

*In the opinion of Schulman, Lopez, Hoffer & Adelstein, LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions and assuming continuing compliance with certain covenants, interest on the Series 2018A Bonds is excluded from gross income for federal income tax purposes and is not included in the federal alternative minimum taxable income of individuals.*



**NEW HOPE CULTURAL EDUCATION FACILITIES FINANCE CORPORATION**  
**\$36,920,000 EDUCATION REVENUE BONDS**  
**(LEGACY PREPARATORY CHARTER ACADEMY)**  
**SERIES 2018A**

**\$1,095,000 TAXABLE EDUCATION REVENUE BONDS**  
**(LEGACY PREPARATORY CHARTER ACADEMY)**  
**SERIES 2018B**

**Dated: February 1, 2018 - Interest accrues from date of delivery**

**Due: as shown on inside cover**

The New Hope Cultural Education Facilities Finance Corporation (the “*Issuer*”), a non-profit corporation created and existing under Article 1528m, Vernon’s Texas Civil Statutes codified as Chapter 337, Texas Local Government Code, as amended from time to time (the “*Act*”), is issuing its \$36,920,000 Education Revenue Bonds (Legacy Preparatory Charter Academy) Series 2018A (the “*Series 2018A Bonds*”) and its \$1,095,000 Taxable Education Revenue Bonds (Legacy Preparatory Charter Academy) Series 2018B (the “*Series 2018B Bonds*”, and, together with the Series 2018A Bonds, the “*Bonds*”). The Bonds will be dated February 1, 2018, will be in authorized principal denominations of \$25,000 and integral multiples of \$5,000 in excess thereof unless the Bonds have received an Investment Grade Credit Rating, in which case principal denominations shall be reduced to \$5,000, and will mature on August 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 August 15, 2018, until maturity or earlier redemption.

The Bonds are being issued pursuant to a Trust Indenture and Security Agreement dated as of February 1, 2018 (the “*Bond Indenture*”) between the Issuer and UMB Bank, N.A., as trustee (the “*Trustee*”). The proceeds of the Bonds will be loaned by the Issuer to Legacy21, Inc. dba Legacy Preparatory Charter Academy, a Texas nonprofit corporation (“*LPCA*”) pursuant to the terms of a Loan Agreement dated as of February 1, 2018 (the “*Loan Agreement*”) between the Issuer and LPCA.

The Bonds are limited obligations of the Issuer payable solely from (i) payments to be made by LPCA pursuant to the Loan Agreement, (ii) tax-exempt and taxable promissory notes delivered to the Issuer pursuant to the Loan Agreement and the Master Trust Indenture and Security Agreement dated February 1, 2018, as amended through Supplemental Master Trust Indenture No. 1, dated as of February 1, 2018 (as amended, the “*Master Indenture*”), between LPCA and UMB Bank, N.A., as master trustee (the “*Master Trustee*”) (the promissory notes are referred to herein as the “*Series 2018 Notes*”), which Series 2018 Notes will be entitled to the benefit of the Master Indenture, (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.

The Series 2018 Notes constitute the only indebtedness initially entitled to the benefit of the Master Indenture (the Series 2018 Notes, together with any additional promissory notes entitled to the benefit of the Master Indenture, are referred to herein as the “*Master Notes*”). LPCA shall execute and deliver a Deed of Trust and Security Agreement, dated as of February 1, 2018 (the “*Deed of Trust*”), encumbering the Charter Schools (as defined herein), in favor of the Master Trustee for the benefit of the holders of the Master Notes. See “**SECURITY FOR THE BONDS.**”

The Bonds are subject to optional redemption, mandatory sinking fund redemption, mandatory redemption upon a determination of taxability and extraordinary optional redemption prior to maturity, as described herein. See “**THE BONDS — Redemption Provisions.**”

LPCA will use the Bond proceeds to: (i) purchase, construct, renovate and improve educational facilities at multiple campuses as more particularly described herein (the “*Projects*”), (ii) refinance certain existing loans, (iii) reimburse itself for various capital expenditures, (iv) fund a debt service reserve fund and (v) pay costs of issuance of the Bonds. See “**PLAN OF FINANCE.**” All of the charter schools of LPCA are operated pursuant to an open-enrollment charter contract with the Texas State Board of Education. See “**APPENDIX A – LPCA CHARTER SCHOOL DISTRICT.**” LPCA may not charge tuition and has no taxing authority.

NEITHER THE STATE OF TEXAS (THE “*STATE*”) NOR A STATE AGENCY OR POLITICAL SUBDIVISION OF THE STATE, INCLUDING THE TOWN OF NEW HOPE, TEXAS, 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 TOWN OF NEW HOPE, TEXAS, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS.

**Unless the Bonds have received an Investment Grade Credit Rating, the Bonds may be transferred only to an “accredited investor” as that term is defined in Rule 501 of Regulation D under the Securities Act of 1933, as amended (the “Securities Act”) or a “qualified institutional buyer” as that term is defined under Rule 144A of the Securities Act. On the date of initial delivery, initial purchasers of the Bonds will be required to execute a letter substantially in the form attached hereto as APPENDIX H.**

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, New York, New York (“*DTC*”), 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 this issue. Investors must read this entire Limited Offering Memorandum to obtain information essential to the making of an informed investment decision. Investment in the Bonds involves a significant degree of risk and is speculative in nature as described under “RISK FACTORS” herein and under other sections of this Limited Offering Memorandum**

The Bonds are offered when, as and if issued by the Issuer and received and accepted by the Underwriter and subject to the approval of certain matters by the Attorney General of the State and an opinion as to legality by Schulman, Lopez, Hoffer & Adelstein, LLP, Houston, Texas, Bond Counsel. Certain legal matters will be passed upon by Schulman, Lopez, Hoffer & Adelstein, LLP, Houston, Texas, as counsel to LPCA; Gay McCall Isaacks & Roberts, P.C., Plano, Texas, as counsel to the Issuer; and by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, as counsel to the Underwriter. It is expected that the Bonds will be available for delivery through the facilities of DTC on or about February 21, 2018.



**RBC Capital Markets**

## MATURITY SCHEDULE

### NEW HOPE CULTURAL EDUCATION FACILITIES FINANCE CORPORATION

#### **\$36,920,000 EDUCATION REVENUE BONDS (LEGACY PREPARATORY CHARTER ACADEMY) SERIES 2018A<sup>(1)(2)</sup>**

##### Term Bonds

\$4,985,000	5.250%	Term Bond due August 15, 2027;	Yield 5.320%; <sup>(3)</sup>	CUSIP No. <sup>(4)</sup> 64542QAV5
\$11,440,000	6.000%	Term Bond due August 15, 2037;	Yield 5.770%; <sup>(3)</sup>	CUSIP No. <sup>(4)</sup> 64542QAW3
\$20,495,000	6.000%	Term Bond due August 15, 2047;	Yield 5.900%; <sup>(3)</sup>	CUSIP No. <sup>(4)</sup> 64542QAX1

#### **\$1,095,000 TAXABLE EDUCATION REVENUE BONDS (LEGACY PREPARATORY CHARTER ACADEMY) SERIES 2018B<sup>(1)(2)</sup>**

##### Term Bonds

\$1,095,000	5.750%	Term Bond due August 15, 2020;	Yield 5.750%; <sup>(3)</sup>	CUSIP No. <sup>(4)</sup> 64542QAY9
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- <sup>(1)</sup> The Series 2018A Bonds maturing on August 15, 2027 and thereafter are subject to optional redemption prior to scheduled maturity, in whole or in part, on the optional redemption dates set forth below at the redemption prices equal to the percentage of the principal amount thereof set forth opposite each optional redemption date plus accrued interest to the date fixed for redemption:

Optional Redemption Date	Redemption Price
February 15, 2023	105%
February 15, 2024	104%
February 15, 2025	103%
February 15, 2026	102%
February 15, 2027	101%
February 15, 2028 and thereafter	100%

- The Series 2018B Bonds are not subject to optional redemption prior to maturity. See “**THE BONDS – Redemption Provisions.**”
- <sup>(2)</sup> The Bonds are subject to Mandatory Sinking Fund Redemption as described herein. See “**THE BONDS — Redemption Provisions.**”
- <sup>(3)</sup> The initial yields at which the Bonds are priced are established by and are the sole responsibility of the Underwriter and may be changed at any time at the discretion of the Underwriter. Yield shown is to maturity or, with respect to the Series 2018A Bonds, the optional redemption date, February 15, 2028, whichever produces a lower yield.
- <sup>(4)</sup> CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein are 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 the CUSIP Global Services. CUSIP numbers have been assigned by an independent company not affiliated with the Issuer, LPCA or the Underwriter and are included solely for the convenience of the holders of the Bonds. None of the Issuer, LPCA or the Underwriter 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.

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## 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 2018 Notes 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, the Deed of Trust and the Master Indenture. 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.
- (b) Neither the Issuer nor any director, officer or employee thereof takes any responsibility for, and the purchaser must not rely upon any of such parties, with respect to information appearing anywhere in this Limited Offering Memorandum, other than the information under the captions **“THE ISSUER,”** and **“LEGAL MATTERS – Pending and Threatened Litigation – No Proceedings Against the Issuer”** (the *“Issuer’s Portion”* of the Limited Offering Memorandum). None of such parties have participated in the preparation of this Limited Offering Memorandum except with respect to the Issuer’s Portion of this Limited Offering Memorandum.
- (c) UMB Bank, N.A., in its capacities as Trustee and Master Trustee, assumes no responsibility for the accuracy or completeness of the information concerning the Issuer or LPCA or any other party contained in this document or for any failure by the Issuer or LPCA or any other party to disclose events that may have occurred and may affect the significance or accuracy of such information.
- (d) Each purchaser must review this entire Limited Offering Memorandum and the Appendices hereto, including the information relating to the sources of repayment of the Bonds, the Project and LPCA (including financial and operating data). The Limited Offering Memorandum is not guaranteed as to its accuracy or completeness.
- (e) 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.
- (f) **Unless the Bonds have received an Investment Grade Credit Rating, the Bonds may be transferred only to an “accredited investor” as that term is defined in Rule 501 of Regulation D under the Securities Act of 1933, as amended (the “Securities Act”) or a “qualified institutional buyer” as that term is defined under Rule 144A of the Securities Act. On the date of initial delivery, initial purchasers of the Bonds will be required to execute a letter substantially in the form attached hereto as APPENDIX H. The Bond Indenture under which the Bonds will be issued contains provisions limiting transfers of the Bonds. In addition, the face of each Bond will contain a legend indicating that it is subject to transfer restrictions as set forth in the Bond Indenture. See “THE BONDS – Transfer Restrictions” and “RISK FACTORS - Eligible Purchasers of the Bonds; Restrictions on Transfer; Secondary Market” herein.**

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## REGARDING USE OF THIS LIMITED OFFERING MEMORANDUM

*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 Limited Offering Memorandum, 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, LPCA, the Trustee, the Master Trustee or the Underwriter. The information in this Limited Offering Memorandum is subject to change without notice, and neither the delivery of this Limited Offering Memorandum nor any sale hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, LPCA, the Trustee, the Master Trustee or the Underwriter since the date hereof. This Limited Offering Memorandum 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.*

This Limited Offering Memorandum is being provided in connection with the sale of the Bonds as referred to herein and may not be reproduced for use, in whole or in part, for any other purpose. The information set forth herein under the captions **“THE ISSUER,”** and **“LEGAL MATTERS — Pending and Threatened Litigation, Audits and Investigations — The Issuer”** has been obtained from the Issuer. LPCA also did not provide the information under the captions **“STATE FUNDING FOR TRADITIONAL SCHOOL DISTRICTS,”** **“STATE OPEN ENROLLMENT CHARTER SCHOOL FUNDING,”** **“CURRENT LITIGATION RELATED TO THE TEXAS PUBLIC SCHOOL FINANCE SYSTEM,”** **“TAX MATTERS,”** **“MISCELLANEOUS — Underwriting”** and **“APPENDIX B — SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW.”** All other information set forth herein has been obtained from LPCA and other noted sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness.

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 Limited Offering Memorandum. Any representation to the contrary may be a criminal offense.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF LPCA 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 LIMITED OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

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

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

**THIS LIMITED OFFERING MEMORANDUM, INCLUDING THE APPENDICES HERETO, CONTAINS STATEMENTS WHICH SHOULD BE CONSIDERED “FORWARD-LOOKING STATEMENTS,” MEANING THEY REFER TO POSSIBLE FUTURE EVENTS OR CONDITIONS. SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY THE WORDS SUCH AS “PLAN,” “EXPECT,” “ESTIMATE,” “BUDGET” OR SIMILAR WORDS. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. LPCA DOES NOT EXPECT OR INTEND TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED, OCCUR. THE FINANCIAL PROJECTIONS OF LPCA CONTAINED IN APPENDIX A ATTACHED TO THIS LIMITED OFFERING MEMORANDUM ARE NOT HISTORICAL STATEMENTS OF FINANCIAL PERFORMANCE OF LPCA, BUT ARE FORWARD-LOOKING PROJECTIONS OF FUTURE, PROJECTED FINANCIAL PERFORMANCE OF LPCA.**

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**NEW HOPE CULTURAL EDUCATION FACILITIES FINANCE CORPORATION**

**\$36,920,000 EDUCATION REVENUE BONDS  
(LEGACY PREPARATORY CHARTER ACADEMY) SERIES 2018A**

**\$1,095,000 TAXABLE EDUCATION REVENUE BONDS  
(LEGACY PREPARATORY CHARTER ACADEMY) SERIES 2018B**

**INTRODUCTION**

**General**

The purpose of this Limited Offering Memorandum is to provide certain information concerning the issuance and sale by the New Hope Cultural Education Facilities Finance Corporation (the “*Issuer*”) of its \$36,920,000 Education Revenue Bonds (Legacy Preparatory Charter Academy) Series 2018A (the “*2018A Bonds*”) and its \$1,095,000 Taxable Education Revenue Bonds (Legacy Preparatory Charter Academy) Series 2018B (the “*Series 2018B Bonds*” and, together with the Series 2018A Bonds, the “*Bonds*”).

The Bonds are being issued pursuant to a Trust Indenture and Security Agreement dated as of February 1, 2018 (the “*Bond Indenture*”) between the Issuer and UMB Bank, N.A., as trustee (the “*Trustee*”). The proceeds of the Bonds will be loaned by the Issuer to Legacy21, Inc. dba Legacy Preparatory Charter Academy, a Texas non-profit corporation (“*LPCA*”) pursuant to the terms of a Loan Agreement dated as of February 1, 2018 (the “*Loan Agreement*”) between the Issuer and LPCA.

The Bonds are limited obligations of the Issuer payable solely from (i) payments to be made by LPCA pursuant to the Loan Agreement and the Master Trust Indenture and Security Agreement, dated as of February 1, 2018, as amended, through Supplemental Master Trust Indenture No. 1, dated as of February 1, 2018 (as amended, the “*Master Indenture*”), between LPCA and UMB Bank, N.A., as master trustee (the “*Master Trustee*”), (ii) promissory notes in an amount equal to the Bonds delivered to the Issuer pursuant to the Loan Agreement and the Master Indenture (such promissory notes are referred to herein as the “*Series 2018 Notes*,” which Series 2018 Notes will be entitled to the benefits of the Master Indenture, (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. LPCA shall execute and deliver a Deed of Trust and Security Agreement, dated as of February 1, 2018 (the “*Deed of Trust*”), encumbering the Charter Schools (as defined herein) in favor of the Master Trustee for the benefit of the holders of the Master Notes. The Series 2018 Notes and any other promissory notes entitled to the benefit of the Master Indenture are referred to herein as the “*Master Notes*.” See “**SECURITY FOR THE BONDS.**”

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

**Forward-Looking Statements**

This Limited Offering Memorandum 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 Limited Offering Memorandum, 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.

**LPCA**

LPCA is a non-profit corporation that was established under the laws of the State of Texas (the “*State*”) on November 17, 2010. It is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. See generally “**APPENDIX A – LPCA CHARTER SCHOOL DISTRICT.**”

## About the Charter

LPCA initially entered into its charter contract (the “Charter”) with the State Board of Education in 2012, for a period through July 31, 2017. From time to time, the Charter has been amended, including amendments to relocate charter school operations to the current sites. On March 31, 2017, the Texas Education Agency renewed LPCA’s charter contract for a period through July 31, 2027. The charter contract authorizes LPCA to serve kindergarten through twelfth grade and up to 2600 students. A complete copy of LPCA’s charter contract is available upon request from LPCA. See “**APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – General.**”

## About the Charter Schools

LPCA operates a kindergarten through twelfth grade open-enrollment charter school located at 2727 Military Parkway, Mesquite, Texas 75149 and a kindergarten through twelfth grade open-enrollment charter school located at 601 Accent Drive, Plano, Texas 75075 (the “Charter Schools”). See generally “**APPENDIX A – LPCA CHARTER SCHOOL DISTRICT.**”

The table below presents certain basic information concerning LPCA Charter Schools currently in operation.

CHARTER SCHOOLS				
Campus Name	Grades Offered	Enrollment (2017-18) <sup>(1)</sup>	Year Opened	Economically Disadvantaged (2017-18) <sup>(1)</sup>
Plano Campus	K-12	334	2014-15 <sup>(2)</sup>	154
Mesquite West Campus	K-12	1042	2015-16 <sup>(3)</sup>	736
<b>TOTAL ENROLLMENT</b>		<b>1376</b>		<b>890</b>

<sup>(1)</sup> As of October 31, 2017.

<sup>(2)</sup> Opened in 2012-13 school year as the Temporary Richardson Campus.

<sup>(3)</sup> Opened in 2012-13 school year as the Temporary Dallas Campus and Temporary Mesquite Camps. In the fall of 2015, the Temporary Dallas Campus and the Temporary Mesquite Campus were combined into the Mesquite West Campus.

For more information on see generally “**APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – Enrollment**” and “**APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – Facilities.**”

## The Project

The proceeds of the Bonds will be used (i) purchase, construct, renovate and improve educational facilities at the Charter Schools (the “Projects”), (ii) refinance certain existing loans, (iii) reimburse itself for various capital expenditures, (iv) fund a debt service reserve fund and (v) pay costs of issuance of the Bonds.

The Project will allow LPCA to purchase both of its Charter Schools as well as to expand the Mesquite West Campus to meet additional student demand.

ESTIMATED PROJECT COSTS		
Campus	Costs	Description
Plano Campus	\$8,806,208	Acquisition of the existing 50,607 square foot Plano Campus, with a current student capacity of 700
Mesquite West Campus	\$13,877,270	Acquisition of the existing 66,275 square foot Mesquite West Campus, with a current student capacity of 1100
Mesquite West Campus	\$8,761,941	Addition of a high school building totaling 36,000 square feet that includes 20 classrooms, 2 labs, cafeteria, administrative space and a gym, with an additional student capacity of 500

For more information on see generally “**APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – Enrollment,**” “**APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – The Project,**” “**APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – Appraisals,**” and “**APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – Facilities.**”

## Project Construction

LPCA and Parkhill, Smith & Cooper, Inc. (“PSC”), entered into AIA Document B101-2007 Standard Form of Agreement between Owner and PSC dated as of August 7, 2017, pursuant to which PSC agreed to perform certain services relating to the Project. Among other things, PSC is to assist in the selection of the contractor(s). Prior to the commencement of construction, PSC’s services include (i) usual and customary construction coordination and scheduling, constructability review and cost estimating, (ii) preparing preliminary cost estimates, (iii) reviewing design documents, (iv) preparing and updating the schedule for the Project, (v) assisting in retaining and coordinating professional services, (vi) developing bidders’ interest in the Project and establish bidding schedules, (vii) assisting in preparing construction contracts, (viii) providing structural, mechanical, electrical and plumbing engineering services, and (ix) preparing preliminary design and schematic design documents. PSC is being paid a fee equal to 8.0% of the cost of the work to be performed.

PSC is one of the largest architecture and engineering firm serving North and West Texas. PSC designs and builds projects in the government, commercial and institutional sectors including K-12 and higher education, public works, environmental, infrastructure, transportation, healthcare and religious. More information about PSC can be found at <http://www.team-psc.com/>.

LPCA and Hill & Wilkinson Construction Group, Ltd. dba Hill & Wilkinson General Contractors (the “Contractor”) have entered into a Standard Form of Agreement with a Guaranteed Maximum Price of \$8,761,941 (the “Construction Contract”) for the construction of the Project. The Construction Contract amount includes a construction contingency of 10%.

The Construction Contract provides that the Contractor (i) will cooperate with the PSC and exercise the Contractor’s best skills, judgment and attention in performing the work, (ii) will proceed expeditiously with adequate forces to achieve substantial completion within the Construction Contract time, (iii) will furnish at all time an adequate supply of materials, and (iv) will use its best efforts to perform the work in an expeditious and economical manner consistent with LPCA’s interests. The Contractor also agrees to indemnify LPCA from certain claims and to obtain and maintain workers’ compensation insurance, commercial general liability coverage, automobile insurance coverage, and excess liability coverage.

The Construction Contract allows LPCA to deduct from the final payment due to the Contractor a sum equal to \$2,500 for each day after the agreed upon substantial completion date of December 1, 2018 (or as maybe extended in accordance with the Construction Contract). The Construction Contract generally provides for retainage of 5% of the Contractor’s fee and 5% of the portion of the work self-performed by the Contractor for each progress payment.

The Construction Contract requires the Contractor to deliver performance and payment bonds with respect to the Construction Contract in an amount equal to the contract sum. Neither payment and performance bonds nor retained amounts can protect against timing delays when projects run into difficulty (due to performance of contractors or any other reason). More generally, potential investors should note that there are always risks with respect to such new construction. See “RISK FACTORS — Construction Costs and Completion of Construction.”

The Contractor is a respected industry leader with more than fifty years of experience in Texas. More information about the Contract can be found at <http://www.hill-wilkinson.com>.

LPCA does not expect that the construction at the Mesquite West Campus will be completed prior to the 2018-19 school year. LPCA will accommodate new students by adjusting its existing classroom structure until construction is complete. See “APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – The Project,” “APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – Construction,” and “APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – Facilities.”

## Charter Performance

The Commissioner of Education (the “Commissioner”) is required to revoke the charter of an open-enrollment charter school **if for the three preceding school years:** (i) the charter holder has been assigned an unacceptable performance rating under Subchapter C, Chapter 39 of the Texas Education Code (the “*Accountability Rating*”); (ii) the charter holder has been assigned a financial accountability performance rating under Subchapter D, Chapter 39 of the Texas Education Code (the “*FIRST Rating*”) indicating performance lower than satisfactory; or (iii) the charter holder has been assigned any combination of the ratings described in (i) or (ii). In the 2012-13 and 2013-14 school years, LPCA, as district, received an Accountability Rating of “Improvement Required”. For 2013-14, LPCA received a “Substandard Achievement” FIRST Rating. An additional consecutive year of an unacceptable Accountability Rating or FIRST Rating would have resulted in a revocation of their charter. LPCA has not had an unsatisfactory FIRST Rating since the 2013-14 school year and, as a district, LPCA has not received an “Improvement Required” Accountability Rating since the 2013-14 school year.

See “**RISK FACTORS - Nonrenewal or Revocation of Charter**,” “**APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – Charter Contract**,” “**APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – Accountability Rating and Student Performance**,” and “**APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – Facilities**.”

## **The Bonds**

The Bonds will be issued in the aggregate principal amounts, will mature on the dates and in the amounts, and will bear interest at the rates per annum set forth on the inside cover page of this Limited Offering Memorandum. 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 August 15, 2018, and on each February 15 and August 15 thereafter until the earlier of maturity or redemption. See “**THE BONDS**” herein.

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 principal denominations of \$25,000 and integral multiples of \$5,000 in excess thereof unless the Bonds have received an Investment Grade Credit Rating, in which case principal denominations shall be reduced to \$5,000. The Bonds are also subject to certain purchase restrictions as set forth in “**THE BONDS – Transfer Restrictions**” herein.

## **Audited Financial Statements**

Audited financial statements for LPCA for the fiscal years ending August 31, 2017, 2016, 2015, 2014, and 2013 are included herein as **APPENDIX C**.

## **Projected Revenues and Expenditures**

For Projected Revenue and Expenses of LPCA see “**APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – Projected revenues and Expenditures**.”

## **THE ISSUER**

The Issuer is a public non-profit corporation created by the Town of New Hope, Texas (the “*Town*”) and exists as an instrumentality of the Town pursuant to the Cultural Education Facilities Finance Corporation Act, Article 1528m, Vernon’s Texas Civil Statutes codified as Chapter 337, Texas Local Government Code, as amended (the “*Act*”). The Act grants the Issuer, among others, the same powers, authority, and rights to issue revenue bonds for the purpose of aiding any accredited institutions of higher education and authorized charter schools in financing or refinancing educational facilities and housing facilities and facilities which are incidental, subordinate, or related thereto or appropriate in connection therewith that a nonprofit corporation created under Section 53.35(b), Texas Education Code, or any authority created under Section 53.11, Texas Education Code, has under Chapter 53, Texas Education Code, as amended.

All of the Issuer’s property and affairs are controlled by and all of its power is exercised through a board of directors (the “*Issuer Board*”), which consists of five members, each of whom has been appointed by the Town Council of the Town. Issuer Board members serve two-year terms, and each Issuer Board member may serve an unlimited number of two-year terms. Issuer Board members serve until their successors have been appointed. All vacancies on the Issuer Board are filled by the Town Council.

The officers of the Issuer consist of a president, a vice president, a secretary, and a treasurer, each selected by the Issuer Board from among its members, whose terms of office may not exceed two years and whose duties are described in the Issuer’s bylaws. All officers are subject to removal from office, with or without cause, at any time by a vote of a majority of the entire Issuer Board. Vacancies may be filled by the Issuer Board.

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

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

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

Although the Issuer will issue the Bonds, the Issuer is not in any manner related to or affiliated with LPCA. The Issuer has issued the Bonds solely to carry out the Issuer’s statutory purposes. LPCA has agreed to indemnify the Issuer for certain matters.

The Issuer Board members 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 TOWN HAS ASSUMED ANY RESPONSIBILITY FOR THE MATTERS CONTAINED HEREIN EXCEPT, IN THE CASE OF THE ISSUER, SOLELY AS TO MATTERS RELATING TO THE ISSUER. ALL FINDINGS AND DETERMINATIONS BY THE ISSUER AND THE TOWN, 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 INTERNAL REVENUE CODE OF 1986, AS AMENDED, THE TOWN DOES NOT ENDORSE IN ANY MANNER, DIRECTLY OR INDIRECTLY, GUARANTEE, OR PROMISE TO PAY THE BONDS FROM ANY SOURCE OF FUNDS OF THE TOWN OR GUARANTEE, WARRANT OR ENDORSE THE CREDITWORTHINESS OR CREDIT STANDING OF LPCA, 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 LIMITED OFFERING MEMORANDUM AND ARE NOT IN ANY MANNER PAYABLE 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 LPCA OR THE INVESTMENT QUALITY OR VALUE OF THE BONDS.**

The Issuer makes no warranty or representation, whether express or implied, with respect to the Project (as defined herein) or the use thereof. Further, the Issuer has not prepared any material for inclusion in this Limited Offering Memorandum, except that material under the headings “**THE ISSUER**” and “**LEGAL MATTERS — Pending and Threatened Litigation — No Proceedings Against the Issuer.**” The distribution of the information contained under the captions “**THE ISSUER**” and “**LEGAL MATTERS — Pending and Threatened Litigation — No Proceedings Against the Issuer**” contained in this Limited Offering Memorandum has been duly approved and authorized by the Issuer. Such approval and authorization does not, however, constitute a representation or approval by the Issuer of the accuracy or sufficiency of any of the information contained herein except to the extent of the material under the headings referenced in this paragraph.

## **PLAN OF FINANCE**

### **General**

LPCA will use the proceeds of the Bonds to: (i) purchase and construct new facilities and make other capital improvements (the “*Project*”), (ii) refinance certain existing loans, (iii) reimburse itself for various capital expenditures, (iv) fund a debt service reserve fund, and (v) pay costs of issuance of the Bonds. See “— **The Project**” and “**The Refinancing**” below.

### **The Project**

For additional information relating to the Project, see “**APPENDIX A – LPCA CHARTER SCHOOL DISTRICT — The Project.**”

### **The Refinancing**

LPCA will use a portion of the Bond proceeds to refinance certain loans (the “*Bank Loans*”). See “**APPENDIX A - LPCA CHARTER SCHOOL DISTRICT – Debt Summary.**”

### **Future Financings**

Although LPCA has no concrete plans for incurring additional indebtedness, as opportunities and needs arise, including expansion needs and the purchase of leased facilities, it may incur additional indebtedness. See “**APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – History, Growth Strategy and Other Information Relating to LPCA and the Charter Schools – Growth Strategy.**” LPCA

## 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 2018A</u>	<u>Series 2018B</u>	<u>Total</u>
Principal Amount	\$36,920,000.00	\$1,095,000.00	\$38,015,000.00
Net Offering Premium	324,205.45	-	324,205.45
<b>TOTAL</b>	<b>\$37,244,205.45</b>	<b>\$1,095,000.00</b>	<b>\$38,339,205.45</b>
 <u>USES OF FUNDS</u>			
Construction Fund Deposit	\$10,000,000.00	-	\$10,000,000.00
Loan and Capitalized Lease Payoff	22,743,478.00	\$356,550.23	23,100,028.23
Debt Service Reserve Fund	2,706,430.72	80,269.28	2,786,700.00
Capitalized Interest Fund	1,052,609.38	30,431.88	1,083,041.26
Costs of Issuance <sup>(1)</sup>	738,384.11	624,595.44	1,369,435.96
Rounding Amount	3,303.24	3,153.17	6,456.41
<b>TOTAL</b>	<b>\$37,244,205.45</b>	<b>\$1,095,000.00</b>	<b>\$38,339,205.45</b>

<sup>(1)</sup> Includes Underwriter's discount, legal fees, printing fees and other costs of issuance.

## RISK FACTORS

This Limited Offering Memorandum contains summaries of pertinent portions of the Bonds, the Bond Indenture, the Master Indenture, the Loan Agreement, the Continuing Disclosure Agreement (defined herein) 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.

### 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 2018 Notes, and are secured only by such revenues and a pledge of certain funds and accounts created under the Bond Indenture. Based on present circumstances, and based on its projections regarding enrollment, LPCA believes it will generate sufficient revenues for payment of debt service on the Bonds. However, LPCA's charter contracts may be revoked, or the bases of the assumptions used by LPCA to formulate its beliefs may otherwise change. No representation or assurance can be made that LPCA 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 LPCA.

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

LPCA's Charter Schools may not charge tuition and have no taxing authority. Payments from the State that LPCA receives for educating students comprise the primary source of revenue currently generated by LPCA. The amount of such payments is based on a variety of factors, including the Charter Schools' enrollment. The overall amount of education aid in any year is also subject to appropriation by the State legislature (the "Legislature"). The Legislature may base its decisions about appropriations on many factors, including the economic performance of the State. 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 LPCA 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 LPCA. 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 was to withhold such payments for any reason, even for a reason that is ultimately determined to be invalid or unlawful, LPCA could be forced to cease operations.



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

LPCA's ability to make payments under the Series 2018 Notes and the Loan Agreement representing debt service payments on the Bonds depends on its receipt of payments from the State. The projections of revenues and expenses contained in **APPENDIX A** herein were prepared by LPCA and have not been independently verified by any party other than LPCA. No feasibility studies have been conducted with respect to operations of LPCA pertinent to the Bonds. The projections prepared by LPCA are "forward-looking statements" and are subject to the general qualifications and limitations described under **"INTRODUCTION — Forward-Looking Statements"** with respect to such statements. The Underwriter has not independently verified such projections, and makes no representation and gives 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 LPCA and from assumptions made by LPCA about its future student enrollment and expenses. The bases for such projections are the applications for admission for LPCA's grades currently in operation, the addition of additional grades, and the physical capacity of schools under construction. See **"APPENDIX A –LPCA CHARTER SCHOOL DISTRICT"** 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 LPCA. ACTUAL OPERATING RESULTS MAY BE AFFECTED BY MANY FACTORS, INCLUDING, BUT NOT LIMITED TO, DIFFICULTY WITH OR FAILURE OF LPCA'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 LPCA AND NEITHER THE ISSUER NOR THE UNDERWRITER HAS COMMISSIONED AN INDEPENDENT FEASIBILITY ANALYSIS OF ANY OF THE PROJECTED STUDENT ATTENDANCE FIGURES UPON WHICH LPCA'S PROJECTIONS ARE BASED. NO INDEPENDENT CONFIRMATION OF LPCA'S PROJECTIONS HAS BEEN MADE, AND WHILE LPCA BELIEVES ITS PROJECTIONS ARE REASONABLE, SUCH GROWTH MAY OR MAY NOT OCCUR AND MAY BE AFFECTED BY A VARIETY OF FACTORS. SEE **"APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – Projected Revenues and Expenditures"**

## **Competition for Students**

POTENTIAL PURCHASERS SHOULD BE AWARE THAT LPCA FACES CONSTANT COMPETITION FOR STUDENTS AND THERE CAN BE NO ASSURANCE THAT LPCA 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 OR OTHER BONDS ISSUED FOR THE BENEFIT OF LPCA. SEE **"APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – SERVICE AREA AND COMPETING SCHOOLS."**

## **Nonrenewal or Revocation of Charter**

LPCA's charter contract has been renewed to July 31, 2027 and is subject to renewal for additional ten-year periods. The charter contract has been amended several times to add additional grade offerings and school sites. See **"APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – Charter Contracts."**

Under Texas law, the Commissioner of Education (the "*Commissioner*") shall revoke the charter of an open-enrollment charter school or reconstitute the governing body of the charter holder if the Commissioner determines that the charter recipient has: (i) committed a material violation of the charter, including failure to satisfy accountability provisions prescribed by the charter; (ii) failed to satisfy generally accepted accounting standards of fiscal management; (iii) failed to protect the health, safety, or welfare of the students enrolled at the school; (iv) failed to comply with any applicable law or rule; (v) failed to satisfy the performance framework standards adopted under Section 12.1811 of the Texas Education Code; or (vi) is imminently insolvent as determined by the Commissioner.

The Commissioner shall also revoke the charter of an open-enrollment charter school if (i) the charter holder has been assigned an unacceptable performance rating ("*Accountability 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 (“FIRST Rating”) under Subchapter D, Chapter 39 of the Texas Education Code indicating performance lower than satisfactory for the three preceding school years; or (iii) the charter holder has been assigned any combination of the ratings described in (i) or (ii) for the three preceding school years.

Under Texas Law, the Commissioner is required to deny renewal of the charter of an open-enrollment charter school if: (i) the charter holder has been assigned the lowest performance rating as its Accountability Rating for any three of the five preceding school years; (ii) the charter holder has been assigned a FIRST Rating 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 in (i) or (ii) 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 campus has not been closed.

LPCA received an Accountability Rating of “Improvement Required,” and “Met Standard” in varying years in each of the Charter Schools. In the 2012-13 and 2013-14 school years, LPCA, as a district, received an Accountability Rating of “Improvement Required”. After the end of the first year of operation, Senate Bill 2 was passed and for the first time, charter schools in their first year of operation were assigned ratings. Prior to this change, new schools were given a one-year reprieve from accountability ratings. LPCA had not fully implemented the accountability system and had Senate Bill 2 been enacted at the time LPCA’s charter was awarded, LPCA would have opened in a manner much more conducive to success. In addition, for the 2014-15 school year, rigor of the STAAR test was much higher than the previous year. LPCA’s instructional leadership team could not keep up with the additional rigor.

For 2013-14, LPCA’s first rating year, LPCA received a “Substandard Achievement” FIRST Rating. Despite a score of 50, which would warrant a FIRST rating of Standard Achievement, LPCA received a Substandard Achievement rating due to failing Indicator Two. If a charter school failed any of the first six indicators, it automatically resulted in a Substandard Achievement rating. Indicator Two asked if the total net asset balance in the statement of financial position for the charter school was greater than zero. LPCA’s total net asset balance was negative balance of \$294,906. When a charter school has a negative balance, Indicator Two asked if the charter school had at least a 10 percent growth in students in the last five years. Since LPCA has only been in operation for 1 year, it had not yet had the opportunity to record any growth. TEA deemed this a growth of 0% for Indicator Two, causing LPCA to fail Indicator Two.

In June, 2015, the previous Commissioner appointed Mr. James Damm as the Conservator of LPCA to assist Legacy with several areas of concern about the viability of LPCA. The TEA had determined that LPCA had several areas of concern: (1) academics, due to several areas of unsuccessful student achievement scores on required tests, and (2) financial, based on LPCA’s fund balance below the standards determined by TEA. Mr. Damm was comfortable with the corrective action being taken by LPCA on the academic issues and began working on the financial issues. In its original organization, LPCA had contracted with a service bureau to provide the necessary financial and data services. These services included student data, human resource data, cash management, budget development, cash flow, purchasing, payables, and all other necessary required back office services. However, Mr. Damm felt that there was no in-house expertise to interpret much of financial data, thus not being able to understand, interpret, and utilize the data to improve the operations of LPCA. Mr. Damm recommended a number of actions to remedy these issues. After some time, the TEA intervention was ended as the academic goals set had been realized and a viable plan developed for the financial issues. Immediately following the removal of Mr. Damm as Conservator by the Commissioner, LPCA contracted with Mr. Damm to continue working with LPCA to enhance the corrections LPCA had made to its operational deficiencies. Management of LPCA felt his expertise could assist LPCA in accomplishing its goal of having a model program. That decision has been a great benefit to LPCA as LPCA has begun a progressive, comprehensive planning effort, including long range planning and strategic planning, to integrate all phases of its operations into a coordinated system. LPCA has not had an unsatisfactory FIRST Rating since the 2013-14 school year and, as a district, LPCA has not received an “Improvement Required” Accountability Rating since the 2013-14 school year. **“APPENDIX A – LPCA CHARTER SCHOOL DISTRICT - Charter Contract” and “APPENDIX A – LPCA CHARTER SCHOOL DISTRICT - Accountability Ratings and Student Performance.”**

There can be no assurance LPCA will be able to satisfy the academic and/or financial accountability standards described above in the future. If LPCA’s charter is revoked or if the charter is not renewed, LPCA may be forced to cease operations. The taking of any actions by the Commissioner as described in this subsection may have a material adverse effect on the ability of LPCA to pay the Master Notes and service the debt on the Bonds and other bonds issued for the benefit of LPCA.

#### **Use of Proceeds**

A portion of the Series 2018A Bonds in the amount of \$8,761,941 is being used to fund the addition of a high school building at the Mesquite West Campus totaling 36,000 square feet that includes 20 classrooms, 2 labs, a cafeteria, administrative space and a gym, with an additional student capacity of 500.

## **Project Approvals and Construction Process**

LPCA will use a portion of the proceeds of the Bonds to finance construction of the Project. For more information including an estimated project breakdown, see “**APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – The Project.**” LPCA 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 LPCA 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 LPCA’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 LPCA. The risks associated with any such delay are heightened by the fact that LPCA is relying on the new facilities and the expanded classroom space to accommodate its projected increased enrollment in the near term. See “**APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – Enrollment.**”

In order to mitigate the risks inherent in the construction process, LPCA entered into a guaranteed maximum price construction contract for the construction of the Project. See “**APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – The Project.**”

## **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, LPCA’s construction plans would have to be modified to lower construction costs, and there is a risk that the construction component would not be completed or would not be completed as planned. Although LPCA has entered into a construction contract that contains a “guaranteed maximum price” component (meant to represent the maximum cost to LPCA for completion of the construction), there can be no guarantee that actual construction costs will not exceed such amount, and hence exceed the amount borrowed by LPCA available for construction purposes, due to unforeseen factors such as an overrun of allowance items, unexpected site problems, difficulties in obtaining necessary permits or delays due to the fault of LPCA, the architect or the construction company. No assurance can be given that the new construction will be completed on time or for the amount of Bond proceeds allocated for such construction.

## **Factors Associated with Education**

There are a number of factors affecting schools in general, including the Charter Schools, which could have an adverse effect on LPCA’s financial position and the ability of LPCA to generate sufficient revenues to pay the Master Notes and thus debt service on the Bonds and other bonds issued for the benefit of LPCA. These factors include, but are not limited to, LPCA’s ability to successfully execute its growth strategy; LPCA’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 LPCA; changes in existing statutes pertaining to the powers of LPCA and legislation or regulations which may affect funding; and decline of the reputation of LPCA. LPCA cannot assess or predict the ultimate effect of these factors on its operations or financial results of operations.

## **Economic and Other Factors**

Future economic and other factors may adversely affect the revenues and expenses of LPCA and, consequently, the ability of LPCA to make payments representing debt service on the Bonds. Among the factors that could have such adverse effects are: decreases in the number of students seeking to attend the schools at optimum levels for each grade level; decreases in the level of revenues or other student enrollment-based funding by the states; decline in the ability of LPCA and its management to provide education desired and accepted by the population served; economic developments in the affected service area, including inflation and interest rates; decline of the reputation of the LPCA; revocation of the charter contract; competition from other educational institutions, including other charter schools, private schools and independent schools districts; lessened ability of LPCA to attract and retain qualified teachers and staff at salaries that permit payment of debt service and expenses; increased costs associated with technological advances; changes in government regulation of the education industry or in the Charter School Act; future claims for accidents or other torts at the School or environmental enforcement actions with respect to environmental conditions at the Project and the extent of insurance coverage for such claims; and the occurrence of natural disasters, such as floods.

## **Failure to Provide Ongoing Disclosure**

In connection with the issuance of the Bonds, LPCA 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 or the Rule may adversely affect the liquidity of 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**

LPCA depends on revenues from the State for a large portion of its operating budget. The availability of such funds for public education is a function of legal provisions affecting school district revenues and expenditures, the condition of the economy and the annual budget process. Decreases in revenues from the State may adversely affect education appropriations made by the Legislature. The legislature bases its decisions about appropriations on many factors, including 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 Payments that are Subject to Annual Appropriation and Political Factors**” above.

Any future decreases in revenues or increases in expenditures for the State may adversely affect education appropriations made by the Legislature. Neither LPCA 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 websites. Such information is prepared by the state entity maintaining such websites 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.

## **Value of Facilities May Fluctuate; Limitation of Appraisals**

The value of LPCA’s educational facilities at any given time will be directly affected by market and financial conditions which are not within the control of the parties involved in this transaction. An appraisal represents only the opinion of the appraiser and only as of its date. At any time there may be a difference between the actual market value of LPCA’s educational facilities subject to the Deed of Trust and the principal amount of Master Notes outstanding under the Master Indenture, and that difference may be material and adverse to owners of the Bonds. In particular, it cannot be determined with certainty what the value of the property subject to the Deed of Trust would be in the event of foreclosure under the Deed of Trust. Real property values can fluctuate substantially depending on a variety of factors. There is nothing associated with LPCA’s facilities, which are intended for use as educational facilities, to suggest that their values would remain stable or would increase if the general values of property in the community were to decline. The total appraised value of the Charter Schools is less than the principal amount of the Bonds as of the date of issuance of the Bonds. See “**APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – Appraisals.**”

## **Foreclosure Deficiency and Delays; No Assurance Regarding Subsequent Tenant**

If revenues produced by LPCA are insufficient to make payments on the Master Notes representing debt service on the Bonds, the Master Trustee may exercise its right to foreclose pursuant to the Deed of Trust. There can be no assurance that the value of LPCA’s educational facilities will be sufficient to meet all remaining debt service requirements with respect to the Master Notes at the time of any foreclosure. See “**RISK FACTORS – Value of Facilities May Fluctuate,**” above. In addition, the time necessary to institute and complete foreclosure proceedings would likely substantially delay receipt of funds from a foreclosure.

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

The law applicable to charter schools has regularly changed over time. For example, in the State there were changes to the school funding system that affected open-enrollment charter schools (such as LPCA) in 2006, 2009, 2011, 2013, 2015 and 2017. 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 could be adverse to the financial interests of LPCA and could adversely affect the ability of LPCA to generate sufficient revenues to pay the Master Notes and thus debt service on the Bonds and other bonds issued for the benefit of LPCA. There can be no assurance that the legislatures 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 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.

## **Changes in the School Finance System**

Because Texas charter schools are ultimately funded from the same sources as Texas public school districts, changes in the system of school finance could significantly affect how charter schools are funded. Neither the Issuer nor LPCA can make any representation or prediction concerning how or if the Legislature may change the current public school finance system, and how those changes may affect the funding or operations of charter schools.

Since 1989, State funding of education has been challenged on constitutional grounds requiring the Legislature to enact several funding programs, each of which differed in the manner in which State and local funds have been allocated to school districts. On May 13, 2016, the current school funding program was ruled constitutional by the Texas Supreme Court. The Issuer, LPCA and the Underwriter cannot predict and provide no assurance regarding: (i) whether the Legislature will act to change the current Texas school funding program; (ii) what effect any such legislative changes would have on the existing Texas school funding program, including the distribution of funds under the current school funding system; and (iii) what effect any action or inaction by the Legislature relating to the current Texas school funding program will have on the ability to receive, continue to receive or timely receive the money that is the primary source of payment for the Bonds. See **“STATE OPEN-ENROLLMENT CHARTER SCHOOL FUNDING”** and **“CURRENT PUBLIC SCHOOL FINANCE LITIGATION”** herein.

### **Key Personnel**

LPCA’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 LPCA. See **“APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – Senior Leadership.”** Loss of any such key personnel could adversely affect LPCA’s growth plans, operations, ability to attract and retain students and ultimately its financial results. See **“APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – Senior Leadership.”**

### **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 2018 Notes, 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, the Deed of Trust and the Master Indenture. 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 NOR A STATE AGENCY OR POLITICAL SUBDIVISION OF THE STATE, INCLUDING THE TOWN OF NEW HOPE, TEXAS, 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 TOWN OF NEW HOPE, TEXAS, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS.

### **Pledge of State Revenues**

The Master Indenture provides that all of LPCA’s Adjusted Revenues will be deposited into one or more deposit accounts pledged to the Master Trustee pursuant to a Deposit Account Control Agreement (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 Agreement and (ii) collect and receive all of LPCA’s Adjusted Revenues to be applied as specified in the Master Indenture. While the Holders of not less than 25% in principal amount of Master 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 2018 Notes.

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

The Master Indenture requires that LPCA’s educational facilities be insured against certain risks. See **“APPENDIX F – SUBSTANTIALLY FINAL FORMS OF THE MASTER INDENTURE, THE BOND INDENTURE AND THE LOAN AGREEMENT – MASTER INDENTURE.”** 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 LPCA’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 LPCA obtains insurance policies.

### **Federal Accountability System**

On December 10, 2015, President Obama signed the Every Student Succeeds Act (“ESSA”) into law, which reauthorizes the Elementary and Secondary Education Act of 1965 (the “1965 Act”) and replaces, in whole, the No Child Left Behind Act (“NCLB”) of 2001.

In Texas, under the now defunct NCLB, all public school campuses, school districts and the State were formerly evaluated for Adequate Yearly Progress (“AYP”). Districts, campuses and the State were required to meet AYP criteria on three measures: Reading/Language Arts, Mathematics and either Graduation Rate (for high schools and districts) or Attendance Rate (for elementary and middle/junior high schools). A Title I, Part A-funded local education agency (“LEA”), or school district (including charter schools), that had not met AYP for two or more consecutive years in the same indicator (reading, mathematics, attendance rate, or graduation rate) was subject to LEA-level Title I School Improvement Requirements.

In general, ESSA does not change assessment requirements. All states accepting Title I federal funds used by LEAs must assess students as follows:

- Reading/language arts and mathematics — assess annually in each of grades three through eight and once in high school.
- Science — assess once during each of three specified grade spans: grades three through five, six through nine and 10 through 12.
- English language proficiency — assess English language learners annually in each of grades kindergarten through grade 12.

ESSA deviates from NCLB primarily in the selection of assessments. Under ESSA, states may choose to include assessments partially delivered in the form of portfolios, projects or extended performance tasks and may choose a single summative assessment or multiple statewide interim assessments that result in a single summative score. States can also choose to provide an advanced mathematics assessment for eighth grade students. Other state choices include the option to provide a nationally recognized assessment for high school students, such as the ACT or SAT. Alternative academic achievement standards and assessments are available for students with the most significant cognitive disabilities but each state has a one percent cap on students that may be assessed under these alternate assessments. Districts may exceed that one percent cap if they notify the state of the reasoning behind the larger number.

Each state must submit accountability plans to the Department of Education (“DOE”) beginning with the 2017-2018 school year.

States can pick their own long-term and short-term goals. These goals must address proficiency on tests, English-language proficiency, graduation rates and closing gaps in achievement.

TEA's stated goal is to unite the Texas and federal accountability systems into one comprehensive scheme. In the Spring of 2017, TEA gathered input from various stakeholders to assist in the development of the federally compliant accountability system. During the 85th Legislature's regular session in 2017, the Legislature passed House Bill 22, which enumerates a new accountability system termed the “A-F” system. Under the new accountability system, districts will begin to receive A-F performance ratings in August 2018. Individual schools will receive A-F performance ratings in August 2019. Texas' proposed ESSA plan (the “Consolidated State Plan”) was submitted to the DOE on September 25, 2017. The DOE has 120 days following submission to either accept or reject the proposed plan. However, once submitted, the DOE has little room to deny states' plans as long as the overall plan requirements of ESSA are satisfied.

