the principal amount of the Series 2014A Bonds.

“Sponsoring Entity” has the meaning ascribed to such term in the first recital hereof.

“State” means the State of Texas.

“Supplemental Master Indenture” means Supplemental Master Trust Indenture No. 18, dated as of July 1, 2014, between the Company and the Master Trustee.

Certain terms, used primarily in Section 5.3, are defined in that Section.

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

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

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

Section 1.3 Communications. All notices, demands, certificates, requests, consents, submissions or other communications hereunder shall be given as provided in the Indenture.

Section 1.4 Term of Agreement. This Agreement shall remain in full force and effect from the date of execution and delivery hereof until the Indenture has been discharged in accordance with the provisions thereof; provided, however, that (a) the provisions of this Section and of Section 4.7, Section 5.1 and Section 5.6 of this Agreement shall survive any expiration or termination of this Agreement and (b) in addition, if the Indenture is discharged prior to the final Maturity of the Series 2014A Bonds, the provisions of Section 3.5, Section 3.7, Section 3.10, Section 4.1(a), Section 4.3, Section 5.3 and Section 5.6 of this Agreement shall continue until the final Maturity of the Series 2014A Bonds.

Section 1.5 Company’s Approval of Bond Documents. The Bond Documents have been submitted to the Company for examination, and the Company acknowledges that, by execution of this Agreement, it has approved the Bond Documents and will perform the obligations imposed upon it under the Bond Documents.

Section 1.6 Effect of Headings and Table of Contents. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 1.7 Successors and Assigns. All covenants and agreements in this Agreement by the Issuer and the Company shall bind their respective successors and assigns, whether so expressed or not. No assignment by the Issuer or the Company of this Agreement shall relieve them of their obligations hereunder.

Section 1.8 Separability Clause. In case any provision in this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 1.9 Benefits of Agreement. Subject to Section 7.9 hereof, nothing in this Agreement or in the Series 2014A Bonds, express or implied, shall give to any Person, other than the parties to the Bond Documents and their successors and assigns hereunder, the Indemnified Parties and the Bondholders, any benefit or any legal or equitable right, remedy or claim under this Agreement.

Section 1.10 Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State.

Section 1.11 Amendments. This Agreement may be amended only as provided in the Indenture.

ARTICLE II

REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 2.1 Representations, Warranties and Covenants of the Issuer. The Issuer represents, warrants and covenants that:

(a) Corporate Existence; Good Standing. The Issuer is a non-profit higher education finance corporation duly incorporated, organized, validly existing and in good standing under the Act and is empowered to act on behalf of the Sponsoring Entity.

(b) Power. The Issuer has full corporate power and authority under the Constitution and laws of the State and its Organizational Documents to adopt the resolution authorizing the issuance of the Series 2014A Bonds, to issue the Series 2014A Bonds, to execute and deliver the Bond Documents to be executed and delivered by it and to perform its obligations under such Bond Documents.

(c) Due Authorization. The Issuer has duly adopted the resolution authorizing the issuance of the Series 2014A Bonds and has duly authorized the execution and delivery of the Bond Documents to be executed and delivered by it.

(d) Enforceability. The Bond Documents to which the Issuer is a party and the Series 2014A Bonds constitute valid and binding obligations of the Issuer, enforceable against the Issuer in accordance with their terms (except that (i) the enforceability of such Bond Documents may be limited by bankruptcy, reorganization, insolvency, fraudulent transfer, moratorium or other similar laws of general application relating to the enforcement of creditors' rights, (ii) certain equitable remedies, including specific performance, may be unavailable and (iii) the indemnification provisions contained therein may be limited by applicable securities laws and public policy).

(e) No Litigation. There is no action, suit, proceeding or investigation at law or in equity before or by any court, either State or federal, or public board or body pending or, to the Issuer's knowledge, threatened calling into question the creation or existence of the Issuer, the validity of the Bond Documents to be executed and delivered by it, the authority of the Issuer to execute and deliver the Bond Documents to be executed and delivered by it and to perform its obligations under the Bond Documents or the title of any Person to the office held by that Person with the Issuer.

(f) Non Contravention. The execution and delivery by the Issuer of the Bond Documents to be executed and delivered by it, and the performance of its obligations under such Bond Documents, will not violate in any respect any provision of law or regulation, or of any judgment, decree, writ, order or injunction, or of the Organizational Documents of the Issuer, and to the Issuer's knowledge, will not contravene the provisions of, or constitute a default under, or result in the creation of a lien, charge or encumbrance under, any agreement (other than the Indenture) to which the Issuer is a party or by which any of its properties constituting a part of the Trust Estate under the Indenture are bound.

(g) No Default. To the Issuer's knowledge, no event has occurred, and no condition currently exists, which constitutes or may, with the passage of time or the giving of notice, or both, constitute an Event of Default on the part of the Issuer.

(h) Amendments. The Issuer covenants that it will perform each of the covenants set forth in Article V of the Indenture for the benefit of the Company, and unless an Event of Default exists, will not join in any amendment of any Bond Document without the consent of the Company.

Each of the foregoing representations, warranties and covenants shall be deemed to have been made as of the date of this Agreement and again as of the Closing Date.

Section 2.2 Representations and Warranties of the Company. In addition to any other representation and warranty of the Company herein, the Company represents and warrants as follows:

(a) Corporate Existence; Good Standing; Power. The Company is a non-profit corporation duly organized, validly existing and in good standing under the laws of the State of Texas; is duly qualified, authorized and licensed to transact business in each jurisdiction wherein failure to qualify would have a material adverse effect on the conduct of its business or the ownership of its properties; and has full corporate power and authority to own its properties and to conduct its business as now being conducted.

(b) Accuracy of Information; No Misstatements. All of the documents, instruments and written information furnished by or on behalf of the Company to the Issuer or the Trustee in connection with the issuance of the Series 2014A Bonds are true and correct in all material respects and do not omit or fail to state any material facts necessary or required to be stated therein to make the information provided not misleading.

(c) No Defaults; Non Contravention. No event of default or event which, with notice or lapse of time or both, would constitute an event of default or a default under any agreement or instrument to which the Company is a party or by which the Company is or may be bound or to which any of the property or assets of the Company is or may be subject, and which would have a material adverse effect on the Company or which would impair its ability to carry out its obligations under the Bond Documents has occurred and is continuing; neither the execution nor the delivery by the Company of the Bond Documents to which it is party, nor the consummation of any of the transactions herein and therein contemplated nor the fulfillment of, or compliance with, the terms and provisions hereof or thereof, will contravene the Organizational Documents of the Company or will conflict with, in any way which is material to the Company, or result in a breach of, any of the terms, conditions or provisions of, or constitute a default under, any corporate or limited partnership restriction or any bond, debenture, note, mortgage, indenture, agreement or other instrument to which the Company is a party or by which the Company is or may be bound or to which any of the property or assets of the Company is or may be subject, or any law or any order, rule or regulation (applicable as of the date hereof to the Company) of any court, or regulatory body, administrative agency or other governmental body having jurisdiction over the Company or its properties or operations, or will result in the creation or imposition of a prohibited lien, charge or other security interest or encumbrance of any nature upon any property or asset of the Company under the terms of any such restriction, bond, debenture, note, mortgage, indenture, agreement, instrument, law, order, rule or regulation.

(d) No Litigation. Except as disclosed in writing in connection with the offering of the Series 2014A Bonds, there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened, wherein an adverse decision, ruling or finding (i) would result in any material adverse change in the condition (financial or otherwise), results of operations, business or prospects of the Company or which would materially and adversely affect the properties of the Company, or (ii) would materially and adversely affect the transactions contemplated by, or the validity or enforceability of, the Bond Documents to which it is a party.

(e) Corporate Authority; Authorization and Enforceability of Transaction. The Company has full corporate power and authority to execute and deliver the Bond Documents to be executed by the Company and has full power and authority to perform its obligations hereunder and thereunder and engage in the transactions contemplated by the Bond Documents to be executed by it. The Bond Documents to be executed by the Company have been duly authorized, executed and delivered by the Company and each constitutes a legal, valid and binding obligation of the Company, enforceable in accordance with its terms (except that (i) the enforceability of such Bond Documents may be limited by bankruptcy, reorganization, insolvency, fraudulent transfer, moratorium or other similar laws of general application relating to the enforcement of creditors' rights, (ii) certain equitable remedies, including specific performance, may be unavailable and (iii) the indemnification provisions contained therein may be limited by applicable securities laws and public policy).

(f) All Approvals. Except as otherwise disclosed in writing in connection with the offering of the Series 2014A Bonds, no consents, approvals, including federal tax related approvals, authorizations or any other actions by any governmental or regulatory authority that have not been obtained or taken are or will be required for the issuance and sale of the Series 2014A Bonds, the execution and delivery of the Bond Documents by the Company, the construction, ownership and operation of the Project or the consummation of the other transactions contemplated by the Bond Documents (except for such licenses, certificates, approvals or permits necessary for the construction of the Project for which the Company either has applied or shall apply with due diligence and which the Company expects to receive).

(g) No Conflict of Interest. No elected or appointed public official, employee, agent or representative of the Sponsoring Entity or any of its official boards, commissions or committees or any member of the Governing Body of the Issuer has any direct or indirect interest of any kind, or any right, agreement or arrangement to acquire such an interest in the Project, as owner, contractor, subcontractor, shareholder, general or limited partner, tenant or otherwise that would violate or require disclosure or other action under any law, regulation, charter or ordinance of the State or the Sponsoring Entity. All applicable

state and local law requirements governing conflicts of interest and any additional conflict of interest requirements prescribed by the Secretary of the Treasury have been and will be satisfied with respect to the Series 2014A Bonds.

(h) Representations Regarding the Project. The Company intends to construct and operate the Project during the term of this Agreement and to expend the proceeds of the Series 2014A Bonds in the Construction Fund to pay Project Costs. In addition, the Project will be located in its entirety within the boundaries of the State. The principal amount of the Series 2014A Bonds is based upon the Company's most reasonable estimate of financing or refinancing the Project Costs as of the date hereof, which estimates are based upon sound engineering and accounting principles. The ownership of the Project will at all times be under the exclusive control and held for the exclusive benefit of the Company. The Company has obtained or will obtain all licenses and permits necessary with respect to any acquisition, construction, reconstruction, improvement, expansion or operation, as the case may be, of the Project and all necessary approvals from any governmental bodies or agencies having jurisdiction in connection therewith.

(i) Certain Federal Tax Matters. The Company makes the following representations:

(A) The Company is an organization exempt from federal income taxation as provided in Section 501(a) of the Code by virtue of being described in Section 501(c)(3) of the Code;

(B) The purposes, character, activities and methods of operation of the Company are not materially different from the purposes, character, activities and methods of operation at the time of its determination by the IRS as an organization described in Section 501(c)(3) of the Code (the "Determination") or otherwise at the time of its organization as an exempt organization within the meaning of Section 501(c)(3) of the Code, or have been disclosed to the IRS and the Company has received confirmation that such activities or methods of operation do not materially adversely affect the status of the Determination;

(C) The Company has not diverted a substantial part of its corpus or income for a purpose or purposes other than the purpose or purposes (a) for which it is organized or operated or (b) disclosed to the IRS in connection with the Determination;

(D) The Company has not operated during its five most recent fiscal years or the current fiscal year, as of the date hereof, in a manner that would result in it being classified as an "action" organization within the meaning of Section 1.501(c)(3)-(1)(c)(3) of the Regulations including, but not limited to, promoting or attempting to influence legislation by propaganda or otherwise as a substantial part of its activities;

(E) With the exception of the payment of compensation (and the payment or reimbursement of expenses) which is not excessive and is for personal services which are reasonable and necessary to carrying out the purposes of the Company, no individual who would be a "foundation manager" within the meaning of Section 4946(b) of the Code with respect to the Company, nor any Person controlled by any such individual or individuals or any of their Affiliates, nor any Person having a personal or private interest in the activities of the Company has acquired or received, directly or indirectly, any income or assets, regardless of form, of the Company during the current Fiscal Year and the five Fiscal Years preceding the current Fiscal Year, other than as reported to the IRS by the Company;

(F) The Company is not a "private foundation" within the meaning of Section 509(a) of the Code;

(G) The Company has not received any indication or notice whatsoever to the effect that its exemption under Section 501(a) of the Code by virtue of being an organization described under Section 501(c)(3) of the Code has been revoked or modified, or that the IRS is considering revoking or modifying such exemption, and such exemption is still in full force and effect;

(H) The Company has timely filed with the IRS all requests for determination, reports and returns required to be filed by it and such requests for determination, reports and returns have not omitted or misstated any material fact, and the Company has timely notified the IRS of any changes in its organization and operation since the date of the application for the Determination;

(I) The Company has not devoted more than an insubstantial part of its activities in furtherance of a purpose other than an exempt purpose within the meaning of Section 501(c)(3) of the Code;

(J) The Company has not taken any action, nor does it know of any action that any other Person has taken, nor does it know of the existence of any condition that would cause the Company to lose its exemption from taxation under Section 501(a) of the Code or cause interest on the Series 2014A Bonds to be includable in the income of the recipients thereof for federal income tax purposes;

(K) All of the documents, instruments and written information supplied by or on behalf of the Company, which have been reasonably relied upon by Bond Counsel in rendering its opinion with respect to the exclusion from gross income of the interest on the Series 2014A Bonds for federal income tax purposes or Bond Counsel in rendering an opinion with respect to the status of the Company under Section 501(c)(3) of the Code, are true and correct in all material respects, do not contain any untrue statement of a material fact and do not omit to state any material fact necessary to be stated therein to make the information provided therein, in light of the circumstances under which such information was provided, not misleading.

(j) Indenture. The Indenture has been submitted to the Company for its examination, and the Company acknowledges, by execution of this Agreement, that it has reviewed the Indenture and that it accepts each of its obligations expressed or implied thereunder.

(k) Security Interests. The Company has not heretofore made a pledge of, granted a lien on or security interest in, or made an assignment or sale of the collateral granted hereunder and described in Section 4.3 that ranks on a parity with or prior to the lien granted hereunder that will remain outstanding on the Closing Date. The Company has not described the collateral in a UCC financing statement that will remain effective on the Closing Date. The Company will not hereafter make or suffer to exist any pledge or assignment of, lien on, or security interest in the collateral that ranks prior to or on a parity with the lien granted hereunder, or file any financing statement describing any such pledge assignment, lien or security interest, except as expressly permitted by the Bond Documents.

(l) Other Representations and Warranties. Any certificate with respect to factual or financial matters signed by an officer of the Company and delivered to the Issuer shall be deemed a representation and warranty by the Company as to the statements made therein.

Each of the foregoing representations and warranties shall be deemed to have been made as of the date of this Agreement.

ARTICLE III

THE PROJECT

Section 3.1 Acquisition and Construction of the Project. (a) The Company agrees to utilize the amounts in the Construction Fund to pay Project Costs and to complete the acquisition, construction, reconstruction, improvement, expansion or operation, as the case may be, of the Project and to place in service and operate the Project as an educational facility as defined in the Act in furtherance of the public purposes of the Act.

(b) The Plans and Specifications for the part of the Project on each campus shall be approved prior to the commencement of construction of that part of the Project, by a duly authorized officer of the Company. The Company may make insubstantial changes in, additions to, or deletions from the Plans and Specifications and may make substantial changes in, additions to, or deletions from the Plans and Specifications only if the Project shall continue to constitute facilities of the type which may be financed or refinanced by the Issuer under the Act and any required approvals of such changes, additions, or deletions have been obtained from any governmental bodies or agencies having jurisdiction.

Section 3.2 Reserved.

Section 3.3 Disbursements of Bond Proceeds.

(a) Disbursements from Project Account of the Construction Fund. Pursuant to the provisions of the Indenture, there shall be deposited into the Project Account of the Construction Fund a portion of the proceeds received from the sale of the Series 2014A Bonds. Subject to Section 406 of the Indenture, the Trustee is authorized and directed to make payments to the Company, or at the direction of the Company, from the Project Account of the Construction Fund, as requested by the Company (by signing at the bottom of Requisition Certificate) and, if required, approved in writing by the Construction Consultant, for the Company to pay third parties with respect to any Project Costs and also to reimburse the Company for any Project Costs paid directly by the Company upon receipt of a Requisition Certificate substantially in the form attached as Exhibit "B" to the

Indenture. The Company shall retain copies of all Requisition Certificates until the date that is six years from the first date on which no Series 2014A Bonds are outstanding.

(b) Disbursements from Accounts within the Construction Fund. Subject to Section 406 of the Indenture, the Trustee is authorized and directed to disburse funds on or after the Closing Date from any other account established in the Construction Fund upon receipt of a Requisition Certificate. The Company shall retain copies of all Requisition Certificates until the date that is six years from the first date on which no Bonds are Outstanding.

(c) The Trustee may rely fully on any Requisition Certificate delivered pursuant to this Section 3.3 and shall not be required to make any investigation in connection therewith.

Section 3.4 Completion of Project if Bond Proceeds Insufficient. The Company agrees to pay all Project Costs which are not, or cannot be, paid or reimbursed from the proceeds of the Series 2014A Bonds. The Company agrees that if, after exhaustion of the moneys in the Construction Fund established pursuant to the Indenture, the Company should pay any portion of the Project Costs, it shall not be entitled to any reimbursement therefor from the Issuer, the Trustee or from any Bondholder, nor shall it be entitled, as a consequence of such unreimbursed payment, to any abatement, postponement or diminution of the amounts payable under this Agreement.

Section 3.5 Completion. Upon completion of the Project, but not later than the end of the fifth Bond Year, the Company shall deliver to the Trustee a Completion Certificate in the form of Exhibit "B" hereto.

Section 3.6 Modification of the Project. The Project may be altered or added to by the Company; provided, however, that the Company shall make no revision to the Project that results in the Project ceasing to (i) constitute educational facilities, as defined in the Act, or (ii) be substantially similar to the Project as approved by the Issuer; provided, further, that no revision to the Project may be made unless the Company has delivered a Favorable Opinion of Bond Counsel to the Trustee.

Section 3.7 Casualty and Condemnation.

(a) In the event of any damage, destruction, condemnation or taking under the threat of condemnation with respect to the Project, the Company shall promptly engage the services of the Construction Consultant, which shall make a determination as to the amount of insurance or condemnation proceeds anticipated to result therefrom within fifteen (15) days of the occurrence of such damage, destruction, condemnation or taking.

(b) If the insurance or condemnation proceeds of any damage, destruction, condemnation or taking under the threat of condemnation with respect to the Project as determined by the Construction Consultant pursuant to paragraph (a) above are equal to or less than \$250,000, such proceeds shall be transferred to the Trustee for deposit in the Insurance Proceeds Account of the Construction Fund and shall be applied to repair, restore, modify, improve or replace the Project. The Trustee is hereby directed to make payments from the Insurance Proceeds Account of the Construction Fund for such purposes or to reimburse the Company for costs paid by it in connection therewith upon receipt of a Requisition Certificate signed by an Authorized Representative of the Company and approved by the Construction Consultant in the same form as Exhibit "B" to the Indenture. Any balance of the insurance or condemnation proceeds remaining after the Project has been repaired, restored or replaced to a state substantially like that prior to the event of damage, destruction or taking, as determined by the Construction Consultant, shall, upon delivery to the Trustee of a certificate executed by the Construction Consultant to such effect, be deposited to the Debt Service Fund and applied to the redemption of the Series 2014A Bonds at the earliest practical date.

(c) If the insurance or condemnation proceeds of any damage, destruction, condemnation or taking under the threat of condemnation with respect to the Project as determined by the Construction Consultant pursuant to paragraph (a) above are greater than \$250,000, such insurance or condemnation proceeds shall be transferred to the Trustee for deposit in the Insurance Proceeds Account of the Construction Fund for the Series 2014A Bonds, and:

(1) The Company shall immediately request that the Construction Consultant prepare a report to determine (A) if the repair, reconstruction, restoration or replacement of the Project or a portion thereof damaged or taken is economically feasible and will restore the Project to the physical and operating condition as existed before and (B) if the Company will have sufficient funds from the insurance proceeds, business interruption insurance proceeds and other available funds to make the payments required hereunder when due, to pay the cost of repairing, reconstructing, restoring or replacing the portion of the Project affected by such loss, damage or condemnation (including without limitation architects' and attorneys' fees and expenses), to pay the Company's operating costs until completion of the repair, construction or replacement of such portion of the Project which report shall be delivered to the Trustee and any holder owning at least ten percent (10%) in aggregate principal amount of any series of Outstanding Bonds, within thirty (30) days of the occurrence of such damage, destruction, condemnation or taking. If the report

determines the foregoing conditions are satisfied, then within thirty (30) days after delivery thereof, the Company shall deliver to the Trustee:

(A) cash in an amount equal to the funds, if any, in excess of insurance proceeds and business interruption insurance proceeds required by the report delivered under clause (1) above for deposit in a special separate account of the Construction Fund; and

(B) such other documents and information as the holders of a majority of the Outstanding Bonds may reasonably require; and

the Company shall promptly proceed to repair, reconstruct and replace the affected portion of the Project, including all fixtures, furniture and equipment and effects, to its original condition to the extent possible. Each request for payment shall comply with the requirements of the Indenture in Section 406 for payments from the Construction Fund.