Various other sections of this Limited Offering Memorandum discuss LPCA's performance under the State's accountability system. See **“APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – Charter Contracts – Revocation, Nonrenewal, Modification of Governance and Automatic Revocation,” “— Accountability Ratings and Student Performance” and “— Federal Accountability”**; see also **“RISK FACTORS — Nonrenewal or Revocation of Charter.”** If the performance of LPCA's district or campus (that receives Title I, Part A funds) under the State's new accountability framework were to result in its failure to meet federal accountability standards, that district or campus would be subject to certain requirements such as offering supplemental education services, offering school choice and/or taking other corrective actions. Any such failure in this regard may have a material adverse effect on LPCA and its ability to generate revenues sufficient to make payments on the Series 2018 Notes representing debt service on the Bonds.

## **Environmental Regulation**

LPCA's educational facilities are and will be subject to various federal, state and local laws and regulations governing health and the environment. In general, these laws and regulations could result in liability for remediating adverse environmental conditions on or relating to such facilities, whether arising from pre-existing conditions or conditions arising as a result of activities conducted in connection with the ownership of and operations at the facilities. Costs incurred with respect to environmental

remediation or liability could adversely affect LPCA's financial condition and its ability to generate revenues sufficient to pay debt service on the Bonds.

LPCA obtained a Phase I Environmental Site Assessment with respect to the Charter Schools. According to the report, no recognized environmental conditions were revealed. In addition, eScreenLogic was commissioned to identify the potential presence of asbestos containing material ("ACM") at the Mesquite West Campus. eScreenLogic identified, in accordance with EPA NESHAP regulation 40 CFR Part 6, ACM at the Mesquite West Campus in the form of Vinyl Floor Tile and Black Mastic. eScreenLogic determined that the Vinyl Floor Tile and Black Mastic required removal and disposal. Such Vinyl Floor Tile and Black Mastic was removed and disposed in accordance with the recommendations of eScreenLogic. See "**APPENDIX A – LPCA CHARTER SCHOOL DISTRICT – Environmental Matters**". A copy of the Phase I Environmental Site Assessment and the ACM report are available from the Underwriter during the offering period for the Bonds. The report prepared in connection with the Phase I Environmental Site Assessment speaks only as of its date, and no additional assessments have been requested or performed. Potential purchasers should refer to complete copies of the reports for additional information.

### **Limited Remedies After Default**

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

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

The enforceability of the rights and remedies of the registered owners may further be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors. See "**Potential Effects of Bankruptcy**" herein.

### **Potential Effects of Bankruptcy**

The legal right and practical ability of the Bond Trustee to enforce rights and remedies under the Loan Agreement and the Master Indenture may be limited by laws relating to bankruptcy, insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditors' rights. Enforcement of such rights and remedies may require judicial actions that are subject to discretion and delay, that otherwise may not be readily available or that may be limited by certain legal principles.

Upon the bankruptcy of LPCA, the rights and remedies of the holders of the Bonds are subject to various provisions of the federal Bankruptcy Code. If LPCA were to file a petition in bankruptcy, payments made by LPCA during the 90-day (or perhaps one-year) period immediately preceding the filing of such petition may be voidable as preferential transfers to the extent such payments allow the recipients to receive more than they would have received in the event of any such debtor's liquidation. Security interests and other liens granted to the Bond Trustee or Master Trustee and perfected during such preference period also may be voided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such perfection. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against LPCA and its property and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property as well as various other actions to enforce, maintain or enhance the rights of the Bond Trustee or the Master Trustee. The rights of the Bond Trustee or Master Trustee to enforce any security interests it may have could be delayed during the pendency of the rehabilitation proceeding.

If LPCA becomes the subject of a bankruptcy petition, it could file a plan of reorganization for the adjustment of its debts, which could include provisions modifying or altering the rights of creditors generally or any class of them, secured or unsecured. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and, with certain exceptions, discharges all claims against the debtor to the extent provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are conditions that the plan is feasible and that it shall have been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the class cast votes in its favor. 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. Moreover, there is no assurance that certain covenants, including tax covenants contained in the Loan Agreement or other documents would survive. Accordingly, LPCA as debtor in possession, or a bankruptcy trustee appointed by the Bankruptcy Court could take action that would adversely affect the exclusion of interest on the Series 2018A Bonds from gross income for federal income tax purposes. Furthermore, LPCA's charter contract is subject to adverse action by the State, including loss of accreditation as a public school,

suspension of operations, suspension of or delays to State funding and revocation or non-renewal in the event of a bankruptcy filing.

The various legal opinions delivered concurrently with the issuance of the Bonds are qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings, policies and decisions affecting remedies and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors' rights or the enforceability of certain remedies or document provisions.

### **Certain Matters Relating to Enforceability of the Master Indenture**

The obligations of LPCA under the Master Notes will be limited to the same extent as the obligations of debtors typically are affected by bankruptcy, insolvency and the application of general principles of creditors' rights and as additionally described above.

The obligations described herein of LPCA to make payments of debt service on Master Notes issued under the Master Indenture (including transfers in connection with voluntary dissolution or liquidation) may not be enforceable to the extent enforceability may be limited by applicable bankruptcy, moratorium, reorganization or similar laws affecting the enforcement of creditors' rights and by general equitable principles

### **Limitation on Security**

The lien granted under the Deed of Trust provides limited security. Property that is subject to the Deed of Trust consists of educational facilities. Consequently, it could be difficult to find a buyer or lessee for the property, and, upon default, the Master Trustee may not obtain an amount equal to the aggregate liabilities of LPCA (including liabilities in respect of the Bonds then outstanding) from the sale or lease of the property, whether pursuant to a judgment against LPCA or otherwise.

The effectiveness of the security interest in LPCA's Adjusted Revenues granted in the Master Indenture may be limited by a number of factors, including: (i) federal bankruptcy laws which would, among other things, preclude enforceability of the security interest as to revenues arising subsequent to the commencement of bankruptcy proceedings and limit such enforceability as to revenues arising prior to such commencement to the extent a security interest therein would constitute a voidable preference or fraudulent conveyance, (ii) rights of third parties in cash, securities and instruments arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction and rights of donors of property, (v) claims that might obtain priority if continuation statements or financing statement amendments are not filed in accordance with applicable laws, (vi) the rights of holders of prior perfected security interests in equipment and other goods owned by LPCA and in the proceeds of sale of such property, and (vii) statutory liens. Accordingly, such security interest is expected to provide only limited value upon an event of default.

### **Additional Debt**

The Master Indenture permits the issuance of additional Debt on parity with the Series 2018 Notes if certain conditions are met. See **"SECURITY FOR THE BONDS — Master Notes and the Master Indenture — Additional Debt"** and **"APPENDIX F — SUBSTANTIALLY FINAL FORMS OF THE MASTER INDENTURE, THE BOND INDENTURE AND THE LOAN AGREEMENT — MASTER INDENTURE."** Although LPCA has no current plans to issue additional Debt, it does have relatively aggressive growth plans, and such growth plans could be financed with additional Debt. See **"APPENDIX A — LPCA CHARTER SCHOOL DISTRICT — History, Growth Strategy and Other Information Relating to LPCA and the Charter Schools — Growth Strategy."** 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 Series 2018A Bonds**

The Code imposes a number of requirements that must be satisfied in order for interest on state and local obligations, such as the Series 2018A 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”) as well as other requirements. The Issuer and LPCA have agreed that they will comply with all such requirements. Failure to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of the interest on the Series 2018A 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. Neither the Issuer nor LPCA has sought to obtain a private letter ruling from the IRS with respect to the Series 2018A Bonds and the opinion of Bond Counsel is not binding on the IRS. There is no assurance that any IRS examination of the Series 2018A Bonds will not adversely affect the market value of the Series 2018A Bonds. See “**TAX MATTERS.**”

If a Determination of Taxability (as defined in the Bond Indenture) were to occur, the Series 2018A 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 150 days following receipt of notice by the Trustee of such determination, subject to certain conditions and notice requirements. See “**THE BONDS — Redemption Provisions — The Series 2018A 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 Series 2018A Bonds to be subject, directly or indirectly, to federal income taxation or state income taxation, or otherwise prevent the beneficial owners of the Series 2018A 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 Series 2018A 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 Series 2018A Bonds. Prospective purchasers of the Series 2018A 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 LPCA**

The tax-exempt status of the Series 2018A Bonds depends, in part, upon maintenance by LPCA 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; some such transactions are described in 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. Loss of tax-exempt status by LPCA could result in loss of tax exemption of the Series 2018A Bonds, loss of LPCA’s open-enrollment charter and defaults in covenants regarding the Series 2018A Bonds and other obligations would likely be triggered. Loss of tax-exempt status by LPCA could also result in substantial tax liabilities on its income. For these reasons, loss of tax-exempt status of LPCA could have material adverse consequences on the financial condition of LPCA.

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. The 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 LPCA 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, 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, LPCA 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.

LPCA 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 could adversely affect the tax-exempt status of LPCA, the exclusion from gross income for federal income tax purposes of the interest on the Series 2018A Bonds and any other tax-exempt debt issued for benefit of LPCA.

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

Failure of the Issuer to comply with certain covenants contained in the Bond Indenture or of LPCA with certain covenants in the Loan Agreement and in other arrangements relating to the Bonds 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 LPCA of federal tax exemption also would trigger a challenge to the State or local tax exemption of LPCA. 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 LPCA by requiring LPCA 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*”). LPCA 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 LPCA as well as the exclusion from gross income for federal income tax purposes of the interest payable on the Bonds.

### **Eligible Purchasers of the Bonds; Restrictions on Transfer; Secondary Market**

Unless the Bonds have received an Investment Grade Credit Rating, the Bonds may be transferred only to an “accredited investor” as that term is defined in Rule 501 of Regulation D under the Securities Act of 1933, as amended (the “Securities Act”) or a “qualified institutional buyer” as that term is defined under Rule 144A of the Securities Act. On the date of initial delivery, initial purchasers of the Bonds will be required to execute a letter substantially in the form attached hereto as **APPENDIX H**.

There is no assurance that the Bonds will at any time be rated. There can be no assurance that a market for the Bonds will develop, or that investors will be able to resell the Bonds at the offering price or at any price. 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 Underwriter intends but is not obligated to make a market in the Bonds.

See “**THE BONDS – Transfer Restrictions**” and “**APPENDIX H – FORM OF INVESTOR LETTER**” herein.

## 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.

## 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 Limited Offering Memorandum. 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 August 15, 2018, and on each February 15 and August 15 thereafter until the earlier of maturity or redemption.

The Bonds will be initially issued in book-entry only form, as discussed under “**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 principal denominations of \$25,000 and integral multiples of \$5,000 in excess thereof unless the Bonds have received an Investment Grade Credit Rating, in which case principal denominations shall be reduced to \$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 last business day of the calendar month preceding the interest payment date (the “*Record Date*”). Upon written request of a registered owner of at least \$1,000,000 in principal amount of Bonds, all payments of principal, premium, if any, and interest on Bonds will be paid by wire transfer (at the risk and expense of such registered owner) in immediately available funds to an account in the United States designated by such registered owner upon written notice before a Record Date to the 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**.”

### Redemption Provisions

The Series 2018A Bonds. The Series 2018A Bonds are subject to redemption as described below:

**Optional Redemption.** The Series 2018A Bonds maturing on or after August 15, 2027 are subject to optional redemption prior to scheduled maturity, in whole or in part, on the optional redemption dates set forth below at the redemption prices equal to the percentage of the principal amount thereof set forth opposite each optional redemption date plus accrued interest to the date fixed for redemption:

Optional Redemption Date	Redemption Price
February 15, 2023	105%
February 15, 2024	104%
February 15, 2025	103%
February 15, 2026	102%
February 15, 2027	101%
February 15, 2028 and thereafter	100%

**Mandatory Sinking Fund Redemption.** The Series 2018A Bonds are subject to mandatory sinking fund redemption in part prior to maturity with funds from the 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:

**SERIES 2018A TERM BOND MATURING  
AUGUST 15, 2027**

<u>Principal Amount*</u>	<u>Redemption Date August 15</u>
\$10,000	2020
605,000	2021
640,000	2022
670,000	2023
705,000	2024
745,000	2025
785,000	2026
825,000 <sup>(1)</sup>	2027

<sup>(1)</sup> Paid at stated maturity.

**SERIES 2018A TERM BOND MATURING  
AUGUST 15, 2037**

<u>Principal Amount*</u>	<u>Redemption Date August 15</u>
\$870,000	2028
920,000	2029
975,000	2030
1,035,000	2031
1,095,000	2032
1,160,000	2033
1,230,000	2034
1,305,000	2035
1,385,000	2036
1,465,000 <sup>(1)</sup>	2037

<sup>(1)</sup> Paid at stated maturity.

**SERIES 2018A TERM BOND MATURING  
AUGUST 15, 2047**

<u>Principal Amount*</u>	<u>Redemption Date August 15</u>
\$1,555,000	2038
1,650,000	2039
1,745,000	2040
1,850,000	2041
1,965,000	2042
2,080,000	2043
2,205,000	2044
2,340,000	2045
2,480,000	2046
2,625,000 <sup>(1)</sup>	2047

<sup>(1)</sup> Paid at stated maturity.

The principal amount of the Series 2018A 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 (i) have been purchased and delivered to the Trustee for cancellation, (ii) have been purchased and canceled by the Trustee with funds furnished for such purpose, in each case at a purchase price not exceeding the principal amount of such Bonds plus accrued interest to the date of purchase thereof or (iii) have been redeemed pursuant to the optional redemption provision described above.

***Mandatory Redemption Upon Determination of Taxability.*** The Series 2018A Bonds will be redeemed in whole prior to maturity on a date selected by LPCA that 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.

“*Determination of Taxability*,” as used herein, means a determination that the interest income on any of the Series 2018A 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 Series 2018A 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, technical advice memorandum or any other written communication or that there has occurred a ruling or decision of a court of competent jurisdiction with or to the effect that the interest income on any of the Series 2018A Bonds does not qualify as such exempt interest; or (c) the date on which LPCA 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, LPCA 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) that asserts that the interest on any of the Series 2018A Bonds does not qualify as such exempt interest.

***Extraordinary Optional Redemption.*** The Series 2018A Bonds are subject to extraordinary redemption, at the option of the Issuer upon the request of LPCA, at a redemption price of par plus interest accrued thereon to the redemption date, without premium, on any date, in the event the Project is damaged, destroyed, or condemned or threatened to be condemned, (i) in whole, if, in accordance with the terms of the Loan Agreement, the Project 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 LPCA pursuant to the Loan Agreement, will be sufficient to pay the Series 2018A Bonds in full, or (ii) in part, after reconstruction, repair, or replacement of the Project in accordance with the terms of the Loan Agreement, from excess insurance or condemnation proceeds transferred from the Construction Fund established pursuant to the Bond Indenture to the Debt Service Fund established pursuant to the Bond Indenture for such purpose.

**The Series 2018B Bonds.** The Series 2018B Bonds are subject to redemption as described below:

***Optional Redemption.*** The Series 2018B Bonds are not subject to optional redemption prior to scheduled maturity.

***Mandatory Sinking Fund Redemption.*** The Series 2018B Bonds are subject to mandatory sinking fund redemption in part prior to maturity with funds from the Debt Service Fund, at a redemption price equal to the principal amount thereof plus interest accrued thereon to the mandatory sinking fund redemption date, on the dates, and in the principal amounts shown in the following schedule:

**SERIES 2018B TERM BOND MATURING  
AUGUST 15, 2020**

<u>Principal Amount*</u>	<u>Redemption Date</u> <u>August 15</u>
\$530,000	2019
565,000 <sup>(1)</sup>	2020

<sup>(1)</sup> Paid at stated maturity.

The principal amount of the Series 2018B 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 have been (i) purchased and delivered to the Trustee for cancellation, (ii) purchased and canceled by the Trustee with funds furnished for such purpose, in each case at a purchase price not exceeding the principal amount of such Bonds plus accrued interest to the date of purchase thereof or (iii) redeemed pursuant to the optional redemption provision described above.

***Extraordinary Optional Redemption.*** The Series 2018B Bonds are subject to extraordinary redemption, at the option of the Issuer upon the request of LPCA, at a redemption price of par plus interest accrued thereon to the redemption date, without

premium, on any date, if the Project is damaged, destroyed, or condemned or threatened to be condemned, (i) in whole, if, in accordance with the terms of the Loan Agreement, the Project is not reconstructed, repaired or replaced upon the change or destruction thereof, from insurance or condemnation proceeds transferred from the Construction Fund 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 LPCA pursuant to the Loan Agreement, will be sufficient to pay the Series 2018B Bonds in full, or (ii) in part, after reconstruction, repair, or replacement of the Project in accordance with the terms of the Loan Agreement, from excess insurance or condemnation proceeds transferred from the Construction Fund 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 Trustee in accordance with the written direction of LPCA; *provided, however*, that portions of the Bonds will be redeemed in Authorized Denominations; and *provided further*, that no redemption will result in an outstanding Bond being held in less than an Authorized Denomination.

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

**Notice of Redemption.** At least 30 days prior to the date fixed for any redemption of the Bonds, but not more than 60 days prior to any redemption date, the Trustee will cause a written notice of such redemption to be mailed by first class mail, postage prepaid, to the 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 Trustee. Any notice mailed as provided herein will be conclusively presumed to have been given, irrespective of whether or not received. By the date fixed for any such redemption, due provision is required to be made with the Trustee and the Paying Agent 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 and in accordance with the Bond Indenture. 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).

## **Transfer Restrictions**

THE BONDS MAY BE PURCHASED ONLY BY AND MAY BE TRANSFERRED ONLY TO AN "ACCREDITED INVESTOR" AS THAT TERM IS DEFINED IN RULE 501 OF REGULATION D UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A PROMULGATED UNDER THE SECURITIES ACT. ON THE DATE OF INITIAL DELIVERY, INITIAL PURCHASERS OF THE BONDS WILL BE REQUIRED TO EXECUTE A LETTER GENERALLY IN THE FORM ATTACHED HERETO AS APPENDIX H. THE PURCHASE RESTRICTIONS DESCRIBED IN THIS PARAGRAPH APPLY TO INITIAL PURCHASERS OF THE BONDS AND TO ALL SUBSEQUENT SALES OR TRANSFERS OF THE BONDS. ON THE DATE OF INITIAL DELIVERY, INITIAL PURCHASERS OF THE BONDS WILL BE REQUIRED TO EXECUTE A LETTER SUBSTANTIALLY IN THE FORM ATTACHED HERETO AS **APPENDIX H**. THE BOND INDENTURE UNDER WHICH THE BONDS WILL BE ISSUED CONTAINS PROVISIONS LIMITING TRANSFERS OF THE BONDS. IN ADDITION, THE FACE OF EACH BOND WILL CONTAIN A LEGEND INDICATING THAT IT IS SUBJECT TO TRANSFER RESTRICTIONS AS SET FORTH IN THE BOND INDENTURE.

The foregoing limitation shall cease to apply (without notice to or consent of any holders of the Bonds) upon and after receipt by the Trustee from LPCA of a rating letter evidencing the receipt of an Investment Grade Credit Rating for the Bonds from a nationally recognized investment rating firm. The Trustee shall as soon as practicable, but in no event more than ten (10) calendar days after receipt by the Trustee of such information, notify each holders of the Bonds that (i) the restrictions set forth in this Indenture requiring that the Beneficial Owners of the Bonds by "Qualified Institutional Buyers" or "Accredited Investors" shall be

of no further force or effect and (ii) the Authorized Denominations henceforth shall be \$5,000 and any integral multiple in excess thereof.

In the event the limitation set forth in clause (a) ceases to apply, the Trustee shall provide, or cause to be provided, to the Municipal Securities Rulemaking Board through its EMMA system (or such other electronic system designated by the Municipal Securities Rulemaking Board) a notice in a timely manner not in excess of ten (10) business days after the occurrence of such event.

## SECURITY FOR THE BONDS

### General

The Bonds are limited revenue obligations of the Issuer payable solely from revenues to be derived from the Loan Agreement, the Series 2018 Notes, 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. As further security for the Bonds, LPCA shall grant to the Master Trustee the lien of the Deed of Trust. See “— **Deed of Trust**.”

NEITHER THE STATE NOR A STATE AGENCY OR POLITICAL SUBDIVISION OF THE STATE, INCLUDING THE TOWN OF NEW HOPE, TEXAS, 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 TOWN OF NEW HOPE, TEXAS, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS.

### Master Notes and the Master Indenture

To evidence its obligations under the Loan Agreement, LPCA will execute and deliver to the Trustee, as the assignee of the Issuer, the Series 2018 Notes in a principal amount equal to the principal amount of the Bonds. Payments under the Series 2018 Notes are scheduled to be made at the times and in the amounts required to pay debt service on the Bonds and will be credited against the Loan Payments required to be made by LPCA under the Loan Agreement.

The Series 2018 Notes are duly authorized promissory notes of LPCA issued pursuant to and secured by the Master Indenture. Additional Master Notes may be issued under the Master Indenture in the future, and such Master Notes may be secured on a parity with or subordinate to the Series 2018 Notes.

Under the Master Indenture, all of the Master Notes are equally and ratably secured by the pledge and assignment of a security interest in the Trust Estate. See “**APPENDIX F – SUBSTANTIALLY FINAL FORMS 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 LPCA except items which by their terms or by reason of applicable law would be void or voidable if granted by LPCA, 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 LPCA;
- (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, deposit accounts, general intangibles, contract rights and related rights of LPCA, 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 LPCA or by anyone on its behalf to the Master Trustee, subject to the terms thereof, including, without limitation, funds of LPCA held by the Master Trustee as security for the Master Notes;

- (v) the real and personal property subject to the lien of the Deed of Trust; and
- (vi) proceeds of the foregoing, including cash proceeds and cash equivalents, products, accessions and replacements.

In addition, the Trust Estate under the Master Indenture includes all goods, documents, instruments, tangible and electronic chattel paper, letter of credit rights, investment property, accounts, deposit accounts, 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 LPCA directly related to the Charter, including but not limited to state revenues, federal and local funds for school lunches and other food programs, special education, and transportation, including accounts receivable and rights to receive the same plus investment and other income of LPCA 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. Notwithstanding any provision herein to the contrary, State revenues received by LPCA will be used in accordance with Section 12.107(a), Texas Education Code.

## Revenue Fund

The Master Indenture provides for the creation of a Revenue Fund, which contains a principal account and an interest account. Upon a payment Event of Default under the Master Indenture, LPCA 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 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 5<sup>th</sup> 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 Interest Payment Date taking into account with respect to each such payment (i) any other money actually available in the Principal Account for such purpose and (ii) any credit against amounts due on each Interest Payment Date granted pursuant to other provisions of the Master Indenture; *provided, however*, that to the extent available, the transfer made on the 5<sup>th</sup> business day before the end of each month immediately preceding such Interest Payment Date shall be in an amount to provide, together with amounts then on deposit in the Principal Account, the balance of the principal maturing or subject to mandatory sinking fund redemption on such Interest Payment Date. There shall be paid from the Principal Account equally and ratably to the Holder of each instrument evidencing a Master Note the amount of principal payments due on each Master Note, whether at maturity or earlier mandatory redemption (other than by reason of acceleration of maturity or other demand for payment), as such principal becomes due;



- 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 LPCA, the amount specified in a request of LPCA as the amount of ordinary and necessary expenses of LPCA 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 LPCA at its depository bank upon request for deposit in a deposit account of LPCA that is subject to a Deposit Account Control Agreement to be used for any lawful purpose.

#### **Additional Debt**

Under the Master Indenture, additional parity Debt payable from the Adjusted Revenues of LPCA may be delivered pursuant to the Master Indenture 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; *provided that* the terms of any Supplemental Master Indenture may expressly relinquish any right to any of the collateral provided in the Trust Estate (in which case it shall only be entitled to its pro rata share of the collateral which has not been relinquished); and
- (iii) (A) an Officer's Certificate is delivered stating that, for either LPCA'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 1.10 times Annual Debt Service on all Debt then Outstanding; and (B) an Officer's Certificate setting forth projections which indicate that the estimated Available Revenues are equal to at least 1.20 times the Maximum Annual Debt Service for all Debt then Outstanding including the proposed additional Debt to be incurred, in the fiscal year immediately following the completion of the Project being financed. The Officer's Certificate shall take into account (1) the audited results of operations and verified enrollment of the facilities for the most recently completed Fiscal Year and (2) the projected enrollment for the Fiscal Year immediately following the completion of the facilities to be financed, and shall assume that the proposed additional Debt shall have been outstanding for the entire year.

In lieu of the requirements of Section (iii) above, LPCA may deliver to the Master Trustee 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.

So long as any Debt is secured by the lien of the Deed of Trust upon any real property of LPCA, LPCA is required to obtain and provide to the Master Trustee an endorsement to the existing title insurance policy or a new title insurance policy issued in connection with the Debt increasing the coverage thereunder by an amount equal to the aggregate principal amount of the additional Debt which is secured by the Deed of Trust.

Under the Master Indenture, if additional Debt is being issued for the purpose of refunding any Outstanding Debt, the report required by **clause (iii)** 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 Projects (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 Projects upon delivery of an Officer's Certificate that such additional Debt is required to fund the costs of completion and such additional Debt is not required to comply with the coverage provisions above; *provided that* such additional Debt must comply with any applicable requirements imposed by the Related Bond Indenture and Related Loan Documents (as defined in the Master Indenture).

Under the Master Indenture, LPCA reserves the right to issue and incur Debt that is not secured by a lien on either Available Revenues or Adjusted Revenues. Such Debt may be secured by a lien on all or any portion of the assets financed therewith.

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

Under the Loan Agreement, LPCA covenants that as long as the related Bonds remain outstanding, its Available Revenues for each fiscal year will be equal to at least 1.10 times the Annual Debt Service Requirements of LPCA. If LPCA does not maintain Available Revenues for any fiscal year ending on or after August 31, 2019, of at least 1.10 times the Annual Debt Service Requirements during such fiscal year, then, LPCA will, at its sole expense, promptly employ an Independent Management Consultant to review and analyze the operations and administration of LPCA, inspect the facilities of LPCA and submit to LPCA and the Trustee written reports, and make such recommendations as to the operation and administration of LPCA as such Independent Management Consultant deems appropriate, including any recommendation as to revision of the methods of operation. LPCA agrees to consider any recommendations by the Independent Management Consultant and, to the extent legally permissible, will consider any recommendations to the fullest extent practicable, and to adopt and carry out such recommendations. Notwithstanding the preceding sentence, if the debt service coverage ratio falls below 1.00 times the Annual Debt Service Requirements of LPCA, it shall constitute a default under the Loan Agreement.

### **Liquidity**

Under the Loan Agreement, LPCA covenants to maintain commencing with (i) the Fiscal Year ending August 31, 2019, not less than forty (40) Days Cash on Hand and (ii) the Fiscal Year ending August 31, 2020 and thereafter, not less than forty-five (45) Days Cash on Hand. LPCA's Days Cash on Hand shall be tested on and as of August 31 of each year, commencing August 31, 2019, and LPCA shall provide a certificate to the Master Trustee within 30 days of completion of the audit of LPCA's financial statements for the applicable Fiscal Year evidencing that LPCA's Days Cash on Hand met the requirement described above. The foregoing is subject to the qualification that if applicable State or federal laws or regulations, or the rules and regulations of the agencies having jurisdiction, shall not permit LPCA to maintain such level of Days Cash on Hand, then LPCA shall, in conformity with the then prevailing laws, rules or regulations, maintain its Days Cash on Hand equal to the maximum permissible level.

(a) If LPCA's Days Cash on Hand is less than forty (40) days for the Fiscal Year ending August 31, 2019 and forty-five (45) Days Cash on Hand for Fiscal Year ending August 31, 2020 and thereafter, LPCA shall promptly (i.e., within 45 days) employ at its sole cost and expense an independent Management Consultant to review and analyze the operations and administration of LPCA, inspect LPCA's facilities, and promptly submit to LPCA and the Master Trustee written reports, and make such recommendations, as to the operation and administration of LPCA as such independent Management Consultant deems appropriate, including any recommendation as to a revision of the methods of operation and administration thereof. LPCA agrees to consider any recommendations by the independent Management Consultant and, to the fullest extent practicable, to adopt and carry out such recommendations.

(b) So long as LPCA is otherwise in full compliance with its obligations under the Bond Documents, including following, to the fullest extent practicable, the recommendations of the independent Management Consultant, it shall not constitute an Event of Default if the Days Cash on Hand for any testing date is less than forty (40) days for the Fiscal Year ending August 31, 2019 and forty-five (45) Days Cash on Hand for Fiscal Year ending August 31, 2020 and thereafter, as applicable, except to the extent such Days Cash on Hand is less than forty (40) days for the Fiscal Year ending August 31, 2019 and forty-five (45) Days Cash on Hand for Fiscal Year ending August 31, 2020 and thereafter for two consecutive Fiscal Years.

"Days Cash on Hand" means, as of any date of determination, the product obtained by multiplying 365 by the quotient determined by dividing (a) all unrestricted cash, cash equivalents, liquid investments and unrestricted marketable securities (valued at the lower of cost or market) of LPCA (less cash restricted for debt service on Debt of LPCA) as reported in LPCA's most recent audited financial statements by (b) the total Expenses of LPCA plus interest expense on Debt, in each case for the prior Fiscal Year.

### **Charter**

LPCA has covenanted to maintain and renew its Charter. In the event LPCA's Charter expires, is revoked or terminated, LPCA has agreed that it shall provide to the Master Trustee within thirty (30) days of the notification of such expiration, termination or revocation by the TEA a detailed written report of all action taken or to be taken to address and correct such expiration, termination or revocation. In the event LPCA fails to meet the TEA standards for the second consecutive time, LPCA agrees that it shall (i) engage an independent consultant with expertise in the operation and management of the academic and financial affairs of charter schools and (ii) within thirty (30) of such engagement provide to the Master Trustee a detailed written report of such independent consultant of all action taken or to be taken to address and correct such expiration, termination or revocation. If (i) the Charter remains expired, revoked or terminated, (ii) LPCA has exhausted its administrative remedies for reinstatement or renewal in the State and (iii) LPCA is unable to qualify as an "accredited primary or secondary school," as such term is defined in

Section 53A.02 of the Texas Education Code, and continue operations in the State, then such expiration, revocation or termination is an Event of Default under the Loan Agreement.

### **Disposition of Assets**

***Property and Equipment (“P&E”).*** No P&E of LPCA may be sold or otherwise disposed of unless (i) the P&E is obsolete or worn out, (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 5% of the total market value of all P&E of LPCA.

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

### **The Bond Indenture**

Under the Bond Indenture, the Issuer will grant to the 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 2018 Notes, any and all security granted or held for the payment thereof, and the present and continuing right to bring actions and proceedings under the Loan Agreement or for the enforcement thereof and to do any and all things which the Issuer is or may become entitled to do thereunder, but excluding certain amounts agreed to be paid by LPCA noted in such Loan Agreement (the “*Issuer’s Unassigned Rights*”), (ii) all money and investments held for the credit of the funds and accounts established by or under the Bond Indenture (except the Rebate Fund) as described in such 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 – SUBSTANTIALLY FINAL FORMS 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 Trustee is required to deposit to the credit of the corresponding account of the Debt Service Fund immediately upon receipt: (i) amounts due and payable by LPCA pursuant to the terms of the Loan Agreement and the Series 2018 Notes, (ii) any other amounts required by the Bond Indenture, and (iii) any other amounts delivered to the Trustee for deposit thereto. On each Interest Payment Date, the Trustee will withdraw money from the account of the Debt Service Fund to pay the principal and interest due on the Bonds.

### **The Loan Agreement**

The Bonds are payable from and secured in part by a pledge and assignment to the Trustee of the Issuer’s rights under the Loan Agreement and the rights of the Issuer to receive loan payments thereunder (excluding certain fees and expenses and certain indemnity payments payable to the Issuer). Pursuant to the Loan Agreement, LPCA 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 – SUBSTANTIALLY FINAL FORMS OF THE MASTER INDENTURE, THE BOND INDENTURE AND THE LOAN AGREEMENT – THE LOAN AGREEMENT.**”

### **Deed of Trust**

LPCA shall execute a Deed of Trust encumbering the Charter Schools. The lien of the Deed of Trust will be in favor of the Master Trustee for the benefit of the holders of the Master Notes. Pursuant to the Deed of Trust, LPCA will pledge, among other things, the fee property on which the Charter Schools are located, the buildings and improvements located thereon and the fixtures, equipment and supplies. Pursuant to the Deed of Trust, LPCA may sell the collateral currently pledged under the Deed of Trust, provided that LPCA is not then in default under the Bond Documents or the Master Indenture, the sale is for fair market value, the consideration is cash or cash equivalents and the amounts received from the sale, together with other funds of LPCA, if any, are sufficient to defease or redeem all of the Outstanding Bonds, and are in fact used to defease or redeem all of the Outstanding Bonds. See “**APPENDIX D — SUBSTANTIALLY FINAL FORMS OF THE MASTER INDENTURE, THE BOND INDENTURE AND THE LOAN AGREEMENT.**”

LPCA has covenanted in the Master Indenture that it will not create or allow any liens to exist on any of its real property, personal property or equipment included in the Deed of Trust, except as permitted by the Deed of Trust.

## DEBT SERVICE REQUIREMENTS

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

<b>Period Ending August 31</b>	<b><u>Series 2018A</u></b>		<b><u>Series 2018B</u></b>		<b><u>Total</u></b>
	<b><u>Principal*</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	
2018	-	\$1,052,609	-	\$30,432	\$1,083,041 <sup>(1)</sup>
2019	-	2,177,812	\$530,000	62,963	2,770,775
2020	\$10,000	2,177,812	565,000	32,488	2,785,300
2021	605,000	2,177,288	-	-	2,782,288
2022	640,000	2,145,525	-	-	2,785,525
2023	670,000	2,111,925	-	-	2,781,925
2024	705,000	2,076,750	-	-	2,781,750
2025	745,000	2,039,738	-	-	2,784,738
2026	785,000	2,000,625	-	-	2,785,625
2027	825,000	1,959,413	-	-	2,784,413
2028	870,000	1,916,100	-	-	2,786,100
2029	920,000	1,863,900	-	-	2,783,900
2030	975,000	1,808,700	-	-	2,783,700
2031	1,035,000	1,750,200	-	-	2,785,200
2032	1,095,000	1,688,100	-	-	2,783,100
2033	1,160,000	1,622,400	-	-	2,782,400
2034	1,230,000	1,552,800	-	-	2,782,800
2035	1,305,000	1,479,000	-	-	2,784,000
2036	1,385,000	1,400,700	-	-	2,785,700
2037	1,465,000	1,317,600	-	-	2,782,600
2038	1,555,000	1,229,700	-	-	2,784,700
2039	1,650,000	1,136,400	-	-	2,786,400
2040	1,745,000	1,037,400	-	-	2,782,400
2041	1,850,000	932,700	-	-	2,782,700
2042	1,965,000	821,700	-	-	2,786,700
2043	2,080,000	703,800	-	-	2,783,800
2044	2,205,000	579,000	-	-	2,784,000
2045	2,340,000	446,700	-	-	2,786,700
2046	2,480,000	306,300	-	-	2,786,300
2047	2,625,000	157,500	-	-	2,782,500
Total:	\$36,920,000	\$43,670,197	\$1,095,000	\$125,883	\$81,811,079

<sup>(1)</sup> Represents capitalized interest.

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## STATE FUNDING FOR TRADITIONAL SCHOOL DISTRICTS

### Background on State Funding for Traditional School Districts

The following is a description of the system of State funding for traditional school districts in the State (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. For a more complete description of school finance and fiscal management in the State, reference is made to the Texas 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 funding 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 that district’s State funding. The Finance System provides a similar equalization system 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 has not been consistently appropriated by the Legislature.

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 operation (“*M&O*”) tax to pay current expenses and an unlimited interest and sinking fund (“*I&S*”) tax to pay debt service on bonds. Generally, 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 (a few districts can exceed the \$1.17 limit as a result of authorization approved in the 1960s). 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.

### Local Funding for School Districts

The primary source of local funding for school districts is collections from ad valorem taxes levied against 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 2016-17, 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 up to \$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 a tax rate increase through a local referendum, districts may, in general, increase their M&O tax rate up to a maximum M&O tax rate of \$1.17 per \$100 of taxable value and receive State equalization funds for such taxing effort. 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 ADA 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 basic level of funding and 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 biennium. In 2015, the 84th Legislature did appropriate funds in the amount of \$1,445,100,000 for the 2016-17 State fiscal biennium for an increase in the Basic Allotment, EDA, IFA and NIFA support, as further described below.

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 or the 2015-16 school year, 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 2016-17 school year, the Legislature has appropriated \$55.5 million for IFA allotments.

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 years 2015-16 and 2016-17, the Basic Allotment is \$5,140 for each student in ADA. 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 (i.e., guaranteed levels of funding by the State) 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 \$74.28 and \$77.53 per cent of tax effort per weighted student in average daily attendance (“WADA”) for the fiscal year 2015-16 and fiscal year 2016-17, 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 \$1.06 to \$1.17 per \$100 of taxable value) and has a guaranteed yield per cent per WADA of \$31.95 for fiscal years 2015-16 and 2016-17. Property-wealthy school districts that have an M&O tax rate that exceeds the district’s compressed tax rate plus six cents are subject to recapture above this tax rate level at the equivalent wealth per student of \$319,500 (see “— **Wealth Transfer Provisions**” below).

Because districts with compressed rates of less than \$1.00 have not been receiving the full Basic Allotment, the 84th Legislature amended the Foundation School Program to enable some districts (known as “fractionally funded districts”) to increase their Tier 1 participation by moving the district’s local tax effort that would be equalized under Tier Two at \$31.95 per penny to the Tier 1 Basic Allotment. The compressed tax rate of a school district that adopted a 2005 M&O Tax Rate below the maximum \$1.50 tax rate for the 2005 tax year can now include the portion of a district’s current M&O tax rate in excess of the first six cents above the district’s compressed tax rate until the district’s compressed tax rate is equal to the state maximum compressed tax rate of \$1.00, thereby eliminating the penalty against the Basic Allotment. For these districts, each one cent of M&O tax levy above the district’s compressed tax rate plus six cents, will have a guaranteed yield based on Tier One funding instead of the \$31.95 Tier Two yield for the fiscal year 2015-16 and fiscal year 2016-17. These conversions are optional for each applicable district in the 2015-16 and 2016-17 fiscal years and are automatic beginning in the 2017-18 fiscal year.

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 IFA program and the 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 in 1997. 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 fiscal years 2011-12 through 2015-16, no funds were appropriated for new IFA awards by the Legislature, although all prior awards were funded throughout such periods. The 84th Legislature appropriated funds in the amount of \$55,500,000 for new IFA awards to be made during the 2016-17 fiscal year only.

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.

A district may also qualify for a NIFA allotment, which provides assistance to districts for operational expenses associated with opening new instructional facilities. For the 2012-13 and 2014-15 State fiscal biennia, no funds were appropriated by the Legislature for new NIFA allotments. The 84th Legislature did appropriate funds in the amount of \$23,750,000 for each of the 2015-16 and 2016-17 fiscal years for NIFA allotments.

## **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.

However, in subsequent legislative sessions, the Legislature has gradually reduced the reliance on ASATR by increasing the funding formulas. This phase-out of ASATR began with actions adopted by the 83rd Legislature. Beginning with the 2017-18 school year, the statutes authorizing ASATR are repealed.

## **2017 Legislation**

On January 10, 2017, the 85th Legislature convened in general session, and the legislative session concluded on May 29, 2017 (the “2017 Regular Session”). According to published reports, during the 2017 Regular Session, the Legislature adopted a State budget for 2018-2019 that generally did not make substantial changes to the Finance System or provide additional funding for public school districts. On June 6, 2017, the Governor called a special legislative session, which began on July 18, 2017 and concluded on August 15, 2017 (the “First Special Session”). During the First Special Session the Legislature adopted House Bill 21 (“HB 21”) relating to the Finance System, which was signed into law by the Governor on August 16, 2017. According to published reports, HB 21 provides approximately provides \$212 million of additional funding for the Teacher Retirement System and \$351 million in public school funding for the 2018-2019 State budget consisting of \$60 million in additional EDA funding for school districts, \$60 million in charter school facilities funding for charter schools with acceptable performance ratings; \$150 million for small, rural districts through a transitional grant to offset the upcoming loss of ASATR funding, as described above, \$41 million to remove an existing financial penalty for small districts and \$40 million appropriation for an autism and dyslexia grant program for school districts and charter schools. HB 21 also creates the Texas Commission on Public School Finance to develop and make recommendations for improvements to the Finance System or for new methods of financing public schools. LPCA has not made a comprehensive review of how it may be affected by the 2018-2019 State budget or any other legislation adopted during the 2017 Regular Session or the First Special Session.

LPCA cannot predict whether the Governor will call for additional special legislative session to consider legislation that impacts the Finance System or public schools. If one or more additional special sessions are called, LPCA cannot predict how it will be affected by any legislation that may be adopted.

### **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 2017–18 are set at (i) \$514,000 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). 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.

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 Chapter 41 district’s voters; certain 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 in Texas 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 Regular Program Adjustment Factor the (“*RPAF*”) implemented by the 82nd Legislature to cut the budget for the Foundation School Program 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 LPCA faced reductions in State funding of 4.3% and 8.6% for the 2012 and 2013 fiscal years, respectively. By setting the *RPAF* at 1.00% for the 2014-15 fiscal biennia, the Legislature essentially restored the funding that was previously cut by the 82nd Legislature.

#### **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 Texas Education Agency 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.

Open-enrollment charter schools currently are not entitled to receive any form of State funding to assist with the construction of new facilities. House Bill 21, passed during the first called special session of the 85<sup>th</sup> Legislature held in 2017, provides, effective September 1, 2018, for state aid for instructional facilities capped at \$60 million per year to certain open-enrollment charter schools that have acceptable overall performance ratings or operate school programs located at a day treatment facility, residential treatment facility, psychiatric hospital, or medical hospital.

House Bill 2251 enacted by the 84th Legislature provides charter schools that have experienced a 10% or greater growth in enrollment with the option of an accelerated FSP payment schedule (“Payment Class 5”). Eligibility is determined by comparing a charter school’s first day enrollment reported on the Accelerated Payment Schedule with the charter school’s prior year Fall PEIMS enrollment. Eligible charter schools that choose the accelerated option will receive payments in accordance with the Payment Class 5 schedule for a minimum of three years and may reestablish eligibility every three years. Schools that qualify for Payment Class 5 receive twelve monthly state FSP payments according to the following schedule:

#### % of Annual Allotment

22.0%  
18.0%  
9.5%  
4.0%  
4.0%  
4.0%  
4.0%  
7.5%  
5.0%  
7.0%  
7.0%  
8.0%  
100%

#### **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**

LPCA 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 LPCA may be entitled and to correct errors in the allocation or distribution of funds.

## **Foundation School Program Funding Schedule for Certain Open-Enrollment Charter Schools**

House Bill 2251 (“*HB 2251*”), passed during the 84th Legislature, provides open-enrollment charter schools that have experienced a 10% or greater increase in enrollment from the prior year with the option of an accelerated payment of Foundation School Program funding. Eligible charter schools that choose the accelerated payment schedule prescribed by HB 2251 will receive such payments for three school years and then must reestablish eligibility.

## **CURRENT LITIGATION RELATED TO THE TEXAS PUBLIC SCHOOL FINANCE SYSTEM**

### **Litigation Relating to the Texas Public School Finance System**

On seven occasions in the last thirty years, the Texas Supreme Court (the “*Court*”) has issued decisions assessing the constitutionality of the Finance System. The litigation has primarily focused on whether the Finance System, as amended by the Legislature from time to time (i) met the requirements of article VII, section 1 of the Texas Constitution, which requires the Legislature to “establish and make suitable provision for the support and maintenance of an efficient system of public free schools,” or (ii) imposed a statewide ad valorem tax in violation of article VIII, section 1-e of the Texas Constitution because the statutory limit on property taxes levied by school districts for maintenance and operation purposes had allegedly denied school districts meaningful discretion in setting their tax rates. In response to the Court’s previous decisions, the Legislature enacted multiple laws that made substantive changes in the way the Finance System is funded in efforts to address the prior decisions declaring the Finance System unconstitutional.

On May 13, 2016, the Court issued its opinion in the most recent school finance litigation, *Morath, et.al v. The Texas Taxpayer and Student Fairness Coalition, et al.*, No. 14-0776 (Tex. May 13, 2016) (“*Morath*”). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the Legislature in part in response to prior decisions of the Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Court held that “[d]espite the imperfections of the current school funding regime, it meets minimum constitutional requirements.” The Court also noted that:

Lawmakers decide if laws pass, and judges decide if those laws pass muster. But our lenient standard of review in this policy-laden area counsels modesty. The judicial role is not to second-guess whether our system is optimal, but whether it is constitutional. Our Byzantine school funding “system” is undeniably imperfect, with immense room for improvement. But it satisfies minimum constitutional requirements.

### **Possible Effects of Changes in Law on Public School Obligations**

The Court’s decision in *Morath* upheld the constitutionality of the Finance System but noted that the Financing System was “undeniably imperfect.” While not compelled by the *Morath* decision to reform the Finance System, the Legislature could enact future changes to the Finance System. Any such changes could benefit or be a detriment to independent school districts in the State. If the Legislature enacts future changes to, or fails adequately to fund the Finance System, or if changes in circumstances otherwise provide grounds for a challenge, the Finance System could be challenged again in the future. In its 1995 opinion in *Edgewood Independent School District v. Meno*, 917 S.W.2d 717 (Tex. 1995), the Court stated that any future determination of unconstitutionality “would not, however, affect the district’s authority to levy the taxes necessary to retire previously issued bonds, but would instead require the Legislature to cure the system’s unconstitutionality in a way that is consistent with the Contract Clauses of the U.S. and Texas Constitutions” (collectively, the “*Contract Clauses*”), which prohibit the enactment of laws that impair prior obligations of contracts. As a matter of law, public school obligations, upon issuance and delivery, will be entitled to the protections afforded previously existing contractual obligations under the Contract Clauses.

NEITHER LPCA NOR ANY OTHER PARTY TO THE BOND TRANSACTION CAN MAKE ANY REPRESENTATIONS OR PREDICTIONS CONCERNING THE EFFECT FUTURE CHANGES TO THE SCHOOL FINANCE SYSTEM MAY HAVE ON LPCA’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 Schulman, Lopez, Hoffer & Adelstein, LLP, Houston, Texas, Bond Counsel, in substantially the form of the opinions 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 Locke Lorde LLP, Houston, Texas, as counsel to the Issuer; by Schulman, Lopez, Hoffer & Adelstein, LLP, Houston, Texas, counsel to LPCA and by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, as counsel to the Underwriter.

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**

In connection with the issuance of the Bonds, LPCA 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 LPCA, wherein an unfavorable decision, ruling or finding would adversely affect the transactions contemplated by the Bond Indenture, the Master Indenture, the Loan Agreement, and the bond purchase agreement (referred to in “**MISCELLANEOUS — Underwriting**”), or this Limited Offering Memorandum, 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 LPCA.

In November of 2015, Keith Oser was arrested for and charged with distribution of child pornography. At the time, Mr. Oser was employed as a fifth grade teacher with LPCA. These charges did not relate to any of Mr. Oser employment at LPCA or involve any LPCA students. There is no, and has never been, any litigation, pending or threatened, against LPCA related to Mr. Oser. Mr. Oser is no longer employed by LPCA.

### **No Proceedings Against 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 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 Matter for the Series 2018A Bonds**

#### **Tax Exemption**

Delivery of the Series 2018A Bonds is subject to the opinion of Schulman, Lopez, Hoffer & Adelstein, LLP, Houston, Texas, Bond Counsel, interest on the Series 2018A Bonds is (i) 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 (ii) not included in determining the alternative minimum taxable income of individuals or, except as described below, corporations.

Interest on the Series 2018A 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 Series 2018A Bonds. Such authorities are subject to change and any such change could prospectively or retroactively result in the inclusion of the interest on the Series 2018A 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 opinions, Bond Counsel has assumed continuing compliance by the Issuer and LPCA with certain covenants contained in the Bond Indenture and Loan Agreement and has relied on representations by the Issuer and LPCA with respect to matters solely within the knowledge of the Issuer and LPCA, which Bond Counsel has not independently verified. The covenants and representations relate to, among other things, the use of Bond proceeds and any facilities financed therewith, the source of repayment of the Series 2018A Bonds, the investment of Bond proceeds and certain other amounts prior to expenditure, the maintenance of LPCA's status as an organization described in section 501(c)(3) of the Code, and requirements that excess arbitrage earned on the investment of Bond proceeds and certain other amounts be paid periodically to the United States and that the Issuer file an information report with the IRS. If the Issuer and LPCA should fail to comply with the covenants in the Bond Indenture and Loan Agreement or if their representations relating to the Series 2018A Bonds that are contained in the Bond Indenture and Loan Agreement should be determined to be inaccurate or incomplete, interest on the Series 2018A Bonds could become taxable from the date of delivery of the Series 2018A Bonds, regardless of the date on which the event causing such taxability occurs.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on, or acquisition or disposition of the Series 2018A 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 Board described above. No ruling has been sought from the IRS with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Series 2018A Bonds is commenced, under current procedures the IRS is likely to treat the Issuer as the "taxpayer," and the owners of the Series 2018A 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 Series 2018A Bonds, the Issuer may have different or conflicting interests from the owners of the Series 2018A Bonds. Public awareness of any future audit of the Series 2018A Bonds could adversely affect the value and liquidity of the Series 2018A 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 Series 2018A Bonds, received or accrued during the year.