(2) If the Construction Consultant's report does not determine that the conditions are satisfied or fails to meet the requirements relating to repair or reconstruction or replacement in clause (1) above, the Company shall prepay the Loan and the Series 2014A Bonds shall be redeemed as set forth in paragraph (e) below.

(d) Under the circumstances set forth in subsection (c)(1) hereof, if the insurance or condemnation proceeds are insufficient to pay in full the cost of any repair, restoration, modification or improvement undertaken pursuant to this Section, the Company will nonetheless complete the work and will pay any cost in excess of the amount of the insurance or condemnation proceeds held by the Trustee. The Company agrees that if by reason of any such insufficiency of the insurance or condemnation proceeds, the Company shall make any payments pursuant to the provisions of this Section, the Company shall not be entitled to any reimbursement therefor from the Trustee or any Bondholder, nor shall the Company be entitled to any diminution of the amount payable hereunder.

(e) Under the circumstances set forth in subsection (c)(2) hereof, the Loan shall be paid and the Series 2014A Bonds redeemed in full without premium and the insurance proceeds shall be transferred by the Trustee from the applicable account in the Construction Fund to the applicable account in the Debt Service Fund for such purpose. If the insurance proceeds are insufficient to redeem the Series 2014A Bonds in full, the Company shall provide to the Trustee for deposit into the Debt Service Fund moneys which, together with the insurance proceeds, will be sufficient to redeem all of the Series 2014A Bonds pursuant to the Extraordinary Optional Redemption provisions of the Series 2014A Bonds. In the event that the Company has completed any repair, reconstruction or replacement of the Project after the occurrence of any damage, destruction or condemnation and there are excess insurance proceeds, such excess shall be deposited in the Debt Service Fund and applied to the redemption of all or a portion of the Series 2014A Bonds pursuant to the Extraordinary Optional Redemption provision of the Series 2014A Bonds.

Section 3.8 Inspection of the Project. The Company agrees that the Issuer and its duly authorized agents, including the Trustee, may, but have no obligation to at reasonable times as determined by the Company, enter upon the Project site and examine and inspect the Project and, upon the occurrence of an Event of Default, the books and records of the Company that relate to the Project.

Section 3.9 Maintenance and Operation. The Company undertakes to cause each item of its buildings and other facilities, including the Project, to be maintained and operated so long as the operation of each such item, in the sole judgment of the Company, is economical, lawful, and feasible and in accordance with good operating practice. The Company agrees that during the term of this Agreement it will pay all costs of operating, maintaining, and repairing its buildings and other facilities, including the Project, and that the Issuer shall have no responsibility or liability whatsoever for operating, maintaining, or repairing its buildings and other facilities, including the Project. The Company agrees that it shall not enter into a contract for the management of the Project by a third party service provider unless it receives a Favorable Opinion of Bond Counsel.

Section 3.10 No Establishment and No Impairment of Religion. The Company and the Issuer intend that the Loan to the Company and all other transactions provided for in this Agreement be made in strict compliance with all applicable laws and constitutional provisions of the United States and the State. Accordingly, the Company agrees that to the full extent required from time to time by applicable laws and constitutional provisions of the United States and the State in order for the Loan to the Company and all other transactions provided for in this Agreement to be made and effected in compliance with such laws and constitutional provisions: (a) no part of the Project financed or refinanced in whole or in part with proceeds of the Series 2014A Bonds shall be used primarily for sectarian instruction or as a place of religious worship; (b) notwithstanding the payment in full of the Loan Payments and the Series 2014A Bonds, and notwithstanding the termination of this Agreement, each

such part of the Project will continue to be subject to the restrictions set out in clause (a) of this Section for so long as it is owned by the Company, or any voluntary grantee of the Company, provided, the continuance of such restriction is necessary to preserve the exemption from federal income taxation of interest on the Series 2014A Bonds under the Code. Provided, however, that to any extent that a restriction or agreement set out in this Section shall at any time not be required in order for the loan to the Company and all other transactions provided for in this Agreement to be made and effected in compliance with applicable constitutional provisions of the United States and the State, such restriction or agreement shall, to that extent and without necessary action by any party, be without any force or effect; and provided further, that in no event shall such restriction or agreement set out in this Section be more expansive than required by an applicable constitutional provision.

Section 3.11 Issuer Relieved From Responsibility With Respect to Project. The Company and the Issuer hereby expressly acknowledge and agree that the Issuer is under no responsibility to insure, maintain, operate or repair the Project or to pay taxes with respect thereto, and the Company expressly relieves the Issuer from any such responsibility.

Section 3.12 Force Majeure. If by reason of Force Majeure the Company shall be rendered unable wholly or in part to carry out its obligations under this Article (other than its obligations to pay money contained in this Agreement), and if the Company gives notice and full particulars of such Force Majeure in writing to the Issuer and to the Trustee within a reasonable time after failure to carry out such obligations, then the obligations of the Company under this Article, so far as they are affected by such Force Majeure, shall be suspended during the continuance of the inability then claimed, including a reasonable time for removal of the effect thereof. The requirement that any Force Majeure shall be reasonably beyond the control of the Company shall be deemed to be fulfilled even though any existing or impending strike, lockout or other industrial disturbance may not be settled but could have been settled by acceding to the demand of the opposing Person. The occurrence of any Force Majeure shall not suspend or otherwise abate, and the Company shall not be relieved from, the obligation to pay the Series 2014A Bonds and to pay any other payments required to be made by it under this Agreement at the times required. For purposes of this Section, "Force Majeure" means acts of God, strikes, lockouts or other industrial disturbances, acts of the public enemy, acts or orders of any kind of the government of the United States of America, or of any state or locality thereof, or any civil or military authority, terrorist acts, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, hurricanes, tornadoes, storms, floods, washouts, droughts, arrests, restraining of government and people, civil disturbances, explosions, nuclear accidents, wars, breakage or accidents to machinery, transmission pipes or canals, partial or entire failure of utilities, shortages of labor, material, supplies or transportation, or any other cause not reasonably within the control of the party claiming such inability.

Section 3.13 Disposition of Project. The Company covenants that the Project will not be sold or otherwise disposed in a transaction resulting in the receipt by the Company of cash or other compensation, unless the Company delivers a Favorable Opinion of Bond Counsel to the Issuer and the Trustee; provided that this provision shall not apply to any portion of the Property comprising personal property and disposed in the ordinary course of business.

Section 3.14 Insurance. So long as the Series 2014A Bonds remain Outstanding, the Company shall at all times keep and maintain the insurance required by Section 213 of the Master Indenture.

ARTICLE IV

PAYMENTS

Section 4.1 Loan Payments.

(a) To repay the Loan of the proceeds of the Series 2014A Bonds evidenced by the Series 2014A Note, the Company shall, subject to the limitations of Section 4.5 of this Agreement, make or cause to be made Loan Payments in immediately available funds in accordance with the Indenture and this Agreement directly to the Trustee as follows:

(i) on or before the earlier of the fifth (5th) Business Day prior to any Interest Payment Date or the 25th day of each month, in equal monthly installments, for deposit in the Debt Service Fund, amounts sufficient to provide for the payment of interest which is due on the next ensuing date for payment of such interest with respect to the Series 2014A Bonds; and

(ii) on or before the earlier of the fifth (5th) Business Day prior to any Interest Payment Date or the 25th day of each month, in equal monthly installments, for deposit in the Debt Service Fund, amounts sufficient to provide for the payment of the principal of or sinking fund payment on the Series 2014A Bonds which is next due for payment of such principal or for such sinking fund redemption payment.

(b) If, subsequent to a date on which the Company is not obligated to pay the Loan Payments (as a result of defeasance of the Series 2014A Bonds pursuant to Section 1002 of the Indenture), losses (net of gains) shall be incurred in

respect of any investments, or any other event or circumstance has occurred causing the amounts in the Debt Service Fund, together with any other amounts then held by the Trustee and available for the purpose, to be less than the amount sufficient at the time of such occurrence or other event or circumstance to pay, in accordance with the provisions of the Indenture, all principal of (premium, if any) and interest on the Series 2014A Bonds due and payable or to become due and payable, the Trustee shall notify the Company of such fact and thereafter the Company, as and when required for purposes of such Debt Service Fund, but subject to the limitations of Section 4.5 of this Agreement, shall pay to the Trustee for deposit in the Debt Service Fund the amount of any such deficiency below such sufficient amount.

(c) If the Texas Education Agency, the Texas Attorney General, the Texas Comptroller of Public Accounts, or any other agency with authority over the expenditures or safekeeping of State Revenues, notifies the Company that the Series 2014A Bonds do not provide benefits to all Participating Campuses sufficient to satisfy the requirements under Section 12.107, Texas Education Code, then the Company shall only provide Loan Payments from any Participating Campuses in excess of its Pro-Rata share through a loan to any other Participating Campuses that cannot pay its Pro-Rata share. Such loan shall not constitute Debt under the terms of the Master Indenture, the Indenture or any Supplement to either document, the Company shall have no duty to notify the Trustee of any such notification or loan, and the Trustee shall have no duty or responsibility to enforce this Section; provided, that nothing herein shall diminish or otherwise excuse performance of the payment obligations of the Company pursuant to this Section or limit the application of Section 4.4 hereof. For purposes of this paragraph, "Pro-Rata" means in proportion to the percentage of Bond proceeds spent on improvements to schools operated under a specific charter, such that the amount of Loan Payments made from State Revenues with respect to schools operated under a particular charter is proportional to the percentage of Bond proceeds spent on improvements to the schools operated under such charter in accordance with Section 12.107, Texas Education Code.