Prospective purchasers of the Series 2018A Bonds should be aware that the ownership of tax-exempt obligations, such as the Series 2018A 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 Series 2018A Bonds. Bond Counsel expresses no opinion regarding the consequences of investing to such prospective purchaser.

### **Proposed Tax Legislation**

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Series 2018A Bonds to be subject, directly or indirectly, to federal income taxation or state income taxation, or otherwise prevent the beneficial owners of the Series 2018A 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 Series 2018A 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 Series 2018A Bonds. Prospective purchasers of the Series 2018A 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. Bond Counsel expresses no opinion with regard to the impact of on-going or future action taken by various tax authorities upon prospective purchasers.

### **Tax Accounting Treatment of Original Issue Discount Bonds**

Some of the Series 2018A Bonds may be offered at an initial offering price which is less than the stated redemption price at maturity of such Bonds. If a substantial amount of any maturity of the Series 2018A 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 Series 2018A 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 Limited Offering Memorandum.

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. Bond Counsel expresses no opinion regarding tax ramifications of purchasing or selling such Discount Bonds on the secondary market.

### **Tax Accounting Treatment of Original Issue Premium Bonds**

Some of the Series 2018A 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 Series 2018A 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 Series 2018A 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 with respect to a Premium Bond. 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. Bond Counsel expresses no opinion regarding the tax ramifications of purchasing or selling such Premium Bonds on the secondary market.

## CONTINUING DISCLOSURE AGREEMENT

### General

LPCA 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 Underwriter in complying with its obligations pursuant to Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the “*Rule*”). See “**APPENDIX E – FORM OF CONTINUING DISCLOSURE AGREEMENT.**” LPCA entered its continuing disclosure agreement in 2015 in accordance with the Rule. LPCA has not previously entered into a continuing disclosure agreement in accordance with the Rule.

In addition, LPCA has covenanted in the Loan Agreement to provide certain notices on EMMA and to provide an annual investor call within 30 days of its annual disclosure filing under the Continuing Disclosure Agreement. A dissemination agent has not been engaged to assist LPCA with its responsibilities under the Loan Agreement.

## FINANCIAL STATEMENTS

The annual financial report of LPCA, as of August 31, 2017, included in this Limited Offering Memorandum in “**APPENDIX C – FINANCIAL STATEMENTS,**” has been audited by Cunningham, Shavers, Christensen & Wright, L.L.P., Waco, Texas (“*CSCW*”), to the extent and for the periods indicated in their report thereon. Such financial statements have been included in reliance upon the report of CSCW. LPCA is not aware of any facts that would make such financial statements misleading.

## NOT RATED

LPCA has not made an application for either a commitment for municipal bond guaranty insurance or a municipal bond rating on the Bonds. Furthermore, it is not expected that LPCA would have been successful in receiving municipal bond insurance or an investment grade rating on the Bonds.

## MISCELLANEOUS

### Underwriting

Subject to the terms and conditions of a bond purchase agreement (the “*Bond Purchase Agreement*”) entered into by and among the Issuer, LPCA and RBC Capital Markets, LLC (the “*Underwriter*”), the Bonds are being sold by the Issuer to the Underwriter at an underwriting discount of \$607,979.55. Expenses associated with the issuance of the Bonds are being paid from proceeds of the Bonds. The right of the Underwriter to receive compensation in connection with the Bonds is contingent upon the actual sale and delivery of the Bonds. The Underwriter has initially offered the Bonds to the public at the prices set forth on the inside front cover page of this Limited Offering Memorandum. Such prices may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with dealers and other investment banking firms in offering the Bonds to the public.

RBC Capital Markets, LLC (“*RBCCM*”) has provided the following information for inclusion in this Limited Offering Memorandum. RBCCM is a full-service financial institution engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, RBCCM may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). RBCCM may engage in transactions for its own accounts involving the securities and instruments made the subject of this securities offering or other offerings of LPCA. RBCCM may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of LPCA. RBCCM may make a market in credit default swaps with respect to municipal securities in the future.

### Financial Advisor

Specialized Public Finance Inc. (“*Specialized Public Finance*”) is employed as Financial Advisor to LPCA 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. Specialized Public Finance, 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 LPCA has provided the following sentence for inclusion in this Limited Offering Memorandum. The Financial Advisor has reviewed the information in this Limited Offering Memorandum in accordance with, and as part of its responsibilities to LPCA 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.

#### **Additional Information**

The summaries of or references to constitutional provisions, statutes, resolutions, agreements, contracts, financial statements, reports, publications and other documents or compilations of data or information set forth in this Limited Offering Memorandum do not purport to be complete statements of the provisions of the items summarized or referred to and are qualified in their entirety by the actual provisions of such items, copies of which are either publicly available or available upon request and the payment of a reasonable copying, mailing and handling charge from the Underwriter, 200 Crescent Court, Suite 1500, Dallas, Texas 75201.

#### **Certification**

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

#### **LEGACY21, INC. DBA LEGACY PREPARATORY CHARTER ACADEMY**

By: /s/ Byron Ricks  
Board Chair

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**APPENDIX A**

**LPCA CHARTER SCHOOL DISTRICT**

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## GENERAL

Legacy21, Inc. dba Legacy Preparatory Charter Academy (the “LPCA”) is a non-profit corporation that was established under the laws of the State of Texas (the “State”) on November 17, 2010. It is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. It operates a kindergarten through twelfth grade open-enrollment charter school located at 2727 Military Parkway, Mesquite, Texas 75149 and a kindergarten through twelfth grade open-enrollment charter school located at 601 Accent Drive, Plano, Texas 75075 (the “Charter Schools”). LPCA was granted the charter in late 2011 and such charter was renewed in 2017.

In the fall of 2012, LPCA opened three kindergarten through seventh grade campuses located at 8510 Military Parkway, Dallas, Texas 75227 (“Temporary Dallas Campus”), 1515 Blake Drive, Richardson, Texas 75081 (the “Temporary Richardson Campus”) and 790 Windbell Circle, Mesquite, Texas 75149 (the “Temporary Mesquite Campus”), adding an additional grade each year to each campus. In the fall of 2014, the Temporary Richardson Campus was moved to a permanent facility located at 601 Accent Drive, Plano, Texas 75075 (the “Plano Campus”). In the fall of 2015, the Temporary Dallas Campus and the Temporary Mesquite Campus were combined into a permanent facility located at 2727 Military Parkway, Mesquite, Texas 75149 (the “Mesquite West Campus”). For the 2018-19 school year, LPCA intends to add Pre-Kindergarten to both Charter Schools.

LPCA is a sixteenth generation open-enrollment charter school district that its founders created to offer an oasis for at risk children in what is a high crime and poverty stricken area of Dallas/Mesquite area. The campuses are strategically located so that LPCA schools can be centers of information and opportunity for families within the community.

LPCA’s goal is to prepare all students to become college and career ready by promoting individual ownership of the learning process through development of intellectual and emotional independence, while instilling the values needed to become successful leaders in the 21st century. LPCA students are expected to have the opportunity to become well prepared, life-long learners possessing the character, knowledge and wisdom necessary to succeed, lead and contribute to their community and to their fellow man.

LPCA currently serves students in kindergarten through twelfth grades, in both Collin and Dallas County. As of the beginning of the 2017-18 school year, LPCA had a total of 1395 students in kindergarten through twelfth grades, and 89 teachers, 18 educational aids serving those students.

**TABLE 1** below presents certain basic information concerning LPCA Charter Schools currently in operation.

<b>TABLE 1: CHARTER SCHOOLS</b>				
<b>Campus Name</b>	<b>Grades Offered</b>	<b>Enrollment (2017-18)<sup>(1)</sup></b>	<b>Year Opened</b>	<b>Economically Disadvantaged (2017-18)<sup>(1)</sup></b>
<b>Plano Campus</b>	<b>K-12</b>	<b>334</b>	<b>2014-15<sup>(2)</sup></b>	<b>154</b>
<b>Mesquite West Campus</b>	<b>K-12</b>	<b>1042</b>	<b>2015-16<sup>(3)</sup></b>	<b>736</b>
<b>TOTAL ENROLLMENT</b>		<b>1376</b>		<b>890</b>

<sup>(1)</sup> As of October 31, 2017.

<sup>(2)</sup> Opened in 2012-13 school year as the Temporary Richardson Campus.

<sup>(3)</sup> Opened in 2012-13 school year as the Temporary Dallas Campus and Temporary Mesquite Camps. In the fall of 2015, the Temporary Dallas Campus and the Temporary Mesquite Campus were combined into the Mesquite West Campus.

## MISSION, EDUCATIONAL PHILOSOPHY AND CORE VALUES

### Mission and Vision

Mission: LPCA students are reflective, self-reliant and intrinsically motivated citizens capable of impacting their communities by being trailblazers of the future.

Vision: LPCA will develop innovative citizens ready to serve and transform our global society

### Educational Philosophy

LPCA believes that its students deserve the very best public education that LPCA can provide. LPCA’s primary objective is to rigorously prepare each scholar to enter and subsequently succeed in college.

LPCA selects its teachers and staff one by one, recognizing that LPCA cannot provide a great education for its students without seeking and retaining the best possible teachers and school leaders. LPCA's success as educators starts first and foremost with the quality of the teachers in its classrooms. LPCA schools demand and place high expectations on everyone involved, from its students, teachers, staff and board of directors. The dedication of LPCA leadership and staff to the achievement gap, as demonstrated through substantial amounts of real time spent in the classroom, is greater than that found in many other educational institutions. LPCA's uncompromising dedication to making "every second count" when impacting the life of a child is important for LPCA's success.

LPCA believes strongly in the power of scholar-faculty relationships and foster them through its small school sizes and reduced grade level teams. As a result, each teacher has the power to make a real difference in their scholar's lives. LPCA's curriculum must be relevant to the lives of its students, teaching them to be world citizens, tolerant and understanding of how each person is different, yet also recognizing how common values create a compelling need for each person to work together for the greater good. LPCA offers its professionals the opportunity to make a meaningful difference sooner than they might at other organizations. LPCA sufficiently empowers its school leaders with more control and input than that found at other schools in the belief that each leader should have the ability to control their team and their environment.

LPCA is fully accountable to all of its stakeholders, especially the parents of its children and the taxpayers and philanthropic organizations who provide its funding. LPCA measures and reports its results on an ongoing basis to all those who have given LPCA their trust. LPCA expect all members of its school community to maintain high ethical standards, both in their professional responsibilities and in their personal lives. Integrity is not a grey area that can be negotiated nor compromised.

While LPCA takes great pride in the quality of the education that it provides, LPCA also seek to continually reflect and improve upon it by sharing its most successful approaches across each of its schools while also seeking to learn best practices developed at other institutions.

### **Core Values**

LPCA's core values are aligned with the Legacy Preparatory Learner Profile. Legacy learners strive to be:

***Inquirers:*** They develop their natural curiosity. They acquire the skills necessary to conduct inquiry and research and show independence in learning. They actively enjoy learning and this love of learning will be sustained throughout their lives.

***Knowledgeable:*** They explore concepts, ideas and issues that have local and global significance. In so doing, they acquire in-depth knowledge and develop understanding across a broad and balanced range of disciplines.

***Critical Thinkers:*** They exercise initiative in applying thinking skills critically and creatively to recognize and approach complex problems and make reasoned, ethical decisions.

***Collaborators:*** They work well in groups, using norms and holding each other accountable to the required work.

***Communicators:*** They understand and express ideas and information confidently and creatively in more than one language and in a variety of modes of communication. They work effectively and willingly in collaboration with others.

***Principled:*** They act with integrity and honesty, with a strong sense of fairness, justice and respect for the dignity of the individual, groups and communities. They take responsibility for their own actions and consequences that accompany them.

***Open-minded:*** They understand and appreciate their own cultures and personal histories, and are open to the perspectives, values and traditions of other individuals and communities. They are accustomed to seeking and evaluating a range of points of view, and are willing to grow from the experience.

***Caring:*** They show empathy, compassion and respect towards the needs and feelings of others. They have a personal commitment to service, and act to make a positive difference to the lives of others and to the environment.

***Risk-takers:*** They approach unfamiliar situations and uncertainty with courage and forethought, and have the independence of spirit to explore new roles, ideas and strategies. They are brave and articulate in defending their beliefs.

***Balanced:*** They understand the importance of intellectual, physical and emotional balance to achieve personal well-being for themselves and others.

***Reflective:*** They give thoughtful consideration to their own learning and experience. They are able to assess and understand their strengths and limitations in order to support their learning and personal development.

## ACADEMIC CURRICULUM

The LPCA faculty and administration are committed to preparing its students for a global and interconnected world. LPCA utilizes a college preparatory curriculum that emphasizes a rigorous core academic program including Language Arts, Math, Science, Social Studies, Fine Arts, Physical Education, Chinese, and Spanish.

### Project-Based Learning

The LPCA district is members of New Tech Network (NTN), a non-profit organization, that helps students gain the knowledge and deeper learning skills they need to succeed in life, college, and the careers of tomorrow. LPCA works nationwide with schools, districts, and communities to provide services and support that enable schools to fundamentally re-imagine teaching and learning.

Project-based learning (PBL) is at the heart of NTN's instructional approach. In project-based learning, learning is contextual, creative, and shared. students collaborate on projects that require critical thinking and communication. By making learning relevant to them in this way, scholar engagement reaches new levels. This higher level of engagement is associated with better educational outcomes.

Project-based learning thrives on the use of many learning techniques, including: creative, purposeful play, communal activities that encourage teamwork for problem solving, projects that encourage creative innovation, promoting an environment that caters to every kind of learner, and open discussion among students to encourage acceptance and community.

The smart use of technology supports their innovative approach to instruction and culture. All NTN classrooms within LPCA in grades six through twelve have a one-to-one computing ratio. With access to Web-enabled devices and the latest in collaborative learning technology, every scholar Works toward becoming a self-directed learner who no longer needs to rely on teachers or textbooks for knowledge and direction. Echo, NTN's online learning management system, is used to create a vibrant network which helps students, teachers, and parents connect to each other, and to scholar projects across the country. For more information, please visit the NTN main site at [www.newtechnetwork.com](http://www.newtechnetwork.com).

In grades kindergarten through third grades each classroom has a tech center where there are iPads, and/or laptops, which are used daily for the different instructional software programs and learning opportunities. In grades fourth through fifth grades there are classroom sets of laptops so students can access their project work easily.

### Tri-Lingual Opportunities and Programs

LPCA's language immersion programs encourage the development of Chinese, Spanish and English through the use of guided and independent multi-sensory experiences for language and literacy development in an academically challenging, research-based environment across all core content curriculum in order to promote tri-lingualism and tri-literacy. This focus prepares students for a global future by equipping them with an edge toward success in the competitive world of the 21st century. Project-based learning in Chinese, English and Spanish is the foundation of the curriculum used at LPCA.

Kindergarten students receive 90% of their instruction in their native language (L1) in the content areas of Mathematics, Science, and ELAR. They receive 10% of their instruction in a second language (L2) in the content area of Social Studies combined with second language literacy basics. First grade students receive 74% of their instruction in their native language (L1) in the content areas of Mathematics, Science, and ELAR. First grade students receive 20% of their instruction in a second language (L2) in the content area of Social Studies combined with second language literacy basics, and receive 6% of their instruction in a third language (L3) in the content area of Chinese combined with third language literacy basics. Second grade students receive 64% of their instruction in their native language (L1) in the content areas of Mathematics, Science, and ELAR. They also receive 30% of their instruction in a second language (L2) in the content area of Social Studies combined with second language literacy, and receive 6% of their instruction in a third language (L3) in the content area of Chinese combined with third language literacy. Students in grades three and four follow a 50/50 model.

At LPCA, the dual and triple language programs are encouraged beyond the elementary grades. Understanding that learning a new language well takes years of study, LPCA encourages students to keep Spanish as a core class while in their secondary years. Our native Spanish speakers are also encouraged to take dual credit Spanish to begin earning college credit.

### Foundation School Program

Students who entered the ninth grade in the 2014-2015 school year and thereafter will graduate under a new State program called the Foundation School Program (FSP). Beyond the FSP, students may pursue Endorsements, which are paths of interest that include Science, Technology, Engineering, and Mathematics; Business and Industry; Public Services; Arts and Humanities; and Multidisciplinary Studies. Endorsements earned by a scholar will be noted on the scholar's transcript and diploma. The FSP also

involves the term Distinguished Level of Achievement, which reflects the completion of at least one endorsement and Algebra II as one of the required advanced mathematics credits. Graduating under the FSP will also provide opportunities to earn Performance Acknowledgements that will be acknowledged on a scholar's diploma and transcript. Performance Acknowledgements are available for outstanding performance in bilingualism and biliteracy, successful completion of a dual credit course; success on AP exams; the PSAT, ACT-Plan, SAT, or ACT exams; or for earning a nationally or internationally recognized license or certificate. The criteria for earning these Performance Acknowledgements are prescribed by state rules.

### **Science, Technology, Engineering and Mathematics (STEM)**

LPCA is a Science, Technology, Engineering and Mathematics (STEM) school district. LPCA focuses on these subjects to help its students gain the skills required to succeed in today's challenging world. This includes the ability to think critically, solve complex problems, and drive advancements in science and technology. Science and engineering jobs are growing 70 percent faster than other occupations. The ultimate goal of STEM education is to encourage students to take an interest in STEM subjects at an early age. LPCA utilizes STEM Magazines which is a monthly electronic subscription which it posts on Facebook to encourage Legacy families to read and become more knowledgeable in this area. In 2016, LPCA received a \$25,000 grant from Educate Texas, a public-private initiative of Communities Foundation of Texas for the implementation of its STEM program.

### **STEM in Elementary Grades**

LPCA utilizes an award-winning engineering curriculum, Engineering is Elementary ("EiE") developed by the Museum of Science, Boston, alongside its project-based learning framework to bring the field of engineering, and alternative education methods to kindergarten through fifth grade classrooms. The EiE curriculum combines the engineering design process with a particular field of life science, physical science, or earth and space science. As the students successfully experience the virtual schooling, they build inquiry skills alongside 21st century skills such as collaboration, communication, creativity and critical thinking. Each curriculum unit fully engages the students through a literacy component, which introduces the students to a foreign character experiencing a real-world problem. The students then develop the math and science expertise required to problem solve in the particular field of engineering. Engineering fields covered through the traditional school curriculum include spatial, materials, electrical, biomedical, aerospace, industrial, and ocean.

### **STEM in Secondary Grades**

LPCA has demonstrated its commitment to STEM, and both middle and high school campuses are designated T-STEM Academies by the State. This recognizes the district's continued efforts to promote STEM through course offerings, investigation into labor market data to support successful STEM-related grants, and through activities which support opportunities for our students to engage in STEM-related programs. For multiple years, LPCA students have had the opportunity to engage in Coding Clubs, and visit the Junior Achievement's Finance Park. During the 2016-2017 school year, LPCA Juniors visited the local Microsoft Training Facility.

Academically and emotionally mature middle school students are encouraged to apply for, and enter the 4-summer long TexPrep program offered on local college and university campuses. *"TexPREP is an academically intense, mathematics-based, summer enrichment program. TexPrep helps students prepare for careers in the fields of science, technology, engineering and math (STEM)."* The district is expanding its STEM-related programs with the first LEGO-based Robotics Club in the 2017-2018 school year.

STEM-related coursework is offered through a variety of Career and Technical Education (CTE) courses aligned to the three academic clusters offered by the district - Business Management and Administration, Health Science, and Information Technology. These courses are offered to both middle and high school students. For example, for the first time, the district is offering a high school course, Money Matters, to our grade eight students. These students will participate in the highly-acclaimed Stock Market Game in Spring 2018 as part of their course. Additional, LPCA grade seven students will complete the Comprehensive Wellness course.

Depending on the cluster selected by high school students, courses such as Digital and Interactive Media, Web Technologies, Medical MicroBiology, and World Health Research are available to them. These courses focus on health science and information technology fields - two of the most important STEM career fields in the North Texas area.

In order for our LPCA students to engage with community members in currently employed STEM-related fields, active recruitment of such local professionals is ongoing. The students have had the opportunity to interact with chemical and environmental engineers, tax attorneys, and health and wellness experts. Additionally, for multiple years, sophomores in the Health Science cluster have been able to earn a two-year American Red Cross First Aid/Automated External Defibrillator/Cardio-Pulmonary Resuscitation (FA/AED/CPR) certification through LPCA. LPCA has also begun offering additional certifications, such

as Medical Billing and Coding Specialist (for LPCA's Health Science students through Kaduceus Inc. <http://www.kaduceusinc.com/>), and CompTIA certifications for students in LPCA's Information Technology cluster.

## COLLEGE READINESS

LPCA encourages the early earning of college credits by those students who show they are college ready as early as ninth grade. The TSI, a college readiness assessment tool used by our local community colleges, is administered to 8th graders at the end of that school year. If a child receives a qualifying score on the TSI and meets the other criteria on the college readiness rubric, s/he will be invited to take a dual credit class as early as ninth grade.

It is LPCA's belief that most of its students can earn an associate's degree within the four years of secondary, if they apply themselves with the rigor and efficacy the curriculum requires.

## FACILITIES

The following table provides information regarding the locations from which LPCA currently operates.

<b>TABLE 2: EXISTING FACILITIES</b>			
<b>Campus Name &amp; Address</b>	<b>Own/Lease (Lease Expiration Date)</b>	<b>Approximate Square Footage</b>	<b>Estimated Student Capacity</b>
Plano Campus - 601 Accent Drive, Plano, Texas 75075	Leased* (Dated May 29, 2014, expires May 29, 2044)	50,607	700
Mesquite West Campus - 2727/2757 Military Parkway, Mesquite, Texas 75149	Leased* (Dated January 15, 2015, expires January 15, 2045)	66,275	1100

\*To be purchased with the proceeds of the Bonds.

The Plano Campus and the Mesquite West Campus were initially constructed pursuant to separate "Build-To-Suit Lease and Option" agreements (the "Lease Agreements") that were entered by LPCA and various financing and construction entities created by Charter Stone Capital. Charter Stone Capital is an Austin, Texas based company that provides land acquisition, design and build, construction and facility financing throughout central Texas and surrounding area. LPCA is currently operating the Plano Campus and the Mesquite West Campus pursuant to the Lease Agreements. The option to purchase the Plano Campus and the Mesquite West Campus began on the first day of the third lease year and continues until the final day of the fifth lease year. LPCA intends to exercise the purchase option with respect to each of the Plano Campus and the Mesquite West Campus and use the Bond Proceeds to purchase the Plano Campus and the Mesquite West Campus. The purchase price of the Plano Campus from Charter Stone Capital at the closing of the Bonds is \$8,806,208. The purchase price of the Mesquite West Campus from Charter Stone Capital at the closing of the Bonds is \$13,877,270.

## Lease Payments

The following table illustrates the estimated savings LPCA will achieve by purchasing the Charter Schools with the Bonds over five fiscal years.

<b>TABLE 3: Schedule of Lease Payment Savings</b>					
	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>
Existing Plano Campus Lease Payments <sup>(1)</sup>	\$726,512	\$764,748	\$787,692	\$811,320	\$835,668
Existing Mesquite West Campus Lease Payments <sup>(1)</sup>	1,144,872	1,179,216	1,214,592	1,251,036	1,288,572
<b>Total Existing Lease Payments</b>	<b>\$1,871,384</b>	<b>\$1,943,964</b>	<b>\$2,002,284</b>	<b>\$2,062,356</b>	<b>\$2,124,240</b>
<b>Bond Debt Service<sup>(2)</sup></b>	<b>-</b>	<b>\$1,939,543</b>	<b>1,949,710</b>	<b>1,947,601</b>	<b>1,949,868</b>
<b>Lease Payment Savings<sup>(3)</sup></b>	<b>\$935,692</b>	<b>\$4,421</b>	<b>\$52,574</b>	<b>\$114,755</b>	<b>\$174,372</b>

<sup>(1)</sup> Provided by LPCA.

<sup>(2)</sup> Excludes Capitalized Interest for fiscal year 2017-18. Per actual pricing. Approximately 70% of the Bonds debt service to reduce portion attributed to new construction or payoff of the line of credit.

<sup>(3)</sup> Assumes six months of lease payments through February of 2018.

## ENVIRONMENTAL MATTERS

### Plano Campus

LPCA obtained a Phase I Environmental Site Assessment dated April 15, 2015 with respect to the Plano Campus from eScreenLogic (“eScreenLogic”). The assessment was performed in general accordance with the American Society for Testing and Materials (“ASTM”), Standard Practice for Environmental Site Assessment Process, Designation E 1527-13.

In the report, eScreenLogic identified no recognized environmental conditions (“REC”).

In addition, eScreenLogic was commissioned to identify the potential presence of asbestos containing material (“ACM”) at the Plano Campus. eScreenLogic identified no ACM at the Plano Campus.

Since the completion of Phase I Environmental Site Assessment, the Plano Campus has not been renovated, there has been no new construction, and it has been used in accordance with all applicable State and federal environmental laws. A copy of the Phase I Environmental Site Assessment and the ACM report are available from the Underwriter during the offering period for the Bonds.

### Mesquite West Campus

LPCA obtained a Phase I Environmental Site Assessment dated November 19, 2014 with respect to the Mesquite West Campus from eScreenLogic. The assessment was performed in general accordance with the ASTM, Standard Practice for Environmental Site Assessment Process, Designation E 1527-13.

In the report, eScreenLogic identified no RECs.

In addition, eScreenLogic was commissioned to identify the potential presence of ACM at the Mesquite West Campus. eScreenLogic identified, in accordance with EPA NESHAP regulation 40 CFR Part 6, ACM at the Mesquite West Campus in the form of Vinyl Floor Tile and Black Mastic. eScreenLogic determined that the Vinyl Floor Tile and Black Mastic required removal and disposal. Such Vinyl Floor Tile and Black Mastic was removed and disposed in accordance with the recommendations of eScreenLogic.

Since the completion of Phase I Environmental Site Assessment, the Mesquite West Campus has not been renovated, there has been no new construction, and it has been used in accordance with all applicable State and federal environmental laws. A copy of the Phase I Environmental Site Assessment and the ACM report are available from the Underwriter during the offering period for the Bonds.

## THE PROJECT

The proceeds of the Bonds will be used (i) purchase, construct, renovate and improve educational facilities at the Charter Schools (the “Project”), (ii) refinance certain existing loans, (iii) reimburse itself for various capital expenditures, (iv) fund a debt service reserve fund and (v) pay costs of issuance of the Bonds.

TABLE 4: ESTIMATED PROJECT COSTS		
Campus	Costs	Description
Plano Campus	\$8,806,208	Acquisition of the existing 50,607 square foot Plano Campus, with a current student capacity of 700
Mesquite West Campus	\$13,877,270	Acquisition of the existing 66,275 square foot Mesquite West Campus, with a current student capacity of 1100
Mesquite West Campus	\$8,761,941	Addition of a high school building totaling 36,000 square feet that includes 20 classrooms, 2 labs, cafeteria, administrative space and a gym, with an additional student capacity of 500

## PROJECT CONSTRUCTION

LPCA and Parkhill, Smith & Cooper, Inc. (“PSC”), entered into AIA Document B101-2007 Standard Form of Agreement between Owner and PSC dated as of August 7, 2017, pursuant to which PSC agreed to perform certain services relating to the Project. Among other things, PSC is to assist in the selection of the contractor(s). Prior to the commencement of construction,



PSC's services include (i) usual and customary construction coordination and scheduling, constructability review and cost estimating, (ii) preparing preliminary cost estimates, (iii) reviewing design documents, (iv) preparing and updating the schedule for the Project, (v) assisting in retaining and coordinating professional services, (vi) developing bidders' interest in the Project and establish bidding schedules, (vii) assisting in preparing construction contracts, (viii) providing structural, mechanical, electrical and plumbing engineering services, and (ix) preparing preliminary design and schematic design documents. PSC is being paid a fee equal to 8.0% of the cost of the work to be performed.

PSC is one of the largest architecture and engineering firm serving North and West Texas. PSC designs and builds projects in the government, commercial and institutional sectors including K-12 and higher education, public works, environmental, infrastructure, transportation, healthcare and religious. More information about PSC can be found at <http://www.team-psc.com/>.

LPCA and Hill & Wilkinson Construction Group, Ltd. dba Hill & Wilkinson General Contractors (the "Contractor") have entered into a Standard Form of Agreement with a Guaranteed Maximum Price of \$8,761,941 (the "Construction Contract") for the construction of the Project. The Construction Contract amount includes a construction contingency of 10%.

The Construction Contract provides that the Contractor (i) will cooperate with the PSC and exercise the Contractor's best skills, judgment and attention in performing the work, (ii) will proceed expeditiously with adequate forces to achieve substantial completion within the Construction Contract time, (iii) will furnish at all time an adequate supply of materials, and (iv) will use its best efforts to perform the work in an expeditious and economical manner consistent with LPCA's interests. The Contractor also agrees to indemnify LPCA from certain claims and to obtain and maintain workers' compensation insurance, commercial general liability coverage, automobile insurance coverage, and excess liability coverage.

The Construction Contract allows LPCA to deduct from the final payment due to the Contractor a sum equal to \$2,500 for each day after the agreed upon substantial completion date of December 1, 2018 (or as maybe extended in accordance with the Construction Contract). The Construction Contract generally provides for retainage of 5% of the Contractor's fee and 5% of the portion of the work self-performed by the Contractor for each progress payment.

The Construction Contract requires the Contractor to deliver performance and payment bonds with respect to the Construction Contract in an amount equal to the contract sum. Neither payment and performance bonds nor retained amounts can protect against timing delays when projects run into difficulty (due to performance of contractors or any other reason). More generally, potential investors should note that there are always risks with respect to such new construction. See "RISK FACTORS — Construction Costs and Completion of Construction."

The Contractor is a respected industry leader with more than fifty years of experience in Texas. More information about the Contract can be found at <http://www.hill-wilkinson.com>.

LPCA does not expect that the construction at the Mesquite West Campus will be completed prior to the 2018-19 school year. LPCA will accommodate new students by adjusting its existing classroom structure until construction is complete.

## **APPRAISALS**

On November 27, 2017, Clyde Crum Appraisal Consultants ("Appraisal Consultant") prepared an appraisal report of the Charter Schools (the "Appraisals"). The Appraisals determined the "As Is" market value of the Plano Campus to be \$7,062,000, the "As Is" market value of the Mesquite West Campus to be \$9,980,000 and the "As Built" market value of the Mesquite West Campus to be \$17,830,000. The total market value of the Plano Campus and the completed Mesquite West Campus is \$24,892,000, which is less than the principal amount of the Bonds as of the date of issuance of the Bonds. See "RISK FACTORS - Value of Facilities May Fluctuate; Limitation of Appraisal."

The Appraisal Consultant is a licensed certified appraisal and real estate broker located in Dallas, Texas. The Appraisal Consultant has been actively engaged in Appraisal, Brokerage, Investing, Building, Inspection and Construction of Real Estate since 1970. During this period, the Appraisal Consultant has conducted thousands of Appraisals throughout the State and the United States. More information about the Appraisal Consultant can be found at <http://clydecrumappraisal.com/index.html>.

Copies of the Appraisals are available from the Underwriter during the offering period for the Bonds. Reference is made to the Appraisal for the assumptions and bases upon which the valuations therein were made. The Appraisal does not include valuations of personal property, fixtures or intangible items.

## CHARTER CONTRACT

### General

The Charter Schools Act provides for the creation of charter schools in order to improve student learning, to increase the choice of learning opportunities within the public school system, to create professional opportunities that will attract new teachers to the public school system, to establish a new form of accountability for public schools and to encourage different and innovative learning methods. 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. LPCA operates pursuant to an open-enrollment charter. A charter contract and statute 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 Texas law. The current practice of the Texas Education Agency ("TEA") is to grant open-enrollment charters for an initial five-year period. State law provides that a charter that is renewed by the TEA is for a ten-year term. At the end of each charter contract, the charter holder is invited to submit a charter renewal petition/application to the TEA and is subject to renewal, denial of renewal or expiration as provided in law and rule. During the term, a charter holder may also be subject to TEA intervention or adverse action, up to and including revocation of charter, for material violations of the charter contract and State law, as further described below. 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 and attendance data to TEA every six weeks. If any such reports are missing or not satisfactory, the TEA may follow up with additional questions.

LPCA initially entered into its charter contract (the "Charter") with the State Board of Education in 2012, for a period through July 31, 2017. From time to time, the Charter has been amended, including amendments to relocate charter school operations to the current sites. On March 31, 2017, the Texas Education Agency renewed LPCA's charter contract for a period through July 31, 2027. The charter contract authorizes LPCA to serve kindergarten through twelfth grade and up to 2600 students. A complete copy of LPCA's charter contract is available upon request from LPCA.

### Revocation, Nonrenewal, Modification of Governance and Automatic Revocation

Under the Charter Schools Act and the terms of LPCA's charter contract, the Commissioner of Education (the "*Commissioner*") is required to 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 the Commissioner takes in this respect must be based on the best interest of the school's students, the severity of the violation, any previous violation the school has committed and the accreditation status of the school.

The Commissioner is required to revoke the charter of an open-enrollment charter school if for the three preceding school years:

- (i) the charter holder has been assigned an unacceptable performance rating under Subchapter C, Chapter 39 of the Texas Education Code (the "*Accountability Rating*");
- (ii) the charter holder has been assigned a financial accountability performance rating under Subchapter D, Chapter 39 of the Texas Education Code (the "*FIRST Rating*") indicating performance lower than satisfactory; or
- (iii) the charter holder has been assigned any combination of the ratings described in (i) or (ii).

The Commissioner is required to deny renewal of the charter of an open-enrollment charter school if:

- (i) the charter holder has been assigned the lowest performance rating as its Accountability Rating for any three of the five preceding school years;
- (ii) the charter holder has been assigned a financial accountability performance rating as its FIRST Rating 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 in (i) or (ii) for any three of the five preceding school years; or
- (iv) any campus operating under the charter has been assigned the lowest performance rating as its Accountability Rating for the three preceding school years and such campus has not been closed.

The Commissioner may temporarily withhold funding, suspend the authority of an open-enrollment charter to operate or take any other reasonable action the Commissioner determines necessary to protect the health, safety or welfare of students enrolled at the school based on evidence that conditions at the school present a danger to the health, safety or welfare of the students. If the Commissioner takes such action, the school may not receive funding and may not resume operating until a determination is made that:

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

Not later than the third business day after the date the Commissioner takes action, the Commissioner must provide the school an opportunity for a hearing, after which the Commissioner must take action or cease any temporary sanctions. Texas law provides that relevant provisions of the Texas Government Code do not apply to a hearing related to a modification, placement on probation, revocation, or denial of renewal of a charter. Hence, the determination of the Commissioner is final and may not be appealed, including through legal challenges in the court system.

The following table reflects, for each year shown, the FIRST Rating (which ratings for 2017-16, 2015-16, and for 2013-14 and before may be “Superior,” “Above Standard” or “Substandard” and for 2014-15 may be either “Pass” or “Substandard”). According to the TEA, the purpose of the FIRST Rating is to encourage schools to better manage their financial resources to provide the maximum allocation possible for direct instructional purposes. The following table also reflects the Accountability Ratings (which ratings presently may be either “Met Standard” or “Did Not Meet Standard”). For more information about the Accountability Ratings, see “— **ACCOUNTABILITY RATINGS AND STUDENT PERFORMANCE**” below.

*[Remainder of page intentionally left blank]*

TABLE 5: ACCOUNTABILITY RATING AND FIRST RATING - LAST FIVE YEARS <sup>(9)</sup>		
Campus	2012-13	
LPCA	Accountability Rating	Improvement Required <sup>(1)(8)</sup>
Temporary Dallas Campus – K-7	Accountability Rating	Improvement Required <sup>(1)</sup>
Temporary Mesquite Campus K-7	Accountability Rating	Improvement Required <sup>(1)</sup>
Temporary Richardson Campus K-7	Accountability Rating	Improvement Required <sup>(1)</sup>
LPCA	FIRST Rating	N/A
2013-14		
LPCA	Accountability Rating	Improvement Required <sup>(2)(8)</sup>
Temporary Dallas Campus – K-8	Accountability Rating	Improvement Required <sup>(2)</sup>
Temporary Mesquite Campus K-8	Accountability Rating	Improvement Required <sup>(2)</sup>
Temporary Richardson Campus K-8	Accountability Rating	Met Standard
LPCA	FIRST Rating	Substandard Achievement <sup>(3)(8)</sup>
2014-15		
LPCA	Accountability Rating	Met Standard
Temporary Dallas Campus – K-9	Accountability Rating	Improvement Required <sup>(4)</sup>
Temporary Mesquite Campus K-9	Accountability Rating	Improvement Required <sup>(4)</sup>
Plano Campus – K-9	Accountability Rating	Met Standard
LPCA	FIRST Rating	Pass
2015-16		
LPCA	Accountability Rating	Met Standard
Mesquite West Campus – K-5	Accountability Rating	Met Standard <sup>(5)</sup>
Mesquite West Campus – 6-10	Accountability Rating	Improvement Required <sup>(6)</sup>
Plano Campus – K-10	Accountability Rating	Met Standard
LPCA	FIRST Rating	Superior
2016-17		
LPCA	Accountability Rating	Met Standard
Mesquite West Campus – K-5	Accountability Rating	Improvement Required <sup>(7)</sup>
Mesquite West Campus – 6-11	Accountability Rating	Met Standard
Plano Campus – K-11	Accountability Rating	Met Standard
LPCA	FIRST Rating	Above Standard

<sup>(1)</sup> After the end of the first year of operation, Senate Bill 2 was passed and for the first time, charter schools in their first year of operation were assigned ratings. Prior to this change, new schools were given a one-year reprieve from accountability ratings. LPCA had not fully implemented the accountability system and had Senate Bill 2 been enacted at the time LPCA's charter was awarded, LPCA would have opened in a manner much more conducive to success.

<sup>(2)</sup> The rigor of the STAAR test in 2013-14 was much higher than the previous year. LPCA's instructional leadership team could not keep up with the additional rigor.

<sup>(3)</sup> Despite a score of 50, which would warrant a FIRST rating of Standard Achievement, LPCA received a Substandard Achievement rating due to failing Indicator Two. If a charter school failed any of the first six indicators, it automatically resulted in a Substandard Achievement rating. Indicator Two asked if the total net asset balance in the statement of financial position for the charter school was greater than zero. LPCA's total net asset balance was negative balance of \$294,906. When a charter school has a negative balance, Indicator Two asked if the charter school had at least a 10 percent growth in students in the last five years. Since LPCA has only been in operation for 1 year, it had not yet had the opportunity to record any growth. TEA deemed this a growth of 0% for Indicator Two, causing LPCA to fail Indicator Two.

<sup>(4)</sup> Both campuses were moved to one location from the nearby churches. Due to the expense of remodeling the elementary building and adding a brand new secondary building additional students were added. The additional students had educational gaps that could not be filled by LPCA in one year.

<sup>(5)</sup> Rating changed due to appeal by LPCA.

<sup>(6)</sup> Missed the Met Standard rating by three points, was able to obtain the Met Standard rating in 2016-17.

<sup>(7)</sup> LPCA increased its enrollment and teaching staff. The additional students had educational gaps that could not be filled by LPCA in one year. Leadership changes were made to address these issues.

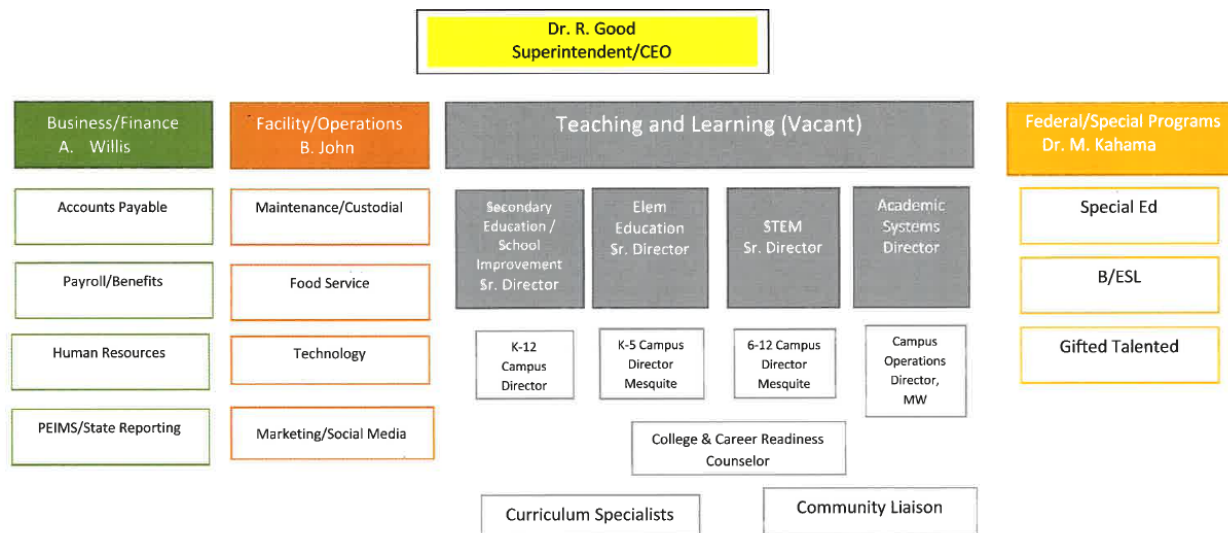
<sup>(8)</sup> The Commissioner of Education (the "Commissioner") is required to revoke the charter of an open-enrollment charter school if for **the three preceding school years**: (i) the charter holder has been assigned an unacceptable performance rating under Subchapter C, Chapter 39 of the Texas Education Code (the "Accountability Rating"); (ii) the charter holder has been assigned a financial accountability performance rating under Subchapter D, Chapter 39 of the Texas Education Code (the "FIRST Rating") indicating performance lower than satisfactory; or (iii) the charter holder has been assigned any combination of the ratings described in (i) or (ii). In the 2012-13 and 2013-14 school years, LPCA, as a district, received an Accountability Rating of "Improvement Required". For 2013-14, LPCA received a "Substandard Achievement" FIRST Rating. An additional consecutive year of an unacceptable Accountability Rating or FIRST Rating would have resulted in a revocation of their charter. LPCA has not had an unsatisfactory FIRST Rating since the 2013-14 school year and, as a district, LPCA has not received an "Improvement Required" Accountability Rating since the 2013-14 school year.

<sup>(9)</sup> Accountability Ratings are provided annually by TEA and can be found at <https://rptsvr1.tea.texas.gov/perfreport/account/index.html>. Pursuant to the Continuing Disclosure Agreement, LPCA will provide, to the extent they are available, updated Accountability Ratings within six months of each fiscal year end.

In June, 2015, the previous Commissioner appointed Mr. James Damm as the Conservator of LPCA to assist Legacy with several areas of concern about the viability of LPCA. The TEA had determined that LPCA had several areas of concern: (1) academics, due to several areas of unsuccessful student achievement scores on required tests, and (2) financial, based on LPCA's fund balance below the standards determined by TEA. Mr. Damm was comfortable with the corrective action being taken by LPCA on the academic issues and began working on the financial issues. In its original organization, LPCA had contracted with a service bureau to provide the necessary financial and data services. These services included student data, human resource data, cash management, budget development, cash flow, purchasing, payables, and all other necessary required back office services. However, Mr. Damm felt that there was no in-house expertise to interpret much of financial data, thus not being able to understand, interpret, and utilize the data to improve the operations of LPCA. Mr. Damm recommended a number of actions to remedy these issues. After some time, the TEA intervention was ended as the academic goals set had been realized and a viable plan developed for the financial issues. Immediately following the removal of Mr. Damm as Conservator by the Commissioner, LPCA contracted with Mr. Damm to continue working with LPCA to enhance the corrections LPCA had made to its operational deficiencies. Management of LPCA felt his expertise could assist LPCA in accomplishing its goal of having a model program. That decision has been a great benefit to LPCA as LPCA has begun a progressive, comprehensive planning effort, including long range planning and strategic planning, to integrate all phases of its operations into a coordinated system.

## ORGANIZATIONAL CHART

Set forth below is an organizational chart showing the management of LPCA.



## BOARD OF DIRECTORS, SENIOR LEADERSHIP AND CONSULTANTS

### General

Pursuant to LPCA's Bylaws, the Board of Directors (the "Board") is to consist of no fewer than three members. Each Board member serves for three-year terms which may be indefinitely renewed. The current Board is comprised of the members set forth below:

### Members of the Board of Directors

*Byron Ricks, Chair.* Mr. Ricks is a multi-certified corporate trainer and published author with more than fifteen years of consulting, training and leadership experience. Mr. Ricks professional background includes positions as public affairs manager, regional academic coordinator, and director of administrative services in higher education. Mr. Ricks has served on numerous boards and committees as public affairs manager for the Indianapolis Chamber of Commerce. Mr. Ricks has a Bachelor of Business Administration with emphases in Marketing and Real Estate, and a Master of Arts in Human Behavior from National University San Diego, California. He has received accreditation from Development Dimensions International (certified teacher), Ball State University, Indiana (certified trainer), Accelerated Learning, American Society for Training and Development (ASTD), American Management Association (Train the Trainer), and National University-San Diego, Proactive Employee Selection & Retention and Performance Management. Mr. Ricks is the owner and administrator of the Comfort Keepers Franchise in Frisco, Texas that serves Collin, Denton and Dallas Counties.

*John Ting, Secretary.* Mr. Ting received his Juris Doctorate from The City University of New York School of Law. Mr. Ting is a licensed attorney with a full-service law firm focused on helping his clients, from individuals to small and large companies, to achieve their goals. In addition to his law firm, Mr. Ting is actively involved in the community, having served over two hundred hours supporting underserved populations with their causes. He is also co-founder of Bobaddiction, a Taiwanese food truck that serves boba tea and shaved snow in the Dallas- Fort Worth metroplex. Since the opening of his law firm, Mr. Ting has accumulated more than five hundred hours of pro bono legal services.

*Marc Desgraves, Treasurer.* Mr. Desgraves, IV is a Texas Certified Public Accountant in good standing with over fifteen years of experience including tax preparation, mergers & acquisitions, business formation consulting, Sarbanes-Oxley compliance, risk assessment, forensic accounting, corporate accounting, internal audit, and big four external audit. Mr. Desgraves has a diversified background with accounting or audit experience in industries such as energy, airlines, financial services, publishing, software, and retail. As an independent tax professional, Mr. Desgraves has performed tax preparation and start-up services for over ten years for a diversified group of individual and business clients who own such businesses as youth sports development, fitness clubs, salon services, marketing firms and software sales. Mr. Desgraves has also provided numerous tax services on a pro bono basis since starting his practice to help foster the growth of small businesses.

*Megan Bauer, Member.* Ms. Bauer has been a licensed attorney in good standing with the State Bar of Texas since November 2004. She graduated cum laude from the Texas Tech School of Law in 2004 and has been a public servant throughout her career. Ms. Bauer began her career at the Internal Revenue Service. In 2011, she began working for the Department of Health and Human Services as an Assistant Regional Counsel. Ms. Bauer also is the director of a non-profit, meditation center and has held that position since January 2012.

### **Senior Leadership**

Listed below are members of LPCA's senior leadership, along with a brief description of their biographical information pertaining to each.

*Dr. Rebecca Good, Superintendent.* Dr. Good is a thirty-two year educator who has worked as a teacher, campus principal, central office executive director, and school superintendent and chief executive officer. She has worked in both an independent school district and charter school setting. Dr. Good has two degrees from Southern Methodist University and two from Texas A&M Commerce. She has taught at the higher education level since 2007 in both a face-to-face and online settings. She taught teachers who wanted to get their Masters in Curriculum design, educational administration, literacy, and also those who wanted a Masters in Bilingual/ESL education. She has been an educational consultant, a keynote speaker on educational issues, and has presented hundreds of educational workshops and trainings. She also has had two books published and has written and co-written several articles for educational journals.

*Angela Willis, Director of Finance.* Angela Willis became Director of Finance for LPCA in 2017. Ms. Willis comes to LPCA with fourteen years of experience in school business and technology. Ms. Willis has a Bachelor of Computer Information Systems from DeVry University and a Master of Business Administration from Keller Graduate School of Management. Ms. Willis is a certified Project Management Professional (PMP) and serves as a representative for LPCA as a member of the TX Skyward User Group Committee.