Section 4.2 Prepayment of Loan; Redemption of Bonds. The Company may at any time deliver money or Defeasance Obligations to the Trustee with instructions to the Trustee to hold such money or Defeasance Obligations pursuant to the Indenture in connection with a deemed payment or redemption of Series 2014A Bonds. The Issuer agrees that, at the request at any time of the Company, it will notify the Trustee, exercise its rights and otherwise cooperate with the Company to cause the Series 2014A Bonds or any portion thereof to be redeemed to the extent required or permitted by the Indenture. Except to the extent of any such deemed payment or any redemption of the Series 2014A Bonds in whole or in part, neither the Loan made hereunder nor the Series 2014A Note shall be prepayable. Any excess or unclaimed money held by the Trustee under the Indenture shall be paid by the Trustee to the Company in accordance with Article V or Article X of the Indenture, as applicable.

Section 4.3 Security Interests.

(a) As security for repayment of the Series 2014A Note and performance of the Company's obligations under this Agreement, the Company hereby pledges, sets over, assigns and grants a security interest to the Issuer in all of the Company's right, title and interest in and to all amounts at any time deposited in the funds established pursuant to the Indenture (except the Rebate Fund), including all investments and reinvestments made with such amounts and the proceeds thereof, and in all of its rights to and interests in such amounts, investments, reinvestments and proceeds. The Company hereby authorizes and directs the Trustee to invest and disburse such amounts and proceeds in accordance with the Indenture and this Agreement. The Company represents that, under the laws of the State, (i) this Agreement creates a valid and binding lien in favor of the Issuer as security for the payment of the Series 2014A Note, enforceable in accordance with the terms hereof; and (ii) the lien on the collateral granted hereunder, is and shall be prior to any judicial lien hereafter imposed on such collateral to enforce a judgment against the Company on a simple contract. The Company hereby authorizes the Issuer and the Trustee to file any financing statements or continuation statements necessary to maintain the perfection of the security interest granted hereby.

(b) The Company will (i) upon the execution and delivery of the Bond Documents and thereafter, from time to time cause any Bond Document and each amendment and supplement thereto (or financing statements or a memorandum with respect thereto or to such amendment or supplement) to be filed, registered and recorded and to be refiled, reregistered and rerecorded in such manner and in such places as may be required in order to publish notice of and fully to protect the liens, or to perfect or continue the perfection of the security interests, created thereby and (ii) perform or cause to be performed from time to time any other act as required by law, and execute or cause to be executed any and all instruments of further assurance that may be necessary for such publication, perfection, continuation and protection, including without limitation the execution of any deposit account control agreement and the delivery of legal opinions as to the perfection of any such security interests. The Company will not change or relocate its place of business (or its chief executive office if it has more than one place of business) unless it has taken all actions, and made all filings necessary to continue the effectiveness and perfection of all security interests created by the Bond Documents to which it is a party. The Trustee shall either (i) file continuation statements as may be required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents, or (ii) confirm, on an annual basis, the filing of continuation statements by the Company required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents and, if necessary, make such filings as may be required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents.

(c) Under the Indenture, the Issuer is, as security for the Series 2014A Bonds, pledging, assigning, transferring and granting a security interest in certain of its rights, title and interest under this Agreement to the Trustee. The Company agrees that this Agreement, and all of the rights, interests, powers, privileges and benefits accruing to or vested in the Issuer shall be protected and enforced in conformity with the Indenture and (except for the Issuer's Unassigned Rights) are being assigned by the Issuer to the Trustee as security for the Series 2014A Bonds and may be exercised, protected and enforced solely by the Trustee for or on behalf of the Bondholders in conformity with this Agreement and the Indenture. The Trustee is hereby given the exclusive right to enforce, as assignee of the Issuer, the performance of the obligations of the Company, and the Company hereby consents to the same and agrees that the Trustee may enforce such rights as provided in this Agreement and in the Indenture. The Issuer and the Company recognize that the Trustee is a third party creditor-beneficiary of this Agreement. The Issuer hereby directs the Company to make all payments (other than payments relating to any money or rights not granted to the Trustee as part of the Trust Estate pursuant to the granting clauses in the Indenture) to the Trustee instead of to the Issuer and the Company hereby agrees to do so. All such payments shall be made in lawful money of the United States of America directly to the Trustee, as assigned by the Issuer, at the location specified by the Trustee, and shall be applied as provided in Section 4.1 of this Agreement. The Company and the Issuer further acknowledge that except for the obligation of the Trustee to credit amounts paid or recovered from this Agreement or the collateral therefor to the Issuer's debt evidenced by the Series 2014A Bonds and except for certain rights not granted to the Trustee as part of the Trust Estate, the Issuer has no further interest in this Agreement and the Trustee shall have the exclusive right (subject to the provisions of the Indenture) to grant consents, extensions, forgiveness, and waivers, make amendments, release collateral and otherwise deal with the Company as the sole owner of this Agreement and the Trustee exclusively may start and prosecute suit hereon or otherwise take action to recover amounts owing under this Agreement without first obtaining the consent of the Issuer or without joining the Issuer as a plaintiff.

Section 4.4 **Nature of Obligations of the Company.** The Company agrees that its obligations to make payments hereunder shall be absolute and unconditional, irrespective of any rights of set-off, diminution, abatement, recoupment or counterclaim the Company might otherwise have against any Person, and except in connection with a discharge of the Indenture, the Company will perform and observe all its payment obligations and covenants, representations and warranties hereunder without suspension and will not terminate the Bond Documents to which it is a party for any cause. The Company covenants not to seek and hereby waives, to the extent permitted by applicable law, the benefits of any rights which it may have at any time to any stay or extension of time for performance or to terminate, cancel or limit its liability under the Bond Documents to which it is a party except through payment or deemed payment of the Series 2014A Bonds as provided in such Bond Documents. The Bondholders shall be entitled to rely upon the agreements and covenants in this Section regardless of the validity or enforceability of the remainder of this Agreement or any other Bond Document or agreement.

The preceding paragraph shall not be construed to release the Issuer from the performance of any of its agreements contained in this Agreement, or except to the extent provided in this Section and Section 5.1, prevent or restrict the Company from asserting any rights which it may have against the Issuer, the Trustee or any other Person under this Agreement or any of the other Bond Documents to which it is a party or under any provision of law or prevent or restrict the Company, at its own cost and expense, from prosecuting or defending any action or proceeding against or by third parties or taking any other action to secure or protect its rights in connection with the acquisition, construction, improvement, possession and use of the Project and its rights under such Bond Documents.

Section 4.5 **Limitation on Interest.** Notwithstanding any provision of the Bond Documents to the contrary, it is hereby agreed that in no event shall the amount of interest (as defined and calculated in accordance with applicable law) contracted for, charged, reserved, received or taken in connection with any loan made hereunder exceed the amount of interest which could have been contracted for, charged, reserved, received or taken at the Highest Lawful Rate. If the applicable law is ever judicially interpreted so as to render usurious any amount called for under the Bond Documents or otherwise contracted for, charged, reserved, received or taken in connection with any loan made hereunder, or if the Trustee's exercise of the right to accelerate the Maturity of any loan made hereunder or if any prepayment of any such loan by the Company results in there having been paid or received any interest in excess of that permitted by applicable law, then notwithstanding anything to the contrary contained in the Bond Documents, all excess amounts theretofore paid or received shall be credited on the principal balance of such loan (or, if such loan has been or would thereby be paid in full, refunded), and the provisions of this Agreement and the related Note shall immediately be deemed reformed and the amounts thereafter collectible thereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for thereunder. All sums paid or agreed to be paid for the use, forbearance or detention of the indebtedness evidenced by any such loan shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of such indebtedness until payment in full so that the rate or amount of interest on account of such indebtedness does not exceed the usury ceiling from time to time in effect and applicable to such indebtedness for so long as such indebtedness is outstanding (it being understood that the foregoing provisions permit the rate of interest on such loan to exceed the Highest Lawful Rate for any day as long as the total amount of interest paid on such loan from the date of initial delivery of the Series 2014A Bonds to the date of calculation does not exceed the amount of interest which would have been paid on such loan to the date of calculation if such loan had borne interest for such period at the Highest Lawful Rate).

Section 4.6 Reserved.

Section 4.7 Fees and Expenses.

(a) Issuer. The Company agrees to pay promptly upon demand therefor all fees and costs paid, incurred or charged by the Issuer in connection with the Series 2014A Bonds, including without limitation, (i) all out-of-pocket expenses and Costs of Issuance (including reasonable fees and expenses of attorneys employed by the Issuer) reasonably incurred by the Issuer in connection with the issuance of the Series 2014A Bonds and the administration of the Bond Documents, (ii) all payments required to be paid by the Issuer with respect to the Series 2014A Bonds, and (iii) out-of-pocket expenses (including reasonable fees and expenses of attorneys employed by the Issuer) reasonably incurred by the Issuer in connection with the enforcement of any of its rights or remedies or the performance of its duties under the Bond Documents to which it is a party.

(b) Trustee and Paying Agent. The Company agrees to pay all costs paid, incurred or charged by the Trustee and the Paying Agent including, without limitation, (i) all fees and out-of-pocket expenses incurred with respect to services rendered under any of the Bond Documents, (ii) all amounts payable to the Trustee and the Paying Agent pursuant to Section 807 of the Indenture, and (iii) all out-of-pocket expenses (including reasonable fees and expenses of attorneys employed by the Paying Agent and the Trustee) incurred in connection with the enforcement of any rights or remedies or the performance of duties under the Bond Documents.

ARTICLE V

COVENANTS OF THE COMPANY

Section 5.1 Indemnification.

(a) Agreements to Indemnify. The Company agrees that it will at all times indemnify and hold harmless each of the Indemnified Parties against any and all Losses other than Losses resulting from fraud, willful misconduct or theft on the part of the Indemnified Party claiming indemnification. IT IS THE EXPRESS INTENTION AND AGREEMENT OF THE PARTIES THAT THE COMPANY WILL INDEMNIFY THE INDEMNIFIED PARTIES AGAINST LOSSES WHICH ARISE FROM THE NEGLIGENCE OR OMISSIONS OF ANY INDEMNIFIED PARTY.

(b) Release. None of the Indemnified Parties shall be liable to the Company for, and the Company hereby releases each of them from, all liability to the Company for, all injuries, damages or destruction to all or any part of any property owned or claimed by the Company that directly or indirectly result from, arise out of or relate to the design, construction, operation, use, occupancy, maintenance or ownership of the Project or any part thereof, even if such injuries, damages or destruction directly or indirectly result from, arise out of or relate to, in whole or in part, one or more acts or omissions of the Indemnified Parties including acts or omissions constituting negligence on the part of any Indemnified Party (other than fraud, willful misconduct or theft on the part of the Indemnified Party claiming release) in connection with the issuance of the Series 2014A Bonds or in connection with the Project.

(c) Subrogation. Each Indemnified Party, as appropriate, shall reimburse the Company for payments made by the Company pursuant to this Section to the extent of any proceeds, net of all expenses of collection, actually received by it from any other source (but not from the proceeds of any claim against any other Indemnified Party) with respect to any Loss to the extent necessary to prevent a multiple recovery by such Indemnified Party with respect to such Loss. At the request and expense of the Company, each Indemnified Party shall claim or prosecute any such rights of recovery from other sources (other than any claim against another Indemnified Party) and such Indemnified Party shall assign its rights to such rights of recovery from other sources (other than any claim against another Indemnified Party), to the extent of such required reimbursement, to the Company.

(d) Notice. In case any Claim shall be brought or, to the knowledge of any Indemnified Party, threatened against any Indemnified Party in respect of which indemnity may be sought against the Company, such Indemnified Party promptly shall notify the Company in writing; provided, however, that any failure so to notify shall not relieve the Company of its obligations under this Section.

(e) Defense. The Company shall have the right to assume the investigation and defense of all Claims, including the employment of counsel and the payment of all expenses. Each Indemnified Party shall have the right to employ separate counsel in any such action and participate in the investigation and defense thereof, but the fees and expenses of such counsel shall be paid by such Indemnified Party unless (i) the employment of such counsel has been specifically authorized by the Company, in writing, (ii) the Company has failed after receipt of notice of such Claim to assume the defense and to employ counsel, or (iii) the named parties to any such action (including any impleaded parties) include both an Indemnified Party and the Company, and the Indemnified Party shall have been advised by counsel that there may be one or more legal defenses available to it which are

different from or additional to those available to the Company (in which case, if such Indemnified Party notifies the Company in writing that it elects to employ separate counsel at the Company's expense, the Company shall not have the right to assume the defense of the action on behalf of such Indemnified Party; provided, however, that the Company shall not, in connection with any one action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegation or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys for the Indemnified Parties, which firm shall be designated in writing by the Indemnified Parties).

(f) Cooperation; Settlement. Each Indemnified Party shall cooperate with the Company in the defense of any action or Claim. The Company shall not be liable for any settlement of any action or Claim without the Company's consent but, if any such action or Claim is settled with the consent of the Company or there be final judgment for the plaintiff in any such action or with respect to any such Claim, the Company shall indemnify and hold harmless the Indemnified Parties from and against any Loss by reason of such settlement or judgment to the extent provided in Subsection (a).

(g) Survival; Right to Enforce. The provisions of this Section shall survive the termination of this Agreement, and the obligations of the Company hereunder shall apply to Losses or Claims under Subsection (a) whether asserted prior to or after the termination of this Agreement. In the event of failure by the Company to observe the covenants, conditions and agreements contained in this Section, any Indemnified Party may take any action at law or in equity to collect amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Company under this Section. The obligations of the Company under this Section shall not be affected by any assignment or other transfer by the Issuer of its rights, titles or interests under this Agreement to the Trustee pursuant to the Indenture and will continue to inure to the benefit of the Indemnified Parties after any such transfer. The provisions of this Section shall be cumulative with and in addition to any other agreement by the Company to indemnify any Indemnified Party.

(h) Trustee. The Company also agrees to indemnify the Trustee, and any of its officers, directors, employees, agents, affiliates (including without limitation, the Trustee as Paying Agent under the Indenture) or successors (collectively, the "Indemnitees"), for, and to defend and hold them harmless against, any loss, liability, claims, proceedings, suits, demands, penalties, costs and expenses, including without limitation, the costs and expenses of outside and in house counsel and experts and their staffs and all expenses of document location, duplication and shipment and of preparation to defend and defending any of the foregoing ("Losses"), that may be imposed on, incurred by or asserted against any Indemnitee in respect of (i) any loss, or damage to any property, or injury to or death of any person, asserted by or on behalf of any Person arising out of, resulting from, or in any way connected with the Project, or the conditions, occupancy, use, possession, conduct or management of, or any work done in or about the Project or from the planning, design, acquisition or construction of any Project facilities or any part thereof, (ii) the issuance of the Series 2014A Bonds or the Issuer's authority therefore; (iii) the Indenture and any instrument related thereto, (iv) the Trustee's execution, delivery and performance of the Indenture in respect of any Indemnitee except to the extent that a court of competent jurisdiction finds in a final non-appealable judgment that such Indemnitee's negligence or bad faith primarily caused the Loss, and (v) compliance with or attempted compliance with or reliance on any instruction or other direction upon which the Trustee may rely under the Indenture or any instrument related thereto. The Company further agrees to indemnify the Indemnitees against any Losses as a result of (1) any untrue statement or alleged untrue statement of any material fact or the omission or alleged omission to state a material fact necessary to make the statements made not misleading in any statement, information or material furnished by the Company to the Issuer or the Trustee, including, but not limited to any disclosure utilized in connection with the sale of the Series 2014A Bonds or (2) the inaccuracy of the statement contained in any section of any Bond Document relating to environmental representations and warranties. The foregoing indemnification shall include, without limitation, indemnification for any statement or information concerning the Company or its officers and members or its Property contained in any official statement or other offering document furnished to the Trustee or the purchaser of any Bonds that is untrue or incorrect in any material respect, and any omission from such official statement or other offering document of any statement or information which should be contained therein for the purpose for which the same is to be used or which is necessary to make the statements therein concerning the Company, its officers and members and its Property not misleading in any material respect. The foregoing is in addition to any other rights, including rights to indemnification, to which the Trustee may otherwise be entitled.

Section 5.2 Removal of Liens. If any lien, encumbrance or charge of any kind based on any claim of any kind (including, without limitation, any claim for income, franchise or other taxes, whether federal, state or otherwise) shall be asserted or filed against the Trust Estate, or any Loan Payment paid or payable by the Company under or pursuant to this Agreement, or any order (whether or not valid) of any court shall be entered with respect to the Trust Estate, or any such Loan Payment by virtue of any claim of any kind, in any case so as to:

(a) interfere with the due payment of such amount to the Trustee or the due application of such amount by the Trustee or any Paying Agent pursuant to the applicable provisions of the Indenture,

(b) subject the Bondholders to any obligation to refund any money applied to payment of principal (premium, if any) and interest on any Bond, or

(c) result in the refusal of the Trustee or any Paying Agent to make such due application because of its reasonable determination that liability might be incurred if such due application were to be made, then the Company will promptly take such action (including, but not limited to, the payment of money) as may be necessary to prevent, or to nullify the cause or result of, such interference, obligation or refusal, as the case may be.

Section 5.3 Tax Covenants. The Company will not, through any act or omission, adversely affect the exclusion from gross income of interest paid or payable on the Series 2014A Bonds for federal income tax purposes, and, in the event of such action or omission, it will use all reasonable efforts to cure the effect of such action or omission. Certain terms used in this Section are defined in Section 5.3(r). With the intent not to limit the generality of the foregoing, the Company covenants and agrees that prior to the final Maturity of the Series 2014A Bonds, unless it has received and filed with the Issuer and the Trustee a Favorable Opinion of Bond Counsel:

(a) **Maintenance of Exempt Status.** The Company will (i) conduct its operations in a manner that will result in its continued qualification as an organization described in Section 501(c)(3) of the Code as represented in Section 2.2(i)(A) through Section 2.2(i)(K) of this Agreement, and (ii) timely file or cause to be filed all materials, returns, reports and other documents which are required to be filed with the IRS.

(b) **Diversion of Funds for Unrelated Purposes.** The Company will not divert any substantial part of its corpus or income for a purpose or purposes other than those for which it is organized and operated as represented in Section 2.2(i)(A) through Section 2.2(i)(J) of this Agreement.

(c) **Notification of the Internal Revenue Service.** The Company will timely notify the IRS of any changes in its organizational documents or method of operations to the extent that the IRS does not already have knowledge of any such changes.

(d) **Ownership of Project.** All of the property financed or refinanced with the Net Proceeds of the Series 2014A Bonds will, at all times prior to final Maturity of the Series 2014A Bonds or prior to the expiration of the useful life of such property, be owned for federal income tax purposes by the Company or by another Exempt Person.

(e) **Use of Net Proceeds.** The Company will not use or permit to be used, directly or indirectly, in any trade or business carried on by any Person who is not an Exempt Person, more than the lesser of (i) 5 percent of the Net Proceeds of the Series 2014A Bonds or (ii) \$15,000,000. For purposes of the preceding sentence, (w) use of Net Proceeds by an organization described in Section 501(c)(3) of the Code with respect to an unrelated trade or business, determined according to Section 513(a) of the Code, does not constitute a use by an Exempt Person; (x) use of any property financed with the Net Proceeds of the Series 2014A Bonds constitutes use of such proceeds to the extent of the cost of such property financed with such Net Proceeds; (y) any use of the Net Proceeds of the Series 2014A Bonds in any manner contrary to the guidelines set forth in Revenue Procedure 97-13, 1997-1 C.B. 632 (as modified by Revenue Procedure, 2001 39, 2001-2 C.B. 38), shall constitute the use of such proceeds in the trade or business of a Person who is not an Exempt Person; and (z) any use of the Net Proceeds to pay Costs of Issuance shall constitute the use of such proceeds in the trade or business of a Person who is not an Exempt Person.

(f) **Loans of Proceeds.** The Company will not use or permit the use of any portion of the Sale Proceeds of the Series 2014A Bonds, directly or indirectly, to make or finance loans to persons who are not Exempt Persons. For purposes of the preceding sentence, (i) a loan to an organization described in Section 501(c)(3) of the Code for use with respect to an unrelated trade or business, determined according to Section 513(a) of the Code, does not constitute a loan to an Exempt Person and (ii) any transaction which constructively transfers ownership of property financed with Sale Proceeds of the Series 2014A Bonds for federal income tax purposes constitutes a loan of such Sale Proceeds.