*Bobby John, Director of Operations.* Mr. John graduated from University College, in Kerala, India with a Masters in English Language and Literature. Mr. John graduated with his second Masters from the University of Texas at Arlington, in Educational Leadership and Policy Studies. Mr. John started his career in the education field as the founding principal of a Christian private school in India. In 2006, Mr. John founded Bridge Builder Academy, a private home school academy in Plano, Texas that provided customized academic programs to fit the skill level of students. Mr. John later started River Rock Academy in Dallas to serve students in that area. Mr. John began his career with LPCA in 2012 and has served in several roles with LPCA including assistant director and director of a Legacy campus.

*Laura Hyatt, STEM Senior Director.* Mrs. Hyatt has nineteen years of experience as an educator. Mrs. Hyatt has taught grades three, four, five, and seven. Mrs. Hyatt has been a Central Office staff member in various positions such as Middle School Mathematics Lead Teacher, Instructional Supervisor, and District-wide STEM Manager (Dallas Independent School District).

*Lolita Looney, Senior Director of Secondary Curriculum and School Improvement.* Entering her nineteenth year in education, Ms. Looney has worked with elementary, middle, and high school settings as either a teacher, instructional coach, curriculum specialist, assistant principal, principal and central office administrator. She has also presented at local, state, and national conferences on various topics surrounding best practices for curriculum and, teacher and campus administration leadership. Ms. Looney has a passion for scholar achievement both inside and outside the classroom. Ms. Looney is working on a Doctor of Educational Administration from the University of Texas A&M Commerce and has a Master of Educational Administration from the University of North Texas and a Bachelor of Science in Microbiology from the University of Texas at Arlington.

*Lucas Sebastian Jimenez, Elementary Curriculum and Instruction Director.* Mr. Jimenez is a native of Argentina. He graduated from the University of Houston with a Bachelor of Science in Interdisciplinary Sciences with concentration in Bilingual Education and a Bachelor of Arts in Spanish. Mr. Jimenez also received a Master of Arts in Spanish Literature and Culture from the University of Houston. Mr. Jimenez lived in Houston for more than ten years and worked as a Spanish teacher. Mr. Jimenez began his career with LPCA in 2013 as a Spanish teacher and then as a bilingual teacher.

*Stacy Maxwell, Academic Systems Director.* Ms. Maxwell is starting her twenty-sixth year in education. After earning her Bachelor of Science Degree in Early Childhood Education from Northern Arizona University, she started her eleven years of teaching. During her eleven years of teaching, Ms. Maxwell taught students from every level. This gave her a wide range of experience. Ms. Maxwell went on to earn her Master of Arts Degree in Education Administration from Park University. She started her administrative career in 2003 as a building principal. She has had many different administrative experiences ranging from campus administrator to district administrator. Ms. Maxwell started her career at LPCA in 2015.

*Nicole May, Plano Campus Director.* Ms. May has been an educator for the last eighteen years. She worked as a Spanish teacher at Ponder Independent School District, Little Elm Independent School District, Scurry-Rosser Independent School District, and Denton Independent School District before discovering her passion for administration and working with English Language Learners. Ms. May founded a group for Hispanic students, Mujeres con Sueños (Women with Dreams) that promoted college readiness and community service. She served Denton Independent School District as a teacher, Interim Middle School ESL Coordinator, and finally Assistant Principal for nine years. She furthered her career as the Bilingual/ESL and Scholar Information Director at Pampa Independent School District and as the Bilingual/ESL and State Assessment Director at Krum Independent School District.

*Lacrecia Terrance, Director of Mesquite High School/District Innovation Coach.* Ms. Terrance has been in the education field as a certified educator for seventeen years with nine years in administrative capacities. Ms. Terrance has served in every level of education including; a teacher, academic dean, instructional coordinator, Title I coordinator, curriculum coordinator, STEM/engineer coordinator, principal, and now project-based learning/innovation consultant. Ms. Terrance holds a Bachelor of Arts in Elementary Education from Southwestern Adventist College, a Master of Arts in Teacher Leadership from Ashford University, and is currently working on a Doctorate in Educational Leadership with a focus on Administration from Concordia University.

*Vivian Rivera, Mesquite Elementary Director.* Ms. Rivera has been in the education field since 1999. She holds a bachelor of arts in Psychology with a minor in Spanish from the University of Texas at Arlington, a master's in elementary education with a focus in reading and bilingual education from Texas Women's University, and a Master of Arts in Interdisciplinary Studies from the University of Texas at Dallas. She has experience working at the elementary and secondary level working with title I schools in urban school settings. Furthermore, Ms. Rivera has experience working with educational technology projects and implementation in the USA and Israel. She is currently working on completing her doctorate from the University of Phoenix in Educational administration with a focus on educational technology.

*Jorge Flecha, Campus Operations and Facilities Director.* Mr. Flecha is a native of Puerto Rico and served in the United States Army for 20 years. Since retiring from the United States Army, Mr. Flecha has worked in the banking industry and in the Alternate Certification Program offered by Dallas Independent School District. Mr. Flecha spent 9 years with Dallas Independent School District, where in his fifth year he was recognized as a Master Teacher. Mr. Flecha began his career with LPCA as director for the elementary grades. Mr. Flecha received a Bachelor of Business Administration from Wayland Baptist University and a Master of Educational Leadership Administration from Lamar University.

*Mary Kahama, Federal Funds Officer.* Ms. Kahama has a diverse experience as a teacher, school principal, special education coordinator and director. Ms. Kahama has a Doctor of Philosophy in Special Education and a Masters degree in Special Education from Texas Woman's University. Ms. Kaham also has a Bachelor of Science in Secondary Education (Biology) from Wiley College.

*Lilly Chacon, Human Resource Manager.* Ms. Chacon started her career with LPCA as the Superintendent's Executive Administrative Assistant. Ms. Chacon started out as a parent volunteer over 20 years ago at Dallas Independent School District where she was offered a job as a teacher assistant. She went on to be the campus Office Manager. Ms. Chacon received her degree from Eastfield College. She has since served in various capacities in central office both for a large urban district and now LPCA, where she has grown into the HR manager position.

*Margaret Griffith, PEIMS & SMS Manager.* Mrs. Griffith joined LPCA in 2017. Mrs. Griffith has over 16 years of education experience with a focus on PEIMS data administration, and as a certified network administration.

*Valerie Banks, Payroll & Benefits Specialist.* Ms. Banks is a United States Marine Corps veteran who comes to LPCA with more than 15 years of administrative experience, 11 years of business education experience, more than eight(8) years of payroll



experience, four(4) plus years of Skyward experience and holds a certification from Texas Association of School Business Officials(TASBO) as a Payroll Specialist. She holds two Associate's Degrees and is currently working towards her Bachelor's.

## **Succession Plan**

LPCA has prepared a Succession Plan for the Departure of the Superintendent/CEO to be adopted at its December 6, 2017 Board meeting (the "Succession Plan"). The Succession Plan is broken down into three categories: (i) planned departures, (2) unplanned departures, and oversight during the search process. The Succession Plan reads as follows:

*Planned Departures:* The Superintendent/CEO will give at least three months' notice to the LPCA Board of Directors. Upon the announcement of the departure of the Superintendent/CEO, the Board will appoint a search committee from the members of the Board to conduct a search for a successor (the "Search Committee"). The Search committee will develop a search process, which will be approved by the Board either in a meeting, or electronically if time does not permit. The Search Committee will engage an executive search firm to conduct the search for the CEOs replacement. The search process is expected to take place of a six-month period.

*Unplanned Departures:* Should the Superintendent/CEO's departure be unplanned or occur in advance of the completion of the search process, the Search Committee of the Board will convene and appoint an "Acting Superintendent/CEO". It is recommended that Dr. Alan Seay, ex-Superintendent/CEO of A+ Academy be appointed Acting Superintendent/CEO based on performance and experience.

*Oversight During the Search Process:* During the search process, the Search Committee of the Board will meet monthly with the Acting Superintendent/CEO reviewing reports about the progress of programs, the performance of the organization against its strategic plan, the financial condition of the LPCA. Personnel issues and staff morale to insure increased oversight on the part of the Board during the transition period.

The Search Committee will develop a list of priority attributes to guide the search process and will evaluate candidates against these attributes. When a short of list of interviewees is determined, the Search Committee will establish a process of receiving feedback from members of the Legacy management team staff. This feedback will be considered in making the final selection.

The Search Committee will recommend up to two candidates to the Board. The final selection will be made by a vote of the Board. The Succession Plan will be updated during the annual summer meeting of the Board

## **EMPLOYEES**

### **General**

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

*[Remainder of page intentionally left blank]*



<b>TABLE 6A: PROFESSIONAL STAFF AND FACULTY</b>					
<b>FACULTY &amp; STAFF</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18<sup>(1)</sup></b>
Teachers	76	86	78	85	89
Campus Administration (School Leadership)	6	6	6	5	4
Campus Professional Support	4	5	5	7	11
Campus Support	4	5	6	10	10
Educational Aides	15	16	14	13	18
Auxiliary Staff	12	12	10	10	10
Central Administration	4	6	6	7	11
Central Support	2	3	4	4	2
<b>Total</b>	<b>123</b>	<b>139</b>	<b>129</b>	<b>141</b>	<b>155</b>
<b>FACULTY</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18<sup>(1)</sup></b>
Beginning Teachers	45	36	23	25	21
1-5 Years Experience	26	46	43	39	49
6-10 Years Experience	1	0	4	9	7
11-20 Years Experience	2	2	8	10	10
Over 20 Years Experience	2	2	0	2	2
<b>Total</b>	<b>76</b>	<b>86</b>	<b>78</b>	<b>85</b>	<b>89</b>
<b>STUDENT - SCHOLAR RATIO</b>					
Number of Students Per Teacher	12.9:1	14.6:1	15.2:1	16:1	15.5:1

<sup>(1)</sup> As of October 31, 2017.

The following table provides projected information regarding the number of professional staff and faculty that LPCA expects to employ as of the first day of the school year for the years set forth below.

<b>TABLE 6A: PROJECTED PROFESSIONAL STAFF AND FACULTY</b>				
<b>FACULTY &amp; STAFF</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>
Teachers	100	103	105	106
Campus Administration (School Leadership)	6	6	6	6
Campus Professional Support	13	13	13	13
Campus Support	12	12	12	12
Educational Aides	21	23	24	25
Auxiliary Staff	14	14	14	14
Central Administration	13	15	15	15
Central Support	4	4	4	4
<b>Total</b>	<b>183</b>	<b>190</b>	<b>193</b>	<b>195</b>

All of LPCA's teachers, support staff and other employees are at-will employees of LPCA. LPCA believes that the faculty, administration and the Board have a strong and collaborative working relationship. LPCA's teacher retention rate between

the 2016-17 and 2017-18 school years was 69%. LPCA maintains and develops positive relationships with its teachers and considers its relationship with its teachers to be very good.

The following table provides information regarding the average salaries of teachers, professional staff and faculty for the 2016-17 school year compared to the average salaries of teachers, professional staff and faculty throughout the State.

<b>TABLE 7: STAFF AND FACULTY AVERAGE SALARIES</b>		
<b>FACULTY &amp; STAFF</b>	<b>LPCA</b>	<b>State</b>
Teachers	\$45,032	\$52,525
Professional Support	\$46,726	\$61,728
Campus Administration	\$77,614	\$76,471

## ENROLLMENT

Enrollment in LPCA is open to residents within the boundaries of the Allen, Anna, Blue Ridge, Celina, Community, Crandall, Cedar Hill, Duncanville, Grand Prairie, Lancaster, Prosper, Dallas, Coppell, Frisco, Farmersville, Ferris, Forney, Highland Park, Kaufman, Mesquite, Lovejoy, McKinney, Melissa, Palmer, Princeton, Red Oak, Royse City, Waxahachie, Wylie Richardson, Carrollton-Farmers Branch, Desoto, Garland, Irving, Plano, Sunnyvale and Rockwall Independent School Districts, 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. Texas law requires that open-enrollment charter schools such as LPCA 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.

Under its general admissions policies, LPCA accepts applications from January 1 through March 20 for each year. Returning students and their siblings are given priority in admissions. Returning students are automatically re-enrolled if they give notice of their intent to return each school year. Siblings of returning students and/or the children of the school's founders and teachers (so long as the total number of such students allowed constitutes only a small percentage of the total enrollment) are given priority and added to scholar rosters for the next year, provided there is space available. After filling slots with returning students, siblings and the children of founders and teachers, all remaining slots are filled by lottery if there are more applicants than slots available. The lottery is generally held during the last week of March of each year, and parents are notified of acceptance or placement on the waiting list during the first week of April of each year. After all slots have been filled, the remaining students are placed on a waiting list in the order in which they are drawn. Any applications not received by the March application deadline are automatically placed on the waiting list for each respective grade level.

The following table sets forth data provided by LPCA regarding the Charter School's historical and projected enrollment. For the years 2013-14 through 2017-18, data presented is based on actual scholar counts near the beginning of each school year. For 2018-19 and thereafter, data presented represents projected enrollment as estimated by LPCA.

LPCA's charter contract currently limits the number of students that may enroll in the charter school to 2,600, and the maximum capacity of LPCA's existing facilities (as described in TABLE 1, above) also limit LPCA's maximum enrollment.

*[Remainder of page intentionally left blank]*

TABLE 8A:									
HISTORICAL AND FUTURE PROJECTED ENROLLMENT – PLANO CAMPUS <sup>(3)</sup>									
	<i>HISTORICAL</i>					<i>PROJECTED</i>			
GRADE	2013-14	2014-15	2015-16	2016-17	2017-18 <sup>(1)</sup>	2018-19	2019-20	2020-21	2021-22
Pre-K	NA	NA	NA	NA	NA	40	40	40	40
K	34	25	39	30	30	40	40	40	40
1	29	43	42	45	32	40	40	40	40
2	20	40	46	35	39	39	40	40	40
3	26	30	40	33	26	35	40	40	40
4	16	35	28	41	36	31	35	40	40
5	15	31	38	28	31	35	35	35	40
6	23	27	40	42	26	40	36	35	35
7	12	34	26	28	39	35	40	36	35
8	10	19	37	24	25	40	38	40	36
9	NA	11	20	20	12	35	40	38	40
10	NA	NA	17	21	12	15	35	35	38
11	NA	NA	NA	13	13	12	15	25	25
12	NA	NA	NA	NA	13	13	12	14	19
<b>Total</b>	<b>185</b>	<b>295</b>	<b>373</b>	<b>360</b>	<b>334<sup>(2)</sup></b>	<b>450</b>	<b>486</b>	<b>498</b>	<b>508</b>

<sup>(1)</sup> As of October 31, 2017.

<sup>(2)</sup> Operating at 47.7% of student capacity at the Plano Campus.

<sup>(3)</sup> Opened in 2012-13 school year as the Temporary Richardson Campus and was moved to the Plano Campus in the fall of 2014.

TABLE 8B:									
HISTORICAL AND FUTURE PROJECTED ENROLLMENT – MESQUITE WEST CAMPUS <sup>(3)</sup>									
	<i>HISTORICAL</i>					<i>PROJECTED</i>			
GRADE	2013-14	2014-15	2015-16	2016-17	2017-18 <sup>(1)</sup>	2018-19	2019-20	2020-21	2021-22
Pre-K	NA	NA	NA	NA	NA	80	80	80	80
K	109	107	71	85	83	80	80	80	80
1	109	116	78	95	90	100	100	100	100
2	85	126	79	95	93	100	100	100	100
3	93	96	82	86	96	100	100	100	100
4	79	92	74	80	73	100	100	100	100
5	82	93	82	82	80	80	100	100	100
6	91	95	74	108	100	100	90	100	100
7	94	89	84	103	103	100	100	90	100
8	53	92	78	103	95	100	100	100	90
9	NA	51	75	74	75	100	100	100	100
10	NA	NA	37	61	72	85	100	100	100
11	NA	NA	NA	30	56	72	85	100	100
12	NA	NA	NA	NA	26	56	72	75	85
<b>Total</b>	<b>795</b>	<b>957</b>	<b>814</b>	<b>1,002</b>	<b>1042<sup>(2)</sup></b>	<b>1253</b>	<b>1307</b>	<b>1325</b>	<b>1335</b>

<sup>(1)</sup> As of October 31, 2017.

<sup>(2)</sup> Operating at 94.7% of student capacity at the Mesquite West Campus.

<sup>(3)</sup> Opened in 2012-13 school year as the Temporary Dallas Campus and Temporary Mesquite Camps. In the fall of 2015, the Temporary Dallas Campus and the Temporary Mesquite Campus were combined into the Mesquite West Campus.

*[Remainder of page intentionally left blank]*

**TABLE 8C:**  
**HISTORICAL AND FUTURE PROJECTED ENROLLMENT<sup>(2)</sup>**

GRADE	<i>HISTORICAL</i>					<i>PROJECTED</i>			
	2013-14	2014-15	2015-16	2016-17	2017-18 <sup>(1)</sup>	2018-19	2019-20	2020-21	2021-22
<b>Pre-K</b>	NA	NA	NA	NA	NA	120	120	120	120
<b>K</b>	143	132	110	115	113	120	120	120	120
<b>1</b>	138	159	120	140	122	140	140	140	140
<b>2</b>	105	166	125	130	132	139	140	140	140
<b>3</b>	119	126	122	119	122	135	140	140	140
<b>4</b>	95	127	102	121	109	131	135	140	140
<b>5</b>	97	124	120	110	111	115	135	135	140
<b>6</b>	114	122	114	150	126	140	126	135	135
<b>7</b>	106	123	110	131	142	135	140	126	135
<b>8</b>	63	111	115	127	120	140	138	140	126
<b>9</b>	NA	62	95	94	87	135	140	138	140
<b>10</b>	NA	NA	54	82	84	100	135	135	138
<b>11</b>	NA	NA	NA	43	69	84	100	125	125
<b>12</b>	NA	NA	NA	NA	39	69	84	89	104
<b>Total</b>	980	1252	1187	1362	1376	1703	1793	1823	1843

<sup>(1)</sup> As of October 31, 2017.

<sup>(2)</sup> 5-year compounded annual enrollment growth rate is 11.2%.

## WAITING LIST

### Mesquite West Campus

LPCA has historically had more applications than spaces available at the Mesquite West Campus. Therefore, all admission applications (for non-returning students) that are turned in prior to the application deadline in the first week of March of each year are entered into a lottery. LPCA then conducts a lottery at the beginning of March. LPCA offers admission to the students in the order pulled, to the extent of available space. If there is no available space, the students are put on a wait list in the order in which their names were drawn. Applications received after the application deadline, are also added to the wait list in the order that LPCA receives them. All applications remaining on the wait list from the current year must be re-activated for the following year. The wait list is only good for the current school year and a new wait list is created in each subsequent year. Generally, the wait list will decrease over the course of the school year as students from the wait list are granted admission to LPCA or request that they be removed from the wait list. LPCA has historically not had a waitlist for the Plano Campus.

### Plano Campus

LPCA has historically not had more applications than spaces available at the Plano Campus. The Plano Campus is located within the Plano Independent School District boundaries. Plano Independent School District serves roughly 55,000 students. It is a high performing and competitive independent school district. The Plano Campus offers an alternative to students who need a smaller school environment while still offering rigorous curriculum. LPCA focuses on fostering the student-teacher relationship to ensure students know they are always supported and personally guided through their entire learning experience. LPCA tackles social and academic challenges for students through project-based learning which forces team interactions within significantly smaller classrooms than would be experienced in the Plano Independent School District. LPCA intends to continue to grow the Plano Campus, but at a slower rate than the Mesquite West Campus. LPCA is in the process of developing a customized marketing approach to educate parents in the about the benefits of the Plano Campus. In addition, LPCA is developing a technology update and improvement plan to further the appeal of the Plano Campus. The Plano Campus is an asset to LPCA as a whole. The Plano Campus historically produced stronger academic accountability scores than the Mesquite West Campus and allows LPCA to reach a population is generally more stable and less transient than the population serviced by the Mesquite West Campus.

The table below sets forth the wait list for LPCA for the 2017-18 school year.

TABLE 9: ENROLLMENT AND WAITING LIST DATA					
Plano Campus	Enrollment for 2017-18	# on Waiting List	Mesquite West Campus	Enrollment for 2017-18	# on Waiting List
<b>K</b>	30	0	<b>K</b>	83	24
<b>1</b>	32	0	<b>1</b>	90	35
<b>2</b>	39	0	<b>2</b>	93	80
<b>3</b>	26	0	<b>3</b>	96	68
<b>4</b>	36	0	<b>4</b>	73	124
<b>5</b>	31	0	<b>5</b>	80	93
<b>6</b>	26	0	<b>6</b>	100	124
<b>7</b>	39	0	<b>7</b>	103	111
<b>8</b>	25	0	<b>8</b>	95	40
<b>9</b>	12	0	<b>9</b>	75	8
<b>10</b>	12	0	<b>10</b>	72	0
<b>11</b>	13	0	<b>11</b>	56	0
<b>12</b>	13	0	<b>12</b>	26	0
<b>Total</b>	334	0	<b>Total</b>	1042	707

LPCA's student retention rate between the 2016-17 and 2017-18 school years was 79%.

#### AVERAGE DAILY ATTENDANCE

LPCA's average daily attendance numbers have averaged 96.2% over the last five years. However, to increase its average daily attendance, LPCA is in the process of entering into a one-year pilot service agreement with Spark Health to provide on campus concierge medical and occupational health services for LPCA employees, staff, and students. Spark Health is a health, technology and services corporation with the ability to provide medical, dietary, physical therapy and other health related services augmented with proprietary technology, logistics, and management.

Students will be provided telemedicine access to a physician and/or nurse practitioner via Spark Health kiosks located at the Charter Schools locations during school hours. LPCA is not financially responsible for telemedicine access by students and Microsoft has agreed to pay LPCA's one-time fee of \$50,000 under this pilot program. This program is designed to discourage students from missing school for minor illnesses and doctor's appointments related to these minor illnesses. In addition this provides easy access to a physician and/or nurse practitioner LPCA employees, staff, and students.

#### STUDENT DEMOGRAPHICS

The following table shows demographic information about the composition of the Charter Schools student body, LPCA and the State for the 2016-17 school year.

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TABLE 10 STUDENT DEMOGRAPHICS				
Demographic Identifier	Percentage of Students - Plano Campus	Percentage of Students - Mesquite West Campus	Percentage of Students - LPCA	Percentage of Students – State
African American	33.3%	20.1%	23.6%	12.6%
Hispanic	33.6%	73.4%	62.8%	52.4%
White	24.4%	3.2%	8.8%	28.1%
American Indian	0.3%	0.1%	0.1%	0.4%
Asian	4.7%	1.0%	2.0%	4.2%
Pacific Islander	0.0%	0.0%	0.0%	0.1%
2 or More Races	3.6%	2.3%	2.6%	2.2%
Economically Disadvantaged	39.4%	74.4%	65.1%	59.0%
Non-Educationally Disadvantaged	60.6%	25.6%	34.9%	41.0%
English Language Learners	17.2%	38.8%	33.1%	18.9%
Students w/ Disciplinary Placements	0.0%	0.0%	0.0%	1.4%
At-Risk	46.4%	66.6%	61.2%	50.3%
Total Students w/ Disabilities	8.3%	6.6%	7.0%	8.8%
Student w/ Intellectual Disabilities	2.5%	2.5%	2.9%	3.9%
Student w/ Physical Disabilities	1.9%	1.9%	1.7%	1.9%
Student w/ Intellectual Autism	1.4%	1.4%	0.6%	1.1%
Student w/ Behavioral Disabilities	2.5%	2.5%	1.9%	1.7%

Both Charter Schools receive school wide funding from the Title I, Part A of the Elementary and Secondary Education Act (ESEA).

## COMPETING SCHOOLS

LPCA serves students mainly in Dallas County. All students eligible to attend public school within LPCA's Primary Boundary, which consists of the jurisdictions of the Allen, Anna, Blue Ridge, Celina, Community, Crandall, Cedar Hill, Duncanville, Grand Prairie, Lancaster, Prosper, Dallas, Coppell, Frisco, Farmersville, Ferris, Forney, Highland Park, Kaufman, Mesquite, Lovejoy, McKinney, Melissa, Palmer, Princeton, Red Oak, Royse City, Waxahachie, Wyle Richardson, Carrollton-Farmers Branch, Desoto, Garland, Irving, Plano, Sunnyvale and Rockwall Independent School Districts, are eligible to attend LPCA. As of 11/15/17, over 77% LPCA's scholar body resided in Dallas County.

Charter schools face constant competition for students and there can be no assurance that LPCA will continue to attract and retain the number of students that are needed to generate sufficient revenues for LPCA to make payments representing debt service on the Bonds.

## 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.
- 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.
- Improvement Required: Assigned to a district or campus that did not meet one or more performance index targets.
- 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.

**TABLE 11:  
ACCOUNTABILITY RATINGS**

ACCOUNTABILITY INDEX	INDEX 1: STUDENT ACHIEVEMENT	INDEX 2: STUDENT PROGRESS	INDEX 3: CLOSING PERFORMANCE GAPS	INDEX 4: POSTSECONDARY READINESS	ACCOUNTABILITY RESULTS
Year and Campus or District	Target Score in Parentheses	Target Score in Parentheses	Target Score in Parentheses	Target Score in Parentheses	
2016-17 LPCA	58 (60)	26 (22)	29 (28)	28 (14)	Met Standard
2016-17 Mesquite West Campus (K-5)	38 (60)	23 (32)	19 (28)	11 (12)	Improvement Required <sup>(1)</sup>
2016-17 Mesquite West Campus (6-11)	62 (60)	25 (17)	33 (30)	22 (21)	Met Standard
2016-17 Plano Campus (K-11)	68 (60)	30 (17)	35 (30)	34 (21)	Met Standard
2015-16 LPCA	59 (60)	36 (22)	28 (28)	22 (13)	Met Standard
2015-16 Mesquite West Campus (K-5)	51 (60)	43 (32)	24 (28)	12 (12)	Met Standard <sup>(2)</sup>
2015-16 Mesquite West Campus (6-10)	60 (60)	31 (17)	30(30)	18 (21)	Improvement Required <sup>(3)</sup>
2015-16 Plano Campus (K-10)	66 (60)	35 (17)	32 (30)	28 (21)	Met Standard
2014-15 LPCA	62 (60)	33 (20)	32 (28)	19 (13)	Met Standard
2014-15 Temporary Dallas Campus (K-9)	63 (60)	34 (15)	33 (31)	16 (21)	Improvement Required <sup>(4)</sup>
2014-15 Temporary Mesquite Campus (K-7)	58 (60)	35 (15)	29 (31)	16 (21)	Improvement Required <sup>(4)</sup>
2014-15 Plano Campus (K-9)	66 (60)	29 (15)	32 (31)	23 (21)	Met Standard
2013-14 LPCA	56 (55)	35 (16)	24 (28)	18 (13)	Improvement Required <sup>(5)</sup>
2013-14 Temporary Dallas Campus (K-8)	51 (55)	36 (33)	22 (28)	8 (12)	Improvement Required <sup>(5)</sup>
2013-14 Temporary Mesquite Campus (K-8)	53 (55)	35 (33)	26 (28)	15 (12)	Improvement Required <sup>(5)</sup>
2013-14 Plano Campus (K-8)	77 (55)	42 (33)	34 (28)	48 (12)	Met Standard <sup>(6)</sup>
2012-13 LPCA	50 (50)	21 (21)	46 (55)	N/A	Improvement Required <sup>(7)</sup>
2012-13 Temporary Dallas Campus (K-7)	45 (50)	21 (30)	45 (55)	N/A	Improvement Required <sup>(7)</sup>
2012-13 Temporary Mesquite Campus(K-7)	45 (50)	17 (30)	42 (55)	N/A	Improvement Required <sup>(7)</sup>
2012-13 Temporary Richardson Campus (K-7)	72 (50)	28 (30)	76 (55)	N/A	Improvement Required <sup>(7)</sup>

<sup>(1)</sup> LPCA increased its enrollment and teaching staff. The additional students had educational gaps that could not be filled by LPCA in one year. Leadership changes were made to address these issues.

<sup>(2)</sup> Rating changed due to appeal by LPCA.

<sup>(3)</sup> Missed the Met Standard rating by three points, was able to obtain the Met Standard rating in 2016-17.

<sup>(4)</sup> Both campuses were moved to one location from the nearby churches. Due to the expense of remodeling the elementary building and adding a brand new secondary building additional students were added. The additional students had educational gaps that could not be filled by LPCA in one year.

<sup>(5)</sup> The rigor of the STAAR test in 2013-14 was much higher than the previous year. LPCA's instructional leadership team could not keep up with the additional rigor.

<sup>(6)</sup> Distinction earned in Academic Achievement in Science.

<sup>(7)</sup> After the end of the first year of operation, Senate Bill 2 was passed and for the first time, charter schools in their first year of operation were assigned ratings. Prior to this change, new schools were given a one-year reprieve from accountability ratings. LPCA had not fully implemented the accountability system and had Senate Bill 2 been enacted at the time LPCA's charter was awarded, LPCA would have opened in a manner much more conducive to success.

During LPCA's first five years of operation, the State has completely overhauled the State testing system, as well as continued to change the Accountability System. In every year of LPCA's operation, there has been a major change to the testing system and to the Accountability System. Students who remain at LPCA score higher on the Reading and Math State Assessments of Academic Readiness (STAAR) tests than students in their first year at LPCA. On average, returning students answer four more questions correct than their peers, a reflection of LPCA's foundational work to fill gaps in learning. As LPCA continues to operate,

these gains will only increase each year and students historically underserved will be provided restorative instruction and new opportunities to learn.

The following table compares LPCA's district for 2016-17 with various independent school districts in within 5 mile radius of the Charter Schools.

<b>TABLE 12: 2016-17 TEXAS EDUCATION AGENCY ACCOUNTABILITY RATINGS</b>					
<b>DISTRICT NAME</b>	<b>INDEX 1: STUDENT ACHIEVEMENT (Target Score in Parenthesis)</b>	<b>INDEX 2: STUDENT PROGRESS (Target Score in Parenthesis)</b>	<b>INDEX 3: CLOSING PERFORMANCE GAPS (Target Score in Parenthesis)</b>	<b>INDEX 4: POST-SECONDARY READINESS (Target Score in Parenthesis)</b>	<b>ACCOUNTABILITY RESULTS</b>
LPCA	58 (60)	26 (22)	29 (28)	28 (14)	Met Standard
Dallas ISD <sup>(1)</sup>	67 (60)	43 (22)	39 (28)	80 (60)	Met Standard
Mesquite ISD <sup>(2)</sup>	71 (60)	39 (22)	38 (28)	72 (60)	Met Standard
Plano ISD <sup>(3)</sup>	85 (60)	42 (22)	43 (28)	81 (60)	Met Standard
Meadow Oaks Academy	N/A	N/A	N/A	N/A	N/A
John Paul II High School	N/A	N/A	N/A	N/A	N/A
Bethany Christian School	N/A	N/A	N/A	N/A	N/A
Focus on the Future	N/A	N/A	N/A	N/A	N/A
St. Mark Catholic School	N/A	N/A	N/A	N/A	N/A

<sup>(1)</sup> Dallas ISD has approximately 157,787 students enrolled for the 2016-17 school year.

<sup>(2)</sup> Mesquite ISD has approximately 40,945 students enrolled for the 2016-17 school year.

<sup>(3)</sup> Plano ISD has approximately 53,931 students enrolled for the 2016-17 school year

## FEDERAL ACCOUNTABILITY

On December 10, 2015, President Obama signed the Every Student Succeeds Act ("ESSA") into law, which reauthorizes the Elementary and Secondary Education Act of 1965 (the "1965 Act") and replaces, in whole, the No Child Left Behind Act ("NCLB") of 2001. In December 2016, the Department of Education issued final regulations regarding implementation of ESSA. The ESSA provides states with certain flexibility to design their own strategic plan and accountability system.

In the Spring of 2017, TEA gathered input from various stakeholders to assist in the development of the federally compliant accountability system. During the 85th Legislature's regular session in 2017, the Texas legislature passed House Bill 22, which enumerates a new accountability system termed the "A-F" system. Under the new accountability system, districts will begin to receive A-F performance ratings in August 2018. Individual schools will receive A-F performance ratings in August 2019. Texas' proposed ESSA plan (the "Consolidated State Plan") was submitted to the DOE on September 25, 2017. The DOE has 120 days following submission to either accept or reject the proposed plan. However, once submitted, the DOE has little room to deny states' plans as long as the overall plan requirements of ESSA are satisfied.

Until the 2018-19 school year, Texas currently operates under the defunct NCLB Program and is beginning its transition to implement the requirements under ESSA.

In 2011, the U.S. Department of Education invited each State educational agency to request flexibility regarding specific requirements of the NCLB in exchange for rigorous and comprehensive state-developed plans designed to improve educational outcomes for all students, close achievement gaps, increase equity, and improve the quality of instruction. The Texas Education Agency's flexibility request was approved on Sept. 30, 2013, allowing TEA to replace federal "Adequate Yearly Progress" ("AYP") calculations and performance targets with the State's accountability rating system.

The TEA requested a waiver from certain aspects of NCLB to the United States Department of Education ("USDE") in 2013, which included a request to use the State's new accountability system to evaluate campuses and districts in place of AYP. The request was approved. In 2014, the TEA submitted an amended request incorporating final guidelines for teacher and principal evaluation and support systems that met the requirements of ESEA flexibility, which was approved. This waiver of the federal Accountability Performance Targets/Standard Setting Procedures has allowed TEA to replace the current AYP calculations and performance targets with the State's accountability rating system.



Under the NCLB, the State was required to provide interventions to improve identified low performing schools. Beginning in the 2013-14 school year, the TEA identified “*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. For the 2015-16 and 2016-17 school years, priority schools having improved in performance to the point they no longer are identified as “improvement required” are classified as “priority progress” schools. Focus schools having improved in performance to the point they no longer are identified as “improvement required” are classified as “focus progress” schools.

TEA is utilizing the 2017-2018 school year as a transition year as it implements the requirements under ESSA for school year 2018-19. During the transition year, TEA will identify new priority and focus schools, continue to develop an aligned system of state and federal identification and interventions, and provide technical assistance and resources. Priority and focus schools are required to designate a District Coordinator of School Improvement (“DCSI”) and to begin and/or continue engaging in the Texas Accountability Intervention System (“TAIS”) continuous improvement framework that is aligned around the ESEA turnaround principles and the Critical Success Factors (“CSFs”). The district is responsible for assisting identified schools in all aspects of the school improvement process which include data analysis, needs assessment, and developing, implementing, and monitoring a plan for improvement

The Plano Campus was identified as “focus progress” school for 2017-18.

Additional information regarding priority and focus schools can be found on the TEA's website at [www.tea.texas.gov](http://www.tea.texas.gov).

## **FINANCIAL AND OPERATIONS INFORMATION**

### **Statement of Financial Position**

The following is derived from LPCA’s audited financial statements for fiscal years 2017, 2016, 2015, 2014 and 2013.

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	Fiscal Year Ended August 31,				
	2017	2016	2015	2014	2013
<u>Assets</u>					
<u>Current Assets</u>					
Cash and cash equivalents	\$ 783,132	\$ 472,351	\$ 483,524	\$ 259,439	\$ 421,943
Due from governments	231,764	136,216	87,061	196,727	-
Other receivables	635,414	1,303	93,843	-	300,948
Prepaid expenses	-	38,363	-	-	-
Total Current Assets	\$ 1,650,310	\$ 648,233	\$ 664,428	\$ 456,166	\$ 722,891
Property and equipment, net	\$ 585,339	\$ 557,687	\$ 86,943	\$ 60,305	\$ 120,619
Other assets	\$ -	\$ 75,000	\$ -	\$ 854	\$ 3,886
Total assets	2,235,649	\$ 1,280,920	\$ 751,371	\$ 517,325	\$ 847,396
<u>Liabilities and Net Assets</u>					
<u>Current Liabilities</u>					
Note payable-current portion	\$ 167,664	\$ 159,427	\$ 151,544	\$ 144,151	\$ 103,548
Capital lease obligation-current portion	46,797	43,439	-	-	-
Accounts payable	382,655	269,679	203,279	113,012	131,066
Accrued expenses	3,148	108,211	-	-	-
Accrued interest payable	5,370	5,370	8,678	8,678	-
Deferred revenue	454,005	30,255	-	-	63,128
Total current liabilities	\$ 1,059,193	\$ 616,381	\$ 363,501	\$ 265,841	\$ 297,742
<u>Long-term Liabilities</u>					
Note Payable	\$ 221,837	\$ 389,507	\$ 548,899	\$ 700,551	\$ 844,560
Capital lease obligation	160,213	206,561	-	-	-
Total long-term liabilities	\$ 382,050	\$ 596,068	\$ 548,899	\$ 700,551	\$ 844,560
Total Liabilities	\$ 1,441,243	\$ 1,212,449	\$ 912,400	\$ 966,392	\$ 1,142,302
<u>Net assets</u>					
Unrestricted	\$ 2,000	\$ 21,056	\$ (161,029)	\$ -	\$ -
Temporarily restricted	792,406	47,415	-	(449,067)	(294,906)
Total Net Assets	\$ 792,406	\$ 68,471	\$ (161,029)	\$ (449,067)	\$ (294,906)
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,235,649</b>	<b>\$ 1,280,920</b>	<b>\$ 751,371</b>	<b>\$ 517,325</b>	<b>\$ 847,396</b>
<u>Days Cash on Hand<sup>(1)</sup></u>					
Cash and Cash Equivalents	\$ 783,132	\$ 472,351	\$ 483,524	\$ 259,439	\$ 421,943
Total Expenses	12,268,226	11,329,151	10,583,805	8,801,522	7,200,972
Depreciation	33,000	33,015	67,009	66,884	54,313
<b>Days Cash on Hand</b>	<b>23.3</b>	<b>15.3</b>	<b>16.8</b>	<b>10.8</b>	<b>21.5</b>

<sup>(1)</sup> See “SECURITY FOR THE BONDS – Liquidity” herein for definition of Days Cash on Hand. LPCA’s Board previously adopted a policy to increase its “cash and cash equivalents” over time.

*[Remainder of page intentionally left blank]*

## Statements of Activities

The following is derived from LPCA's audited financial statements for fiscal years 2017, 2016, 2015, 2014, and 2013.

	Fiscal Year Ended August 31,				
	2017	2016	2015	2014	2013
<b>Revenues:</b>					
State Revenues	\$11,573,577	\$10,374,124	\$9,879,350	\$7,658,685	\$6,107,398
Enrollment	1,362	1,187	1,252	980	820
Enrollment Growth %	14.7%	-5.2%	27.8%	19.5%	-
Avg. Attendance %	95.88% <sup>(2)</sup>	96.39% <sup>(2)</sup>	96.18% <sup>(2)</sup>	96.52% <sup>(2)</sup>	96.16% <sup>(2)</sup>
ADA	1,272	1,115	1,159	933	784
Weighted ADA	1,981	1,754	1,751	1,385	1,150
Weighted ADA / ADA	1.56	1.57	1.51	1.48	1.47
Funding / ADA	9,117	9,305	8,526	8,205	7,791
Funding / WADA	5,854	5,913	5,642	5,529	5,311
Change in Funding / ADA	-2.0%	9.1%	3.9%	5.3%	0.0%
Change in Funding / WADA	-1.0%	4.8%	2.0%	4.1%	-
Local & Intermediate Revenues	349,545	288,161	219,639	116,606	56,185
Federal Revenues	1,071,039	896,368	772,854	808,942	742,483
Change in Local Funding	21.3%	31.2%	88.4%	107.5%	-
Change in Federal Funding	19.5%	16.0%	-4.5%	9.0%	-
<b>Total Revenues</b>	<b>\$ 12,994,161</b>	<b>\$ 11,558,653</b>	<b>\$ 10,871,843</b>	<b>\$ 8,584,233</b>	<b>\$ 6,906,066</b>
<b>Expenses (w/ Corresponding Function Code)</b>					
11 Instruction	\$5,935,129	\$5,303,000	\$5,378,181	\$4,375,349	\$3,858,910
13 Curriculum & staff development	622,666	530,383	386,477	252,122	390,794
21 Instructional leadership	899	3,458	38,321	261,084	128,489
23 School leadership	802,781	747,299	947,659	920,776	879,104
31 Guidance, counseling & evaluation services	290,127	260,117	252,250	160,691	80,599
33 Health services	133,533	130,497	159,289	112,043	70,829
34 Student Transportation	1,950	-	-	-	-
35 Food services	562,265	502,584	490,979	397,214	25,987
36 Cocurricular/extracurricular activities	120,251	167,359	134,484	147,648	53,245
41 General administration	484,151	475,036	358,495	520,776	671,599
51 Plant maintenance & operations	2,525,895	2,445,804	1,949,636	1,324,104	827,188
52 Security & monitoring services	19,954	22,284	8,871	48,135	7,339
53 Data processing services	559,398	542,735	354,402	224,368	132,338
61 Community services	163,498	163,835	80,745	-	455
71 Debt service	39,344	29,156	39,998	53,710	74,096
81 Fundraising	3,335	5,604	4,018	3,502	-
<b>Total Expenditures</b>	<b>\$12,268,226</b>	<b>\$11,329,153</b>	<b>\$ 10,583,805</b>	<b>\$ 8,801,522</b>	<b>\$ 7,200,972</b>
<b>Change in Net Assets</b>	<b>\$794,406</b>	<b>\$ 229,500</b>	<b>\$ 288,038</b>	<b>\$ (217,289)</b>	<b>\$ (294,906)</b>
<b>Cash Flow Available For Debt Service<sup>(1)</sup></b>					
Change in Net Assets	\$794,406	\$229,502	\$288,038	\$(217,289)	\$(294,906)
Depreciation	33,000	33,015	67,009	66,884	54,313
Debt Service	39,344	29,156	39,998	53,710	74,096
Lease Adjustments	1,840,494	1,853,926	1,505,884	85,360	-
<b>Cash Flow Available for Debt Service</b>	<b>\$2,707,244</b>	<b>\$2,145,599</b>	<b>\$1,900,929</b>	<b>\$(11,335)</b>	<b>\$(166,497)</b>
<b>Debt Service Coverage</b>	<b>1.5x</b>	<b>1.2x</b>	<b>1.3x</b>	<b>n/a</b>	<b>n/a</b>

<sup>(1)</sup> Coverage based on annual lease payments.

<sup>(2)</sup> Numbers submitted through the Public Education Information Management System (PEIMS) and approved by TEA.

## AUDITED FINANCIAL INFORMATION

Audited financial statements for LPCA for the fiscal years ending August 31, 2017, 2016, 2015, 2014, and 2013 are included herein as **APPENDIX C**.

## DEBT SUMMARY

After the issuance of the Bonds and the application of the proceeds thereof, LPCA does not anticipate having any other long-term debt or capitalized leases, other than the Portables Lease (as defined below), that remain outstanding other than the Series 2018 Notes evidencing the payment obligations on the Bonds.

LPCA has several outstanding equipment leases with Data Sales Co., Inc., Crestmark Equipment Finance on behalf of ADT, TEQlease, Inc. and Hewlett-Packard Financial Services Company for computers and other classroom technology. Each equipment lease is secured by the equipment being financed.

LPCA also has several license and software agreements with Skyward, Inc., New Tech Network, KaBoom!, and Preferred Meals Systems which require monthly payments.

LPCA has a \$948,108.14 line of credit with Vintage Bank (now Interbank) dated September 15, 2013 (the "Line of Credit"). The Line of Credit is secured by furniture, fixtures, and equipment of LPCA. The Line of Credit is being paid in full with the proceeds of the Bonds.

LPCA has entered into an agreement with TFQ-Texas, L.P. dated July 22, 2016 for the use of 6 portable classrooms (the "Portables Lease"). The Portables Lease is has a term of 60 months and has a monthly payment of \$4,899.02 for a total of \$251,618.78. LPCA provided \$60,000 as a down payment on the Portables Lease. LPCA has the option to purchase the portable classrooms at the end of the 60-month term for \$1.00. The Portables Lease is secured by the portable classrooms. After completion of the Project, LPCA intends to buy the portables for \$1.00.

## CONFLICTS POLICY

LPCA adopted an Ethics-Conflict of Interest Disclosure Policy (the "Policy"). The purpose of the policy is to protect LPCA when entering into a transaction or arrangement that might benefit the private interest of an officer or director of LPCA or certain relatives. Pursuant to the policy, if a member of the Board or an Officer (a "Local Public Official"), or a person related to a Local Public Official in the first degree by either affinity or consanguinity has a substantial interest in a business entity or in real property, the Local Public Official, before a vote or decision on any matter involving the business entity or the real property, is required to file an affidavit with an official Board record keeper stating the nature and extent of the interest and to abstain from further participation in the matter if:

- (i) In the case of a substantial interest in a business entity, the action on the matter will have a special economic effect on the business entity that is distinguishable from the effect on the public; or
- (ii) In the case of a substantial interest in real property, it is reasonably foreseeable that an action on the matter will have a special economic effect on the value of the property, distinguishable from its effect on the public.

The Board may contract with a business entity in which a Member has a substantial interest if the Member follows the disclosure and abstention procedure set out above.

A person has a substantial interest in a business entity if any of the following is the case:

- (i) The person owns at least:
  - (a) Ten percent of the voting stock or shares of the business entity, or
  - (b) Either ten percent or \$15,000 of the fair market value of the business entity.
- (ii) Funds received by the person from the business entity exceed 10% of the person's gross income for the previous year. A person has a substantial interest in real property if the interest is an equitable or legal ownership with a fair market value of \$2,500 or more. The Local Public Official is considered to have a substantial interest if a person related in the first degree by either affinity or consanguinity to the Local Public Official has a substantial interest as defined above.

Except as provided above, a Local Public Official may not knowingly:

- (i) Participate in a vote or decision on a matter involving a business entity or real property in which the Local Public Official has a substantial interest if it is reasonably foreseeable that an action on the matter will have a special economic effect on the business entity or value of the property that is distinguishable from the effect on the public.
- (ii) Act as surety for a business entity that has a contract, work or business with LPCA.
- (iii) Act as surety on any official bond required of an officer of LPCA.

Local Government Officers (defined below) are required to file certain conflicts disclosure statements, with respect to an applicable vendor if the vendor enters into a contract with LPCA or LPCA is considering entering into a contract with the vendor; and the vendor:

- (i) Has an employment or other business relationship with the Local Government Officer or a family member of the officer that results in the officer or family member receiving taxable income, other than investment income, that exceeds \$2,500

during the 12-month period preceding the date that the officer becomes aware that a contract has been executed or LPCA is considering entering into a contract with the person; or

(ii) Has given to the Local Government Officer or a family member of the officer one or more gifts that have an aggregate value of more than \$250 in the 12-month period preceding the date the officer becomes aware that such a contract has been executed or LPCA is considering entering into a contract with the vendor.

“Local Government Officer” means among others, a member of the governing body of LPCA; a director, superintendent, administrator, president, or other person designated as the executive officer of LPCA; an employee of LPCA who has the authority to approve contracts on behalf of LPCA, including a person designated as the representative of LPCA under Texas law.

Pursuant to Texas law, Board members (and any officer, employee or agent of the charter holder who exercises any discretion in the procurement process) also must file conflicts disclosure statements with respect to persons who seek to or who enter into a contract with LPCA or with whom LPCA is considering entering into a contract if the person: (A) has an employment or other business relationship with the Board member/officer/employee/agent or a family member of the Board member/officer/employee/agent that results in the Board member or family member receiving taxable income, other than investment income, that exceeds \$2,500 during the 12-month period preceding the date that the Board member becomes aware that (i) such contract has been executed, or (ii) LPCA is considering entering into a contract with the person; or (B) has given to the Board member or a family member of the Board member one or more gifts that have an aggregate value of more than \$100 in the 12-month period preceding the date the Board member becomes aware that: (i) such contract has been executed; or (ii) LPCA is considering entering into a contract with the person.

#### **CERTAIN BUSINESS RELATIONSHIPS**

Firms in which members of the Board of Directors or officers of LPCA have an interest, economic or otherwise, may engage from time to time in transactions with LPCA. In addition, LPCA may, from time to time, hire personnel related to members of the Board or officers of LPCA. Any such relationships must, and do, satisfy the conflicts policy described above.

#### **INSURANCE COVERAGE**

In the Master Indenture, LPCA has covenanted at all times to keep and maintain its facilities 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 of the facilities and consistent with the requirements of State law, all as further described in the Master Indenture. Additionally, LPCA has covenanted to review each year the insurance carried by LPCA with respect to LPCA and the facilities and, to the extent feasible, to carry insurance insuring against the risks and hazards described in the Master Indenture to the same extent that other entities comparable to LPCA and owning or operating facilities of the size and type comparable to the facilities carry such insurance. LPCA has covenanted to retain an Independent Insurance Consultant (as defined in the Master Indenture) at least once every two years for the purpose of reviewing the insurance coverage of, and the insurance required for, LPCA and the facilities and making recommendations respecting the types, amounts and provisions of insurance that should be carried with respect to LPCA and the facilities. The insurance requirements of the Master Indenture will 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.

LPCA currently maintains property insurance with Wortham Insurance & Risk Management in the aggregate amount of \$19,575,000 on its principal school buildings and insurance. LPCA also maintains with Wortham Insurance & Risk Management commercial general liability insurance in the aggregate amount of \$2,000,000 (\$per occurrence), automobile liability insurance in the aggregate of \$1,000,000, as well as employer's liability insurance in the aggregate of \$1,000,000. Finally, LPCA maintains flood insurance with Philadelphia Indemnity Insurance Company.