(g) **Limit on Nonhospital Bonds.** The Company will expend at least 95 percent of the Net Proceeds of the Series 2014A Bonds for Capital Expenditures incurred after August 5, 1997. Accordingly, the Series 2014A Bonds are not subject to the \$150,000,000 limit on nonhospital bonds imposed by section 145(b) of the Code.

(h) **Project Useful Life.** Taking into account the Issue Price (as defined in Section 5.3(r) of this Agreement) of the Stated Maturity of the Series 2014A Bonds, the weighted average maturity of the Series 2014A Bonds will not exceed 120 percent of the average reasonably expected economic life of the Project to be financed or refinanced by the Series 2014A Bonds, weighted in proportion to the respective cost of each item comprising the property the cost of which has been or will be financed, directly or indirectly, with the Net Proceeds (as defined in Section 5.3(r) of this Agreement) of the Series 2014A Bonds. For purposes of the preceding sentence, the reasonably expected economic life of property shall be determined as of the later of (A) the Closing Date for the Series 2014A Bonds or (B) the date on which such property is placed in service (or expected to be placed in service). In addition, land shall not be taken into account in determining the reasonably expected economic life of property, except that, in the event 25 percent or more of the collective Net Proceeds of the Series 2014A Bonds, directly or indirectly, have

been expended for land, such land shall be treated as having an economic life of 30 years and shall be taken into account for purposes of determining the reasonably expected economic life of such property.

(i) **Prohibited Facilities.** None of the Proceeds of the Series 2014A Bonds will be used to provide any airplane, sky-box or other private luxury box, facility primarily used for gambling or store the principal business of which is the sale of alcoholic beverages for consumption off premises.

(j) **Public Approval.** The Company covenants and agrees that the Proceeds of the Series 2014A Bonds will not be used in a manner that deviates other than in an insubstantial degree from the Project described in the written notice of public hearing regarding the Series 2014A Bonds published by the Issuer on April 2, 2014 in the Dallas Morning News and on April 3, 2014 in the Austin American Statesman and in the Houston Chronicle.

(k) **Limit on Costs of Issuance.** The Sale Proceeds of the Series 2014A Bonds will be expended for the purposes set forth in this Agreement and in the Indenture and no portion thereof in excess of 2 percent of the Sale Proceeds of the Series 2014A Bonds, within the meaning of Section 147(g) of the Code, will be expended to pay Costs of Issuance with respect to the Series 2014A Bonds.

(l) **No Arbitrage.** The Company will not use or invest the Proceeds of the Series 2014A Bonds such that the Series 2014A Bonds become “arbitrage bonds” within the meaning of Section 148 of the Code, and as evidence of this intent, a representative of the Company has reviewed the Issuer’s Federal Tax Certificate prepared in connection with the Series 2014A Bonds and the Company understands, and will take (or request the Trustee or the Issuer to take), the actions described therein.

(m) **Yield on Investment of Gross Proceeds.** The Company will restrict the cumulative, blended Yield on the investment of the Gross Proceeds of the Series 2014A Bonds, to the Yield of such issue, other than amounts (i) not subject to yield restriction due to any applicable temporary period under Section 148(c) of the Code, or as a result of being on deposit in a Reasonably Required Reserve or Replacement Fund, the Rebate Fund, a bona fide debt service fund (including the Debt Service Fund), or as a minor portion, or (ii) invested at a restricted yield by virtue of being invested in obligations described in Section 103(a) of the Code that are not “specified private activity bonds” within the meaning of Section 57(a)(5) of the Code to the extent required by the Code or the Regulations.

(n) **Rebate.** The Company agrees to take all steps necessary to compute and pay any Rebate Amount in accordance with Section 148(f) of the Code, including:

(i) **Delivery of Documents and Money on Computation Dates.** The Company shall deliver to the Trustee, within 45 days after each Computation Date,

(A) a statement, signed by an officer of the Company, stating the Rebate Amount as of such Computation Date; and

(B) (1) if such Computation Date is an Installment Computation Date, an amount which, together with any amount then held for the credit of the Rebate Fund, is equal to at least 90 percent of the Rebate Amount in respect of the Series 2014A Bonds as of such Installment Computation Date, less any prior payments of Rebate Amount made to the United States in respect of the Series 2014A Bonds, or (2) if such Computation Date is the Final Computation Date, an amount which, together with any amount then held for the credit of the Rebate Fund in respect of the Series 2014A Bonds, is equal to the Rebate Amount as of such Final Computation Date, less any prior payments of Rebate Amount made to the United States in respect of the Series 2014A Bonds; and

(C) an IRS Form 8038-T completed as of such Computation Date.

(ii) **Correction of Underpayment.** If the Company shall discover or be notified as of any date that any payment paid to the United States Treasury pursuant to the Indenture of an amount described in Section 5.3(n) above shall have failed to satisfy any requirement of Section 1.148-3 of the Regulations (whether or not such failure shall be due to any default by the Company, the Issuer, or the Trustee), the Company shall (1) pay to the Trustee (for deposit to the Rebate Fund) and cause the Trustee to pay to the United States Treasury from the Rebate Fund the Rebate Amount, together with any penalty and/or interest due, as specified in Section 1.148-3(h) of the Regulations, within 175 days after any discovery or notice and (2) deliver to the Trustee an IRS Form 8038-T

completed as of such date. If such Rebate Amount, together with any penalty and/or interest due, is not paid to the United States Treasury in the amount and manner and by the time specified in the Regulations the Company shall take such steps as are necessary to prevent the Series 2014A Bonds from becoming arbitrage bonds, within the meaning of Section 148 of the Code. Additionally, the Company agrees that if at any point the Rebate Fund incurs losses from investment, the Company will repay amounts equaling such losses into the Rebate Fund.

- (iii) Records. The Company shall retain all of its accounting records relating to the Debt Service Fund, the Construction Fund, and the Rebate Fund and the investment and expenditure of the Proceeds of the Series 2014A Bonds and all calculations made in preparing the statements described in this Section 5.3(n) for at least six years after the later of the final Maturity of the Series 2014A Bonds or the first date on which no Series 2014A Bonds are Outstanding.
- (iv) Fees and Expenses. The Company agrees to pay all of the fees and expenses of Bond Counsel, a certified public accountant and any other necessary consultant employed by the Company, the Trustee or the Issuer in connection with computing the Rebate Amount.
- (v) No Diversion of Rebate Amount. The Company will not indirectly pay any amount otherwise payable to the United States Treasury pursuant to the foregoing requirements to any Person other than the United States Treasury by entering into any investment arrangement with respect to the Gross Proceeds of the Series 2014A Bonds that is not purchased at fair market value or includes terms that the Company would not have included if the Series 2014A Bonds were not subject to Section 148(f) of the Code.
- (vi) Modification of Requirements. If at any time during the term of this Agreement the Issuer, the Trustee, or the Company desires to take any action that would otherwise be prohibited by the terms of this Section, such Person shall be permitted to take such action if it shall first obtain and provide to the other Persons named herein a Favorable Opinion of Bond Counsel. The Company will hire a Rebate Analyst to perform the calculations required in this Section 5.3(n); provided, however, this shall not absolve the Company of any of the covenants of this Section 5.3(n).
- (o) “Federally Guaranteed” Obligations. The Company will not cause or permit the Series 2014A Bonds to be treated as “federally guaranteed” obligations for purposes of Section 149(b) of the Code.
- (p) Information Reporting Requirements. The Company will cause the Issuer to comply with the information reporting requirements of Section 149(e)(2) of the Code requiring certain information regarding the Series 2014A Bonds to be filed with the IRS within prescribed time limits.
- (q) Series 2014A Bonds are Not Hedge Bonds. The Company covenants and agrees that not more than 50 percent of the Proceeds of the Series 2014A Bonds will be invested in Nonpurpose Investments having a substantially guaranteed Yield for four years or more within the meaning of Section 149(g)(3)(A)(ii) of the Code, and the Company reasonably expects that at least 85 percent of the spendable proceeds of the Series 2014A Bonds will be used to carry out the governmental purposes of the Series 2014A Bonds within the three-year period beginning on the Closing Date.
- (r) Definitions. The following terms have the meanings assigned to them below whenever they are used in this Agreement:

“Bond Year” means, with respect to the Series 2014A Bonds, each one-year period (or shorter period from the Closing Date) that ends at the close of business on the day selected by the Company. The first and last Bond Years may be short periods. If no day is selected by the Company before the earlier of the final Maturity of such issue of Series 2014A Bonds or the date that is five years after the Closing Date, Bond Years end on each anniversary of the Closing Date and on the date of final Maturity. Unless notified in writing to the contrary, the Trustee may conclusively presume that Bond Years end on each anniversary of the Closing Date and the date of final maturity.

“Computation Date” means each Installment Computation Date and the Final Computation Date.

“Costs of Issuance” means issuance costs with respect to the Series 2014A Bonds within the meaning of Section 147(g) of the Code.

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

“Final Computation Date” means the final Maturity of the Series 2014A Bonds.

“Gross Proceeds” means any Proceeds and Replacement Proceeds of the Series 2014A Bonds.

“Installment Computation Date” means the last day of the fifth and each succeeding fifth Bond Year.

“Investment Proceeds” means any amounts actually or constructively received from investing Proceeds.

“Investment Property” means (i) any security (within the meaning of Section 165(g)(2)(A) or (B) of the Code), (ii) any obligation, (iii) any annuity contract, (iv) any investment-type property, or (v) in the case of a bond other than a private activity bond, any residential rental property for family units which is not located within the jurisdiction of the issuer and which is not acquired to implement a court ordered or approved housing desegregation plan.

“Issue Price” means, with respect to the Series 2014A Bonds, “issue price” as defined in Sections 1273 and 1274 of the Code, unless otherwise provided in Sections 1.148-0 through 1.148-11 of the Regulations and, generally, is the aggregate initial offering price to the public (excluding bond houses, brokers and other intermediaries acting in the capacity of wholesalers or underwriters) at which a substantial number of each Maturity of the Series 2014A Bonds is sold.

“Net Proceeds” means, any Net Sale Proceeds, Investment Proceeds and Transferred Proceeds of the Series 2014A Bonds.

“Net Sale Proceeds” means the Sale Proceeds less any Sale Proceeds deposited into a Reasonably Required Reserve or Replacement Fund.