#### **PROJECTED REVENUES AND EXPENDITURES**

This Limited Offering Memorandum contains certain “forward-looking” statements of the type described in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Although LPCA believes that the assumptions upon which the forward-looking statements contained in this Limited Offering Memorandum 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 LPCA involve risks and uncertainties, many of which are outside of LPCA's control and any one of which, or a combination of which, could materially affect LPCA's results with respect to the charter school's operations. Factors that could cause actual results to differ from those expected include, but are not limited to, general economic conditions; the willingness of the State to fund public schools including charter schools at present or increased levels; competitive conditions within the charter school's service area; lower-than-projected enrollment; unanticipated expenses; changes in government regulation including changes in the law governing charter schools in Texas; future claims for accidents

against LPCA and the extent of insurance coverage for such claims; and other risks discussed in this Limited Offering Memorandum. See “**RISK FACTORS**” above.

LPCA is providing the following Projected Revenues and Expenses table for illustrative purposes only. These projections have been prepared by LPCA with assistance from its Financial Advisor, based on LPCA’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. LPCA’s projections have not been independently verified by any party. LPCA’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 LPCA pertinent to the Bonds. The Underwriter has not independently verified LPCA’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 LPCA WILL REALIZE REVENUES IN AMOUNTS SUFFICIENT TO MAKE ALL REQUIRED DEBT SERVICE PAYMENTS ON THE BONDS. THE REALIZATION OF FUTURE REVENUES DEPENDS ON, AMONG OTHER THINGS, THE MATTERS DESCRIBED IN “**RISK FACTORS**,” AND FUTURE CHANGES IN ECONOMIC AND OTHER CONDITIONS THAT ARE UNPREDICTABLE AND CANNOT BE DETERMINED AT THIS TIME. THE UNDERWRITER MAKES NO REPRESENTATION AS TO THE ACCURACY OF THE PROJECTIONS CONTAINED HEREIN, NOR AS TO THE ASSUMPTIONS ON WHICH THE PROJECTIONS ARE BASED.

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<i>Proforma Budget Summary - Debt Service Coverage and Days Cash on Hand <sup>1</sup></i>						
		Year 1	Year 2	Year 3	Year 4	Year 5
		Proposed Budget	Proposed	Proposed	Proposed	Proposed
Fiscal Year August 31 <sup>1</sup>		2017-18	2018-19	2019-20	2020-21	2021-22
Enrollment		1,395	1,703	1,793	1,823	1,843
Average Daily Attendance %		96.0%	96.0%	96.0%	96.0%	96.0%
Estimated Average Daily Attendance		1,339 ADA	1,635 ADA	1,721 ADA	1,750 ADA	1,769 ADA
Estimated State Funded per ADA		\$ 9,048	\$ 9,229	\$ 9,414	\$ 9,602	\$ 9,794
<b>REVENUES</b>						
5700	Local and Intermediate Sources	\$ 82,836	\$ 80,000	\$ 80,000	\$ 80,000	\$ 80,000
5800	State Program Revenues	12,117,082	15,088,242	16,203,337	16,803,936	17,328,056
	Misc. Revenues (Net Insurance Settlement - Plano)	406,639	-	-	-	-
<b>TOTAL REVENUES</b>		<b>\$ 12,606,556</b>	<b>\$ 15,168,242</b>	<b>\$ 16,283,337</b>	<b>\$ 16,883,936</b>	<b>\$ 17,408,056</b>
<b>EXPENSES</b>						
11	Instruction	\$ 6,131,712	\$ 6,749,346	\$ 7,019,333	\$ 7,249,720	\$ 7,439,714
13	Curriculum Development & Inst. Staff Develop.	617,513	636,037	655,118	674,772	695,015
21	Instructional Leadership	245	3,500	4,000	4,500	5,000
23	School Leadership	643,832	663,147	683,041	703,532	724,638
31	Guidance, Counseling & Evaluation Services	218,611	225,169	231,624	238,573	245,730
33	Health Services	141,000	145,230	149,587	154,075	158,697
34	Student Transportation	3,000	3,500	3,600	3,700	3,800
35	Food Services	63,209	65,105	67,058	69,070	71,142
36	Cocurricular/Extracurricular Activities	10,007	50,000	50,000	50,000	50,000
41	General Administration	662,225	700,975	722,005	683,565	704,072
51	Plant Maintenance and Operations <sup>2</sup>	1,741,413	885,139	966,939	1,111,293	1,199,878
52	Security and Monitoring Services	13,893	25,000	30,000	35,000	40,000
53	Data Processing Services	684,302	684,709	458,000	471,740	485,892
61	Community Services	161,009	165,000	170,000	175,000	180,000
81	Fund Raising Activities	3,570	5,000	5,000	5,000	5,000
<b>TOTAL EXPENSES</b>		<b>\$ 11,095,540</b>	<b>\$ 11,006,857</b>	<b>\$ 11,215,305</b>	<b>\$ 11,629,540</b>	<b>\$ 12,008,578</b>
<b>Revenues Available for Debt Service</b>		<b>\$ 1,511,016</b>	<b>\$ 4,161,386</b>	<b>\$ 5,068,032</b>	<b>\$ 5,254,396</b>	<b>\$ 5,399,478</b>
71	Series 2017 Bond Debt Service <sup>3</sup>	\$ 1,083,041	\$ 2,770,775	\$ 2,785,300	\$ 2,782,288	\$ 2,785,525
	Less: Capitalized Interest	(1,083,041)				
<b>Total Net Debt Service</b>		<b>\$ -</b>	<b>\$ 2,770,775</b>	<b>\$ 2,785,300</b>	<b>\$ 2,782,288</b>	<b>\$ 2,785,525</b>
<b>Debt Service Coverage</b>		<b>-</b>	<b>1.50x</b>	<b>1.82x</b>	<b>1.89x</b>	<b>1.94x</b>
<b>Beginning Cash Balance <sup>4</sup></b>						
		<b>\$ 783,132</b>	<b>\$ 2,294,148</b>	<b>\$ 3,684,759</b>	<b>\$ 5,967,491</b>	<b>\$ 8,439,599</b>
<b>Surplus / Deficit</b>		<b>\$ 1,511,016</b>	<b>\$ 1,390,611</b>	<b>\$ 2,282,732</b>	<b>\$ 2,472,108</b>	<b>\$ 2,613,953</b>
<b>Ending Cash Balance</b>		<b>\$ 2,294,148</b>	<b>\$ 3,684,759</b>	<b>\$ 5,967,491</b>	<b>\$ 8,439,599</b>	<b>\$ 11,053,552</b>
<b>Days Cash on Hand</b>		<b>75</b>	<b>122</b>	<b>194</b>	<b>265</b>	<b>336</b>

**Notes:**

1. Revenue and Expenses per LPCA's 5 Year Forecast.
2. Lease expense provided by the LPCA and reflects six months (Sept - Feb) of actual lease expense equal to \$935,692 for fiscal 2018.
3. Debt service per final pricing.
4. Beginning cash balance per 8/31/2017 audited statement of financial position.

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## **APPENDIX B**

### **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 their entirety, with assistance from counsel as necessary, for a complete understanding of their terms. During the 85th Legislature of the State, changes to the laws affecting charter schools were made (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 the 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, only the Current Law is summarized below. FURTHER, POTENTIAL INVESTORS SHOULD NOTE THAT THE PROVISIONS SUMMARIZED BELOW ARE SUBJECT TO CHANGE, AND THIS SUMMARY ONLY PERTAINS TO CERTAIN ASPECTS OF CURRENTLY EXISTING LAW. See "RISK FACTORS — 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. 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)**

(a) In accordance with this subchapter, the commissioner may grant a charter on the application of an eligible entity for an open-enrollment charter school to operate in a facility of a commercial or nonprofit entity, an eligible entity, or a school district, including a home-rule school district. In this subsection, "eligible entity" means:

- (1) an institution of higher education as defined under Section 61.003;
- (2) a private or independent institution of higher education as defined under Section 61.003;
- (3) an organization that is exempt from taxation under Section 501(c)(3), Internal Revenue Code of 1986 (26 U.S.C. Section 501(c)(3)); or
- (4) a governmental entity.

(b) After thoroughly investigating and evaluating an applicant, the commissioner, in coordination with a member of the State Board of Education designated for the purpose by the chair of the board, may grant a charter for an open-enrollment charter school only to an applicant that meets any financial, governing, educational, and operational standards adopted by the commissioner under this subchapter, that the commissioner determines is capable of carrying out the responsibilities provided by the charter and likely to operate a school of high quality, and that:

(1) has not within the preceding 10 years had a charter under this chapter or a similar charter issued under the laws of another state surrendered under a settlement agreement, revoked, denied renewal, or returned; or

(2) 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 this chapter or a similar charter issued under the laws of another state surrendered under a settlement agreement, revoked, denied renewal, or returned.

(b-0) The commissioner shall notify the State Board of Education of each charter the commissioner proposes to grant under this subchapter. 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.

(b-1) In granting charters for open-enrollment charter schools, the commissioner may not grant a total of more than:

- (1) 215 charters through the fiscal year ending August 31, 2014;
- (2) 225 charters beginning September 1, 2014;
- (3) 240 charters beginning September 1, 2015;
- (4) 255 charters beginning September 1, 2016;
- (5) 270 charters beginning September 1, 2017; and
- (6) 285 charters beginning September 1, 2018.

(b-2) Beginning September 1, 2019, the total number of charters for open-enrollment charter schools that may be granted is 305 charters.

(b-3) 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.

(b-4) Notwithstanding 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 of this subsection 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, 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:

(1) the charter holder is currently evaluated under the standard accountability procedures for evaluation under Chapter 39 and received a district rating in the highest or second highest performance rating category under Subchapter C, Chapter 39, 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;

(2) the charter holder provides written notice to the commissioner of the establishment of any campus under this subsection in the time, manner, and form provided by rule of the commissioner; and

(3) not later than the 60th day after the date the charter holder provides written notice under Subdivision (2), the commissioner does not provide written notice to the charter holder that the commissioner has determined that the charter holder does not satisfy the requirements of this section.

(b-5) The initial term of a charter granted under this section is five years.

(b-6) The commissioner shall adopt rules to modify criteria for granting 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.

(b-7) A charter granted under this section for a dropout recovery school is not considered for purposes of the limit on the number of charters for open-enrollment charter schools imposed by this section. 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).

(b-8) In adopting any financial standards under this subchapter that an applicant for a charter for an open-enrollment charter school must meet, the commissioner shall not:

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

(2) 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.

(c) If the facility to be used for an open-enrollment charter school is a school district facility, the school must be operated in the facility in accordance with the terms established by the board of trustees or other governing body of the district in an agreement governing the relationship between the school and the district.

(d) An educator employed by a school district before the effective date of a charter for an open-enrollment charter school operated at a school district facility may not be transferred to or employed by the open-enrollment charter school over the educator's objection.

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

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

(1) an eligible entity under Section 12.101(a)(3) 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; or

(2) an entity that has operated one or more charter schools established under this subchapter or Subchapter C or E 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.

(b) A charter holder granted a charter for an open-enrollment charter school under Subsection (a) 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.

(c) The initial term of a charter granted under this section is five years.

(d) The commissioner shall adopt rules to modify criteria for granting a charter for an open-enrollment charter school under this section to the extent necessary to address changes in performance rating categories under Subchapter C, Chapter 39.

**Charter Authorizer Accountability(Texas Education Code § 12.1013)**

(a) The commissioner shall select a center for education research authorized by 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, Chapter 39.

(b) 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:

(1) open-enrollment charters granted by the State Board of Education;

(2) open-enrollment charters granted by the commissioner;

(3) charters granted by school districts; and

(4) matched traditional campuses.

(c) The report must include the performance of each public school in each class described by Subsection (b) as measured by the achievement indicators adopted under Sections 39.053(c) and student attrition rates.

(d) The report must also:

- (1) 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
- (2) rate the aggregate performance of elementary, middle or junior high, and high schools within each class described by Subsection (b) 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.

(e) 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. This subsection applies only 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)**

(a) The commissioner may grant under 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.

(b) The limit on the number of charters for open-enrollment charter schools imposed by Section 12.101 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. Not more than five charters may be granted for schools described by this subsection.

(c) For purposes of the applicability of state and federal law, including a law prescribing requirements concerning students with disabilities, an open-enrollment charter school described by Subsection (a) is considered the same as any other school for which a charter is granted under Section 12.101.

(d) 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 Subsection (a) regardless of whether a disproportionate number of the school's students are students with disabilities.

(e) This section does not authorize an open-enrollment charter school to discriminate in admissions or in the services provided based on the presence, absence, or nature of an applicant's or student's disability.

(f) The commissioner and the State Board for Educator Certification shall adopt rules as necessary to administer this section.

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

An open-enrollment charter school: (i) shall provide 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 to the extent authorized under Sections 12.1141, and 12.115 of the Texas Education Code and Chapter 39A of the Texas Education Code; and (iv) does not have authority to impose taxes.

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

(a) Except as provided by Subsection (b) or (c), an open-enrollment charter school is subject to federal and state laws and rules governing public schools and to municipal zoning ordinances governing public schools.

(b) An open-enrollment charter school is subject to this code and rules adopted under this code only to the extent the applicability to an open-enrollment charter school of a provision of this code or a rule adopted under this code is specifically provided.

(c) Notwithstanding Subsection (a), 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 a municipal zoning ordinance governing public schools.

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

(a) An open-enrollment charter school has the powers granted to schools under this title.

(b) An open-enrollment charter school is subject to:

- (1) a provision of this title establishing a criminal offense; and
- (2) a prohibition, restriction, or requirement, as applicable, imposed by this title or a rule adopted under this title, relating to:
  - (A) the Public Education Information Management System (PEIMS) to the extent necessary to monitor compliance with this subchapter as determined by the commissioner;
  - (B) criminal history records under Subchapter C, Chapter 22;
  - (C) reading instruments and accelerated reading instruction programs under Section 28.006;
  - (D) accelerated instruction under Section 28.0211;
  - (E) high school graduation requirements under Section 28.025;
  - (F) special education programs under Subchapter A, Chapter 29;
  - (G) bilingual education under Subchapter B, Chapter 29;
  - (H) prekindergarten programs under Subchapter E or E-1, Chapter 29;
  - (I) extracurricular activities under Section 33.081;
  - (J) discipline management practices or behavior management techniques under Section 37.0021;
  - (K) health and safety under Chapter 38;
  - (L) public school accountability under Subchapters B, C, D, F, G, and J, Chapter 39 and Chapter 39A;
  - (M) the requirement under Section 21.006 to report an educator's misconduct;
  - (N) intensive programs of instruction under Section 28.0213; and (0) the right of a school employee to report a crime, as provided by Section 37.148.

(b-1) During the first three years an open-enrollment charter school is in operation, the agency shall assist the school as necessary in complying with requirements under Subsection (b)(2)(A).

(c) An open-enrollment charter school is entitled to the same level of services provided to school districts by regional education service centers. The commissioner shall adopt rules that provide for the representation of open-enrollment charter schools on the boards of directors of regional education service centers.

(d) The commissioner 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)**

With respect to the operation of an open-enrollment charter school, the governing body of a charter holder and the governing body of an open-enrollment charter school are considered to be governmental bodies for purposes of Chapters 551 and 552, Government Code.

With respect to the operation of an open-enrollment charter school, any requirement in Chapter 551 or 552, Government Code, or another law that concerns open meetings or the availability of information, that applies to a school district, the board of trustees of a school district, or public school students applies 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)**

(a) With respect to the operation of an open-enrollment charter school, an open-enrollment charter school is considered to be a local government for purposes of Subtitle C, Title 6, Local Government Code, and Subchapter J, Chapter 441, Government Code.

(b) 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 state law.

(c) Any requirement in Subtitle C, Title 6, Local Government Code, or Subchapter J, Chapter 441, 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 except that the records of an open-enrollment charter school that ceases to operate shall be transferred in the manner prescribed by Subsection (d).

(d) The records of an open-enrollment charter school that ceases to operate shall 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 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:

- (1) maintaining the records;
- (2) making the records readily accessible to students, parents, former school employees, and other persons entitled to access; and
- (3) complying with applicable state or federal law restricting access to the records.

(e) If the charter holder of an open-enrollment charter school that ceases to operate or an officer or employee of such a school refuses to transfer school records in the manner specified by the commissioner under Subsection (d), the commissioner may ask the attorney general to petition a court for recovery of the records. If the court grants the petition, the court shall award attorney's fees and court costs to the state.

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

(a) This section applies to an open-enrollment charter school unless the school's charter otherwise describes procedures for purchasing and contracting and the procedures are approved by the commissioner.

(b) An open-enrollment charter school is considered to be:

- (1) a governmental entity for purposes of:
  - (A) Subchapter D, Chapter 2252, Government Code; and
  - (B) Subchapter B, Chapter 271, Local Government Code;
- (2) a political subdivision for purposes of Subchapter A, Chapter 2254, Government Code; and
- (3) a local government for purposes of Sections 2256.009-2256.016, Government Code.

(c) To the extent consistent with this section, a requirement in a law listed in this section that applies to a school district or the board of trustees of a school district applies 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)**

(a) 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 Chapter 171, Local Government Code. For purposes of that chapter:



- (1) a member of the governing body of a charter holder or a member of the governing body or officer of an open-enrollment charter school is considered to have a substantial interest in a business entity if a person related to the member or officer in the third degree by consanguinity or affinity, as determined under Chapter 573, Government Code, has a substantial interest in the business entity under Section 171.002, Local Government Code;
- (2) notwithstanding any provision of Section 12.1054(1), an employee of an open-enrollment charter school rated acceptable or higher under Section 39.054 for at least two of the preceding three school years may serve as a member of the governing body of the charter holder of the governing body of the school if the employees do not constitute a quorum of the governing body or any committee of the governing body; however, all members shall comply with the requirements of Sections 171.003-171.007, Local Government Code.

(b) To the extent consistent with this section, a requirement in a law listed in this section that applies to a school district or the board of trustees of a school district applies to an open-enrollment charter school, the governing body of a charter holder, or the governing body of an open-enrollment charter school.

#### **Immunity from Liability(Texas Education Code § 12.1056)**

(a) In matters related to operation of an open-enrollment charter school, an open-enrollment charter school or charter holder is immune from liability and suit to the same extent as a school district, and the employees and volunteers of the open-enrollment charter school or charter holder are immune from liability and suit 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 and suit to the same extent as a school district trustee.

(b) An open-enrollment charter school is a governmental unit as defined by Section 101.001, Civil Practice and Remedies Code, and is subject to liability only as provided by Chapter 101, Civil Practice and Remedies Code, and only in the manner that liability is provided by that chapter for a school district.

(c) An open-enrollment charter school is a local government as defined by Section 102.001, Civil Practice and Remedies Code, and a payment on a tort claim must comply with Chapter 102, Civil Practice and Remedies Code.

(d) An open-enrollment charter school is a local governmental entity as defined by Section 271.151, Local Government Code, and is subject to liability on a contract as provided by Subchapter I, Chapter 271, Local Government Code, and only in the manner that liability is provided by that subchapter for a school district.

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

(a) An employee of an open-enrollment charter school who qualifies for membership in the Teacher Retirement System of Texas shall be covered under the system to the same extent a qualified employee of a school district is covered.

(b) 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..

#### **Applicability of Other Laws(a) An open-enrollment charter school is considered to be:**

- (1) a local government for purposes of Chapter 791, Government Code;
- (2) a local government for purposes of Chapter 2259, Government Code, except that an open-enrollment charter school may not issue public securities as provided by Section 2259.031(b), Government Code;
- (4) a political subdivision for purposes of Chapter 172, Local Government Code; and a local governmental entity for purposes of Subchapter I, Chapter 271, Local Government Code.

(b) An open-enrollment charter school may elect to extend workers' compensation benefits to employees of the school through any method available to a political subdivision under Chapter 504, Labor Code. An open-enrollment charter school that elects to extend workers' compensation benefits as permitted under this subsection is considered to be a political subdivision for all purposes under Chapter 504, Labor Code. An open-enrollment charter school that self-insures either individually or collectively under Chapter 504, Labor Code, is considered to be an insurance carrier for purposes of Subtitle A, Title 5, Labor Code.

(c) Notwithstanding Subsection (a) or (b), an open-enrollment charter school operated by a tax exempt entity as described by Section 12.101(a)(3) is not considered to be a political subdivision, local government, or local governmental entity unless the applicable statute specifically states that the statute applies to an open-enrollment charter school..

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

(a) An open-enrollment charter school may not charge tuition to an eligible student who applies under Section 12.117.

(b) The governing body of an open-enrollment charter school may require a student to pay any fee that the board of trustees of a school district may charge under Section 11.158(a). The governing body may not require a student to pay a fee that the board of trustees of a school district may not charge under Section 11.158(b).

**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)**

(a) The commissioner shall adopt:

- (1) an application form and a procedure that must be used to apply for a charter for an open-enrollment charter school; and
- (2) criteria to use in selecting a program for which to grant a charter.

(b) The application form must provide for including the information required under Section 12.111 to be contained in a charter.

(c) 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.

(d) The commissioner shall approve or deny an application based on:

- (1) documented evidence collected through the application review process;
- (2) merit; and
- (3) 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.
- (4)

(e) 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 for the two preceding school years.

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

(a) Each charter granted under this subchapter must:

- (1) describe the educational program to be offered, which must include the required curriculum as provided by Section 28.002;
- (2) provide that continuation of the charter is contingent on the status of the charter as determined under Section 12.1141 or 12.115 or under Chapter 39A;
- (3) 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;
- (4) specify:
  - (A) any basis, in addition to a basis specified by this subchapter or Chapter 39A, on which the charter may be revoked, renewal of the charter may be denied, or the charter may be allowed to expire; and
  - (B) 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 or Chapter 39A, as applicable;
- (5) 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 this code, although the charter may:
  - (A) provide for the exclusion of a student who has a documented history of a criminal offense, a juvenile court adjudication, or discipline problems under Subchapter A, Chapter 37; and
  - (B) provide for an admission policy that requires a student to demonstrate artistic ability if the school specializes in performing arts;
- (6) specify the grade levels to be offered;
- (7) describe the governing structure of the program, including:
  - (A) the officer positions designated;
  - (B) the manner in which officers are selected and removed from office;
  - (C) the manner in which members of the governing body of the school are selected and removed from office;
  - (D) the manner in which vacancies on that governing body are filled;
  - (E) the term for which members of that governing body serve; and
- (F) whether the terms are to be staggered;
- (8) specify the powers or duties of the governing body of the school that the governing body may delegate to an officer;
- (9) specify the manner in which the school will distribute to parents information related to the qualifications of each professional employee of the program, including any professional or educational degree held by each employee, a statement of any certification under Subchapter B, Chapter 21, held by each employee, and any relevant experience of each employee;
- (10) describe the process by which the person providing the program will adopt an annual budget;
- (11) describe the manner in which an annual audit of the financial and programmatic operations of the program is to be conducted, including the manner in which the person providing the program will provide information necessary for the school district in which the program is located to participate, as required by this code or by commissioner rule, in the Public Education Information Management System (PEIMS);

- (12) describe the facilities to be used;
- (13) describe the geographical area served by the program;
- (14) specify any type of enrollment criteria to be used;
- (15) 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
- (16) 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.

(b) A charter holder of an open-enrollment charter school shall consider including in the school's charter a requirement that the school develop and administer personal graduation plans under Sections 28.0212 and 28.02121.

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

### **Revision (Texas Education Code §§§ 12.114)**

- (a) A revision of a charter of an open-enrollment charter school may be made only with the approval of the commissioner.
- (b) Not more than once each year, an open-enrollment charter school may request approval to revise the maximum student enrollment described by the school's charter.
- (c) 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..

### **Renewal of Charter; Denial of Renewal; Expiration (Texas Education Code §§§ 12.1141)**

(a) 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 Chapters 39 and 39A 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.

(b) 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:

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

(c) 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 under Subsection (b) or for expiration under Subsection (d), 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. 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 shall be considered under the discretionary consideration process regardless of the performance ratings under Subchapter C, Chapter 39, 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, 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 Subsection (d). 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, 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 this subsection, the commissioner shall designate as a dropout recovery school an open-enrollment charter school or a campus of an open-enrollment charter school:

- (1) 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
- (2) that meets the eligibility requirements for and is registered under alternative education accountability procedures adopted by the commissioner.

(d) 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:

- (1) the charter holder has been assigned the lowest performance rating under Subchapter C, Chapter 39, for any three of the five preceding school years;
- (2) the charter holder has been assigned a financial accountability performance rating under Subchapter D, Chapter 39, indicating financial performance that is lower than satisfactory for any three of the five preceding school years;
- (3) the charter holder has been assigned any combination of the ratings described by Subdivision (1) or (2) for any three of the five preceding school years; or
- (4) any campus operating under the charter has been assigned the lowest performance rating under Subchapter C, Chapter 39, for the three preceding school years and such a campus has not been closed.

(e) Notwithstanding any other law, a determination by the commissioner under Subsection (d) is final and may not be appealed.

(f) 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.

(g) Except as provided by Subsection (e), 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:

- (1) 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
- (2) a decision of the administrative law judge under this subsection is final and may not be appealed.

(h) 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.

(i) The term of a charter renewed under this section is 10 years for each renewal.

(j) 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.

**Basis for Charter Revocation or Modification of Governance (Texas Education Code § 12.115)**

(a) Except as provided by Subsection (c), the commissioner shall revoke the charter of an open-enrollment charter school or reconstitute the governing body of the charter holder if the commissioner determines that the charter holder:

- (1) committed a material violation of the charter, including failure to satisfy accountability provisions prescribed by the charter;
- (2) failed to satisfy generally accepted accounting standards of fiscal management;
- (3) failed to protect the health, safety, or welfare of the students enrolled at the school;
- (4) failed to comply with this subchapter or another applicable law or rule;
- (5) failed to satisfy the performance framework standards adopted under Section 12.1181; or
- (6) is imminently insolvent as determined by the commissioner in accordance with commissioner rule.

(b) The action the commissioner takes under Subsection (a) shall 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.

(c) The commissioner shall revoke the charter of an open-enrollment charter school if:

- (1) the charter holder has been assigned an unacceptable performance rating under Subchapter C, Chapter 39, for the three preceding school years;
- (2) the charter holder has been assigned a financial accountability performance rating under Subchapter D, Chapter 39, indicating financial performance lower than satisfactory for the three preceding school years; or
- (3) the charter holder has been assigned any combination of the ratings described by Subdivision (1) or (2) for the three preceding school years.

(d) In reconstituting the governing body of a charter holder under this section, the commissioner shall appoint members to the governing body. In appointing members under this subsection the commissioner:

- (1) shall consider:
  - (A) local input from community members and parents; and
  - (B) 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
- (2) may reappoint current members of the governing body.

(e) If a governing body of a charter holder subject to reconstitution under this section 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 under this subsection. The commissioner shall appoint the members of the governing body of an organization created under this subsection.

(f) This section does not limit the authority of the attorney general to take any action authorized by law

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

(a) The commissioner shall adopt an informal procedure to be used for:

- (1) revoking the charter of an open-enrollment charter school or for reconstituting the governing body of the charter holder as authorized by Section 12.115; and

- (2) denying the renewal of a charter of an open-enrollment charter school as authorized by Section 12.1141(c).

(a-1) The procedure adopted under Subsection (a) for the denial of renewal of a charter under Section 12.1141(c) or the revocation of a charter or reconstitution of a governing body of a charter holder under Section 12.115(a) must allow representatives of the charter holder to meet with the commissioner to discuss the commissioner's decision and must allow the charter holder to submit additional information to the commissioner relating to the commissioner's decision. In a final decision issued by the commissioner, the commissioner shall provide a written response to any information the charter holder submits under this subsection.

(b) Chapter 2001, Government Code, does not apply to a procedure that is related to a revocation or modification of governance under this subchapter.

(c) A decision by the commissioner to revoke a charter is subject to review by the State Office of Administrative Hearings. Notwithstanding Chapter 2001, Government Code:

- (1) 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
  - (2) a decision of the administrative law judge under this subsection is final and may not be appealed.
- (d) If the commissioner revokes the charter of an open-enrollment charter school, the commissioner may:
- (1) manage the school until alternative arrangements are made for the school's students; and
  - (2) 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)**

(a) The commissioner shall take any of the actions described by Subsection (b) or by Section 39A.001, 39A.002, 39A.004, 39A.005, or 39A.007, to the extent the commissioner determines necessary, if an open-enrollment charter school, as determined by a report issued under Section 39.058(b):

- (1) commits a material violation of the school's charter;
- (2) fails to satisfy generally accepted accounting standards of fiscal management; or
- (3) fails to comply with this subchapter or another applicable rule or law.

(b) The commissioner may temporarily withhold funding, suspend the authority of an open-enrollment charter school to operate, or take any other reasonable action the commissioner determines necessary to protect the health, safety, or welfare of students enrolled at the school based on evidence that conditions at the school present a danger to the health, safety, or welfare of the students.

(c) After the commissioner acts under Subsection (b), the open-enrollment charter school may not receive funding and may not resume operating until a determination is made that:

- (1) 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
- (2) the conditions at the school that presented a danger of material harm to the health, safety, or welfare of students have been corrected.

(d) Not later than the third business day after the date the commissioner acts under Subsection (b), the commissioner shall provide the charter holder an opportunity for a hearing.

(e) Immediately after a hearing under Subsection (d), the commissioner must cease the action under Subsection (b) or initiate action under Section 12.116.

(f) The commissioner shall adopt rules implementing this section. Chapter 2001, Government Code, does not apply to a hearing under this section.

#### **Audit by Commissioner (Texas Education Code § 12.1163)**

(a) To the extent consistent with this section, the commissioner may audit the records of:

- (1) an open-enrollment charter school;
- (2) a charter holder; and
- (3) a management company.

(b) An audit under Subsection (a) must be limited to matters directly related to the management or operation of an open-enrollment charter school, including any financial and administrative records.

(c) 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 subsection, 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)**

(a) For admission to an open-enrollment charter school, the governing body of the school shall:

- (1) require the applicant to complete and submit an application not later than a reasonable deadline the school establishes; and
- (2) on receipt of more acceptable applications for admission under this section than available positions in the school:
  - (A) fill the available positions by lottery; or
  - (B) subject to Subsection (b), fill the available positions in the order in which applications received before the application deadline were received.

(b) An open-enrollment charter school may fill applications for admission under Subsection (a)(2)(B) only if the school published a notice of the opportunity to apply for admission to the school. A notice published under this subsection must:

- (1) state the application deadline; and
- (2) be 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.

(c) An open-enrollment charter school authorized by a charter granted under this subchapter to a municipality:

- (1) is considered a work-site open-enrollment charter school for purposes of federal regulations regarding admissions policies that apply to open-enrollment charter schools receiving federal funding; and
- (2) notwithstanding Subsection (a), may admit children of employees of the municipality to the school before conducting a lottery to fill remaining available positions, provided that the number of children admitted under this subdivision constitutes only a small percentage, as may be further specified by federal regulation, of the school's total enrollment.



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

(a) The commissioner shall designate an impartial organization with experience in evaluating school choice programs to conduct an annual evaluation of open-enrollment charter schools.

(b) An evaluation under this section must include consideration of the following items before implementing the charter and after implementing the charter:

- (1) students' scores on assessment instruments administered under Subchapter B, Chapter 39;
- (2) student attendance;
- (3) students' grades;
- (4) incidents involving student discipline;
- (5) socioeconomic data on students' families;
- (6) parents' satisfaction with their children's schools; and
- (7) students' satisfaction with their schools.

(c) The evaluation of open-enrollment charter schools must also include an evaluation of:

- (1) the costs of instruction, administration, and transportation incurred by open-enrollment charter schools;
- (2) the effect of open-enrollment charter schools on school districts and on teachers, students, and parents in those districts; and
- (3) other issues, as determined by the commissioner.

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

(a) 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. 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.

(b) 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.

(c) Each year, the commissioner shall evaluate the performance of each open-enrollment charter school based on the applicable performance frameworks adopted under Subsection (a). 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) or revocation of a charter under Section 12.115(c).

### **GOVERNANCE**

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

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

(b) Each year within the period and in a form prescribed by the commissioner, each open-enrollment charter school shall file with the commissioner the following information:

- (1) the name, address, and telephone number of each officer and member of the governing body of the open-enrollment charter school; and
- (2) the amount of annual compensation the open-enrollment charter school pays to each officer and member of the governing body.

(c) On request, the commissioner shall provide the information required by this section and Section 12.111(a)(7) to a member of the public. The commissioner may charge a reasonable fee to cover the commissioner's cost in providing the information..

#### **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)**

(a) 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.

(b) 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.

(c) The Commissioner may adopt rules necessary to administer this section.

(d) 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) Except as provided by Subsection (b), a person employed as a principal or a teacher by an open-enrollment charter school must hold a baccalaureate degree.

(b) In an open-enrollment charter school that serves youth referred to or placed in a residential trade center by a local or state agency, a person may be employed as a teacher for a noncore vocational course without holding a baccalaureate degree if the person has:

- (1) demonstrated subject matter expertise related to the subject taught, such as professional work experience, formal training and education, holding a relevant active professional industry license, certification, or registration, or any combination of work experience, training and education, and industry license, certification, or registration; and
- (2) received at least 20 hours of classroom management training, as determined by the governing body of the open-enrollment charter school.

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

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

## **STATE FUNDING**

### **GENERAL**

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

(a) A charter holder is entitled to receive for the open-enrollment charter school funding under Chapter 42 equal to the amount of funding per student in weighted average daily attendance, excluding enrichment funding under Section 42.302(a), to which the charter holder would be entitled for the school under Chapter 42 if the school were a school district without a tier one local share for purposes of Section 42.253.

(a-1) In determining funding for an open-enrollment charter school under Subsection (a), adjustments under Sections 42.102, 42.103, 42.104, and 42.105 are based on the average adjustment for the state.

(a-2) In addition to the funding provided by Subsection (a), a charter holder is entitled to receive for the open-enrollment charter school enrichment funding under Section 42.302 based on the state average tax effort.

(b) An open-enrollment charter school is entitled to funds that are available to school districts from the 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.

(c) The commissioner may adopt rules to provide and account for state funding of open-enrollment charter schools under this section. A rule adopted under this section may be similar to a provision of this code that is not similar to Section 12.104(b) 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:

- (1) the basis of the garnishment or recovery is that:
  - (A) 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
  - (B) the school received funding under Section 12.106 based on the school's actual student enrollment;
- (2) the school:
  - (A) 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
  - (B) 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
- (3) the school used all funds received under Section 12.106 to provide education services to students. Status and Use of Funds (Texas Education Code § 12.107)

Funds received under Section 12.106 after September 1, 2001, by a charter holder:

- (1) are considered to be public funds for all purposes under state law;

- (2) are held in trust by the charter holder for the benefit of the students of the open-enrollment charter school;
- (3) may be used only for a purpose for which a school may use local funds under Section 45.105(c); and
- (4) pending their use, must be deposited into a bank, as defined by Section 45.201, with which the charter holder has entered into a depository contract.

A charter holder shall 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.

#### **Effect of Accepting State Funding (Texas Education Code § 12.1071)**

(a) A charter holder who accepts state funds under Section 12.106 after the effective date of a provision of this subchapter agrees to be subject to that provision, regardless of the date on which the charter holder's charter was granted.

(b) A charter holder who accepts state funds under Section 12.106 after September 1, 2001, agrees to accept all liability under this subchapter for any funds accepted under that section before September 1, 2001. This subsection does not create liability for charter holder conduct occurring before September 1, 2001.

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

(a) An open-enrollment charter school may not charge tuition to an eligible student who applies under Section 12.117.

(b) The governing body of an open-enrollment charter school may require a student to pay any fee that the board of trustees of a school district may charge under Section 11.158(a). The governing body may not require a student to pay a fee that the board of trustees of a school district may not charge under Section 11.158(b).

### **FOUNDATION SCHOOL PROGRAM**

#### **General**

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

(a) In this chapter, average daily attendance is:

- (1) 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) divided by the minimum number of days of instruction;
- (2) for a district that operates under a flexible year program under Section 29.0821, the quotient of the sum of attendance for each actual day of instruction as permitted by Section 29.0821(b)(1) divided by the number of actual days of instruction as permitted by Section 29.0821(b)(1);
- (3) for a district that operates under a flexible school day program under Section 29.0822, the average daily attendance as calculated by the commissioner in accordance with Sections 29.0822(d) and (d-1); or
- (4) for a district that operates a half-day program, one-half of the average daily attendance calculated under Subdivision (1).

(g-1) The commissioner shall adopt rules to calculate average daily attendance for students participating in a blended learning program in which classroom instruction is supplemented with applied workforce learning opportunities, including participation of students in internships, externships, and apprenticeships.

(i) A district or a charter school operating under Chapter 12 that operates a prekindergarten program is eligible to receive one-half of average daily attendance under Subsection (a) if the district's or charter school's prekindergarten program provides at least 32,400 minutes of instructional time to students.

(j) A district or charter school is eligible to earn full average daily attendance under Subsection (a) if the district or school provides at least 43,200 minutes of instructional time to students enrolled in:

- (1) a dropout recovery school or program operating under Section 12.1141(c) or Section 39.0548;
- (2) an alternative education program operating under Section 37.008;

- (3) a school program located at a day treatment facility, residential treatment facility, psychiatric hospital, or medical hospital;
- (4) a school program offered at a correctional facility; or
- (5) a school operating under Section 29.259.

(k) A charter school operating under a charter granted under Chapter 12 before January 1, 2015, is eligible to earn full average daily attendance under Subsection (a), as that subsection existed immediately before January 1, 2015, for:

- (1) all campuses of the charter school operating before January 1, 2015; and
- (2) any campus or site expansion approved on or after January 1, 2015, provided that the charter school received an academic accountability performance rating of C or higher, and the campus or site expansion is approved by the commissioner.

(l) A school district campus or charter school described by Subsection (j) may operate more than one program and be eligible for full average daily attendance for each program if the programs operated by the district campus or charter school satisfy all applicable state and federal requirements.

(m) The commissioner shall adopt rules necessary to implement this section, including rules that:

- (1) establish the minimum amount of instructional time per day that allows a school district or charter school to be eligible for full average daily attendance, which may differ based on the instructional program offered by the district or charter school;
- (2) establish the requirements necessary for a school district or charter school to be eligible for one-half of average daily attendance, which may differ based on the instructional program offered by the district or charter school; and

(3) proportionally reduce the average daily attendance for a school district if any campus or instructional program in the district provides fewer than the required minimum minutes of instruction to students.

(n) To assist school districts in implementing this section as amended by H.B. 2442, Acts of the 85th Legislature, Regular Session, 2017, or similar legislation, the commissioner may waive a requirement of this section or adopt rules to implement this section. This subsection expires at the end of the 2018-2019 school year.

(b) A school district that experiences a decline of two percent or more in average daily attendance shall be funded on the basis of:

- (1) the actual average daily attendance of the preceding school year, if the decline is the result of the closing or reduction in personnel of a military base; or
- (2) subject to Subsection (e), an average daily attendance not to exceed 98 percent of the actual average daily attendance of the preceding school year, if the decline is not the result of the closing or reduction in personnel of a military base.

(c) The commissioner shall adjust the average daily attendance of a school district that has a significant percentage of students who are migratory children as defined by 20 U.S.C. Section 6399.

(d) The commissioner may adjust the average daily attendance of a school district in which a disaster, flood, extreme weather condition, fuel curtailment, or other calamity has a significant effect on the district's attendance.

(e) For each school year, the commissioner shall adjust the average daily attendance of school districts that are entitled to funding on the basis of an adjusted average daily attendance under Subsection (b)(2) so that:

- (1) all districts are funded on the basis of the same percentage of the preceding year's actual average daily attendance; and
- (2) the total cost to the state does not exceed the amount specifically appropriated for that year for purposes of Subsection (b)(2).

(f) An open-enrollment charter school is not entitled to funding based on an adjustment under Subsection (b)(2).

(g) If a student may receive course credit toward the student's high school academic requirements and toward the student's higher education academic requirements for a single course, including a course provided under Section 28.009 by a public institution of higher education, the time during which the student attends the course shall be counted as part of the minimum number of instructional hours required for a student to be considered a full-time student in average daily attendance for purposes of this section.

(h) Subject to rules adopted by the commissioner under Section 42.0052(b), time that a student participates in an off-campus instructional program approved under Section 42.0052(a) shall be counted as part of the minimum number of instructional hours required for a student to be considered a full-time student in average daily attendance for purposes of this section.

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

(a) Each school district shall participate in the Public Education Information Management System (PEIMS) and shall provide through that system information required for the administration of this chapter and of other appropriate provisions of this code.

(a-1) The commissioner by rule shall require each school district and open-enrollment charter school to report through the Public Education Information Management System information regarding the number of students enrolled in the district or school who are identified as having dyslexia. The agency shall maintain the information provided in accordance with this subsection.

(a-2) The commissioner by rule shall require each school district and open-enrollment charter school to report through the Public Education Information Management System information regarding the availability of school counselors at each campus. The commissioner's rules shall require a district or school to report the number of full-time equivalent school counselors providing counseling services at a campus. For purposes of this subsection, "full-time equivalent school counselor" means 40 hours of counseling services a week. The agency shall maintain the information provided in accordance with this subsection.

(b) Each school district shall use a uniform accounting system adopted by the commissioner for the data required to be reported for the Public Education Information Management System.

(c) Annually, the commissioner shall review the Public Education Information Management System and shall repeal or amend rules that require school districts to provide information through the Public Education Information Management System that is not necessary. In reviewing and revising the Public Education Information Management System, the commissioner shall develop rules to ensure that the system:

- (1) provides useful, accurate, and timely information on student demographics and academic performance, personnel, and school district finances;
- (2) contains only the data necessary for the legislature and the agency to perform their legally authorized functions in overseeing the public education system; and
- (3) does not contain any information related to instructional methods, except as provided by Section 29.066 or required by federal law.

(d) The commissioner's rules must ensure that the Public Education Information Management System links student performance data to other related information for purposes of efficient and effective allocation of scarce school resources, to the extent practicable using existing agency resources and appropriations.

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

(a) The Legislative Budget Board shall adopt rules, subject to appropriate notice and opportunity for public comment, for the calculation for each year of a biennium of the qualified funding elements, in accordance with Subsection (c), necessary to achieve the state policy under Section 42.001.

(b) Before each regular session of the legislature, the board shall, as determined by the board, report the equalized funding elements to the commissioner and the legislature.

(c) The funding elements must include:

- (1) a basic allotment for the purposes of Section 42.101 that, when combined with the guaranteed yield component provided by Subchapter F, represents the cost per student of a regular education program that meets all mandates of law and regulation;
- (2) adjustments designed to reflect the variation in known resource costs and costs of education beyond the control of school districts;

- (3) appropriate program cost differentials and other funding elements for the programs authorized under Subchapter C, with the program funding level expressed as dollar amounts and as weights applied to the adjusted basic allotment for the appropriate year;
- (4) the maximum guaranteed level of qualified state and local funds per student for the purposes of Subchapter F;
- (5) the enrichment and facilities tax rate under Subchapter F;
- (6) the computation of students in weighted average daily attendance under Section 42.302; and
- (7) the amount to be appropriated for the school facilities assistance program under Chapter 46.

#### **Determination of Funding Levels (Texas Education Code § 42.009)**

(a) 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.

(b) In making the determinations regarding funding levels required by Subsection (a), the commissioner shall:

- (1) make adjustments as necessary to reflect changes in a school district's maintenance and operations tax rate;
- (2) for a district required to take action under Chapter 41 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; and
- (3) 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)**

(a) 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, a district is entitled to an allotment equal to the lesser of \$4,765 or the amount that results from the following formula:

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

where:

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

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

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

(a-1) Notwithstanding Subsection (a), for a school district that adopted a maintenance and operations tax rate for the 2005 tax year below the maximum rate permitted by law for that year, the district's compressed tax rate ("DCR") includes the portion of the district's current maintenance and operations tax rate in excess of the first six cents above the district's compressed tax rate, as defined by Subsection (a), until the district's compressed tax rate computed in accordance with this subsection is equal to the state maximum compressed tax rate ("MCR").

(a-2) Subsection (a-1) applies beginning with the 2017-2018 school year. For the 2015-2016 and 2016-2017 school years, the board of trustees of a school district that adopted a maintenance and operations tax rate for the 2005 tax year below the maximum rate permitted by law for that year may choose to apply Subsection (a-1) to the calculation of the district's compressed tax rate

("DCR"). A board of trustees that chooses to apply Subsection (a1) must notify the commissioner of the decision in writing not later than September 1 of the affected school year. This subsection expires September 1, 2018.

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

(c) This subsection applies to a school district for which the compressed tax rate ("DCR") is determined in accordance with Subsection (a-1). Any reduction in the district's adopted maintenance and operations tax rate is applied to the following components of the district's tax rate in the order specified:

- (1) tax effort described by Section 42.302(a-1)(2);
- (2) tax effort described by Section 42.302(a-1)(1); and
- (3) tax effort included in the determination of the district's compressed tax rate ("DCR") under Subsection (a-1).

## **SPECIAL ALLOTMENTS**

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

(a) For each student in average daily attendance in a special education program under Subchapter A, Chapter 29, 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 Subchapter A, Chapter 29, 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

(b) 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.

(c) 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.

(d) 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.

(e) 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 under this section. In prescribing the qualifications that a mainstream instructional arrangement must meet, the board shall establish requirements that students with disabilities and their teachers receive the direct, indirect, and support services that are necessary to enrich the regular classroom and enable student success.

(f) In this section, "full-time equivalent student" means 30 hours of contact a week between a special education student and special education program personnel.

(g) 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.



(h) Funds allocated under this section, other than an indirect cost allotment established under State Board of Education rule, must be used in the special education program under Subchapter A, Chapter 29.

(i) The 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.

(j) Repealed.

(k) 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 under this section, 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 under this section may not exceed \$10 million per year. A school district may use funds received under this section only in providing an extended year program.

(l) From the total amount of funds appropriated for special education under this section, 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. The program established under that section is required only in school districts in which the program is financed by funds distributed under this subsection and any other funds available for the program. After deducting the amount withheld under this subsection 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)**

(a) The sum of the basic allotment under Subchapter B and the special allotments under Subchapter C, computed in accordance with this chapter, constitute the tier one allotments. The sum of the tier one allotments and the guaranteed yield allotments under Subchapter F, computed in accordance with this chapter, constitute the total cost of the Foundation School Program.

(b) The program shall be financed by:

- (1) ad valorem tax revenue generated by an equalized uniform school district effort;
- (2) ad valorem tax revenue generated by local school district effort in excess of the equalized uniform school district effort;
- (3) state available school funds distributed in accordance with law; and
- (4) 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 in this subsection.

#### **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)**

(a) 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.

(a-1) Notwithstanding Subsection (a), for a school district that adopted a maintenance and operations tax rate for the 2005 tax year below the maximum rate permitted by law for that year, the district's tax rate ("TR") includes the tax effort included in calculating the district's compressed tax rate under Section 42.101(a-1).

(b) The commissioner shall adjust the values reported in the official report of the comptroller as required by Section 5.09(a), 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.

(c) Appeals of district values shall be held pursuant to Section 403.303, Government Code.

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

(e) Notwithstanding any other provision of this chapter, in computing each school district's local share of program cost under this section for the 2015-2016 school year, a school district's taxable value of property under Subchapter M, Chapter 403, Government Code, is determined as if the increase in the residence homestead exemption under Section 1-b(c), Article VIII, Texas Constitution, and the additional limitation on tax increases under Section 1-b(d) of that article in effect for the 2015 tax year as proposed by S.J.R. 1, 84th Legislature, Regular Session, 2015, had been in effect for the 2014 tax year. This subsection expired September 1, 2016.

#### **Adjustments for Certain Districts Receiving Federal Impact Aid (Texas Education Code § 42.2525)**

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.

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

(a) For each school year the commissioner shall determine:

- (1) the amount of money to which a school district is entitled under Subchapters B and C;
- (2) the amount of money to which a school district is entitled under Subchapter F;
- (3) the amount of money allocated to the district from the available school fund;
- (4) the amount of each district's tier one local share under Section 42.252; and
- (5) the amount of each district's tier two local share under Section 42.302.

(b) Except as provided by this subsection, the commissioner shall base the determinations under Subsection (a) on the estimates provided to the legislature under Section 42.254, 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 or the General Appropriations Act, as applicable. A reduction under this subsection may not reduce the district's entitlement below the amount to which it is entitled at its actual taxable value of property.

(c) Each school district is entitled to an amount equal to the difference for that district between the sum of Subsections (a)(1) and (a)(2) and the sum of Subsections (a)(3), (a)(4), and (a)(5).

(d) The commissioner shall approve warrants to each school district equaling the amount of its entitlement except as provided by this section. Warrants for all money expended according to this chapter 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 under this section may not exceed the total amount appropriated for Foundation School Program purposes for that fiscal year.

(e) Repealed.

(f) Repealed.

(g) 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 are 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.