“Nonpurpose Investments” means Investment Property acquired with the Gross Proceeds of the Series 2014A Bonds.

“Proceeds” means, any Sale Proceeds, Investment Proceeds and Transferred Proceeds of the Series 2014A Bonds.

“Qualifying Costs” means the Project Costs (excluding the costs for funding a debt service reserve fund, if any), that will be used, directly or indirectly in any trade or business carried on by any Person who is an Exempt Person. For purposes of the preceding sentence, (i) use by an organization described in Section 501(c)(3) of the Code with respect to an unrelated trade or business, determined according to Section 513(a) of the Code, does not constitute use by an Exempt Person, and (ii) any use in any manner contrary to the guidelines set forth in Revenue Procedures 97-13, 1997-1 C.B. 632 (as modified by Revenue Procedure 2001-39, 2001-2 C.B. 38), or the Regulations promulgated under Section 141 of the Code, shall constitute use by a Person who is not an Exempt Person.

“Reasonably Required Reserve or Replacement Fund” means any fund described in Section 148(d) of the Code provided that the amount thereof allocable to the Series 2014A Bonds invested at a Yield materially higher than the Yield on the Series 2014A Bonds does not exceed the least of (i) 10 percent of the stated principal amount of the Series 2014A Bonds; (ii) the maximum annual debt service on the Series 2014A Bonds; or (iii) 125 percent of the average annual debt service on the Series 2014A Bonds, within the meaning of Section 1.148-2(f)(2)(ii) of the Regulations; provided that, if the Series 2014A Bonds are sold with more than a de minimus amount of original issue discount or premium, the issue price will be used to measure the 10 percent limit.

“Rebate Amount” has the meaning ascribed in Section 1.148-3 of the Regulations and generally means the excess as of any date of the future value of all receipts on Nonpurpose Investments over the future value of all payments on Nonpurpose Investments, all as determined in accordance with Section 1.148-3 of the Regulations.

“Rebate Analyst” means an independent certified public accountant, financial analyst or bond counsel, or any firm of the foregoing, or financial institution, experienced in making the arbitrage and rebate calculations required pursuant to Section 148(f) of the Code, selected, retained and compensated by the Company pursuant to this Section 5.3(r) to make the computations and give the directions required under Section 405 of the Indenture.

“Replacement Proceeds” has the meaning set forth in Section 1.148-1(c) of the Regulations.

“Sale Proceeds” means, any amounts actually or constructively received from the sale (or other disposition) of any Series 2014A Bond, including amounts used to pay underwriters’ discount or compensation and accrued interest other than pre-

issuance accrued interest. Sale Proceeds also include, but are not limited to, certain amounts derived from the sale of a right that is associated with any Series 2014A Bond, as described in Section 1.148-4(b)(4) of the Regulations, and certain amounts received upon termination of certain hedges, as described in Section 1.148-4(h)(5) of the Regulations.

“Transferred Proceeds” means, with respect to the portion of the Series 2014A Bonds that is a refunding issue, proceeds that have ceased to be proceeds of a refunded issue and are transferred proceeds of the refunding issue by reason of section 1.148-9 of the Regulations.

“Yield” means yield as determined in accordance with Section 148(h) of the Code and the Regulations, and generally, is the yield which when used in computing the present worth of all payments of principal and interest to be paid on an obligation produces an amount equal to the Issue Price of such obligation.

To the extent that published rulings of the IRS, or amendments to the Code or the Regulations modify the covenants of the Company which are set forth in this Section 5.3 or which are necessary to preserve the excludability from gross income of interest on the Series 2014A Bonds for federal income tax purposes, the Company and the Issuer will comply with such modifications.

Section 5.4 Financial Reports; No Default Certificates; Notice of Default.

(a) The Company shall cause an annual audit of its books and accounts to be made by Independent certified public accountants and delivered to it within 120 days after the end of each Fiscal Year of the Company. At the same time said audit report is delivered to the Company, the Company shall deliver to the Trustee a certificate signed by an Authorized Representative of the Company stating that such person has reviewed the obligations of the Company under this Agreement, any Deed of Trust, leasehold deed of trust, security agreements, the Series 2014A Note, the Master Indenture and the Indenture and the performance of the Company hereunder and thereunder, and has consulted with such officers and employees of the Company as he deemed appropriate and necessary for the purpose of delivering such certificate, and based on such review and consultation, no Event of Default and no event which, with the giving of notice or the passage of time or both, would constitute an Event of Default has occurred and is continuing under the aforementioned documents. Such certificate shall also set forth the debt service coverage ratio as calculated in Section 5.8. The Trustee shall have no duty to examine or independently verify any such audit reports or the matters described in any such certificate other than to examine the certificate for compliance with the required statements therein, and shall have no duty to furnish such audits to any third party. The Company shall also, promptly upon receiving notice thereof, notify the Issuer and the Trustee in writing upon the occurrence of an Event of Default or any event which with the giving of notice or the passage of time or both would constitute an Event of Default hereunder or under the Series 2014A Note, the Master Indenture or the Indenture.

Section 5.5 Further Assurances and Corrective Instruments; Recordation. The Issuer and the Company agree that they will, from time to time, execute, acknowledge, and deliver, or cause to be executed, acknowledged, and delivered, such supplements hereto and such further instruments as may reasonably be required for carrying out the intention or facilitating the performance of this Agreement, the Master Indenture and the Indenture.

The Company covenants that it will act and cooperate so that this Agreement, the Master Indenture, the Indenture, any financing statements, and all supplements thereto, and any other instruments as may be required from time to time to be kept, will be recorded and filed in such manner and in such places as may from time to time be required by law in order fully to preserve and protect the security of the Bondholders and the rights of the Trustee under the Indenture.

Section 5.6 Environmental Indemnity. The Company hereby agrees to indemnify and hold harmless the Master Trustee, the Trustee, the Issuer and their successors, assigns, officers, affiliates and employees (collectively referred to in this Section 5.6 as the “Indemnified Parties”) for, from and against any and all loss, costs, damages, exemplary damages, natural resources damages, liens, and expenses (including, but not limited to, attorneys’ fees and any and all other costs incurred in the investigation, defense and settlement of claims) that Indemnified Parties may incur as a result of or in connection with the assertion against Indemnified Parties, of any claim, civil, criminal or administrative, which:

(a) arises out of the actual, alleged or threatened discharge, dispersal, release, storage, treatment, generation, disposal or escape of any Regulated Chemical, including, but not limited to, any solid, liquid, gaseous or thermal irritant or contaminant, including, but not limited to, smoke, vapor, soot, fumes, acids, alkalis, chemicals, medical waste and waste (including materials to be recycled, reconditioned or reclaimed); or

(b) actually or allegedly arises out of the use of any Regulated Chemical, the existence or failure to detect the existence or proportion of any Regulated Chemical in the soil, air, surface water or groundwater, or the performance or failure to perform the abatement or removal of any Regulated Chemical or of any soil, water, surface water or groundwater containing any Regulated Chemical; or

(c) arises out of the actual or alleged existence of any Regulated Chemical on, in, under, or affecting all or a portion of the Project; or

(d) arises out of any misrepresentations of the Company concerning any matter involving Regulated Chemicals; or

(e) arises out of the Company's failure to provide all information, make all submissions and filings, and take all steps required by appropriate government authority under any applicable environmental law, regulation, statute or program, whether federal, state or local, whether currently existing or hereinafter enacted.

The obligations under this Section 5.6 shall not be affected by any investigation by or on behalf of Indemnified Parties, or by any information which Indemnified Parties may have or obtain with respect thereto.

Notwithstanding anything to the contrary contained in this Section 5.6, no indemnification shall be required for any damages under this Section incurred solely as the result of the negligence or willful misconduct of the Issuer or the gross negligence or willful misconduct of any other party seeking indemnification. The indemnification of the Indemnified Parties as provided in this Section 5.6 shall remain in full force and effect if any such Losses directly or indirectly results from, arises out of, or relates to, or is asserted to have resulted from, or arisen out of, or related to sole or contributory negligence of any of the Indemnified Parties.

Section 5.7 **Existence of the Company.** While any of the 2014A Bonds remain Outstanding, the Company shall maintain its corporate existence and qualification to do business in the State, and, if different, the state of the Company's incorporation, and shall not merge or consolidate with any other corporation or entity or sell or dispose of all or substantially all of its assets, unless (and subject to the provisions of Section 3.13 and Section 5.3) (a) either the Company shall be the surviving corporation in the case of a merger, or the surviving, resulting, or transferee corporation, as the case may be, shall expressly and unconditionally assume, in a written instrument delivered to the Issuer and the Trustee, the punctual performance and observance of all of the covenants and conditions of this Agreement to be performed by the Company; (b) the Company or such surviving, resulting, or transferee corporation, as the case may be, shall not, immediately after such merger or consolidation, or sale or disposition, be in default in the performance of any covenant or condition hereunder; (c) the surviving, resulting, or transferee corporation, as the case may be, shall be duly authorized to transact business in the State; (d) the Company or such surviving, resulting, or transferee corporation, as the case may be, shall have a net worth at least equal to the net worth of the Company immediately preceding such merger or consolidation, or sale or disposition, with net worth being determined in accordance with generally accepted accounting principles; and (e) the Trustee shall have received, to its reasonable satisfaction, such other information, documents, certificates and opinions as the Trustee may reasonably require. Prior to the consummation of any such merger, sale, conveyance or transfer, (y) the Company shall deliver to the Issuer and the Trustee a Favorable Opinion of Bond Counsel and an Opinion of Counsel to the effect that such act does not violate the Act or the Code and (z) the surviving, resulting, or transferee entity's certification to the Issuer and the Trustee to the effect that each of the conditions stated in clauses (a) through (e) of the preceding sentence is and will remain satisfied as of the date of such consummation and that such consummation will not cause any such condition to not be satisfied. Furthermore, the Company or any surviving, resulting or transferee corporation shall, at all times during the term of this Agreement, qualify as an "accredited primary or secondary school" or "authorized charter school" as such terms are defined in Section 53.02, Texas Education Code.

Section 5.8 **Debt Service Coverage Ratio.** The Company covenants that the Available Revenues for each Fiscal Year must be equal to at least 1.10x the Annual Debt Service Requirements of the Company as of the end of each Fiscal Year. If the Company does not maintain Available Revenues for any Fiscal Year ending on or after June 30, 2014, of at least one hundred ten percent (110%) of the Annual Debt Service Requirements during such Fiscal Year, the failure to maintain such ratio shall not constitute an Event of Default so long as the Company, at its sole expense, promptly employs (within 30 days of the date a certificate describing the such circumstances was required to be submitted) a Management Consultant to review and analyze the operations and administration of the Company, inspect the facilities, and submit to the Company and Trustee written reports, and make such recommendations as to the operation and administration of the Company as such Management Consultant deems appropriate, including any recommendation as to a revision of the methods of operation thereof. The Company agrees to consider any recommendations by the Management Consultant and, to the fullest extent legally permissible and practicable, to adopt and carry out such recommendations. Notwithstanding the preceding sentence, if the debt service coverage ratio falls below 1.0x the Annual Debt Service Requirements of the Company, it shall constitute a default hereunder.

Section 5.9 **Negative Pledge.** The Company shall not create or allow any liens to exist on any of its property or equipment, except such liens as are expressly permitted by the Deed of Trust, including, without limitation, any mortgage or other lien on the property comprising the Company's Participating Campuses (except in connection with the issuance of additional Debt for such campuses and provided that any such mortgage or other lien on these campuses shall secure the Series 2014A Bonds in addition to such additional Debt).

Section 5.10 Disposition of Assets.

(a) Property and Equipment (“P&E”). No P&E of the Company may be sold or otherwise disposed of unless (i) the P&E is obsolete or worn out or (ii) fair market value is received in return or (iii) the market value of all P&E disposed of in any Fiscal Year does not exceed five percent (5%) of the total market value of all P&E of the Company.

(b) Cash, Investments and Other Current Assets (“Liquid Assets”). No Liquid Assets of the Company may be sold or otherwise disposed of unless (i) fair market value is received in return or (ii) the total market value of Liquid Assets disposed of in any Fiscal Year does not exceed one percent (1%) of all Liquid Assets of the Company.

Section 5.11 Operating Reserves. The Company shall maintain an amount equal to 45 days of budgeted expenses as of the end of each Fiscal Year of the Company, commencing as of the end of the first Fiscal Year after the date of issuance of the Series 2014A Bonds. If the Company fails to maintain the required reserve level, such failure shall not constitute an Event of Default if the Company promptly retains (within 30 days of the date a certificate describing the such circumstances was required to be submitted), at its expense, a Management Consultant to submit a written report and make recommendations (a copy of such report and recommendations shall be filed with the Trustee) with respect to revenues or other financial matters of the Company which are relevant to meeting the required operating reserve level. So long as the Company is implementing the recommendations to the extent legally permissible and practical, the Company will be deemed to have complied with its covenants hereunder. The operating reserves shall not be funded with Bond Proceeds.

Section 5.12 Permanent School Fund Guarantee. The Company has applied for and received approval from the Commissioner of Education, subject to compliance with the Commissioner of Education’s rules and regulations, for payment of the principal of and interest on the Series 2014A Bonds to be guaranteed by the Permanent School Fund. If the Series 2014A Bonds are defeased, the guarantee of the Series 2014A Bonds will be removed in its entirety and, in case of payment default and in accordance with Texas Education Code §45.061, the Comptroller of Public Accounts will withhold the amount paid, plus interest, from the first state money payable to the Company in the following order: foundation school fund, available school fund. In connection with the guarantee of the Series 2014A Bonds by the Permanent School Fund, the Company, hereby certifies and covenants that:

(a) a certified copy of the Bond Documents and copies of the Final Official Statement (and final savings schedule for refunded bonds) shall be furnished to the Division of State Funding, School Facilities and Transportation, within ten (10) calendar days following the pricing of the Series 2014A Bonds;

(b) following any determination by the Company that it is or will be unable to pay maturing or matured principal or interest on the Series 2014A Bonds, the Company will take all action required by Subchapter C of Chapter 45 of the Texas Education Code, including, but not limited to, the giving of timely notice of such determination to the Commissioner; and

(c) the Company will notify the Division of State Funding in writing within ten (10) calendar days of the defeasance of any guaranteed Bonds.

ARTICLE VI

EVENTS OF DEFAULT; REMEDIES

Section 6.1 Events of Default Defined. The following shall be “Events of Default” under this Agreement and the term “Events of Default” shall mean, whenever used in this Agreement, any one or more of the following events:

(a) Failure by the Company to pay the Loan Payments when due pursuant to Section 4.1 of this Agreement; provided that, such Event of Default shall terminate (i) upon timely receipt of two successive payments of the amounts then required under Section 4.1 and (ii) the balance in the Debt Service Fund must equal the amount that is then required to be on deposit.

(b) Any representation or warranty made or deemed made by the Company under the Bond Documents shall be false, misleading or erroneous in any material respect when made or deemed made, or a failure by the Company to observe and perform any covenant, condition, or agreement on its part to be observed or performed under this Agreement or the Indenture, other than as referred to in subsection (a) of this Section, for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, is given to the Company by the Issuer or the Trustee.

(c) The occurrence and continuance of any “Events of Default” specified in the Bond Documents or the Master Indenture that has not been waived or cured.

The foregoing provisions of this Section (except Subsection (a) of this Section) are subject to the following limitations: If by reason of Force Majeure the Company is unable in whole or in part to carry out its agreements contained herein, other than the obligations on the part of the Company to make Loan Payments, the Company shall not be deemed in default during the continuance of such inability. The Company agrees, however, to remedy with all reasonable dispatch the cause or causes preventing the Company from carrying out its agreements by reason of such Force Majeure.

Section 6.2 Remedies Upon An Event of Default. Whenever any Event of Default shall have happened and be continuing, the Issuer, or the Trustee as assignee of the Issuer, may, subject to Article VIII of the Indenture, take any one or more of the following remedial steps:

(a) From time to time, may take whatever action at law or in equity or under the terms of the Bond Documents as necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement, or covenant of the Company under this Agreement or any other Bond Document.

(b) From time to time take whatever actions at law or in equity as necessary or desirable to enforce the obligations of the Company under Section 4.7, Section 5.1 and Section 6.6 hereof.

Section 6.3 No Remedy to be Exclusive. No remedy herein conferred upon or reserved to the Trustee or the Issuer is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Trustee or the Issuer to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice other than such notice as may be herein expressly required.

Section 6.4 No Additional Waiver Implied by One Waiver. In the event any provision, covenant, or agreement contained in this Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Section 6.5 Remedial Rights Assigned to the Trustee. Such rights and remedies as are given the Issuer hereunder (except the Issuer's rights under Section 4.7, Section 5.1 and Section 6.6 hereof) shall upon execution and delivery of the Indenture be assigned to the Trustee, and the Trustee shall have the right to exercise such rights and remedies, without the joinder or consent of the Issuer, in the same manner and under the limitations and conditions that the Trustee is entitled to exercise rights and remedies under the Indenture.

Section 6.6 Agreement to Pay Attorney's Fees and Expenses. If the Company should default under any of the provisions of this Agreement and as a consequence the Issuer and/or the Trustee should employ attorneys or incur other expenses for the collection for amounts payable hereunder or the enforcement of performance or observance of any obligation or agreement on the part of the Company contained in this Agreement, the Company agrees that it will on demand therefor reimburse the Issuer and/or the Trustee for the reasonable fees of such attorneys and such other reasonable expenses so incurred. When the Trustee or the Issuer incurs expenses, attorneys' fees, or renders services after an Event of Default specified in Section 601(c) or (d) of the Master Indenture occurs that is related to the dissolution or liquidation by the Company or the filing by the Company of a voluntary petition for relief, or the entry of an order or decree for relief in an involuntary case, or the entry of an order or decree for dissolution, liquidation or winding up of the affairs of the Company under any applicable bankruptcy, insolvency, or similar law, the expenses, attorneys' fees and compensation for the services are intended to constitute post-petition expenses of administration under any bankruptcy law.

ARTICLE VII

MISCELLANEOUS

Section 7.1 Severability of Provisions of this Agreement. In the event any provision of this Agreement shall be held invalid or unenforceable by any court or competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 7.2 Execution of this Agreement in Counterparts. This Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 7.3 Captions and Preambles. The captions or headings in this Agreement are for convenience only and in no way define, limit, or describe the scope or intent of any provisions or sections of this Agreement. The preambles hereto are hereby incorporated herein and made a part of this Agreement for all purposes.

Section 7.4 No Pecuniary Liability of the Issuer. No provision, covenant, or agreement contained in this Agreement or breach thereof shall constitute or give rise to any pecuniary liability on the part of the Issuer or any charge upon its general credit. In making such provisions, covenants, or agreements, the Issuer has not obligated itself, except with respect to the Project and the application of the revenues of this Agreement, as hereinabove provided. It is recognized that the Issuer's only source of funds with which to carry out its commitments under this Agreement will be from the proceeds of the sale of the Bonds and payments to be made by the Company hereunder; and it is expressly agreed that the Issuer shall have no liability, obligation, or responsibility with respect to this Agreement or the Project except to the extent of funds available from such Bond proceeds and payments to be made by the Company hereunder.

Section 7.5 Payment to the Issuer. The Company agrees to pay directly to the Issuer all fees required to be paid by the Company under the Issuer's regulations as in effect as of the date hereof, Costs of Issuance reasonably incurred by the Issuer in connection with the issuance of the Bonds, and other expenses, if any, incurred from time to time by the Issuer in connection with the Project or the Bonds.

Section 7.6 Status of the Parties' Relationship. Nothing in this Agreement shall be construed to make either party the partner or joint venturer of or with the other party.

Section 7.7 Governing Law. The validity, interpretation, and performance of this Agreement shall be governed by the laws of the State.

Section 7.8 Final Agreement. THIS WRITTEN AGREEMENT AND THE OTHER BOND DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

Section 7.9 Third Party Beneficiary. The parties hereto expressly recognize that the Master Trustee and the Trustee are third party beneficiaries to this Agreement and may enforce any right, remedy, or claim conferred, given or granted hereunder.

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APPENDIX G

BOOK-ENTRY-ONLY SYSTEM

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BOOK-ENTRY-ONLY SYSTEM

The information in this section concerning the Depository Trust Company (“DTC”), New York, New York, and DTC’s book-entry-only system has been obtained from DTC. The Issuer, the Borrower, the Bond Trustee, the Master Trustee, and Underwriters take no responsibility for the accuracy thereof.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

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



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