(h) 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 subsection. If the legislature fails during the regular session to enact the proposed transfer and appropriation and there are not funds available under Subsection (j), the commissioner shall adjust the total amounts due to each school district and open-enrollment charter school under this chapter and the total amounts necessary for each school district to comply with the requirements of Chapter 41 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 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:

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

(2) the amount necessary for a district to comply with the requirements of Chapter 41 is reduced by an amount necessary to ensure a district's full recovery of the adjustment made under this subsection.

(i) 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 this chapter 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.

(j) The legislature may appropriate funds necessary for increases under Subsection (i) from funds that the comptroller, at any time during the fiscal year, finds are available.

(k) The commissioner shall compute for each school district the total amount by which the district's allocation of state funds is increased or reduced under Subsection (i) and shall certify that amount to the district.

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

(a) If a school district has received an overallocation of state funds, the 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.

(a-1) Notwithstanding Subsection (a), the 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 or this chapter and related reporting requirements.

(b) If a district fails to comply with a request for a refund under Subsection (a), the agency shall certify to the comptroller that the amount constitutes a debt for purposes of Section 403.055, Government Code. The 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.

(c) Any amounts recovered under this section shall be deposited in the foundation school fund.

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

(a) 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.

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

- (1) 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;
- (2) 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
- (3) 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.

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

- (1) 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;
- (2) 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;
- (3) 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;
- (4) 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;
- (5) 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;
- (6) 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;

- (7) 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
- (8) 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.

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

- (1) 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;
- (2) 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
- (3) 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.

(e) The amount of any installment required by this section 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 under this section is required to be equal to other installments, the amount of other installments may be adjusted to provide for that equality. A payment under this section is not invalid because it is not equal to other installments.

(f) 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.

(g) The commissioner shall make all annual Foundation School Program payments under this section for purposes described by Sections 45.252(a)(1) and (2) before the deadline established under Section 45.263(b) 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) only if the commissioner has not received notice under Section 45.258 concerning a district's failure or inability to pay matured principal or interest on bonds.

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

(a) In this section, "participating charter school" means an open-enrollment charter school that participates in the uniform group coverage program established under Chapter 1579, Insurance Code.

(b) The amount of additional funds to which each school district or participating charter school is entitled due to the increases in formula funding made by H.B. No. 3343, Acts of the 77th Legislature, Regular Session, 2001, and any subsequent legislation amending the provisions amended by that Act that increase formula funding under Chapter 41 and this chapter to school districts and charter schools is available for purposes of Subsection (c).

(c) Notwithstanding any other provision of this code, a school district or participating charter school may use the sum of the following amounts of funds only to pay contributions under a group health coverage plan for district or school employees:

(1) 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 1579.251, 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

(2) the difference between the amount necessary for the district or school to comply with Section 1581.052, Insurance Code, for the school year and the amount the district or school is required to use to provide health coverage under Section 1581.051, Insurance Code, for that year.

(d) A determination by the commissioner under this section is final and may not be appealed.

(e) The commissioner may adopt rules to implement this section.

## **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 this subchapter may be used for any legal purpose other than capital outlay or debt service.

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

(a) 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 this subchapter. The amount of state support, subject only to the maximum amount under Section 42.303, is determined by the formula:

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

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 (a-1) 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 Subchapters B and C, less any allotment to the district for transportation, any allotment under Section 42.158 or 42.160, and 50 percent of the adjustment under Section 42.102, 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 Subsection (b) 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, Government Code, or, if applicable, under Section 42.2521, 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, Government Code, or, if applicable, under Section 42.2521, divided by 100.

For purposes of Subsection (a), the dollar amount guaranteed level of state and local funds per weighted student per cent of tax effort ("*GL*") for a school district is:

- (1) 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), 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 subdivision 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 sum of the product of the state compression percentage, as determined under Section 42.2516, multiplied by the maintenance and operations tax rate adopted by the district for the 2005 tax year and any additional tax effort included in calculating the district's compressed tax rate under Section 42.101(a-1); and
- (2) \$31.95, for the district's maintenance and operations tax effort that exceeds the amount of tax effort described by Subdivision (1).

(a-2) The limitation on district enrichment tax rate ("*DTR*") under Section 42.303 does not apply to the district's maintenance and operations tax effort described by Subsection (a-1)(1).

(b) 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:

- (1) the district's local fund assignment under Section 42.252; or
- (2) taxes paid into a tax increment fund under Chapter 311, Tax Code.

(c) For purposes of this section, school district taxes for which credit is granted under Section 31.035, 31.036, or 31.037, Tax Code, are considered taxes collected by the school district as if the taxes were paid when the credit for the taxes was granted.

(d) For purposes of this section, 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, 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.

(e) For purposes of this section, school district taxes for which credit is granted under former Subchapter D, Chapter 313, Tax Code, are considered taxes collected by the school district as if the taxes were paid when the credit for the taxes was granted.

(f) 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, 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 under this section on the basis of that greater tax effort.

(g) Expired.

**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 C**  
**FINANCIAL STATEMENTS**

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# LEGACY PREPARATORY CHARTER ACADEMY

Legacy21, Inc., dba

Legacy Preparatory Charter Academy

Financial Statements

For The Year Ended August 31, 2017

**Paul J. Christensen & Associates, LLC**  
Certified Public Accountants  
Waco, Texas

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Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Certificate of Board

Legacy21, Inc.  
Name of Charter Holder


27-4013601  
Federal Employer ID Number

Legacy Preparatory Charter Academy  
Name of Charter School

Dallas  
County

057-846  
Co. Dist. Number

We, the undersigned, certify that the attached financial and compliance report of the above name Charter Holder was reviewed and (check one) ☒ approved ☐ disapproved for the year ended August 31, 2017 at a meeting of governing body of the Charter Holder on the 17<sup>th</sup> day of January, 2018.

  
Signature of Board Secretary

  
Signature of Board President

Note: If the governing body of the Charter Holder does not approve the independent auditor's report, it must forward a written statement discussing the reason(s) for not approving the report.

# Paul J. Christensen & Associates, LLC

## *Certified Public Accountants*

2110 Austin Avenue  
Waco, Texas 76701  
(254)752-3436  
FAX (254)752-3463  
<http://www.waco-cpa.com>

Paul J. Christensen, C.P.A.  
Thomas C. Cunningham, C.P.A.  
Gary L. Sauls, C.P.A.

### INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Legacy21, Inc.  
Legacy Preparatory Charter Academy  
Dallas, Texas

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of Legacy21, Inc., dba Legacy Preparatory Charter Academy (the "Corporation") (a nonprofit organization) which comprise the statement of financial position as of August 31, 2017, and the related statements of activities and cash flows for the year 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 Corporation'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 Corporation'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 Legacy21, Inc., dba Legacy Preparatory Charter Academy as of August 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

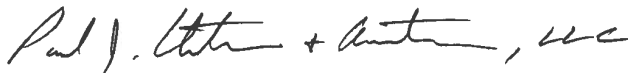
## Other Matters

### Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is also 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 January 17, 2018, on our consideration of Legacy21, Inc., dba Legacy Preparatory Charter Academy'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 Legacy21, Inc., dba Legacy Preparatory Charter Academy's internal control over financial reporting and compliance.



Waco, Texas  
January 17, 2018

## **FINANCIAL STATEMENTS**



Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Statement of Financial Position  
August 31, 2017

Assets

Current Assets	
Cash and cash equivalents	\$ 783,132
Due from governments	231,764
Other receivables	635,414
Total Current Assets	<u>1,650,310</u>
Property and Equipment, Net	<u>585,339</u>
Total Assets	<u><u>\$ 2,235,649</u></u>

Liabilities and Net Assets

Current Liabilities	
Accounts payable	\$ 382,655
Accrued expenses	3,148
Accrued interest payable	5,370
Deferred revenue	454,005
Note payable - current portion	167,667
Capital lease obligation - current portion	46,348
Total Current Liabilities	<u>1,059,193</u>
Long-Term Liabilities	
Note payable, net of current portion	221,837
Capital lease obligation, net of current portion	160,213
Total Long-Term Liabilities	<u>382,050</u>
Total Liabilities	<u>1,441,243</u>
Net Assets	
Unrestricted	2,000
Temporarily restricted	792,406
Total Net Assets	<u>794,406</u>
Total Liabilities and Net Assets	<u><u>\$ 2,235,649</u></u>

The accompanying notes are an integral part of these financial statements.

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Statement of Activities  
For the Year Ended August 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues</b>			
Local support:			
Interest and other income	\$ 147,376	\$ 202,169	\$ 349,545
Total local support	147,376	202,169	349,545
State program revenues:			
Foundation school program act	-	11,512,286	11,512,286
Other state aid	-	61,291	61,291
Total state program revenues	-	11,573,577	11,573,577
Federal program revenues:			
ESEA, Title I, Part A	-	383,218	383,218
IDEA - Part B, Formula	-	166,051	166,051
ESEA, Title II, Part A	-	63,524	63,524
Title III, Part A - LEP	-	37,990	37,990
Summer School LEP	-	3,495	3,495
National School Breakfast and Lunch Program	-	416,761	416,761
Total federal program revenues	-	1,071,039	1,071,039
Net assets released from restrictions:			
Restrictions satisfied by payments	12,101,794	(12,101,794)	-
 Total Revenues	 12,249,170	 744,991	 12,994,161
<b>Expenses</b>			
Program Services:			
Instruction and instructional - related services	6,557,795	-	6,557,795
Instructional and school leadership	803,680	-	803,680
Support services:			
Administrative support services	484,151	-	484,151
Ancillary services	163,498	-	163,498
Support services non-student based	3,105,247	-	3,105,247
Support services student (pupil)	1,111,156	-	1,111,156
Debt service	39,344	-	39,344
Fund raising	3,355	-	3,355
Total Expenses	12,268,226	-	12,268,226
Change in Net Assets	(19,056)	744,991	725,935
Net Assets, Beginning of Year	21,056	47,415	68,471
Net Assets, End of Year	<u>\$ 2,000</u>	<u>\$ 792,406</u>	<u>\$ 794,406</u>

The accompanying notes are an integral part of these financial statements.

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Statement of Cash Flows  
For the Year Ended August 31, 2017

**Cash Flows from Operating Activities:**

Foundation school program payments	\$ 11,487,162
Other state aid	108,657
Grant payments	1,000,615
Miscellaneous sources	91,818
Payments to vendors for goods and services rendered	(4,587,143)
Payments to charter school personnel for services rendered	(7,449,181)
Interest payments	(39,344)
Net Cash Provided/(Used) by Operating Activities	<u>612,584</u>

**Cash Flows from Investing Activities:**

Purchase of capital assets	<u>(98,934)</u>
Net Cash Provided/(Used) by Investing Activities	<u>(98,934)</u>

**Cash Flows from Financing Activities:**

Principal payments on note payable	(159,430)
Principal payments on capital lease obligation	<u>(43,439)</u>
Net Cash Provided/(Used) by Financing Activities	<u>(202,869)</u>

Net Increase (Decrease) in Cash	310,781
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Cash at Beginning of Year	<u>472,351</u>
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Cash at End of Year	<u><u>\$ 783,132</u></u>
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**Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:**

Change in Net Assets	\$ 725,935
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	71,282
(Increase) Decrease in assets:	
Due from governments	(95,548)
Other receivables	(634,111)
Prepaid expenses	38,363
Other Assets	75,000
Increase (Decrease) in liabilities:	
Accounts payable	112,976
Accrued expenses	(105,063)
Deferred revenue	423,750
Net Cash Provided/(Used) by Operating Activities	<u><u>\$ 612,584</u></u>

The accompanying notes are an integral part of these financial statements.

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes to Financial Statements  
August 31, 2017

**NOTE 1 - Summary of Significant Accounting Policies**

The financial statements of Legacy21, Inc., dba Legacy Preparatory Charter Academy (the "Corporation") (a nonprofit organization) were prepared in conformity with accounting principles generally accepted in the United States of America. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

**Reporting Entity**

The Corporation is a not-for-profit organization incorporated in the State of Texas in 2010 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Corporation is governed by a Board of Directors comprised of four members. The Board of Directors is selected pursuant to the bylaws of the Corporation and has the authority to make decisions, appoint the chief executive officer of the Corporation, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Corporation.

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

**Corporate Operations**

The State Board of Education of the State of Texas granted the Corporation an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable Contract for Charter, Legacy21, Inc., dba Legacy Preparatory Charter Academy was opened. Legacy21, Inc., dba Legacy Preparatory Charter Academy was organized to provide educational services to at-risk students and their programs, services, activities and functions are governed by the Corporation's Board of Directors.

**Basis of Accounting and Presentation**

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles.

Net assets and revenues, expenses, gains, and losses are classified based on the existence and nature or absence of donor-imposed restrictions. Restricted revenues whose restrictions are met in the same year as received are shown as unrestricted revenues. Accordingly, net assets of the Corporation and changes therein are classified and reported as follows:

**Unrestricted** - net assets that are not subject to donor-imposed stipulations.

**Temporarily restricted** - net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Corporation, the charter school, and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

**Permanently restricted** - net assets required to be maintained in perpetuity with only the income to be used for the Corporation's activities due to donor-imposed restrictions. The Corporation did not have any permanently restricted net assets as of August 31, 2017.

(continued)

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2017

**NOTE 1 - Summary of Significant Accounting Policies (continued)**

**Use of Estimates**

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

**Contributions**

The Corporation accounts for contributions as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

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

**Cash and Cash Equivalents**

For financial statement purposes, the Corporation considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents.

**Capital Assets**

Capital assets, which include building and improvements, and furniture and equipment, are reported in the financial statements. Capital assets are defined by the Corporation as assets with an estimated useful life of more than one year. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to twenty-five years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost.

**Due From Governments**

The Corporation considers all government grants and contracts as exchange transactions rather than contributions. The Corporation recognizes revenue from fee-for-service transactions as services are rendered and, for grants, as eligible expenditures are incurred. Advances from government agencies are recorded as deferred revenues. Eligible expenditures incurred in excess of grant fund reimbursements are recorded as receivables.

Any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of any noncompliance with terms of the grant contract.

(continued)

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2017

**Note 1 -Summary of Significant Accounting Policies (continued)**

**Impairment of Long-Lived Assets**

The Corporation reviews the carrying value of capital assets for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, and the effects of obsolescence, demand, competition, and other economic factors. The Corporation did not recognize an impairment loss during the year ended August 31, 2017.

**State Funding**

The amount of state foundation school program act revenue the Corporation earns may vary until the time when final values for all factors in the state aid formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation school program act revenue estimate for the year ended August 31, 2017 will change.

**Revenue Recognition**

Revenues from the State of Texas are based on reported attendance. Public and private grants received are recognized in the period received and when the terms of the grant are met.

**Donated Services and Assets**

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills that are provided by individuals possessing those skills and which would typically need to be purchased if not provided by donation are recorded at the estimated fair market value in the period received.

Contributions of donated noncash assets are recorded at the estimated fair market value in the period received.

**Functional Allocation of Expenses**

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

**Contingencies**

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Corporation which will only be resolved when one or more future events occur or fail to occur. The Corporation's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingences related to legal proceedings that are pending against the Corporation or un-asserted claims that may result in such proceedings, the Corporation's legal counsel evaluates the perceived merits of any legal proceedings or un-asserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

(continued)

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2017

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Contingencies (continued)**

If the assessment of a contingency indicates it is possible that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Corporation's financial statements. If the assessment indicates a potentially material loss contingency is not probable, but is reasonably possible, or is probable, but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed.

**Fair Value Measurements and Disclosures**

The requirements of *Fair Value Measurements and Disclosures* of the Accounting Standards Codification ("ASC") apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. *Fair Value Measurements and Disclosures* also establish a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Inputs – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets or liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

At August 31, 2017, the Corporation had no investments.

The fair value of the Corporation's cash and cash equivalents, due from governments, other receivables, prepaid expenses, accounts payable, accrued expenses and deferred revenue approximate the carrying amounts of such instruments due to their short-term maturity.

**Note 2 - Cash and Cash Equivalents**

Cash and cash equivalents as of August 31, 2017 consist of the following:

Checking accounts	\$ (26,896)
Money market accounts	810,028
	<u>\$ 783,132</u>

(continued)

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2017

**Note 3 - Due from Governments**

Amounts due from governments consist of the following:

Texas Department of Education, Texas Education Agency	\$ 34,949
U.S. Department of Education passed through Texas Education Agency	196,815
Total	<u>\$ 231,764</u>

**Note 4 - Capital Assets**

A summary of changes in capital assets is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Accumulated Depreciation</u>	<u>Net Capital Assets</u>
Building and Improvements	\$ 333,000	\$ 1,500	\$ -	\$ 334,500	\$ 21,811	\$ 312,689
Furniture and Equipment	445,908	97,434	-	543,342	270,692	272,650
Capital Assets, Net	<u>\$ 778,908</u>	<u>\$ 98,934</u>	<u>\$ -</u>	<u>\$ 877,842</u>	<u>\$ 292,503</u>	<u>\$ 585,339</u>

Capital assets acquired with public funds received by the Corporation for the operation of Legacy21, Inc., dba Legacy Preparatory Charter Academy constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified in the Schedule of Capital Assets.

Depreciation expense for the year ended August 31, 2017 was \$71,282.

**Note 5 - Long-Term Debt**

In 2012, the Corporation obtained a credit facility of \$1,000,000 from Vintage Bank, Waxahachie, Texas to finance school start-up activities. Advances of \$948,108, with interest at six percent, were made and the initial maturity date of the loan was September 13, 2013. Interest only, of \$61,582, was paid to August 31, 2013.

Effective September 15, 2013, the \$948,108 was converted to a term loan, payable in twenty-four quarterly payments of \$46,064 with interest at 5.07 percent. The balance of the loan at August 31, 2017 was \$389,504.

At August 31, 2017, future debt service requirements for the loans payable are as follows:

Fiscal Year Ending <u>August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 167,667	\$ 16,590	\$ 184,257
2019	171,851	12,406	184,257
2020	49,986	576	50,562
	<u>\$ 389,504</u>	<u>\$ 29,572</u>	<u>\$ 419,076</u>

Interest expense for the year ended August 31, 2017 was \$24,827.

(continued)



Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2017

**Note 6 - Capital Leases**

The Corporation leases a modular building under a capital lease expiring August 2021.

The following is an analysis of the leased property under capital lease:

<u>Classes of property</u>	<u>Asset Balance at August 31, 2017</u>
Building and improvements	\$ 315,000
Less: accumulated depreciation	12,600
	<u>\$ 302,400</u>

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of August 31, 2017:

Year ending August 31:	
2018	\$ 58,410
2019	58,410
2020	58,410
2021	60,109
Total minimum lease payments	<u>235,339</u>
Less: Amount representing interest	(28,778)
Present value of net minimum lease payments	<u>\$ 206,561</u>
 Present value of net minimum lease payments	 \$ 206,561
Less: Current Portion	(46,348)
Long term	<u>\$ 160,213</u>

**Note 7 - Pension Plan Obligations**

**Plan Description**

The Corporation contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, defined benefit pension plan with one exception: all risks and costs are not shared by the Corporation, but are the liability of the State of Texas. Based on FASB Statement No. 87, a multiemployer plan is a pension plan to which two or more unrelated employers contribute, usually pursuant to one or more collective-bargaining agreements. Although TRS has no collective bargaining agreements, the defined benefit pension plan is considered to be a multiemployer plan for the purposes of not-for-profit charter holders due to various significant factors. These factors include: 1) charter holders are legally separate entities from the state and each other; 2) assets contributed by one participating entity may be used to provide benefits to employees of other participating employers since assets contributed by one entity are not segregated in a separate account or restricted to provide benefits only to employees of that entity; 3) upon withdrawal from the plan, the unfunded obligation or net pension liability of that entity will be passed along to the remaining other entities who contribute to the plan; and 4) there is not a withdrawal penalty for leaving the TRS system.

(continued)

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2017

**Note 7 - Pension Plan Obligations (continued)**

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; by calling the TRS Communications Department at 1-800-223-8778; or by downloading the report from the TRS website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publication Heading.

**Funding Policy and Funded Status**

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 six percent of the member's annual compensation and a State contribution rate of not less than six percent and not more than ten percent of the aggregate annual compensation of all members of the system; (2) State statute prohibits benefit improvements 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 31 years, the period would be increased by such action.

As of August 31, 2017, TRS' total plan assets were \$152,925,647,396, accumulated benefit obligation (or total pension liability) was \$171,797,150,487, and the plan was 78 percent funded.

**Contributions**

State law provides for a member contribution rate of 7.7 percent for fiscal year 2017, 7.2 percent for fiscal year 2016, and 6.7 percent for fiscal year 2015, and a State contribution rate of 6.8 percent for fiscal years 2017, 2016, and 2015. In addition, state law provides for a member contribution rate of 7.7 percent for fiscal year 2018, while maintaining a state contribution rate of 6.8 percent for fiscal year 2018.

The Corporation employees' contributions to TRS for the year ending August 31, 2017 were \$498,175, equal to the required contribution. These contributions did not represent more than five percent of the total contributions to the plan.

The Corporation made contributions for the Non-Old Age Survivor and Disability Insurance (Non-OASDI) for certain employees. The total amount contributed for Non-OASDI for fiscal year ending August 31, 2017 was \$97,025.

**NOTE 8 - Retiree Health Care Plan**

**Plan Description**

The Corporation contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing, multiple-employer defined benefit postemployment health care plan administered by the TRS. TRS Care provides health care coverage for certain persons (and their dependents) who retired under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and Required Supplementary Information for TRS-Care. That report may be obtained by visiting the TRS website at [trs.state.tx.us](http://trs.state.tx.us); by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701; or by calling 1-800-223-8778.

(continued)

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2017

**NOTE 8 - Retiree Health Care Plan (continued)**

**Funding Policy**

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were one percent for fiscal year 2017 and 0.65 percent of school payroll, with the Corporation contributing a percentage of payroll set at 0.55 percent for fiscal year 2017. Per Texas Insurance Code, Chapter 1575, the school contribution may not be less than 0.25 percent or greater than 0.75 percent of the salary of each active employee of the public school. For the year ended August, 31 2017, the State's contributions to TRS-Care was \$ 2,419; the active member contributions were \$35,577, and the Corporation's contribution were \$6,955 which equaled the required contribution.

**Note 9 - Health Care Coverage**

During the year ended August 31, 2017, employees of the Corporation were covered by a Health Insurance Plan ("Plan"). The Corporation contributed \$381 per month per employee for the period from September 1, 2016 to August 31, 2017 to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

**Note 10 - Risk Management Program**

Worker's compensation coverage, general liability, professional liability and property coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have historically not exceeded commercial coverage.

**Note 11 - Leases**

The Corporation leases its facilities under non-cancellable operating leases, which contain varying renewal options. Approximate aggregate remaining minimum rental commitments as of August 31, 2017 under these leases are summarized as follows:

<u>Fiscal Year Ending June 30,</u>	
2018	\$ 1,999,241
2019	2,024,777
2020	2,024,252
2021	2,077,466
2022 - 2045	<u>73,427,577</u>
Total	<u>\$ 81,553,313</u>

Rent expense for all operating leases for the year ended August 31, 2017 was \$2,063,786.

(continued)

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2017

**Note 12 - Income Tax**

The Corporation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business taxable income. The Corporation has no material unrelated business income for the year ended August 31, 2017.

Generally accepted accounting principles requires that the Corporation recognize in its financial statements the financial effects of a tax position, if that position is more likely than not of being sustained upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the tax position. The new requirements also provide guidance on measurement, classification, interest and penalties, and disclosure.

Tax positions taken related to the Corporation's tax exempt status, unrelated business activities taxable income and deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken would more likely than not be sustained by examination. Accordingly, the

Corporation has not recorded an income tax liability for uncertain tax benefits. For the year ended August 31, 2017, there were no interest or penalties related to income taxes recorded or included in the financial statements. As of August 31, 2017, the Corporation's tax years 2014 through 2016 remain subject to examination.

**Note 13 - Credit Risk**

Financial instruments that potentially subject the Corporation to credit risk consist of cash at financial institutions. At times, the balances in cash accounts may be in excess of FDIC insurance limits. The financial institution pledges investment securities to compensate for deposits in excess of FDIC insurance limits.

**Note 14 - Commitments and Contingencies**

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

**Note 15 - Evaluation of Subsequent Events**

The Corporation has evaluated subsequent events through January 17, 2018, the date which the financial statements were available to be issued.

## **SUPPLEMENTARY INFORMATION**

Legacy 21, Inc., dba  
Legacy Preparatory Charter Academy  
Schedule of Expenses  
For the Year Ended August 31, 2017

**Expenses**

6100	Payroll costs	\$ 7,449,181
6200	Professional and contracted services	3,911,623
6300	Supplies and materials	413,043
6400	Other operating costs	455,035
6500	Debt	<u>39,344</u>
Total Expenses		<u>\$ 12,268,226</u>

The accompanying notes are an integral part of these financial statements.

Legacy 21, Inc., dba  
Legacy Preparatory Charter Academy  
Schedule of Capital Assets  
August 31, 2017

		Ownership Interest		
		Local	State	Federal
1520	Building and improvements	\$ -	\$ 426,398	\$ -
1539	Furniture and equipment	-	107,248	-
1549	Furniture and equipment	50,364	183,976	109,856
		<u>\$ 50,364</u>	<u>\$ 717,622</u>	<u>\$ 109,856</u>

The accompanying notes are an integral part of these financial statements.

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Budgetary Comparison Schedule  
For the Year Ended August 31, 2017

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>Revenues</b>				
Local support:				
5740 Interest income and other income	\$ 158,500	\$ 191,009	\$ 303,668	\$ 112,659
5750 Cocurricular activities	-	50,000	45,877	(4,123)
Total local support	158,500	241,009	349,545	108,536
State program revenues:				
5810 Foundation school program act	12,699,148	11,507,224	11,512,286	5,062
5820 State program revenues distributed by Texas Education Agency	-	3,022	61,291	58,269
Total state program revenues	12,699,148	11,510,246	11,573,577	63,331
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	650,240	1,098,688	1,033,049	(65,639)
5930 Federal revenues distributed by Other State of Texas Agencies	-	39,450	37,990	(1,460)
Total federal program revenues	650,240	1,138,138	1,071,039	(67,099)
Total Revenues	13,507,888	12,889,393	12,994,161	104,768
<b>Expenses</b>				
11 Instruction	6,016,283	6,294,676	5,935,129	359,547
13 Curriculum development and instructional staff development	460,899	653,022	622,666	30,356
21 Instructional leadership	3,527	864	899	(35)
23 School leadership	775,846	853,955	802,781	51,174
31 Guidance, counseling and evaluation services	318,033	296,981	290,127	6,854
33 Health services	137,700	139,767	133,533	6,234
34 Student transportation	50,000	2,500	1,950	550
35 Food services	650,407	573,537	565,295	8,242
36 Cocurricular/extracurricular activities	77,604	146,573	120,251	26,322
41 General administration	503,249	507,025	484,151	22,874
51 Plant maintenance and operations	2,543,719	2,469,052	2,525,895	(56,843)
52 Security and monitoring services	20,822	20,783	19,954	829
53 Data processing services	686,495	599,476	559,398	40,078
61 Community services	87,279	172,934	163,498	9,436
71 Debt service	184,096	204,647	39,344	165,303
81 Fund raising	11,979	3,521	3,355	166
Total Expenses	12,527,938	12,939,314	12,268,226	671,088
Change in Net Assets	979,950	(49,921)	725,935	775,856
Net Assets, Beginning of Year	68,471	68,471	68,471	-
Net Assets, End of Year	\$ 1,048,421	\$ 18,550	\$ 794,406	\$ 775,856

The accompanying notes are an integral part of these financial statements.



**COMPLIANCE AND INTERNAL CONTROLS SECTION**

# Paul J. Christensen & Associates, LLC

## *Certified Public Accountants*

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Paul J. Christensen, C.P.A.  
Thomas C. Cunningham, C.P.A.  
Gary L. Sauls, C.P.A.

### 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

Board of Directors  
Legacy21, Inc., dba Legacy Preparatory Charter Academy  
Dallas, 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 Legacy21, Inc., dba Legacy Preparatory Charter Academy (the "Corporation") (a nonprofit organization), which comprise the statement of financial position as of August 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 17, 2018.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Legacy21, Inc., dba Legacy Preparatory Charter Academy'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 Legacy21, Inc., dba Legacy Preparatory Charter Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Legacy21, Inc., dba Legacy Preparatory Charter Academy'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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Legacy21, Inc., dba Legacy Preparatory Charter Academy'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*.

### **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 Legacy21, Inc., dba Legacy Preparatory Charter Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Legacy21, Inc., dba Legacy Preparatory Charter Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Waco, Texas  
January 17, 2018

# Paul J. Christensen & Associates, LLC

*Certified Public Accountants*

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors  
Legacy21, Inc., dba Legacy Preparatory Charter Academy  
Dallas, Texas

### Report on Compliance For Each Major Federal Program

We have audited Legacy21, Inc., dba Legacy Preparatory Charter Academy's (the "Corporation") (a nonprofit organization), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Legacy21, Inc., dba Legacy Preparatory Charter Academy's major federal programs for the year ended August 31, 2017. Legacy21, Inc., dba Legacy Preparatory Charter Academy'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Legacy21, Inc., dba Legacy Preparatory Charter Academy'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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance 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 Legacy21, Inc., dba Legacy Preparatory Charter Academy'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 Legacy21, Inc., dba Legacy Preparatory Charter Academy's compliance.

### Opinion on Each Major Federal Program

In our opinion, Legacy21, Inc., dba Legacy Preparatory Charter Academy 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 year ended August 31, 2017.

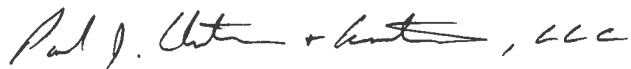
## Report on Internal Control Over Compliance

Management of Legacy21, Inc., dba Legacy Preparatory Charter Academy 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 Legacy21, Inc., dba Legacy Preparatory Charter Academy'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 the Uniform Guidance, 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 Legacy21, Inc., dba Legacy Preparatory Charter Academy'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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Waco, Texas  
January 17, 2018

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Schedule of Findings and Questioned Costs  
For the Year Ended August 31, 2017

**I. SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditor's report issued Unmodified

Internal Control over Financial Reporting:

Material weakness(es) identified? \_\_\_ Yes X No

Significant deficiencies(s) identified that are not  
considered to be material weaknesses? \_\_\_ Yes X No

Noncompliance material to financial statements noted? \_\_\_ Yes X No

Federal Awards

Internal Control over Major Programs:

Material weakness(es) identified? \_\_\_ Yes X No

Significant deficiencies(s) identified that are  
not considered to be material weaknesses? \_\_\_ Yes X No

Type of auditor's report issued on compliance for  
major programs  
Unmodified

Any audit findings disclosed that are required to be reported  
in accordance with 2 CFR section 200.516(a)? \_\_\_ Yes X No

Identification of Major Programs:

CFDA Number(s)

Name of Federal Program

84.010A ESEA, Title I, Part A – Improving Basic Programs

Dollar threshold used to distinguish  
between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes \_\_\_ No

**II. FINANCIAL STATEMENT FINDINGS**

None identified

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None identified

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Summary Schedule of Prior Audit Findings  
For the Year Ended August 31, 2017

**I. FINANCIAL STATEMENT FINDINGS**

None identified

**II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None identified

Legacy21, Inc. dba  
Legacy Preparatory Charter Academy  
Schedule of Expenditures of Federal Awards  
For the Year Ended August 31, 2017

<u>Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Education:</b>			
<u>Passed Through Texas Education Agency</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	16610101057950	\$ 383,218
ESEA, Title II, Part A - Teacher and Principal Training	84.367A	16694501057950	63,524
Title III, Part A - LEP	84.365A	16671001057950	37,990
IDEA - Part B, Formula	84.027A	156600010578466000	166,051
Summer School LEP	84.369A	69551502	3,495
Total Passed Through Texas Education Agency			<u>654,278</u>
<b>U.S. Department of Agriculture:</b>			
<u>Passed Through Texas Education Agency</u>			
National School Lunch Program	10.555	71401601	65,749
School Breakfast Program	10.553	71401701	323,578
Total Passed through the Texas Education Agency			<u>389,327</u>
<u>Passed Through Texas Department of Agriculture</u>			
Commodities - Noncash Assistance			27,434
Total Passed through the Texas Department of Agriculture			<u>27,434</u>
<b>Total U.S. Department of Agriculture</b>			<u>416,761</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 1,071,039</u></u>

See accompanying notes to schedule of expenditures of federal awards.



Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended August 31, 2017

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U. S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Federal expenditures include allowable expenses funded by federal grants. Allowable costs are subject to the cost principles of the Uniform Guidance and the standards of OMB Circular A-122, *Cost Principles for Non-Profit Organizations* and include costs that are recognized in Legacy21, Inc., dba Legacy Preparatory Charter Academy's financial statements in conformity with generally accepted accounting principles. Legacy21, Inc., dba Legacy Preparatory Charter Academy has elected not to use the 10% de minimus rate for indirect costs. Because the schedule presents only a selected portion of the operations of Legacy21, Inc., dba Legacy Preparatory Charter Academy, they are not intended to and do not present the financial position, changes in net assets, or cash flows of Legacy21, Inc., dba Legacy Preparatory Charter Academy.


Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Financial Statements  
For The Year Ended August 31, 2016

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Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
(Federal Employer Identification Number: 24-4013601)  
Certificate of Board

We, the undersigned, certify that the attached Financial and Compliance Report of Legacy21, Inc., dba Legacy Preparatory Charter Academy was reviewed and (check one) ☒ approved ☐ disapproved for the year ended August 31, 2016 at a meeting of governing body of the charter holder on the 19 day of January, 2017.

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

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

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Legacy21, Inc.  
Legacy Preparatory Charter Academy  
Dallas, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of Legacy21, Inc., dba Legacy Preparatory Charter Academy (the "Corporation") (a nonprofit organization) which comprise the statement of financial position as of August 31, 2016, and the related statements of activities and cash flows for the year 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 Legacy21, Inc., dba Legacy Preparatory Charter Academy as of August 31, 2016, and the changes in its net assets and its cash flows for the year 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 supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is also 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 January 19, 2017, on our consideration of Legacy21, Inc., dba Legacy Preparatory Charter Academy'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 Legacy21, Inc., dba Legacy Preparatory Charter Academy's internal control over financial reporting and compliance.

Waco, Texas  
January 19, 2017

## FINANCIAL STATEMENTS

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Statement of Financial Position  
August 31, 2016

Assets

Current Assets	
Cash and cash equivalents	\$ 472,351
Due from governments	136,216
Other receivables	1,303
Prepaid expenses	38,363
Total current assets	<u>648,233</u>
Property and equipment, net	557,687
Other assets	<u>75,000</u>
Total Assets	<u><u>\$ 1,280,920</u></u>

Liabilities and Net Assets

Current Liabilities	
Note payable - current portion	\$ 159,427
Capital lease obligation - current portion	43,439
Accounts payable	269,679
Accrued expenses	108,211
Accrued interest payable	5,370
Deferred revenue	30,255
Total current liabilities	<u>616,381</u>
Long-term Liabilities	
Note payable	389,507
Capital lease obligation	<u>206,561</u>
Total long-term liabilities	<u>596,068</u>
Total Liabilities	<u>1,212,449</u>
Net Assets	
Unrestricted	21,056
Temporarily restricted	<u>47,415</u>
Total Net Assets	<u>68,471</u>
Total Liabilities and Net Assets	<u><u>\$ 1,280,920</u></u>

The accompanying notes are an integral part of these financial statements.



Legacy21, Inc. dba  
Legacy Preparatory Charter Academy  
Statement of Activities  
For the Year Ended August 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues			
Local support:			
Interest and other income	\$ 105,127	\$ 183,034	\$ 288,161
Total local support	105,127	183,034	288,161
State program revenues:			
Foundation school program act	-	10,222,760	10,222,760
Other state aid	-	151,364	151,364
Total state program revenues	-	10,374,124	10,374,124
Federal program revenues:			
ESEA, Title I, Part A	-	290,662	290,662
ESEA, Title II, Part A	-	45,087	45,087
Title III, Part A - LEP	-	20,712	20,712
Summer School LEP	-	2,226	2,226
National School Lunch and Breakfast Program	-	385,596	385,596
IDEA - Part B, Formula	-	152,085	152,085
Total federal program revenues	-	896,368	896,368
Net assets released from restrictions:			
Restrictions satisfied by payments	11,234,329	(11,234,329)	-
Total Revenues	11,339,456	219,197	11,558,653
Expenses			
Program Services:			
Instruction and instructional - related services	5,833,385	-	5,833,385
Instructional and school leadership	750,757	-	750,757
Support services:			
Administrative support services	475,036	-	475,036
Ancillary services	163,835	-	163,835
Support services non-student based	3,010,823	-	3,010,823
Support services student (pupil)	1,060,557	-	1,060,557
Debt service	29,156	-	29,156
Fund raising	5,604	-	5,604
Total Expenses	11,329,153	-	11,329,153
Change in Net Assets	10,303	219,197	229,500
Net Assets, Beginning of Year	10,753	(171,782)	(161,029)
Net Assets, End of Year	\$ 21,056	\$ 47,415	\$ 68,471

The accompanying notes are an integral part of these financial statements.

Legacy 21, Inc. dba  
Legacy Preparatory Charter Academy  
Statement of Cash Flows  
For the Year Ended August 31, 2016

**Cash Flows from Operating Activities:**

Foundation school program payments	\$ 10,255,371
Other state aid	151,364
Grant payments	814,602
Miscellaneous sources	288,161
Payments to vendors for goods and services rendered	(4,542,272)
Payments to charter school personnel for services rendered	(6,540,666)
Interest payments	(32,464)
Net Cash Provided/(Used) by Operating Activities	<u>394,096</u>

**Cash Flows from Investing Activities:**

Purchase of capital assets	(503,759)
Net Cash Provided/(Used) by Investing Activities	<u>(503,759)</u>

**Cash Flows from Financing Activities:**

Principal payments on note payable	(151,509)
Proceeds from capital lease obligation	250,000
Net Cash Provided/(Used) by Financing Activities	<u>98,491</u>

Net Increase (Decrease) in Cash	(11,173)
---------------------------------	----------

Cash at Beginning of Year	<u>483,524</u>
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Cash at End of Year	<u><u>\$ 472,351</u></u>
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**Reconciliation of Change in Net Assets to Net Cash Provided  
by Operating Activities:**

Change in Net Assets	\$ 229,500
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	33,015
(Increase) Decrease in assets:	
Due from governments	(49,155)
Other receivables	92,540
Prepaid expenses	(38,363)
Other assets	(75,000)
Increase (Decrease) in liabilities:	
Accounts payable	66,403
Accrued expenses	108,209
Accrued interest payable	(3,308)
Deferred revenue	30,255
Net Cash Provided/(Used) by Operating Activities	<u><u>\$ 394,096</u></u>

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2016

**NOTE 1 - Summary of Significant Accounting Policies**

The financial statements of Legacy21, Inc., dba Legacy Preparatory Charter Academy (the "Corporation") (a nonprofit organization) were prepared in conformity with accounting principles generally accepted in the United States of America. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

**Reporting Entity**

The Corporation is a not-for-profit organization incorporated in the State of Texas in 2010 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Corporation is governed by a Board of Directors comprised of four members. The Board of Directors is selected pursuant to the bylaws of the Corporation and has the authority to make decisions, appoint the chief executive officer of the Corporation, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Corporation.

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

**Corporate Operations**

The State Board of Education of the State of Texas granted the Corporation an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable Contract for Charter, Legacy21, Inc., dba Legacy Preparatory Charter Academy was opened. Legacy21, Inc., dba Legacy Preparatory Charter Academy was organized to provide educational services to at-risk students and their programs, services, activities and functions are governed by the Corporation's Board of Directors.

**Basis of Accounting and Presentation**

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles.

Net assets and revenues, expenses, gains, and losses are classified based on the existence and nature or absence of donor-imposed restrictions. Restricted revenues whose restrictions are met in the same year as received are shown as unrestricted revenues. Accordingly, net assets of the Corporation and changes therein are classified and reported as follows:

**Unrestricted** - net assets that are not subject to donor-imposed stipulations.

**Temporarily restricted** - net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Corporation, the charter school, and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

**Permanently restricted** - net assets required to be maintained in perpetuity with only the income to be used for the Corporation's activities due to donor-imposed restrictions.

(continued)

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2016

**NOTE 1 - Summary of Significant Accounting Policies (continued)**

**Use of Estimates**

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

**Contributions**

The Corporation accounts for contributions as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

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

**Cash and Cash Equivalents**

For financial statement purposes, the Corporation considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents.

**Capital Assets**

Capital assets, which includes building and improvements, and furniture and equipment are reported in the financial statements. Capital assets are defined by the Corporation as assets with an estimated useful life of more than one year. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to twenty-five years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost.

**Due From Governments**

The Corporation considers all government grants and contracts as exchange transactions rather than contributions. The Corporation recognizes revenue from fee-for-service transactions as services are rendered and, for grants, as eligible expenditures are incurred. Advances from government agencies are recorded as deferred revenues. Eligible expenditures incurred in excess of grant fund reimbursements are recorded as receivables.

Any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of any noncompliance with terms of the grant contract.

(continued)

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2016

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Impairment of Long-Lived Assets**

The Corporation reviews the carrying value of capital assets for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, and the effects of obsolescence, demand, competition, and other economic factors. The Corporation did not recognize an impairment loss during the year ended August 31, 2016.

**State Funding**

The amount of state foundation school program act revenue the Corporation earns may vary until the time when final values for all factors in the state aid formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation school program act revenue estimate for the year ended August 31, 2016 will change.

**Revenue Recognition**

Revenues from the State of Texas are based on reported attendance. Public and private grants received are recognized in the period received and when the terms of the grant are met.

**Donated Services and Assets**

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills that are provided by individuals possessing those skills and which would typically need to be purchased if not provided by donation are recorded at the estimated fair market value in the period received.

Contributions of donated noncash assets are recorded at the estimated fair market value in the period received.

**Functional Allocation of Expenses**

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

**Contingencies**

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Corporation which will only be resolved when one or more future events occur or fail to occur. The Corporation's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingences related to legal proceedings that are pending against the Corporation or unasserted claims that may result in such proceedings, the Corporation's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

(continued)

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2016

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Contingencies (continued)**

If the assessment of a contingency indicates it is possible that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Corporation's financial statements. If the assessment indicates a potentially material loss contingency is not probable, but is reasonably possible, or is probable, but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed.

**Fair Value Measurements and Disclosures**

The requirements of *Fair Value Measurements and Disclosures* of the Accounting Standards Codification ("ASC") apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. *Fair Value Measurements and Disclosures* also establishes a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Inputs – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets or liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

At August 31, 2016, the Corporation had no investments.

The fair value of the Corporation's cash and cash equivalents, due from governments, other receivables, prepaid expenses, accounts payable, accrued expenses and deferred revenue approximate the carrying amounts of such instruments due to their short-term maturity.

**Note 2 - Cash and Cash Equivalents**

Cash and cash equivalents as of August 31, 2016 consist of the following:

Checking accounts	\$ 415,623
Money market accounts	<u>56,728</u>
	\$ <u>472,351</u>

(continued)

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2016

**Note 3 - Due from Governments**

Amounts due from governments consist of the following:

Texas Department of Education, Texas Education Agency	\$ 9,825
U. S. Department of Education passed through Texas Education Agency	<u>126,391</u>
Total	<u>\$136,216</u>

**Note 4 - Capital Assets**

A summary of changes in capital assets is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Accumulated Depreciation</u>	<u>Net Capital Assets</u>
Building and Improvements	\$ -0-	\$333,000	\$ -0-	\$ 333,000	\$ 2,778	\$330,222
Furniture and Equipment	<u>275,149</u>	<u>170,759</u>	<u>-0-</u>	<u>445,908</u>	<u>218,443</u>	<u>227,465</u>
Capital Assets, Net	<u>\$275,149</u>	<u>\$503,759</u>	<u>\$ -0-</u>	<u>\$778,908</u>	<u>\$221,221</u>	<u>\$557,687</u>

Capital assets acquired with public funds received by the Corporation for the operation of Legacy21, Inc., dba Legacy Preparatory Charter Academy constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified in the Schedule of Capital Assets.

Depreciation expense for the year ended August 31, 2016 was \$33,015.

**Note 5 - Long-Term Debt**

In 2012, the Corporation obtained a credit facility of \$1,000,000 from Vintage Bank, Waxahachie, Texas to finance school start-up activities. Advances of \$948,108, with interest at six percent, were made and the initial maturity date of the loan was September 13, 2013. Interest only, of \$61,582, was paid to August 31, 2013.

Effective September 15, 2013, the \$948,108 was converted to a term loan, payable in twenty-four quarterly payments of \$46,064 with interest at 5.07 percent. The balance of the loan at August 31, 2016 was \$548,934.

At August 31, 2016, future debt service requirements for the loans payable are as follows:

Fiscal Year Ending <u>August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$159,427	\$ 24,830	\$ 184,257
2018	167,664	16,593	184,257
2019	176,326	7,931	184,257
2020	45,517	547	46,064
2021	-	-	-
2022 thereafter	-	-	-
Total	<u>\$ 548,934</u>	<u>\$ 49,901</u>	<u>\$ 598,835</u>

Interest expense for the year ended August 31, 2016 was \$29,156.

(continued)

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2016

**Note 6 - Pension Plan Obligations**

**Plan Description**

The Corporation contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, defined benefit pension plan with one exception: all risks and costs are not shared by the Corporation, but are the liability of the State of Texas. Based on FASB Statement No. 87, a multiemployer plan is a pension plan to which two or more unrelated employers contribute, usually pursuant to one or more collective-bargaining agreements. Although TRS has no collective bargaining agreements, the defined benefit pension plan is considered to be a multiemployer plan for the purposes of not-for-profit charter holders due to various significant factors. These factors include: 1) charter holders are legally separate entities from the state and each other; 2) assets contributed by one participating entity may be used to provide benefits to employees of other participating employers since assets contributed by one entity are not segregated in a separate account or restricted to provide benefits only to employees of that entity; 3) upon withdrawal from the plan, the unfunded obligation or net pension liability of that entity will be passed along to the remaining other entities who contribute to the plan; and 4) there is not a withdrawal penalty for leaving the TRS system.

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; by calling the TRS Communications Department at 1-800-223-8778; or by downloading the report from the TRS website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publication Heading.

**Funding Policy and Funded Status**

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 six percent of the member's annual compensation and a State contribution rate of not less than six percent and not more than ten percent of the aggregate annual compensation of all members of the system; (2) State statute prohibits benefit improvements 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 31 years, the period would be increased by such action.

As of August 31, 2016, TRS' total plan assets were \$128,538,706,212, accumulated benefit obligation (or total pension liability) was \$163,887,375,172, and the plan was 78.43 percent funded.

(continued)



Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2016

**Note 6 - Pension Plan Obligations (continued)**

**Contributions**

State law provides for a member contribution rate of 7.2 percent for fiscal year 2016, 6.7 percent for fiscal year 2015, and 6.4 percent for fiscal year 2014, and a State contribution rate of 6.8 percent for fiscal years 2016, 2015, and 2014. In addition, state law provides for a member contribution rate of 7.7 percent for fiscal year 2017, while maintaining a state contribution rate of 6.8 percent for fiscal year 2017.

The Corporation employees' contributions to TRS for the year ending August 31, 2016 were \$402,153, equal to the required contribution. These contributions did not represent more than five percent of the total contributions to the plan.

The Corporation made contributions for the Non-Old Age Survivor and Disability Insurance (Non-OASDI) for certain employees. The total amount contributed for Non-OASDI for fiscal year ending August 31, 2016 was \$83,778.

**NOTE 7 - Retiree Health Care Plan**

**Plan Description**

The Corporation contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing, multiple-employer defined benefit postemployment health care plan administered by the TRS. TRS Care provides health care coverage for certain persons (and their dependents) who retired under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and Required Supplementary Information for TRS-Care. That report may be obtained by visiting the TRS website at [trs.state.tx.us](http://trs.state.tx.us); by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701; or by calling 1-800-223-8778.

**Funding Policy**

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were one percent for fiscal year 2016 and 0.65 percent of school payroll, with the Corporation contributing a percentage of payroll set at 0.55 percent for fiscal year 2016. Per Texas Insurance Code, Chapter 1575, the school contribution may not be less than 0.25 percent or greater than 0.75 percent of the salary of each active employee of the public school. For the year ended August 31, 2016, the State's contributions to TRS-Care was \$2,145; the active member contributions were \$30,720, and the Corporation's contribution were \$19,394 which equaled the required contribution.

**Note 8 - Health Care Coverage**

During the year ended August 31, 2016, employees of the Corporation were covered by a Health Insurance Plan ("Plan"). The Corporation contributed \$334 per month per employee for the period from September 1, 2015 to August 31, 2016 to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

(continued)

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2016

**Note 9 - Risk Management Program**

Worker's compensation coverage, general liability, professional liability and property coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have historically not exceeded commercial coverage.

**Note 10 - Leases**

The Corporation leases its facilities under non-cancellable operating leases, which contain varying renewal options. Approximate aggregate remaining minimum rental commitments as of August 31, 2016 under these leases are summarized as follows:

<u>Fiscal Year Ending June 30,</u>	
2017	\$ 1,840,494
2018	1,842,510
2019	1,844,527
2020	1,790,081
2021 – 2028	<u>44,696,144</u>
Total	\$ <u>52,013,756</u>

Rent expense for all operating leases for the year ended August 31, 2016 was \$1,853,926.

**Note 11 - Back Office Services**

The Corporation contracts with a company for back office services. The agreement provides, among other things, for the payment of a fee calculated based upon the gross revenues of the Corporation. The expense for the services for the year ended August 31, 2016 was \$ 414,720.

**Note 12 - Income Tax**

The Corporation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business taxable income. The Corporation has no material unrelated business income for the year ended August 31, 2016.

Generally accepted accounting principles requires that the Corporation recognize in its financial statements the financial effects of a tax position, if that position is more likely than not of being sustained upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the tax position. The new requirements also provide guidance on measurement, classification, interest and penalties, and disclosure.

Tax positions taken related to the Corporation's tax exempt status, unrelated business activities taxable income and deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken would more likely than not be sustained by examination. Accordingly, the

(continued)

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2016

**Note 12 - Income Tax (continued)**

Corporation has not recorded an income tax liability for uncertain tax benefits. For the year ended August 31, 2016, there were no interest or penalties related to income taxes recorded or included in the financial statements. As of August 31, 2016, the Corporation's tax years 2013 through 2015 remain subject to examination.

**Note 13 - Credit Risk**

Financial instruments that potentially subject the Corporation to credit risk consist of cash at financial institutions. At times, the balances in cash accounts may be in excess of FDIC insurance limits. The financial institution pledges investment securities to compensate for deposits in excess of FDIC insurance limits.

**Note 14 - Commitments and Contingencies**

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

**Note 15 - Evaluation of Subsequent Events**

The Corporation has evaluated subsequent events through January 19, 2017, the date which the financial statements were available to be issued.

## **SUPPLEMENTARY INFORMATION**

Legacy 21, Inc. dba  
Legacy Preparatory Charter Academy  
Schedule of Expenses  
For the Year Ended August 31, 2016

**Expenses**

6100	Payroll costs	\$	6,540,666
6200	Professional and contracted services		3,822,260
6300	Supplies and materials		474,189
6400	Other operating costs		429,717
6500	Debt		<u>29,156</u>
Total Expenses		\$	<u><u>11,295,988</u></u>

The accompanying notes are an integral part of the these financial statements.

Legacy 21, Inc. dba  
Legacy Preparatory Charter Academy  
Schedule of Capital Assets  
August 31, 2016

		Ownership Interest		
		Local	State	Federal
1520	Building and improvements	\$ -	\$ 333,000	\$ -
1539	Furniture and equipment	-	107,248	-
1549	Furniture and equipment	50,364	178,440	109,856
		<u>\$ 50,364</u>	<u>\$ 618,688</u>	<u>\$ 109,856</u>

The accompanying notes are an integral part of these financial statements.

Legacy 21, Inc. dba  
Legacy Preparatory Charter Academy  
Budgetary Comparison Schedule  
For the Year Ended August 31, 2016

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance from Final Budget
<b>Revenues</b>				
Local support:				
5740 Interest income and other income	\$ -	\$ 119,531	\$ 215,623	\$ 96,092
5750 Cocurricular activities	-	56,339	72,538	16,199
Total local support	-	175,870	288,161	112,291
State program revenues:				
5810 Foundation school program act	-	10,205,859	10,222,760	16,901
5820 State program revenues distributed by Texas Education Agency	80,000	257,028	151,364	(105,664)
5830 State program revenues distributed by Texas Government Agency	-	-	-	-
Total state program revenues	80,000	10,462,887	10,374,124	(88,763)
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	1,048,474	947,154	875,657	(71,497)
5930 Federal revenues distributed by Other State of Texas Agencies	27,536	28,261	20,711	(7,550)
Total federal program revenues	1,076,010	975,415	896,368	(79,047)
Total Revenues	1,156,010	11,614,172	11,558,653	(55,519)
<b>Expenses</b>				
11 Instruction	4,770,358	5,512,950	5,303,000	209,950
13 Curriculum development and instructional staff development	215,605	530,327	530,383	(56)
21 Instructional leadership	171,305	3,458	3,458	-
23 School leadership	1,073,799	757,929	747,299	10,630
31 Guidance, counseling and evaluation services	158,950	285,363	260,117	25,246
33 Health services	174,111	129,783	130,497	(714)
35 Food services	100,305	525,863	502,584	23,279
36 Cocurricular/extracurricular activities	18,000	206,609	167,359	39,250
41 General administration	416,211	495,452	475,036	20,416
51 Plant maintenance and operations	2,413,017	2,508,756	2,445,804	62,952
52 Security and monitoring services	9,000	22,444	22,284	160
53 Data processing services	425,288	547,892	542,735	5,157
61 Community services	80,000	175,591	163,835	11,756
71 Debt service	184,096	32,465	29,156	3,309
81 Fund raising	5,000	5,700	5,604	96
Total Expenses	10,215,045	11,740,582	11,329,151	411,431
Change in Net Assets	(9,059,035)	(126,410)	229,502	355,912
Net Assets, Beginning of Year	(161,029)	(161,029)	(161,029)	-
Net Assets, End of Year	\$ (9,220,064)	\$ (287,439)	\$ 68,473	\$ 355,912

The accompanying notes are an integral part of these financial statements.

## COMPLIANCE AND INTERNAL CONTROLS SECTION



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

Board of Directors  
Legacy21, Inc., dba Legacy Preparatory Charter Academy  
Dallas, 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 Legacy21, Inc., dba Legacy Preparatory Charter Academy (the "Corporation") (a nonprofit organization), which comprise the statement of financial position as of August 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 19, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Legacy21, Inc., dba Legacy Preparatory Charter Academy'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 Legacy21, Inc., dba Legacy Preparatory Charter Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Legacy21, Inc., dba Legacy Preparatory Charter Academy'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 Legacy21, Inc., dba Legacy Preparatory Charter Academy'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*.

## **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 Legacy21, Inc., dba Legacy Preparatory Charter Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Legacy21, Inc., dba Legacy Preparatory Charter Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Waco, Texas  
January 19, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors  
Legacy21, Inc., dba Legacy Preparatory Charter Academy  
Dallas, Texas

**Report on Compliance For Each Major Federal Program**

We have audited Legacy21, Inc., dba Legacy Preparatory Charter Academy's (the "Corporation") (a nonprofit organization), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Legacy21, Inc., dba Legacy Preparatory Charter Academy's major federal programs for the year ended August 31, 2016. Legacy21, Inc., dba Legacy Preparatory Charter Academy'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Legacy21, Inc., dba Legacy Preparatory Charter Academy'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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance 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 Legacy21, Inc., dba Legacy Preparatory Charter Academy'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 Legacy21, Inc., dba Legacy Preparatory Charter Academy's compliance.

## Opinion on Each Major Federal Program

In our opinion, Legacy21, Inc., dba Legacy Preparatory Charter Academy 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 year ended August 31, 2016.

## Report on Internal Control Over Compliance

Management of Legacy21, Inc., dba Legacy Preparatory Charter Academy 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 Legacy21, Inc., dba Legacy Preparatory Charter Academy'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 the Uniform Guidance, 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 Legacy21, Inc., dba Legacy Preparatory Charter Academy'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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Waco, Texas  
January 19, 2017

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Schedule of Findings and Questioned Costs  
For the Year Ended August 31, 2016

**I. SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditor's report issued Unmodified

Internal Control over Financial Reporting:

Material weakness(es) identified? \_\_\_ Yes X No

Significant deficiencies(s) identified that are not  
considered to be material weaknesses? \_\_\_ Yes X No

Noncompliance material to financial statements noted? \_\_\_ Yes X No

Federal Awards

Internal Control over Major Programs:

Material weakness(es) identified? \_\_\_ Yes X No

Significant deficiencies(s) identified that are  
not considered to be material weaknesses? \_\_\_ Yes X No

Type of auditor's report issued on compliance for  
major programs Unmodified

Any audit findings disclosed that are required to be reported  
in accordance with 2 CFR section 200.516(a)? \_\_\_ Yes X No

Identification of Major Programs:

CFDA Number(s)

Name of Federal Program

84.010A

ESEA, Title I, Part A – Improving Basic  
Programs

Dollar threshold used to distinguish  
between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? \_\_\_ Yes X No

**II. FINANCIAL STATEMENT FINDINGS**

None identified

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None identified

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended August 31, 2016

**Note 1 - Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Legacy21, Inc., dba Legacy Preparatory Charter Academy under programs of the Federal Government for the year ended August 31, 2016. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Heritage Academy Charter Schools, Inc., it is not intended to, and does not, present the financial position, change in net assets, or cash flows of Heritage Academy Charter Schools, Inc.

**Note 2 - Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the costs principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

**Note 3 - Standard Financial Accounting System**

For all federal programs, Legacy21, Inc., dba Legacy Preparatory Charter Academy used the net asset classes and codes specified by the Texas Education Agency in the *Special Supplement to Financial Accounting and Reporting, No-Profit Charter School Chart of Accounts*. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by the grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Summary Schedule of Prior Audit Findings  
For the Year Ended August 31, 2016

**I. FINANCIAL STATEMENT FINDINGS**

None identified

**II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None identified

Legacy 21, Inc., dba  
Legacy Preparatory Charter Academy  
Schedule of Expenditures of Federal Awards  
For the Year Ended August 31, 2016

Grantor/ Program Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Education:</b>			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	16610101057950	\$ 290,662
ESEA, Title II, Part A - Teacher and Principal Training	84.367A	16694501057950	45,087
Title III, Part A - LEP	84.365A	16671001057950	20,712
IDEA - Part B, Formula	84.027A	156600010578466000	152,085
Summer School LEP	84.369A	69551502	2,226
Total Passed Through State Department of Education			<u>510,772</u>
<b>U.S. Department of Agriculture:</b>			
<u>Passed Through State Department of Education</u>			
National School Lunch Program	10.555	71301501	48,763
National School Lunch Program	10.555	71301601	270,667
School Breakfast Program	10.553	71401501	5,164
School Breakfast Program	10.553	71401601	26,191
Food Distribution (Commodities)	10.550		34,811
Passed Through State Department of Agriculture			<u>385,596</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 896,368</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards



Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended August 31, 2016

**Note 1 Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Legacy21, Inc., dba Legacy Preparatory Charter Academy under programs of the Federal Government for the year ended August 31, 2016. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Legacy21, Inc., dba Legacy Preparatory Charter Academy it is not intended to, and does not, present the financial position, change in net assets, or cash flows of Legacy21, Inc., dba Legacy Preparatory Charter Academy.

**Note 2 Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the costs principles contained in Uniform Guidance; wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

**Note 3 Standard Financial Accounting System**

For all federal programs, Legacy21, Inc., dba Legacy Preparatory Charter Academy used the net asset classes and codes specified by the Texas Education Agency in the *Special Supplement to Financial Accounting and Reporting, No-Profit Charter School Chart of Accounts*. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by the grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.


Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Financial Statements  
For the Year Ended August 31, 2015

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Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
(Federal Employer Identification Number: 27-4013601)  
Certificate of Board

We, the undersigned, certify that the attached Financial and Compliance Report of Legacy21, Inc., dba Legacy Preparatory Charter Academy was reviewed and (check one) ☒ approved ☐ disapproved for the year ended August 31, 2015, at a meeting of governing body of the charter holder on the 15 day of January, 2016.

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

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



# Cunningham, Shavers, Christensen & Wright, L.L.P.

*Certified Public Accountants*

Fred R. Shavers III, C.P.A.  
Paul J. Christensen, C.P.A.  
Danny R. Wright, C.P.A.  
Nathaniel J. Pringle, C.P.A.  
Thomas C. Cunningham, C.P.A.  
Partner Emeritus

*MEMBERS:*

- AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
- TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Dallas, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of Legacy21, Inc., dba Legacy Preparatory Charter Academy (a nonprofit organization) (the "charter holder") which comprise the statement of financial position as of August 31, 2015, and the related statements of activities and cash flows for the year 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 Legacy21, Inc., dba Legacy Preparatory Charter Academy as of August 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Information

### Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. 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 also 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.

## Report on Summarized Comparative Information

We have previously audited the Legacy21, Inc., dba Legacy Preparatory Charter Academy's financial statements as of and for the year ended August 31, 2014, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 15, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 15, 2016, on our consideration of Legacy21, Inc., dba Legacy Preparatory Charter Academy'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 in considering Legacy21, Inc., dba Legacy Preparatory Charter Academy's internal control over financial reporting and compliance.

  
January 15, 2016

## FINANCIAL STATEMENTS

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Statement of Financial Position  
August 31, 2015  
(With Comparative Totals for August 31, 2014)

	<u>2015</u>	<u>2014</u>
<u>Assets</u>		
Current Assets		
Cash and cash equivalents	\$ 483,524	\$ 259,439
Due from governments	87,061	196,727
Other receivables	93,843	854
Total current assets	<u>664,428</u>	<u>457,020</u>
Property and equipment, net	<u>86,943</u>	<u>60,305</u>
Total Assets	<u>\$ 751,371</u>	<u>\$ 517,325</u>
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Current portion of long-term debt	\$ 151,544	\$ 144,151
Accounts payable	203,279	113,012
Accrued interest payable	8,678	8,678
Total current liabilities	<u>363,501</u>	<u>265,841</u>
Long-term debt	<u>548,899</u>	<u>700,551</u>
Total Liabilities	912,400	966,392
Net Assets		
Unrestricted	(161,029)	(449,067)
Temporarily restricted	<u>-</u>	<u>-</u>
Total Net Assets	<u>(161,029)</u>	<u>(449,067)</u>
Total Liabilities and Net Assets	<u>\$ 751,371</u>	<u>\$ 517,325</u>

The accompanying notes are an integral part of these financial statements.



Legacy21, Inc. dba  
Legacy Preparatory Charter Academy  
Statement of Activities  
For the Year Ended August 31, 2015  
(With Comparative Totals for the Year Ended August 31, 2014)

	Unrestricted	Temporarily Restricted	Totals	
			2015	2014
Revenues and Other Support				
Local support:				
Interest and other income	\$ 219,639	\$ -	\$ 219,639	\$ 116,606
Total local support	219,639	-	219,639	116,606
State program revenues:				
Foundation school program act	-	9,803,532	9,803,532	7,578,003
Other state aid	-	75,818	75,818	80,682
Total state program revenues	-	9,879,350	9,879,350	7,658,685
Federal program revenues:				
ESEA, Title I, Part A	-	251,611	251,611	293,489
ESEA, Title II, Part A	-	40,672	40,672	56,221
Title III, Part A - LEP	-	15,193	15,193	9,125
Summer School LEP	-	1,107	1,107	2,226
National School Lunch and Breakfast Program	-	330,902	330,902	253,916
IDEA - Part B, Formula	-	133,369	133,369	148,561
Title V B SP1 PCS Start-Up Grant	-	-	-	45,404
Total federal program revenues	-	772,854	772,854	808,942
Net assets released from restrictions:				
Restrictions satisfied by payments	10,652,204	(10,652,204)	-	-
Total Revenues and net assets released from restrictions	10,871,843	-	10,871,843	8,584,233
Expenses				
Program Services:				
Instruction and instructional - related services	5,764,658	-	5,764,658	4,627,471
Instructional and school leadership	985,980	-	985,980	1,181,860
Support services:				
Administrative support services	358,495	-	358,495	520,776
Ancillary services	80,745	-	80,745	-
Support services non-student based	2,312,909	-	2,312,909	1,596,607
Support services student (pupil)	1,037,002	-	1,037,002	817,596
Debt service	39,998	-	39,998	53,710
Fund raising	4,018	-	4,018	3,502
Total expenses	10,583,805	-	10,583,805	8,801,522
Change in Net Assets	288,038	-	288,038	(217,289)
Net Assets, beginning of year	(449,067)	-	(449,067)	(231,778)
Net Assets, end of year	\$ (161,029)	\$ -	\$ (161,029)	\$ (449,067)

The accompanying notes are an integral part of these financial statements.

Legacy 21, Inc. dba  
Legacy Preparatory Charter Academy  
Statement of Cash Flows  
For the Year Ended August 31, 2015  
(With Comparative Totals for the Year Ended August 31, 2014)

	<u>2015</u>	<u>2014</u>
<b>Cash Flows from Operating Activities:</b>		
Foundation school program payments	\$9,789,306	\$7,601,673
Other state aid	75,818	80,682
Grant payments	896,776	889,493
Miscellaneous sources	126,619	116,606
Payments to vendors for goods and services rendered	(3,726,701)	(3,197,272)
Payments to charter school personnel for services rendered	(6,659,829)	(5,498,678)
Interest payments	(39,998)	(45,032)
Net Cash Provided/(Used) by Operating Activities	<u>461,991</u>	<u>(52,528)</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of capital assets	(93,647)	(6,570)
Net Cash Used by Investing Activities	<u>(93,647)</u>	<u>(6,570)</u>
<b>Cash Flows from Financing Activities:</b>		
Principal payments on long-term debt	(144,259)	(103,406)
Net Cash Provided by Financing Activities	<u>(144,259)</u>	<u>(103,406)</u>
Net Increase (Decrease) in Cash	224,085	(162,504)
<b>Cash at Beginning of Year</b>	<u>259,439</u>	<u>421,943</u>
<b>Cash at End of Year</b>	<u><u>\$ 483,524</u></u>	<u><u>\$ 259,439</u></u>
<b>Reconciliation of Change in Net Assets to Net Cash Provided/(Used)</b>		
<b>by Operating Activities:</b>		
Change in Net Assets	\$ 288,038	\$ (217,289)
Adjustments to reconcile change in net assets to net cash provided/(used) by operating activities:		
Depreciation	67,009	66,884
(Increase) Decrease in assets:		
Due from governments	109,666	104,221
Other receivables	(92,989)	3,032
Increase (Decrease) in liabilities:		
Accounts payable	90,267	(18,054)
Accrued interest payable	-	8,678
Net Cash Provided/(Used) by Operating Activities	<u><u>\$ 461,991</u></u>	<u><u>\$ (52,528)</u></u>

The accompanying notes are an integral part of these financial statements.

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2015

Note 1 Organization and Nature of Activities

Legacy21, Inc., dba Legacy Preparatory Charter Academy ("the Organization") incorporated in the State of Texas in 2010. It is a not for profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is governed by a Board of Directors comprised of four members. The Board of Directors is selected pursuant to the bylaws of the Organization and has the authority to make decisions, appoint the chief executive officer of the Organization and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Organization.

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

The Organization provides general education services for students in kindergarten through seventh grade. The school is operated as a single charter, with campuses in Mesquite and Plano, and does not conduct any non-charter related activities. The Organization is part of the public school system of the State of Texas and, therefore, is entitled to distributions from the Foundation School Program, as well as other state and federal grants received through the State of Texas. However, the Organization does not have the authority to impose taxes.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Organization have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles. The more significant of the Organization's accounting policies are described below.

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with GAAP.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

*Unrestricted Net Assets (Deficit)* - Unrestricted net assets consist of net assets that are not subject to donor-imposed stipulations. Unrestricted net assets result from operating revenues, unrestricted contributions, and unrestricted dividend and interest income. Unrestricted net assets may be designated for specific purposes by action of the Board. The Organization had unrestricted net assets (deficit) of (\$161,029) at August 31, 2015.

*Temporarily Restricted Net Assets* - Temporarily restricted net assets consist of assets that are subject to grantor or donor-imposed stipulations that require the passage of time or the occurrence of a specified event (actions by the Organization). When the donor restriction expires, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The temporarily restricted description requires the Organization to use state funding for the benefit of educating students enrolled in the Organization's schools. Compliance with this requirement allows the Organization to use these funds for any allowable school purpose to further educate its students. As of August 31, 2015, the Organization has no temporarily restricted net assets.

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2015

Note 2 Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

*Permanently Restricted Net Assets* - Permanently restricted net assets are those resources subject to donor-imposed restriction that will be maintained permanently by the Organization. The donors of these resources require that the principal be invested in perpetuity and permit the income earned, including unrealized appreciation, to be used, all or in part, for unrestricted or temporarily restricted purposes. As of August 31, 2015, the Organization had no permanently restricted net assets.

Cash and Cash Equivalents

For financial statement purposes, the Organization considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents.

Due From Governments

The Organization considers all government grants and contracts as exchange transactions rather than contributions. The Organization recognizes revenue from fee-for-service transactions as services are rendered and, for grants, as eligible expenditures are incurred. Advances from government agencies are recorded as deferred revenues. Eligible expenditures incurred in excess of grant fund reimbursements are recorded as receivables.

Any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of any noncompliance with terms of the grant of contract.

Capital Assets

Capital assets, which include furniture and equipment, are reported in the financial statements. Capital assets are defined by the Organization as assets with an estimated useful life of more than one year. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to five years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost.

Impairment of Long-Lived Assets

The Organization reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, and the effects of obsolescence, demand, competition, and other economic factors. The Organization did not recognize an impairment loss during the year ended August 31, 2015.

Contributions

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2015

Note 2 Summary of Significant Accounting Policies (continued)

Contributions (continued)

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

Use of Estimates

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

State Funding

The amount of state foundation school program act revenue the Organization earns may vary until the time when final values for all factors in the state aid formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation school program act revenue estimate for the year ended August 31, 2015 will change.

Revenue Recognition

Revenues from the State of Texas are based on reported attendance. Public and private grants received are recognized in the period received and when the terms of the grant are met.

Donated Services and Assets

Contributions of donated services that create or enhance nonfinancial assets or that requires specialized skills that are provided by individuals possessing those skills and which would typically need to be purchased if not provided by donation are recorded at the estimated fair market value in the period received.

Contributions of donated noncash assets are recorded at the estimated fair market value in the period received.

Functional Allocation of Expenses

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

Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Organization which will only be resolved when one or more future events occur or fail to occur. The Organization's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Organization or unasserted claims that may result in such proceedings, the Organization's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2015

Note 2 Summary of Significant Accounting Policies (continued)

Contingencies (continued)

If the assessment of a contingency indicates it is possible that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Organization's financial statements. If the assessment indicates a potentially material loss contingency is not probable, but is reasonably possible, or is probable, but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed.

Fair Value Measurements and Disclosures

The requirements of Fair Value Measurements and Disclosures of the Accounting Standards Codification ("ASC") apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair Value Measurements and Disclosures also establishes a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

- Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Inputs - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets or liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

At August 31, 2015, the Organization had no investments.

The fair value of the Organization's cash and cash equivalents, due from governments, other receivables, accounts payable, and accrued interest payable approximate the carrying amounts of such instruments due to their short-term maturity.

Note 3 Cash and Cash Equivalents

Cash and cash equivalents as of August 31, 2015 consist of the following:

Checking accounts	\$413,289
Money market accounts	<u>70,235</u>
	<u>\$483,524</u>

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2015

Note 4 Due from Governments

Amounts due from governments consist of the following:

Texas Department of Education, Texas Education Agency	\$42,436
United States Department of Education passed through Texas Education Agency	<u>44,625</u>
Total	<u>\$87,061</u>

Note 5 Capital Assets

A summary of changes in capital assets is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Accumulated Depreciation</u>	<u>Net Capital Assets</u>
Furniture and Equipment	\$ <u>181,502</u>	\$ <u>93,647</u>	\$ <u>-</u>	\$ <u>275,149</u>	\$ <u>188,206</u>	\$ <u>86,943</u>

Capital assets acquired with public funds received by the Organization for the operation of Legacy21, Inc., dba Legacy Preparatory Charter Academy constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets.

Depreciation expense for the year ended August 31, 2015 was \$67,009.

Note 6 Leases

The Organization leases its facilities under non-cancellable operating leases, which contain varying renewal options. Approximate aggregate remaining minimum rental commitments as of August 31, 2015 under these leases are summarized as follows:

<u>Fiscal Year Ending August 31,</u>	
2016	\$ 1,827,408
2017	1,829,424
2018	1,831,440
2019	1,833,456
2020	1,779,012
Thereafter	<u>43,775,448</u>
Total	<u>\$52,876,188</u>

Rent expense for all operating leases for the year ended August 31, 2015 was \$1,505,884.

Note 7. Long-Term Debt

In 2012, the Organizations obtained a credit facility of \$1,000,000 from Vintage Bank, Waxahachie, Texas to finance school start-up activities. Advances of \$948,108, with interest at six percent, were made and the initial maturity date of the loan was September 15, 2013. Interest only, of \$61,582, was paid to August 31, 2013.

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2015

Note 7 Long-Term Debt (continued)

Effective September 15, 2013, the \$948,108 balance was converted to a term loan, payable in twenty-four quarterly payments of \$46,064 with interest at 5.07 percent. The balance of the loan at August 31, 2015 was \$700,443.

Future maturities of long-term debt at August 31, 2015 are as follows:

Fiscal Year Ending <u>August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$151,511	\$32,746	\$184,257
2017	159,427	24,830	184,257
2018	167,664	16,593	184,257
2019	176,326	7,931	184,257
2020	<u>45,515</u>	<u>439</u>	<u>45,954</u>
Total	<u>\$700,443</u>	<u>\$82,539</u>	<u>\$782,982</u>

Interest expense for the year ended August 31, 2015 was \$39,998.

Note 8 Retirement Benefits

Plan Description -The Organization contributes to the Teacher Retirement System of Texas (the System), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature.

Participating employers in the System are legal separate entities from the State and from each other. Contributions to the System by one employer may be used for the benefit of a plan member of another participating employer. The unfunded obligations are passed along to the participating employers. There is no withdrawal penalty for a plan member for leaving the System.

Information with respect to the System is shown in the following table:

Name of Plan	Federal Employer ID/Plan Number	Certified Zone Status	Expiration Date of Collective Bargaining Agreement	Improvement or Rehabilitation Plan	Surcharge Paid	Contributions Made 2014-2015
Teacher Retirements System of Texas	n/a	Unknown	n/a	n/a	\$64,529	\$229,558
Total contributions made					<u>\$64,529</u>	<u>\$229,558</u>



Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2015

Note 8 Retirement Benefits (continued)

Notes to the table:

1. Certified Zone Status (as defined by the Pension Protection Act) represents the level at which the plan is funded. Details of the funding status are as follows:
  - i. Total plan assets- \$157,261,707,241
  - ii. Accumulated benefit obligations - \$159,496,075,886
  - iii. The System is 83.25% funded.
2. There is no collective-bargaining agreement.
3. Based on the audited GASB 68 allocation schedules from the TRS website as of August 31, 2014, the year-end of the System, contributions made to the System did not represent more than 5% of the total contributions received by the System.
4. Contribution rates:

Member	6.7%
State	6.8%
Employer	6.8%

There have been no changes that would affect the comparison of employer contributions from year to year. The System's annual financial report and other required disclosure information are available by writing the General Accounting Department, Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698.

In addition, employees may contribute 0.65% of their salary and the Organization must contribute 0.55% of the salary of each active employee to TRS-Care (the TRS health plan for retired employees). The total amount contributed to TRS-Care for the year was \$67,820 which is equal to the employees' contributions and the Organization's required contributions for the year.

Note 9 Health Care Coverage

During the year ended August 31, 2015, employees of the Organization were covered by a Health Insurance Plan ("Plan"). The Organization contributed \$298 per month per employee for the year ended to August 31, 2015 to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

Note 10 Risk Management Program

Worker's compensation coverage, general liability, professional liability and property coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have historically not exceeded commercial coverage.

Note 11 Back Office Services

The Organization contracts with a company for back office services. The agreement provides, among other things, for the payment of a fee calculated based upon the gross revenues of the Organization. The expense for the services for the year ended August 31, 2015 was \$370,070.

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2015

Note 12 Income Tax

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business taxable income. The Organization has no material unrelated business income for the year ended August 31, 2015.

Generally accepted accounting principles requires that the Organization recognize in its financial statements the financial effects of a tax position, if that position is more likely than not of being sustained upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the tax position. The new requirements also provide guidance on measurement, classification, interest and penalties and disclosure.

Tax positions taken related to the Organization's tax exempt status, unrelated business activities taxable income and deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken would more likely than not be sustained by examination. Accordingly, the Organization has not recorded an income tax liability for uncertain tax benefits. For the year ended August 31, 2015, there were no interest or penalties related to income taxes recorded or included in the financial statements. As of August 31, 2015 the Organization's tax years 2012 through 2014 remain subject to examination.

Note 13 Commitments and Contingencies

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

Note 14 Evaluation of Subsequent Events

The Organization has evaluated subsequent events through January 15, 2016, the date which the financial statements were available to be issued.

## SUPPLEMENTARY INFORMATION

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Schedule of Expenses  
For the Year Ended August 31, 2015  
(With Comparative Totals for the Year Ended August 31, 2014)

		Totals	
		2015	2014
<b>Expenses</b>			
6100	Payroll costs	\$6,659,830	\$5,498,678
6200	Professional and contracted services	3,221,040	2,621,587
6300	Supplies and materials	320,466	309,405
6400	Other operating costs	342,472	318,142
6500	Debt	39,998	53,710
	Total Expenses	<u>\$10,583,806</u>	<u>\$8,801,522</u>

The accompanying notes are an integral part of these financial statements.

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Schedule of Capital Assets  
August 31, 2015

		Ownership Interest		
		Local	State	Federal
1539	Furniture and equipment	\$ -	\$ 68,246	\$ -
1549	Furniture and equipment	59,764	37,283	109,856
		<u>\$ 59,764</u>	<u>\$ 105,529</u>	<u>\$ 109,856</u>

The accompanying notes are an integral part of these financial statements.

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Budgetary Comparison Schedule  
For the Year Ended August 31, 2015

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance from Final Budget</u>
Revenues and Other Support				
Local support:				
5740 Other revenues from local sources	\$ 184,745	\$ 173,400	\$ 167,231	\$ (6,169)
5750 Revenues from cocurricular, enterprising services or activities	-	50,279	52,408	2,129
Total local support	<u>184,745</u>	<u>223,679</u>	<u>219,639</u>	<u>(4,040)</u>
State program revenues:				
5810 Foundation school program act	10,240,046	9,789,651	9,803,532	13,881
5820 State program revenues distributed by Texas Education Agency	254,000	76,693	75,234	(1,459)
5830 State revenues from State of Texas government agencies	-	-	584	584
Total state program revenues	<u>10,494,046</u>	<u>9,866,344</u>	<u>9,879,350</u>	<u>13,006</u>
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	1,029,379	922,386	757,661	(164,725)
5930 Federal revenues distributed by other State of Texas government agencies	27,536	15,193	15,193	-
Total federal program revenues	<u>1,056,915</u>	<u>937,579</u>	<u>772,854</u>	<u>(164,725)</u>
Total Revenues	<u>11,735,706</u>	<u>11,027,602</u>	<u>10,871,843</u>	<u>(155,759)</u>
Expenses				
11 Instruction	5,290,826	5,310,043	5,378,181	68,138
13 Curriculum development and instructional staff development	321,138	410,223	386,477	(23,746)
21 Instructional leadership	171,306	52,728	38,321	(14,407)
23 School leadership	1,073,799	950,797	947,659	(3,138)
31 Guidance, counseling and evaluation services	263,864	295,920	252,250	(43,670)
33 Health services	174,111	161,627	159,289	(2,338)
35 Food services	550,305	498,624	490,979	(7,645)
36 Cocurricular/extracurricular activities	23,969	138,886	134,484	(4,402)
41 General administration	416,211	360,078	358,495	(1,583)
51 Plant maintenance and operations	2,413,017	1,953,674	1,949,636	(4,038)
52 Security and monitoring services	9,000	9,200	8,871	(329)
53 Data processing services	425,288	358,387	354,402	(3,985)
61 Community services	110,000	89,990	80,745	(9,245)
71 Debt service	184,096	271,826	39,998	(231,828)
81 Fund raising	5,000	4,091	4,018	(73)
Total Expenses	<u>11,431,930</u>	<u>10,866,094</u>	<u>10,583,805</u>	<u>(282,289)</u>
Change in Net Assets	303,776	161,508	288,038	126,530
Net Assets, beginning of year	<u>(449,067)</u>	<u>(449,067)</u>	<u>(449,067)</u>	<u>-</u>
Net Assets, end of year	<u>\$ (145,291)</u>	<u>\$ (287,559)</u>	<u>\$ (161,029)</u>	<u>\$ 126,530</u>

The accompanying notes are an integral part of these financial statements.

## COMPLIANCE AND INTERNAL CONTROLS SECTION



# Cunningham, Shavers, Christensen & Wright, L.L.P.

*Certified Public Accountants*

Fred R. Shavers III, C.P.A.  
Paul J. Christensen, C.P.A.  
Danny R. Wright, C.P.A.  
Nathaniel J. Pringle, C.P.A.  
Thomas C. Cunningham, C.P.A.  
Partner Emeritus

*MEMBERS:*

- AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
- TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Directors  
Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Dallas, 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 Legacy21, Inc., dba Legacy Preparatory Charter Academy (a nonprofit organization) which comprise the statement of financial position as of August 31, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 15, 2016.

## Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Legacy21, Inc., dba Legacy Preparatory Charter Academy'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 Legacy21, Inc., dba Legacy Preparatory Charter Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Legacy21, Inc., dba Legacy Preparatory Charter Academy'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 Legacy21, Inc., dba Legacy Preparatory Charter Academy'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*.

## 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 in 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.

A handwritten signature in black ink, appearing to read "Lynch, Sean, Latham + Walsh, LLP".

January 15, 2016



# Cunningham, Shavers, Christensen & Wright, L.L.P.

*Certified Public Accountants*

Fred R. Shavers III, C.P.A.  
Paul J. Christensen, C.P.A.  
Danny R. Wright, C.P.A.  
Nathaniel J. Pringle, C.P.A.  
Thomas C. Cunningham, C.P.A.  
Partner Emeritus

## MEMBERS:

- AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
- TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Directors  
Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Dallas, Texas

### Report on Compliance For Each Major Federal Program

We have audited Legacy21, Inc., dba Legacy Preparatory Charter Academy's 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 Legacy21, Inc., dba Legacy Preparatory Charter Academy's major federal programs for the year ended August 31, 2015. Legacy21, Inc., dba Legacy Preparatory Charter Academy'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 Legacy21, Inc., dba Legacy Preparatory Charter Academy'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 Legacy21, Inc., dba Legacy Preparatory Charter Academy'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 Legacy21, Inc., dba Legacy Preparatory Charter Academy's compliance.

## Opinion on Each Major Federal Program

In our opinion, Legacy21, Inc., dba Legacy Preparatory Charter Academy 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 year ended August 31, 2015.


## Report on Internal Control Over Compliance

Management of Legacy21, Inc., dba Legacy Preparatory Charter Academy 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 Legacy21, Inc., dba Legacy Preparatory Charter Academy'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 Legacy21, Inc., dba Legacy Preparatory Charter Academy's internal control over compliance. Accordingly we do not express an opinion on the effectiveness of Legacy21, Inc., dba Legacy Preparatory Charter Academy'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.

  
January 15, 2016

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Schedule of Findings and Questioned Costs  
For the Year Ended August 31, 2015

**I. SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditor's report issued Unmodified

Internal Control over Financial Reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Significant deficiency(ies) identified that are  
not considered to be material weakness(es)? ☐ Yes ☒ No

Noncompliance material to financial statements noted? ☐ Yes ☒ No

**Federal Awards**

Type of auditor's report issued on compliance for  
major programs Unmodified

Internal Control over Major Programs:

Material weakness(es) identified? ☐ Yes ☒ No

Significant deficiency(ies) identified that are  
not considered to be material weakness(es)? ☐ Yes ☒ No

Any audit findings disclosed that are required to be reported  
in accordance with section 510 (a) of Circular A-133? ☐ Yes ☒ No

Identification of Major Programs:

CFDA Number(s)

10.553

10.555

84.010A

Name of Federal Program

School Breakfast Program

National School Lunch Program

ESEA, Title I, Part A –

Improving Basic Programs

Dollar threshold used to distinguish  
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

**II. FINANCIAL STATEMENT FINDINGS**

None noted.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None noted.

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Schedule of Prior Findings  
For the Year Ended August 31, 2015

None

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended August 31, 2015

**Note 1 Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Legacy21, Inc., dba Legacy Preparatory Charter Academy under programs of the Federal Government for the year ended August 31, 2015. The information in the Schedule is presented in accordance with the requirements of the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Legacy21, Inc., dba Legacy Preparatory Charter Academy it is not intended to, and does not, present the financial position, change in net assets, or cash flows of Legacy21, Inc., dba Legacy Preparatory Charter Academy.

**Note 2 Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the costs 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.

**Note 3 Standard Financial Accounting System**

For all federal programs, Legacy21, Inc., dba Legacy Preparatory Charter Academy used the net asset classes and codes specified by the Texas Education Agency in the *Special Supplement to Financial Accounting and Reporting, Non-Profit Charter School Chart of Accounts*. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by the grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.

**LEGACY 21, INC., dba  
LEGACY PREPARATORY CHARTER ACADEMY**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED AUGUST 31, 2014**

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Legacy 21, Inc., dba  
Legacy Preparatory Charter Academy  
(Federal Employer Identification Number: 27-4013601)  
Certificate of Board

We, the undersigned, certify that the attached Financial and Compliance Reports of Legacy 21, Inc., dba Legacy Preparatory Charter Academy were reviewed and (☒ approved ( ) disapproved for the year ended August 31, 2014 at a meeting of governing body of the charter holder on the 15 day of January, 2015.

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

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



# Cunningham, Shavers, Christensen & Wright, L.L.P.

*Certified Public Accountants*

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*Thomas C. Cunningham, C.P.A.*  
Partner Emeritus

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Legacy 21, Inc., dba  
Legacy Preparatory Charter Academy  
Dallas, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of Legacy 21, Inc., dba Legacy Preparatory Charter Academy (a nonprofit organization) (the "charter holder") which comprise the Statement of Financial Position as of August 31, 2014 and 2013, and the related statements of activities and cash flows for the years 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 of 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 opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Legacy 21, Inc., dba Legacy Preparatory Charter Academy, as of August 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 13 to the financial statements, Legacy 21, Inc., dba Legacy Preparatory Charter Academy's expenses exceeded revenues by \$217,289 for the year ended August 31, 2014 resulting in a cumulative net asset deficit of \$(449,067). Our opinion is not modified with respect to this matter.

**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*, and the supplementary information 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 January 15, 2015, on our consideration of Legacy 21, Inc., dba Legacy Preparatory Charter Academy'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* in considering Legacy 21, Inc., dba Legacy Preparatory Charter Academy's internal control over financial reporting and compliance.

January 15, 2015

## FINANCIAL STATEMENTS

Legacy 21, Inc., dba  
Legacy Preparatory Charter Academy  
Statement of Financial Position  
August 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Current Assets		
Cash and cash equivalents	\$ 259,439	\$ 421,943
Due from other governments	<u>196,727</u>	<u>300,948</u>
Total current assets	456,166	722,891
Property and equipment, net	60,305	120,619
Other Assets	<u>854</u>	<u>3,886</u>
Total Assets	<u>\$ 517,325</u>	<u>\$ 847,396</u>
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Current portion on long-term debt	\$ 144,151	\$ 103,548
Accounts payable	113,012	131,066
Accrued interest payable	<u>8,678</u>	<u>-</u>
Total current liabilities	265,841	234,614
Long-term debt	<u>700,551</u>	<u>844,560</u>
Total Liabilities	966,392	1,079,174
Net Assets		
Unrestricted	-	-
Temporarily restricted	<u>(449,067)</u>	<u>(231,778)</u>
Total Net Assets	<u>(449,067)</u>	<u>(231,778)</u>
Total Liabilities and Net Assets	<u>\$ 517,325</u>	<u>\$ 847,396</u>

The notes to the financial statements are an integral part of this statement.

Legacy 21, Inc., dba  
Legacy Preparatory Charter Academy  
Statement of Activities  
For the Years Ended August 31, 2014 and 2013

			Totals	
	Unrestricted	Temporarily Restricted	2014	2013
<b>Revenues and Other Support</b>				
Local support:				
Interest and other income	\$ 116,606	\$ -	\$ 116,606	\$ 56,185
Total local support	116,606	-	116,606	56,185
State program revenues:				
Foundation school program act	-	7,578,003	7,578,003	5,981,590
Other state aid	-	80,682	80,682	105
Total state program revenues	-	7,658,685	7,658,685	5,981,695
Federal program revenues:				
ESEA, Title I, Part A	-	293,489	293,489	171,873
ESEA, Title II, Part A	-	56,221	56,221	9,380
Title III, Part A - LEP	-	9,125	9,125	-
Summer School LEP	-	2,226	2,226	-
National School Lunch and Breakfast Program	-	253,916	253,916	-
IDEA - Part B, Formula	-	148,561	148,561	72,983
IDEA - Part B, Preschool	-	-	-	346
Title V B SP1 PCS Start-Up Grant	-	45,404	45,404	199,554
Total federal program revenues	-	808,942	808,942	454,136
Net assets released from restrictions:				
Restrictions satisfied by payments	8,467,627	(8,467,627)	-	-
Total Revenues and net assets released from restrictions	8,584,233	-	8,584,233	6,492,016
<b>Expenses</b>				
Program Services:				
Instruction and instructional - related services	4,627,471	-	4,627,471	3,604,843
Instructional and school leadership	1,181,860	-	1,181,860	853,024
Support services:				
Administrative support services	520,776	-	520,776	404,051
Ancillary services	-	-	-	134
Support services non-student based	1,596,607	-	1,596,607	942,733
Support services student (pupil)	817,596	-	817,596	223,293
Debt service	53,710	-	53,710	57,212
Fund raising	3,502	-	3,502	-
Total expenses	8,801,522	-	8,801,522	6,085,290
Change in Net Assets	(217,289)	-	(217,289)	406,726
Net Assets, beginning of year	(231,778)	-	(231,778)	(638,504)
Net Assets, end of year	\$ (449,067)	\$ -	\$ (449,067)	\$ (231,778)

The notes to the financial statements are an integral part of this statement

**Legacy 21, Inc., dba  
Legacy Preparatory Charter Academy  
Statement of Cash Flows  
For the Years Ended August 31, 2014 and 2013**

	2014	2013
<b>Cash Flows from Operating Activities:</b>		
Foundation school program payments	7,682,355	\$ 5,929,815
Grant payments	889,493	556,543
Miscellaneous sources	116,606	52,299
Payments to vendors for goods and services rendered	(3,197,272)	(2,277,403)
Payments to charter school personnel for services rendered	(5,498,678)	(3,609,242)
Interest payments	(45,032)	(57,212)
Net Cash Provided/(Used) by Operating Activities	<u>(52,528)</u>	<u>594,800</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of capital assets	(6,570)	(174,932)
Net Cash Provided/(Used) by Investing Activities	<u>(6,570)</u>	<u>(174,932)</u>
<b>Cash Flows from Financing Activities:</b>		
Issuance of long-term debt	-	150,000
Principal payments on long-term debt	(103,406)	-
Reduction of bank overdraft	-	(131,041)
Net Cash Provided/(Used) by Financing Activities	<u>(103,406)</u>	<u>18,959</u>
Net Increase (Decrease) in Cash	(162,504)	438,827
Cash at Beginning of Year	438,827	-
Cash at End of Year	<u>\$ 276,323</u>	<u>\$ 438,827</u>
<b>Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:</b>		
Change in Net Assets	\$ (217,289)	\$ 406,726
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	66,884	54,313
(Increase) Decrease in assets:		
Due from governmental agencies	104,221	62,520
Other assets	3,032	(3,886)
Increase (Decrease) in liabilities:		
Accounts payable and accrued expenses	(18,054)	58,243
Accrued interest payable	8,678	-
Net Cash Provided/(Used) by Operating Activities	<u>\$ (52,528)</u>	<u>\$ 577,916</u>

The notes to the financial statements are an integral part of this statement.

**Legacy 21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes to Financial Statements  
August 31, 2014**

**Note 1 Organization and Nature of Activities**

Legacy 21, Inc., dba Legacy Preparatory Charter Academy ("the organization") incorporated in the State of Texas in 2010. It is a not for profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The organization is governed by a Board of Directors comprised of three members. The Board of Directors is selected pursuant to the bylaws of the organization and has the authority to make decisions, appoint the chief executive officer of the organization and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the organization.

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

The organization provides general education services for students in kindergarten through seventh grade with campuses in Dallas, Mesquite, and Richardson. The school operates under an open enrollment charter granted by the Texas State Board of Education on September 16, 2011 and is effective to July 31, 2017. The organization is part of the public school system of the State of Texas and, therefore, is entitled to distributions from the Foundation School Program, as well as other state and federal grants received through the State of Texas. However, the organization does not have the authority to impose taxes.

**Note 2 Summary of Significant Accounting Policies**

**Basis of Accounting**

The financial statements of Legacy 21, Inc., dba Legacy Preparatory Charter Academy were prepared in conformity with accounting principles generally accepted in the United States of America. Encumbrances representing outstanding purchase orders and other commitments for materials or services not yet received are not liabilities as of the reporting date.

**Basis of Presentation**

In order to comply with accounting principles generally accepted in the United States of America, the organization must prepare its external financial statements in accordance with statements issued by the Financial Accounting Standard Board as described in the AICPA Audit and Accounting Guide for not for profit organizations.

The Financial Accounting Standards Board requires classification of the organization's net assets and its revenues, expenses, gains, and losses based on the existence or absences of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets - permanently restricted, temporarily restricted, and unrestricted - be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

*Unrestricted* - net assets that are not subject to donor-imposed stipulations.

*Temporarily restricted* - net assets subject to donor-imposed stipulations that may or will be met, either by actions of the organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets, as of August 31, 2014, were \$(449,067).



**Legacy 21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes to Financial Statements  
(continued)  
August 31, 2014**

**Note 2 Summary of Significant Accounting Policies (continued)**

**Basis of Presentation (continued)**

*Permanently restricted* - net assets required to be maintained in perpetuity with only the income to be used for the organization's activities due to donor imposed restrictions. The organization does not have any permanently restricted net assets.

**Cash and Cash Equivalents**

For financial statement purposes, the organization considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents.

**Capital Assets**

Capital assets, which include furniture and equipment, are reported in the financial statements. Capital assets are defined by the organization as assets with an estimated useful life of more than one year. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, of three years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost.

**Contributions**

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

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

**Use of Estimates**

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

**State Funding**

The amount of state foundation school program act revenue the organization earns may vary until the time when final values for all factors in the state aid formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation school program act revenue estimate for the year ended August 31, 2014 will change.

Legacy 21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes to Financial Statements  
(continued)  
August 31, 2014

**Note 2 Summary of Significant Accounting Policies (continued)**

**Prior Year Information**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with organization's financial statements for the period ended August 31, 2014, from which the summarized information was derived.

**Note 3 Due from Other Governments**

Amount due from other governments at August 31, 2014 consist of:

Foundation School Program Act	\$ 28,210
ESEA, Title I, Part A	89,736
ESEA, Title II, Part A	40,721
Title III, Part A - LEP	9,125
IDEA - Part B, Formula	<u>28,935</u>
Total	<u>\$ 196,727</u>

**Note 4 Capital Assets**

A summary of changes in capital assets follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Accumulated Depreciation</u>	<u>Net Capital Assets</u>
Furniture and Equipment	\$ <u>174,932</u>	\$ <u>6,570</u>	\$ <u>0-</u>	\$ <u>181,502</u>	\$ <u>121,197</u>	\$ <u>60,305</u>

Capital assets acquired with public funds received by the organization for the operation of Legacy 21, Inc., dba Legacy Preparatory Charter Academy constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets.

Depreciation expense for the year ended August 31, 2014 was \$66,884.

**Legacy 21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes to Financial Statements  
(continued)  
August 31, 2014**

**Note 5 Operating Leases**

The organization leases certain facilities to conduct school operations for its Dallas, Mesquite, and Richardson campuses. Details of these operating leases are as follows:

Location	Dallas Pathway of Life Church	Mesquite Family Cathedral of Praise	Richardson MAS Islamic Center of Dallas	Dallas Northcreek Financial Associates
Lease Term	24 months	24 months	month-to-month	72 months
Lease Period	July 1, 2013 to June 30, 2015	July 1, 2013 to June 30, 2015	month to month	September 1, 2013 to August 31, 2019
Monthly Lease Payment	<u>\$26,635</u>	<u>\$31,592</u>	<u>\$23,100</u>	<u>\$4,033</u>

Future annual lease payment obligations as of August 31, 2014 are as follows:

School Year Ended	Dallas Pathway of Life Church	Mesquite Family Cathedral of Praise	Richardson MAS Islamic Center of Dallas	Dallas Northcreek Financial Associates
August 31, 2015	\$ 266,350	\$ 315,920	\$ 277,200	\$ 48,396
August 31, 2016	-0-	-0-	-0-	48,396
August 31, 2017	-0-	-0-	-0-	50,412
August 31, 2018	-0-	-0-	-0-	52,429
August 31, 2019	-0-	-0-	-0-	<u>54,446</u>
Total	<u>\$ 266,350</u>	<u>\$ 315,920</u>	<u>\$ 277,200</u>	<u>\$ 254,079</u>

**Note 6 Long-Term Debt**

In 2012, the school obtained a credit facility of \$1,000,000 from Vintage Bank, Waxahachie, Texas to finance school start-up activities. Advances of \$948,108, with interest at six percent, were made and the initial maturity date of the loan was September 15, 2013. Interest only, of \$61,582, was paid to August 31, 2013.

Effective September 15, 2013, the \$948,108 balance was converted to a term loan, payable in twenty-four quarterly payments of \$46,064 with interest at 5.07 percent. The loan is payable as follows:

<u>School Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
August 31, 2015	\$ 144,151	\$ 40,106	\$ 184,257
August 31, 2016	151,511	32,746	184,257
August 31, 2017	159,427	24,830	184,257
August 31, 2018	167,664	16,593	184,257
August 31, 2019	176,326	7,931	184,257
August 31, 2020	<u>45,623</u>	<u>439</u>	<u>46,062</u>
Total	<u>\$ 844,702</u>	<u>\$ 122,645</u>	<u>\$ 967,347</u>

**Legacy 21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes to Financial Statements  
(continued)  
August 31, 2014**

**Note 7 Pension Plan Obligations**

***Plan Description***

The organization 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 organization, 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.trstate.tx.us](http://www.trstate.tx.us), under the TRS Publications Heading.

***Funding Policy***

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% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate minimal 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 year, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2012, 2013 and 2014, and a state contribution rate of 6.0% for fiscal year 2012 and 6.4% for fiscal years 2013 and 2014. The organization's employees' contributions to the System for the years ending August 31, 2014 and 2013 were \$300,765 and \$213,540, respectively, equal to the required contributions for each year. Other contributions made from federal and private grants and from the organization for salaries above the statutory minimum for the years ending August 31, 2014 and 2013 were \$13,533 and \$5,740, respectively equal to the required contributions for each year.

**Note 8 Health Care Coverage**

During the year ended August 31, 2014, employees of the organization were covered by a Health Insurance Plan ("Plan"). The organization contributed \$298 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

**Legacy 21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes to Financial Statements  
(continued)  
August 31, 2014**

**Note 9 Risk Management Program**

Worker's compensation coverage, general liability, professional liability and property coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have historically not exceeded commercial coverage.

**Note 10 Management Fees**

The organization contracts with a management company for management and administrative services. The management agreement provides, among other things, for the payment of a management fee calculated based upon the gross revenues. Management fees paid for the year ended August 31, 2014 were \$432,954.

**Note 11 Income Tax**

The organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business taxable income. The organization has no material unrelated business income for the year ended August 31, 2014.

Generally accepted accounting principles required that the organization recognize in its financial statements the financial effects of a tax position, if that position is more likely than not of being sustained upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the tax position. The new requirements also provide guidance on measurement, classification, interest and penalties and disclosure.

Tax positions taken related to the organization's tax exempt status, unrelated business activities taxable income and deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken would more likely than not be sustained by examination. Accordingly, the organization has not recorded an income tax liability for uncertain tax benefits. For the year ended August 31, 2014, there were no interest or penalties related to income taxes recorded or included in the financial statements. As of August 31, 2014, the organization's tax years 2011 through 2013 remain subject to examination.

**Note 12 Commitments and Contingencies**

The organization 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 organization 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.

**Note 13 Deficit Net Assets**

The organization's expenses exceeded revenues by \$217,289 for the year ended August 31, 2014 resulting in a cumulative net asset deficit of \$(449,067). Future decreases in net assets could adversely affect the organization's ability to meet current obligations as they become due.

**Note 14 Evaluation of Subsequent Events**

The organization has evaluated subsequent events through January 15, 2015, the date which the financial statements were available to be issued.

## **SUPPLEMENTARY INFORMATION**

**Legacy 21, Inc., dba  
Legacy Preparatory Charter Academy  
Schedule of Expenses  
For the Years Ended August 31, 2014 and 2013**

	Totals	
	2014	2013
<b>Expenses</b>		
6100 Payroll costs	\$ 5,498,678	\$ 3,973,092
6200 Professional and contracted services	2,621,587	1,629,582
6300 Supplies and materials	309,405	302,004
6400 Other operating costs	318,142	123,400
6500 Debt	53,710	57,212
<b>Total Expenses</b>	<b>\$ 8,801,522</b>	<b>\$ 6,085,290</b>

**Legacy 21, Inc., dba**  
**Legacy Preparatory Charter Academy**  
**Schedule of Capital Assets**  
**For the Year Ended August 31, 2014**

		Ownership Interest		
		Local	State	Federal
1110	Cash and cash equivalents	\$ -	\$ 259,439	\$ -
1539	Furniture and equipment	-	68,246	-
1549	Furniture and equipment	-	3,400	109,856
		<u>\$ -</u>	<u>\$ 331,085</u>	<u>\$ 109,856</u>



**Legacy 21, Inc., dba  
Legacy Preparatory Charter Academy  
Budgetary Comparison Schedule  
For the Year Ended August 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>Revenues and Other Support</b>				
Local support:				
5740 Interest income and other income	\$ 94,097	\$ 152,434	\$ 116,606	\$ (35,828)
Total local support	94,097	152,434	116,606	(35,828)
State program revenues:				
5810 Foundation school program act	9,101,189	7,508,207	7,578,003	69,795
5820 State program revenues distributed by Texas Education Agency	53,109	81,695	80,682	(1,013)
Total state program revenues	9,164,298	7,589,902	7,658,685	68,783
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	745,686	813,738	808,942	(4,795)
5930 Federal revenues distributed by Other State of Texas Agencies	10,019	10,019	-	(10,019)
Total federal program revenues	755,705	823,757	808,942	(14,815)
<b>Total Revenues</b>	<b>10,014,100</b>	<b>8,566,093</b>	<b>8,584,233</b>	<b>18,140</b>
<b>Expenses</b>				
11 Instruction	4,375,769	4,389,959	4,375,349	14,610
13 Curriculum development and instructional staff development	392,998	327,881	252,122	75,759
21 Instructional leadership	336,986	292,997	261,084	31,913
23 School leadership	1,050,641	931,600	920,776	10,824
31 Guidance, counseling and evaluation services	289,089	180,172	160,691	19,481
33 Health services	164,317	120,650	112,043	8,607
35 Food services	288,500	405,424	397,214	8,210
36 Cocurricular/extracurricular activities	95,920	155,756	147,648	8,108
41 General administration	530,355	540,187	520,776	19,411
51 Plant maintenance and operations	1,518,377	1,325,801	1,324,104	1,697
52 Security and monitoring services	80,000	52,569	48,135	4,434
53 Data processing services	180,000	233,465	224,368	9,097
61 Community services	-	723	-	723
71 Debt service	282,875	90,350	53,710	36,640
81 Fund raising	-	3,768	3,502	266
<b>Total Expenses</b>	<b>9,585,827</b>	<b>9,051,302</b>	<b>8,801,522</b>	<b>249,780</b>
Change in Net Assets	428,273	(485,209)	(217,289)	267,920
Net Assets, beginning of year	(231,778)	(231,778)	(231,778)	-
<b>Net Assets, end of year</b>	<b>\$ 196,495</b>	<b>\$ (716,987)</b>	<b>\$ (449,067)</b>	<b>\$ 267,920</b>

## **COMPLIANCE AND INTERNAL CONTROL**



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Partner Emeritus

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

Board of Directors  
Legacy 21, Inc., dba  
Legacy Preparatory Charter Academy  
Dallas, 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 Legacy 21, Inc., dba Legacy Preparatory Charter Academy (a nonprofit organization) which comprise the statement of financial position as of August 31, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 15, 2015.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Legacy 21, Inc., dba Legacy Preparatory Charter Academy'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 Legacy 21, Inc., dba Legacy Preparatory Charter Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Legacy 21, Inc., dba Legacy Preparatory Charter Academy'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 Legacy 21, Inc., dba Legacy Preparatory Charter Academy'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*.

### **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.

January 15, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Directors  
Legacy 21, Inc., dba  
Legacy Preparatory Charter Academy  
Dallas, Texas

**Report on Compliance For Each Major Federal Program**

We have audited Legacy 21, Inc., dba Legacy Preparatory Charter Academy's 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 Legacy 21, Inc., dba Legacy Preparatory Charter Academy's major federal programs for the year ended August 31, 2014. Legacy 21, Inc., dba Legacy Preparatory Charter Academy'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 Legacy 21, Inc., dba Legacy Preparatory Charter Academy'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 Legacy 21, Inc., dba Legacy Preparatory Charter Academy'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 Legacy 21, Inc., dba Legacy Preparatory Charter Academy's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, Legacy 21, Inc., dba Legacy Preparatory Charter Academy 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 year ended August 31, 2014.

### **Report on Internal Control Over Compliance**

Management of Legacy 21, Inc., dba Legacy Preparatory Charter Academy 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 Legacy 21, Inc., dba Legacy Preparatory Charter Academy'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 Legacy 21, Inc., dba Legacy Preparatory Charter Academy's internal control over compliance. Accordingly we do not express an opinion on the effectiveness of Legacy 21, Inc., dba Legacy Preparatory Charter Academy'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.

January 15, 2015

Legacy 21, Inc., dba  
Legacy Preparatory Charter Academy  
Schedule of Findings and Questioned Costs  
August 31, 2014

**I. SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditor's report issued: Unmodified

Internal Control over Financial Reporting:

Material weakness(es) identified?      Yes   X   No

Significant deficiencies(s) identified that are not considered to be material weaknesses?      Yes   X   No

Noncompliance material to financial statements noted?      Yes   X   No

Federal Awards

Internal Control Over Major Programs:

Material weakness(es) identified?      Yes   X   No

Significant deficiencies(s) identified that are not considered to be material weaknesses?      Yes   X   No

Type of auditor's report issued on compliance for Major Programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?      Yes   X   No

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010A	ESEA, Title I, Part A – Improving Basic Programs
84.027A	IDEA – Part B, Formula
Dollar threshold used to distinguish between Type A and Type B programs	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	<u>    </u> Yes <u>  X  </u> No

**Legacy 21, Inc., dba  
Legacy Preparatory Charter Academy  
Schedule of Findings and Questioned Costs  
(continued)  
August 31, 2014**

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**II. FINANCIAL STATEMENT FINDINGS**

None Noted

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None Noted



**Legacy 21, Inc., dba  
Legacy Preparatory Charter Academy  
Schedule of Expenditures of Federal Awards  
For the Year Ended August 31, 2014**

<u>Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Education:</b>			
<b><u>Passed Through State Department of Education</u></b>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	13610101057846	\$ 293,489
ESEA, Title II, Part A - Teacher and Principal Training	84.367A	13694501057846	56,221
Title III, Part A - LEP	84.365A	13671001057846	9,125
IDEA - Part B, Formula	84.027A	146600010578466000	148,561
Title V B SP1 PCS Start-Up Grant	84.282A	115900307110007	45,404
Summer School LEP	84.369A	69551302	2,226
Total Passed Through State Department of Education			<u>555,026</u>
<b>U.S. Department of Agriculture:</b>			
<b><u>Passed Through State Department of Education</u></b>			
National School Lunch Program	10.555	71301401	229,450
School Breakfast Program	10.553	71401401	24,466
Passed Through State Department of Agriculture			<u>253,916</u>
<b>Total Expenditures of Federal Awards</b>			<b><u>\$ 808,942</u></b>

**Note to the Schedule of Expenditure of Federal Awards:**

**Standard Financial Accounting System**

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

**LEGACY21, INC., dba**  
**LEGACY PREPARATORY CHARTER ACADEMY**  
**FINANCIAL AND COMPLIANCE REPORTS**  
**AUGUST 31, 2013**

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## CERTIFICATE OF BOARD

### LEGACY PREPARATORY CHARTER ACADEMY

Legacy Preparatory Charter Academy

Name

057-846

Co. - Dist. Number

We, the undersigned, certify that the attached Financial and Compliance Reports of Legacy Preparatory Charter Academy were reviewed and ( ☒ ) approved ( ☐ ) disapproved for the period of inception, October 1, 2011 to August 31, 2013 at the meeting of the Board of Trustees of the charter holder on the 19th day of December, 2013.

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

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



Cunningham, Shavers, Christensen & Wright, L.L.P.  
*Certified Public Accountants*

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Thomas C. Cunningham, C.P.A.  
Fred R. Shavers III, C.P.A.  
Paul J. Christensen, C.P.A.  
Danny R. Wright, C.P.A.  
Nathaniel J. Pringle, C.P.A.

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Dallas, Texas

We have audited the accompanying statements of financial position of Legacy Preparatory Charter Academy (the School) as of August 31, 2013, and the related statements of activities and changes in net assets and cash flows for the period of inception (October 1, 2011) to August 31, 2013. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Legacy Preparatory Charter Academy as of August 31, 2013, and the changes in its net assets and its cash flows for the period inception (October 1, 2011) to August 31, 2013 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2013 on our consideration of the School'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 controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Cunningham, Shavers, Christensen, & Wright, L.L.P.

Certified Public Accountants

Waco, Texas

## INDEPENDENT AUDITOR'S REPORT

Legacy Preparatory Charter Academy-page 2

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of expenses, capital assets and budgetary comparison are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and related 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 taken as a whole.

*Cunningham, Shavers, Christensen & Wright, LLP*

Cunningham, Shavers, Christensen & Wright, LLP

Waco, Texas

December 13, 2013

**Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Statement of Financial Position  
August 31, 2013**

	<u>2013</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash	\$ 421,943
Accounts receivable	300,948
<b>Total Current Assets</b>	<u>722,891</u>
<b>PROPERTY AND EQUIPMENT , NET</b>	120,619
<b>OTHER ASSETS</b>	<u>3,886</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 847,396</u></u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES</b>	
Current portion of long-term debt	\$ 103,548
Accounts payable	131,066
Accrued liabilities	-
Deferred revenues	63,128
<b>Total Current Liabilities</b>	<u>297,742</u>
<b>LONG-TERM DEBT</b>	<u>844,560</u>
<b>TOTAL LIABILITIES</b>	<u>1,142,302</u>
<b>NET ASSETS</b>	
Temporarily restricted	(294,906)
Unrestricted	-
<b>Total Net Assets</b>	<u>(294,906)</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 847,396</u></u>

The Notes to Financial Statements are  
an integral part of this statement.

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Statement of Activities and Changes in Net Assets  
For the period of Inception (October 1, 2011) to August 31, 2013

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other revenues from local sources	\$ 2,245		\$ 2,245
5751 Food Service Activity	3,778		3,778
5759 Cocurricular, Enterprising Services or Activities	50,162		50,162
Total local support	56,185		56,185
State Program Revenues:			
5810 Foundation School Program		\$ 5,981,590	5,981,590
5820 State Program Revenues distributed by Texas Education Agency		125,808	125,808
Total state program revenues		6,107,398	6,107,398
Federal Program Revenues:			
5920 Federal program revenues distributed by Texas Education Agency		742,483	742,483
Total federal program revenues		742,483	742,483
Net assets released from restrictions:			
Restrictions satisfied by payments	7,144,787	(7,144,787)	-
<b>Total Revenues</b>	<b>7,200,972</b>	<b>(294,906)</b>	<b>6,906,066</b>
<b>EXPENSES</b>			
11 Instruction	3,858,910		3,858,910
13 Curriculum and instructional staff development	390,794		390,794
21 Instructional leadership	128,489		128,489
23 School leadership	879,104		879,104
31 Guidance counseling and evaluation services	80,599		80,599
33 Health services	70,829		70,829
35 Food services	25,987		25,987
36 Co-curricular/extra-curricular activities	53,245		53,245
41 General administration	671,599		671,599
51 Plant maintenance and operations	827,188		827,188
52 Security and monitoring services	7,339		7,339
53 Data processing services	132,338		132,338
61 Community services	455		455
71 Debt service	74,096		74,096
<b>Total Expenses</b>	<b>7,200,972</b>	<b>-</b>	<b>7,200,972</b>
<b>Change in net assets</b>	<b>-</b>	<b>(294,906)</b>	<b>(294,906)</b>
<b>NET ASSETS, beginning</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET ASSETS, ending</b>	<b>\$ -</b>	<b>\$ (294,906)</b>	<b>\$ (294,906)</b>

The Notes to Financial Statements are  
an integral part of this statement.



Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Statement of Cash Flow  
For the period of Inception (October 1, 2011) to August 31, 2013

	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Foundation school program payments	\$ 6,055,518
Grant payments	556,543
Local revenues	52,299
Payments to vendors for goods and services rendered	(2,995,466)
Payments to school personnel for services rendered	(4,020,127)
<b>Net cash provided/(used) by operating activities</b>	<b>(351,233)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Additions to property and equipment	(174,932)
<b>Net cash used in investing activities</b>	<b>(174,932)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Loan proceeds	948,108
<b>Net cash provided by financing activities</b>	<b>948,108</b>
<b>Net increase in cash</b>	<b>421,943</b>
<b>CASH, beginning</b>	<b>-</b>
<b>CASH, ending</b>	<b>\$ 421,943</b>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Change in net assets	\$ (294,906)
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Depreciation	54,313
Change in assets and liabilities:	
Accounts receivable	(300,948)
Other assets(miscellaneous receivables)	(3,886)
Accounts payable	131,066
Deferred revenues	63,128
<b>Net cash provided by operating activities</b>	<b>\$ (351,233)</b>

The Notes to Financial Statements are  
an integral part of this statement.

**Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Legacy Preparatory Charter Academy were prepared in conformity with accounting principles generally accepted in the United States of America. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

**Reporting Entity**

Legacy Preparatory Charter Academy, (the School) is a Texas nonprofit corporation located in Dallas, Texas. The School is a charter school for kindergarten through seventh grade which operates under an open enrollment Charter granted by the state of Texas Board of Education. The School is operated as a single charter school, with campuses in Dallas, Mesquite, and Richardson, and does not conduct any other charter or non-charter activities. The School was granted this Charter on September 16, 2011 and is effective to July 31, 2017.

The School is governed by a Board of Trustees comprised of three members. The Board of Trustees is selected pursuant to the bylaws of the School and has the authority to make decisions, appoint the chief executive officer of the School, and significantly influence operations. The Board of Trustees has the primary accountability for the fiscal affairs of the School. Since the School receives funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

**Basis of Accounting and Presentation**

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. The accounting system is organized under the *Special Supplement to Financial Accounting and Reporting, Nonprofit Charter School Chart of Accounts*, a module of the Texas Education Agency Financial Accountability System Resource Guide.

Financial statement presentation follows the recommendations of ASC 958-205 *Presentation of Financial Statements*. Under those provisions, net assets and revenues, expenses, gains and losses are classified based on the existence and nature or absence of donor-imposed restrictions. It also requires that the amounts for each of the three classes of net assets- permanently restricted, temporarily restricted, and unrestricted - be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

**Unrestricted**

Unrestricted net assets are net assets that are not subject to donor-imposed stipulations.

**Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- CONTINUED**

**Temporarily Restricted**

Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met either by the actions of the School and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

**Permanently Restricted**

Permanently restricted net assets are those net assets required to be maintained in perpetuity with only the income to be used, for the School's activities due to donor-imposed restrictions. As of August 31, 2013, the School did not hold any assets that were designated as permanently restricted.

**Contributions**

The School accounts and reports its activities in accordance with ASC 958-605 *Revenue Recognition* and ASC 958-205 *Presentation of Financial Statements*. In accordance with ASC 958, contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

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

**Revenue Recognition**

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

**Cash and Cash Equivalents**

The School considers all highly liquid investments purchased with original maturity dates of three months or less to be cash equivalents.

**Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- CONTINUED**

**Concentration of Credit Risk**

In the normal course of operations, the School maintains cash balances on deposit at a financial institution, which, at times, may exceed federally insured limits. The School's exposure to loss should the financial institution fail, is the excess on deposit over the insured amount covered by the Federal Deposit Insurance Corporation (FDIC). The School has not experienced any losses on such accounts and management believes the School is not exposed to any significant risks on cash.

**Accounts Receivable**

The School's accounts receivable represent amounts primarily due from the state of Texas for state and federal funding related to grants.

**Capital Assets**

Capital assets, which include furniture and equipment, are reported in the statements of financial position. Capital assets are defined by the School as assets with a cost of more than \$5,000. Such assets are recorded at historical cost at the date of acquisition and are depreciated over the estimated useful lives of the assets, which range from three to twenty years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation.

**Use of Estimates in the Preparation of Financial Statements**

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

**Income Taxes**

The School is exempt from federal income taxes under Internal Revenue Code (IRC) Section 501(c)(3) and, therefore, has made no provision for federal income taxes in the accompanying financial statements.

**Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- CONTINUED**

**Uncertain Tax Positions**

The Financial Accounting Standards Board has recently issued a new standard in accounting for uncertainties in income taxes which requires that the School recognize in its financial statements the financial effects of a tax position taken or expected to be taken in a tax return, if that position is more likely than not to be sustained upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the position. The new requirements also provide guidance on measurement, classification, interest and penalties and disclosure. Tax positions taken related to the School's tax exempt status, unrelated business income and deductibility of expenses has been reviewed and management is of the opinion that material positions taken by the School would more likely than not be sustained upon examination. Accordingly, the School has not recorded an income tax liability for uncertain tax benefits. As of August 31, 2013, the School's tax year 2012 remains subject to examination.

**Fair Value of Financial Instruments**

The carrying amounts of financial instruments, including cash, cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximates fair value due to the short maturity of these instruments.

**Functional Expenses**

The cost of providing the various programs and activities has been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated on a specific identification basis, among the programs and supporting services benefited.

**Start-Up Costs**

The School has expensed costs of \$563,022 approximately related to its start-up, excluding items properly capitalized as Capital Assets, in accordance with Statement of Position 98-5, published by Accounting Standards Executive Committee ("ASEC") of the American Institute of Certified Public Accountants.

**Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements**

**NOTE 2. CAPITAL ASSETS**

Capital assets at August 31, 2013 were as follows:

<b>Capital Assets:</b>	<u>8-31-2013</u>
Copiers	\$ 11,100
Classroom Computer Equipment	134,840
Classroom Furniture	<u>28,992</u>
	<u>\$ 174,932</u>

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

Depreciation expense was \$54,312 for the period of inception (October 1, 2011) to August 31, 2013.

**NOTE 3. OPERATING LEASES**

The School leased certain facilities to conduct school operations for its Dallas, Mesquite, and Richardson campuses. Details of these operating leases are as follows:

	<b>Dallas</b>	<b>Mesquite</b>	<b>Richardson</b>
Location	Pathway of Life Church	Family Cathedral of Praise	MAS Islamic Center of Dallas
Lease term	24 months	24 months	month-to-month
Lease period	July 1, 2012 to June 30, 2013 July 1, 2013 to June 30, 2015	July 1, 2012 to June 30, 2013 July 1, 2013 to June 30, 2015	month-to-month
Monthly lease payment	\$22,339 (including \$5,913 for maintenance and \$1,918 for utilities.)	\$29,061 (including \$8,083 for maintenance and \$5,133 for utilities.)	\$12,103 (including \$2,881 for maintenance and \$2,387 for utilities.)
Cumulative- over lease term	\$705,020	\$899,905	\$147,118
For:			
School year ending 8-31-2013	235,901	289,624	147,118
School year ending 8-31-2014	268,068	348,732	
School year ending 8-31-2015	201,051	261,549	
Total-term of lease	\$705,020	\$899,905	\$147,118

**Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements**

**NOTE 4. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at August 31, 2013 consist of the following:

	<u>8-31-2013</u>
<b><i>Federal Program:</i></b>	
National School Breakfast and Lunch Program	\$ 3,778
	<u>3,778</u>
<b><i>State Programs:</i></b>	
State Textbook Fund	2,442
Foundation School Program	(311,321)
	<u>(308,879)</u>
<b><i>Local Programs:</i></b>	
Campus Activity Net Asset Class	10,195
	<u><u>\$ (294,906)</u></u>

**NOTE 5. DEFINED BENEFIT PENSION PLAN**

**Plan Description**

The School contributes to the Teacher Retirement System of Texas ("TRS"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the 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 the TRS Communications Department, 1000 Red River, Austin, Texas 78701-2698 or by calling the TRS Communications Department at (800) 223-8778 or by downloading the report from the TRS website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications heading.

**Funding Policy**

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% of the member's annual compensation and a state 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 year, the period would be increased by such action.

**Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements**

**NOTE 5. DEFINED BENEFIT PENSION PLAN -CONTINUED**

**Funding Policy(continued)**

State law, for the fiscal year 2013, provides for a member contribution rate of 6.4% and a state contribution rate of 6.0%. The School's employee's contributions to TRS for the year ended August 31, 2013 was \$276,036, equal to the required contributions for the period of inception (October 1, 2011) to August 31, 2013.

**NOTE 6. LOCAL REVENUES**

Local revenues for the period of inception (October 1, 2011) to August 31, 2013, consist of the following:

	<b>2013</b>
5742 Earnings from Temporary Deposits and Investments	\$ 624
5744 Gifts and Bequests	1,342
5749 Other Revenues from Local Sources	279
5751 Food Service Activity	3,778
5759 Cocurricular, Enterprising Services or Activities	50,162
<b>Total Local Revenues</b>	<b>\$ 56,185</b>

**NOTE 7. ACCOUNTS RECEIVABLE**

Accounts receivable at August 31, 2013, consist of the following:

Due from State of Texas:

Title I, Part A	\$ 159,297
IDEA B, Formula	72,984
IDEA B, Preschool	346
Title II, Part A	5,412
Start-up Grant	11,029
Foundation School Program	51,880
<b>Total</b>	<b>\$ 300,948</b>

**NOTE 8. HEALTH CARE COVERAGE**

During the year ended August 31, 2013, employees of the School were covered by a Health Insurance Plan (the Plan). The School contributed \$258 per employee per month in 2013 to the Plan. Employees, at their option, authorized payroll withholdings to pay the additional balance of premium for themselves or their dependents. All premiums were paid to licensed insurers.



**Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements**

**NOTE 9. LONG-TERM DEBT**

In 2012, the school obtained a credit facility of \$1,000,000 from Vintage Bank, Waxahachie, Texas to finance school start-up activities. Advances of \$948,108, with interest at six percent, were made and the initial maturity date of the loan was September 15, 2013. Interest only, of \$61,582, was paid to August 31, 2013.

Effective September 15, 2013, the \$948,108 balance was converted to a term loan, payable in twenty-four quarterly payments of \$46,064 with interest at 5.07 percent. The loan is payable as follows:

<b>School Year Ended:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
August 31, 2014	\$ 103,548	\$ 34,645	\$ 138,193
August 31, 2015	144,151	40,106	184,257
August 31, 2016	151,511	32,746	184,257
August 31, 2017	159,427	24,830	184,257
August 31, 2018	167,663	16,593	184,257
August 31, 2019	176,326	7,931	184,257
August 31, 2020	45,483	581	46,064
Total	<u>\$ 948,108</u>	<u>\$ 157,434</u>	<u>\$ 1,105,542</u>

**NOTE 10. COMMITMENT AND CONTINGENCIES**

**Grants**

The School received 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 TEA 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 School have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, the School's funds may be subject to refund if so determined by the TEA or the grantor agency.

**NOTE 11. SUBSEQUENT EVENTS**

The School has evaluated events subsequent to the balance sheet date through December 13, 2013, the date the financial statements were available to be issued. During this period, the School had no subsequent events which require disclosure.

## **SUPPLEMENTAL INFORMATION**

**LEGACY21, INC., dba  
LEGACY PREPARATORY CHARTER ACADEMY  
SCHEDULE OF EXPENSES  
FOR THE PERIOD OF INCEPTION (OCTOBER 1, 2011) TO AUGUST 31, 2013**

	Program Services							Total
	General School Operations	ESEA Title I, Part A	IDEA- B Formula	IDEA- B Preschool	National School Lunch and Breakfast Program	Title II, Part A	TTL V & SP1 PCS Start-Up Grant	
<b>EXPENSES:</b>								
6100 Payroll costs	\$ 4,083,886	\$ 139,767	\$ 28,151	\$ -	\$ -	\$ -	\$ 159,637	\$ 4,411,441
6200 Professional and contracted services	1,561,370	-	44,456	-	-	2,150	243,428	1,851,404
6300 Supplies and materials	464,550	30,911	311	346	-	-	51,551	547,669
6400 Other operating costs	274,588	1,195	65	-	-	7,230	33,284	316,362
6500 Debt	74,096	-	-	-	-	-	-	74,096
	<u>\$ 6,458,490</u>	<u>\$ 171,873</u>	<u>\$ 72,983</u>	<u>\$ 346</u>	<u>\$ -</u>	<u>\$ 9,380</u>	<u>\$ 487,900</u>	<u>\$ 7,200,972</u>

**LEGACY21, INC., dba**  
**LEGACY PREPARATORY CHARTER ACADEMY**  
**SCHEDULE OF CAPITAL ASSETS**  
**AUGUST 31, 2013**

	Ownership Interest		
	Local	State	Federal
1539 Furniture and Equipment	\$ -	\$ 68,246	\$ -
1549 Furniture and Equipment	-	-	106,686
	<u>\$ -</u>	<u>\$ 68,246</u>	<u>\$ 106,686</u>

**LEGACY21, INC., dba**  
**LEGACY PREPARATORY CHARTER ACADEMY**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE PERIOD OF INCEPTION (OCTOBER 1, 2011) TO AUGUST 31, 2013**

	Original Budget	Final Budget	Actual Amounts	Variance from Final Budget Positive (Negative)
<b>Revenues</b>				
Local Support:				
5740 Other revenues from local sources	\$ -	\$ -	\$ 2,245	\$ 2,245
5750 Revenues form Cocurricular, Enterprising Services or Activities	20,519	50,110	53,940	3,830
Total local support	20,519	50,110	56,185	6,075
State Program Revenues:				
5810 Foundation School Program	5,906,063	5,930,880	5,981,590	50,710
5820 State Program Revenues Distributed by Texas Education Agency	52,910	178,697	125,808	(52,889)
Total state program revenues	5,958,973	6,109,577	6,107,398	(2,179)
<b>Total Revenues</b>	<b>5,979,492</b>	<b>6,159,687</b>	<b>6,163,583</b>	<b>3,896</b>
<b>Expenses</b>				
11 Instruction	3,897,183	4,034,974	3,508,177	526,797
13 Curriculum and instructional staff development	272,951	190,682	169,402	21,280
21 Instructional leadership	59,655	108,705	110,744	(2,039)
23 School leadership	845,755	833,355	832,791	564
31 Guidance counseling and evaluation services	24,319	74,011	33,746	40,265
33 Health services	80,876	81,476	66,678	14,798
35 Food services	-	26,810	25,987	823
36 Co-curricular/extra-curricular activities	20,519	62,630	53,245	9,385
41 General administration	596,888	574,733	602,634	(27,901)
51 Plant maintenance and operations	824,005	819,005	818,385	620
52 Security and monitoring services	-	8,325	7,339	986
53 Data processing services	183,079	145,903	132,338	13,565
61 Community services	-	-	178	(178)
71 Debt service	78,188	78,188	74,096	4,092
<b>Total Expenses</b>	<b>6,883,418</b>	<b>7,038,797</b>	<b>6,435,740</b>	<b>603,057</b>
Change in net assets	(903,926)	(879,110)	(272,157)	606,953
<b>Net Assets, beginning</b>	<b>-</b>	<b>-</b>		<b>-</b>
<b>Net Assets, ending</b>	<b>\$ (903,926)</b>	<b>\$ (879,110)</b>		<b>\$ 606,953</b>
<b>Reconciliation to Ending Net Assets</b>				
Depreciation			(22,749)	
Change in Net Assets (all funds)			(294,906)	
<b>Net Assets, beginning</b>			-	
<b>Net Assets, ending</b>			<b>\$ (294,906)</b>	

## **COMPLIANCE AND INTERNAL CONTROL**



Cunningham, Shavers, Christensen, & Wright, L.L.P.  
Certified Public Accountants  
Waco, Texas

**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 Trustees  
Legacy21, Inc., dba  
Legacy Preparatory Charter Academy

We have audited the financial statements of Legacy Preparatory Charter Academy (the School) for the period of inception (October 1, 2011) to August 31, 2013, and have issued our report thereon dated December 13, 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 the School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School'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 the 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 above. 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.



Cunningham, Shavers, Christensen, & Wright, L.L.P.

Certified Public Accountants  
Waco, Texas

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy

Page 2

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the School'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.

This report is intended solely for the information and use of management the School's Board of Trustees, the School's management, federal awarding agencies, pass-through entities and for filing with the Texas Education Agency, and is not intended to be and should not be used by anyone other than these specified parties.

*Cunningham, Shavers, Christensen & Wright, LLP*

Cunningham, Shavers, Christensen & Wright, L.L.P.  
Waco, Texas  
December 13, 2013





Cunningham, Shavers, Christensen, & Wright, L.L.P.

Certified Public Accountants

Waco, Texas

**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 Trustees of  
Legacy21, Inc., dba  
Legacy Preparatory Charter Academy

*Compliance*

We have audited Legacy Preparatory Charter Academy's (the School) 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 the School's major federal programs for the period inception (October 1, 2011) to August 31, 2013. The School'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 the School's management. Our responsibility is to express an opinion on the School'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 the School'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 the School's compliance with those requirements.

In our opinion, the School 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 period of inception (October 1, 2011) to August 31, 2013.

*Internal Control over Compliance*

Management of the School 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 the School'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



Cunningham, Shavers, Christensen, & Wright, L.L.P.

Certified Public Accountants  
Waco, Texas

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Page 2

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 the School'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 School's Board of Trustees, federal awarding agencies, pass-through entities and for filing with the Texas Education Agency and is not intended to be and should not be used by anyone other than these specified parties.

*Cunningham, Shavers, Christensen & Wright, LLP*

Cunningham, Shavers, Christensen & Wright, L.L.P.  
Waco, Texas  
December 13, 2013

LEGACY21, INC., dba  
LEGACY PREPARATORY CHARTER ACADEMY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE PERIOD OF INCEPTION (OCTOBER 1, 2011) TO AUGUST 31, 2013

S O F E F A

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<b>Passed Through State Department of Education</b>			
ESEA, TTL V B Sp1 PCS 2012-2013 Startup	84.282A		\$ 563,022
Total CFDA Number 84.282A			<u>563,022</u>
*ESEA, Title I, Part A - Improving Basic Programs	84.010A	13610101057846	\$ 171,873
Total CFDA Number 84.010A			<u>171,873</u>
ESEA, Title II, Part A - Teachers & Principal Training & Recruiting	84.367A	136964501057846	\$ 9,380
Total CFDA Number 84.367A			<u>9,380</u>
*ESEA, IDEA-B Formula	84.027 A	136600010578466600	\$ 72,984
Total CFDA Number 84.027 A			<u>72,984</u>
*ESEA, IDEA-B Preschool	84.173A	136610010578466610	\$ 346
Total CFDA Number 84.173A			<u>346</u>
Total Passed Through State Department of Education			<u>\$ 817,605</u>
<b>TOTAL DEPARTMENT OF EDUCATION</b>			<u>\$ 817,605</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 817,605</u></u>

**NOTE 1: BASIS OF PRESENTATION**

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

**NOTE 2: STANDARD FINANCIAL ACCOUNTING SYSTEM**

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

\*Clustered Programs

LEGACY21, INC., dba  
LEGACY PREPARATORY CHARTER ACADEMY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS**

Financial Statements

Type of auditor's report issued:

Unqualified 

Internal Control over Financial Reporting:

Material weakness(es) identified?

☐ Yes ☒ No

Significant deficiencies(s) identified

That are not considered to be material weaknesses?

☐ Yes ☒ No

Noncompliance material to financial statements noted?

☐ Yes ☒ No

Federal Awards

Internal Control Over Major Programs:

Material weakness(es) identified?

☐ Yes ☒ No

Significant deficiencies(s) identified that are not considered to be material weaknesses?

☐ Yes ☒ No

Type of auditor's report issued on compliance for Major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

☐ Yes ☒ No

Identification of Major Programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.282A

TTL V B SP1 PCS 2012-2013 Startup

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

☐ Yes ☒ No

**LEGACY21, INC., dba  
LEGACY PREPARATORY CHARTER ACADEMY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**II. FINANCIAL STATEMENT FINDINGS**

**A. Significant Deficiencies in Internal Control over Financial Reporting**

**Finding 13-1**

*Finding:*

The School was denied reimbursement for various expenditures, approximating \$9,170, by the Texas Education Agency due to untimely submission of supporting documentation.

*Recommendation:*

The School should submit, to the Texas Education Agency, complete and accurate documentation, on a timely basis, in support of reimbursable expenditures .

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None noted.

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**APPENDIX D**

**FORM OF BOND COUNSEL OPINION**

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February 21, 2018

New Hope Cultural Education Facilities Finance Corporation  
c/o Gay, McCall, Isaacks, Gordon & Roberts, P.C.  
777 E. 15<sup>th</sup> Street  
Plano, Texas 75074

UMB Bank, N.A.  
3005 S. Lamar Blvd., Ste. D-109 #428  
Austin, Texas 78704  
Attention: Jose Gaytan, Jr.

Ladies and Gentlemen:

We have been engaged by Legacy21, Inc. dba Legacy Preparatory Charter Academy, a nonprofit Texas corporation (the “*Company*”), to serve as bond counsel (“*Bond Counsel*”) in connection with the issuance by the New Hope Cultural Education Facilities Finance Corporation (the “*Issuer*”) of its Education Revenue Bonds (Legacy Preparatory Charter Academy) Series 2018A (the “*Series 2018A Bonds*”) and Taxable Education Revenue Bonds (Legacy Preparatory Charter Academy) Series 2018B (the “*Series 2018B Bonds*” and, collectively with the Series 2018A Bonds, the “*Bonds*”). The Bonds are being issued pursuant to a Trust Indenture and Security Agreement, dated as of February 1, 2018 (the “*Trust Indenture*”) by and between the Issuer and UMB Bank, N.A., as trustee (the “*Trustee*”). The proceeds of the Bonds will be loaned by the Issuer to the Company pursuant to a Loan Agreement dated as of February 1, 2018 (the “*Loan Agreement*”) by and between the Issuer and the Company, as evidenced by two promissory notes (the “*Series 2018 Notes*”) issued pursuant to the Master Trust Indenture and Security Agreement, dated as of February 1, 2018 (the “*Master Indenture*”) by and between the Company and UMB Bank, N.A., as master trustee (the “*Master Trustee*”), as amended and supplemented by the Supplemental Master Trust Indenture No. 1 dated as of February 1, 2018 (the “*Supplemental Indenture*”) by and between the Company and the Master Trustee. Under the Loan Agreement, the Company has agreed to make payments to or for the account of the Issuer in amounts necessary to pay when due the principal of, premium, if any, and interest on the Bonds. Such payments and the rights of the Issuer under the Loan Agreement (except certain rights to indemnification, rebate payments and administrative fees) and the Series 2018 Notes are pledged and assigned by the Issuer under the Trust Indenture to the Trustee as security for the Bonds. Capitalized terms used herein, unless otherwise defined, have the meanings set forth in the Trust Indenture, the Loan Agreement and the Master Indenture. The Bonds are payable solely from the Trust Estate.

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; customary certificates of public officials, agents and representatives of the Company, the Issuer, the Trustee and certain other parties; the opinion of the Attorney General of the State of Texas approving the Trust Indenture and the Bonds; a specimen of the form of registered bond of each issue; and other certifications relating to the authorization and issuance of the 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.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have further assumed: the genuineness of all signatures; that each party to the Master Indenture, the Supplemental Indenture, the Trust Indenture and the Loan Agreement (other than the Company and the Issuer) is validly existing and in good standing under the laws of its state of organization and has the power and authority and legal right and authority to enter into and perform the agreements to which it is a party; that the execution of the Master Indenture, the Supplemental Indenture, the Trust Indenture and the Loan Agreement by any party thereto (other than the Company and the Issuer) do not violate such party’s organization documents, breach or result in a default under any existing obligation of such party or otherwise subject such party to any order, writ, injunction or decree of any court applicable to such party, or violate or contravene any laws applicable to such party. 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 sale of the Bonds. Our role in connection with the Preliminary Limited Offering Memorandum and Limited Offering Memorandum prepared for use in connection with the sale of the Bonds has been limited as described therein.

BASED UPON SUCH EXAMINATION, it is our opinion that, under existing law:

(A) The Issuer is validly existing as a nonprofit corporation created pursuant to Chapter 337 of the Texas Local Government Code, as amended (the “*Act*”), and has the corporate power under the Act to enter into and perform the obligations under the Trust Indenture and the Loan Agreement and issue the Bonds;

(B) Each of the Trust Indenture and the Loan Agreement has been duly authorized, executed and delivered by the Issuer; assuming due authorization, execution

and delivery of such documents by the other parties thereto, each is a valid and binding obligation of the Issuer; and, subject to the qualifications stated below, each is enforceable against the Issuer in accordance with its terms, and all conditions precedent provided in the Trust Indenture relating to the authentication and delivery of the Bonds have occurred. By the terms of the Trust Indenture, (i) all of the Issuer's right, title and interest in and to the Loan Agreement (except for the right of the Issuer to certain rebate payments, indemnification and the payment of fees, costs and expenses), the Series 2018 Notes and all Adjusted Revenues derived by the Issuer from the Loan Agreement and the Series 2018 Notes and (ii) amounts on deposit or held for the credit of the funds and accounts held by the Trustee pursuant to the terms of the Trust Indenture (other than the Rebate Fund), have been assigned to the Trustee;

(C) The Bonds have been duly authorized, executed and delivered by the Issuer and are valid and binding limited obligations of the Issuer, payable solely from the Trust Estate, and subject to the qualifications stated below, are enforceable against the Issuer in accordance with their terms;

(D) Subject to the restrictions hereinafter described, it is our opinion that, (i) interest on the Series 2018A Bonds is excludable from gross income of the owners thereof for federal income tax purposes under existing law and is not subject to the alternative minimum tax on individuals or, except as described below, corporations and (ii) the Series 2018A Bonds are "qualified 501(c)(3) bonds" within the meaning of section 145 of the Code. The opinions set forth in the first sentence of this paragraph are subject to the condition that the Issuer and Borrower 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 Trust Indenture and Loan Agreement to comply with each such requirement. 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. The Code and the 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.

We call to your attention that interest on all tax-exempt obligations, including the Series 2018A 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.

Except as expressly described herein, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership, of receipt or accrual of interest on, or the acquisition or disposition of, the Series 2018A Bonds. In providing the foregoing opinions, we have relied upon representations of the Issuer and Borrower with respect to certain matters solely within the knowledge of the Issuer and Borrower, respectively, which we have not independently verified, and have assumed the accuracy and completeness thereof.

Prospective purchasers of the Series 2018A Bonds should be aware that the ownership of tax-exempt obligations, such as the Series 2018A 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 qualified for the earned income credit. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

OUR OPINIONS ARE BASED ON EXISTING LAW AS OF THE DATE HEREOF, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

It is to be understood that the rights of the holders of the Bonds and the enforceability of the Bonds, the Trust Indenture and the Loan Agreement may be subject to bankruptcy,

February 21, 2018

Page 5

insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Very truly yours,

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**APPENDIX E**

**FORM OF CONTINUING DISCLOSURE AGREEMENT**

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## CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated as of February 1, 2018 (the “*Continuing Disclosure Agreement*”), is executed and delivered by and among Legacy21, Inc. dba Legacy Preparatory Charter Academy (“*LPCA*”), a Texas non-profit corporation and Digital Assurance Certification LLC, as dissemination agent (the “*Dissemination Agent*”), in connection with the issuance by New Hope Cultural Education Facilities Finance Corporation (the “*Issuer*”), of its \$36,920,000 Education Revenue Bonds (Legacy Preparatory Charter Academy), Series 2018A and \$1,095,000 Taxable Education Revenue Bonds (Legacy Preparatory Charter Academy), Series 2018B (collectively, the “*Bonds*”). The Bonds are being issued pursuant to a Trust Indenture and Security Agreement, dated as of February 1, 2018 (the “*Bond Indenture*”) between the Issuer and UMB Bank, N.A., as trustee (the “*Trustee*”). The proceeds of the sale of the Bonds will be loaned to LPCA pursuant to the terms of a Loan Agreement, dated as of February 1, 2018 (the “*Agreement*”). Capitalized terms used but not otherwise defined herein shall have the meanings assigned to them in the Bond Indenture and the 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. LPCA 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 LPCA 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 RBC Capital Markets, LLC (the “*Underwriter*”) in complying with paragraph (b)(5) of Securities and Exchange Commission (“*SEC*”) Rule 15c2-12 (17 C.F.R. § 240.15c2-12) (the “*Rule*”). This Continuing Disclosure Agreement constitutes the written undertaking required by the Rule. Each and every filing made hereunder shall be disseminated by transmission to the Municipal Securities Rulemaking Board (the “*MSRB*”) through the Electronic Municipal Market Access (“*EMMA*”) System at [www.emma.msrb.org](http://www.emma.msrb.org) or any successor system that the MSRB may prescribe. Such filings will be in the format and will be accompanied by the identifying information prescribed by the MSRB.

### Section 2. Defined Terms

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

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

“*Limited Offering Memorandum*” means the Limited Offering Memorandum dated February 1, 2018 pertaining to the Bonds.

“*Master Indenture*” means the Master Trust Indenture and Security Agreement dated as of February 1, 2018 between LPCA and UMB Bank, N.A., as master trustee.

### Section 3. Annual Reports

Each year, LPCA shall provide to the Dissemination Agent and 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 August 31, 2018, 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 LPCA’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 LPCA

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 LPCA may be required to employ from time to time pursuant to State law or regulation.

- (ii) *Updated Table Data from APPENDIX A to the Limited Offering Memorandum.* Each Annual Report shall include updated financial information and operating data with respect to LPCA of the general type included in APPENDIX A to the Limited Offering Memorandum including in the following tables, but subject to adjustments as may be noted below:

- (A) **TABLE 1: CHARTER SCHOOLS;**
- (B) **TABLE 5: ACCOUNTABILITY RATING AND FIRST RATING – LAST FIVE YEARS,** *provided, however,* that only historical data for the most recent year will be provided;
- (C) **TABLE 6A: PROFESSIONAL STAFF AND FACULTY,** including the teacher retention ratio for East Grand Preparatory, but only from the most recent year;
- (D) **TABLE 8A: HISTORICAL AND FUTURE PROJECTED ENROLLMENT – PLANO CAMPUS,** *provided, however,* that only historical data from the most recent year will be provided;
- (E) **TABLE 8B: HISTORICAL AND FUTURE PROJECTED ENROLLMENT- MESQUITE WEST CAMPUS,** *provided, however,* that only historical data from the most recent year will be provided;
- (F) **TABLE 8C: HISTORICAL AND FUTURE PROJECTED ENROLLMENT,** *provided, however,* that only historical data from the most recent year will be provided;
- (G) **TABLE 9: ENROLLMENT AND WAIT LIST DATA,** *provided, however,* that only historical data from the most recent year will be provided; and
- (F) **TABLE 11: ACCOUNTABILITY RATING;** *provided, however,* that only historical data from the most recent year will be provided.

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 LPCA fails to provide any Annual Report within the time periods required hereby, then LPCA shall promptly send a notice of such failure to the Dissemination Agent and the Dissemination Agent shall promptly send notice of such failure in the manner required under this Continuing Disclosure Agreement and the Rule. If LPCA changes its fiscal year, it shall provide notice of such event prior to the next date by which LPCA otherwise would be required to provide financial information and operating data pursuant to this section.

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

LPCA intends to voluntarily cause the Dissemination Agent to provide to the MSRB the documents and/or information as set forth below:

- (i) quarterly unaudited income statements and balance sheet detailing the financial position of LPCA and the year to date revenues versus expenditures within forty five days of the end of each fiscal quarter; and
- (ii) LPCA's annual fiscal year budget within ninety days of the commencement of a new fiscal year, including enrollment assumptions.

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. If LPCA does not provide the interim information contemplated by this **Section 4**, it shall not constitute a failure hereunder, shall not give rise to a requirement to provide notice to the MSRB or otherwise, and shall not provide a basis for any remedy or enforcement action hereunder.

## **Section 5. Material Events**

LPCA 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 status of the Bonds, or other events affecting the tax 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 LPCA;
- (m) the consummation of a merger, consolidation, or acquisition involving LPCA or the sale of all or substantially all of the assets of LPCA, 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.

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

#### **Section 6. Dissemination Agent**

LPCA has engaged the Dissemination Agent to assist it in disseminating information hereunder whose only role is to receive such information and disseminate it according to the terms hereof. LPCA shall send all annual financial information, operating data, interim reports and event notices required by this Continuing Disclosure Agreement to the Dissemination Agent. Unless otherwise agreed to, the Dissemination Agent shall, as soon as practicable but not later than three (3) days of receipt of such information forward the same to (i) the MSRB, as described herein and (ii) any Registered or Beneficial Owner of the Bonds who requests such information in writing to the Dissemination Agent or LPCA. The Dissemination Agent shall have no duty to review the materials described in this paragraph prior to disseminating such materials nor will it be responsible for the substance or form of such information.

The initial Dissemination Agent shall be Digital Assurance Certification LLC. LPCA may discharge the Dissemination Agent or any successor Dissemination Agent, but in such event shall take steps necessary to appoint a successor Dissemination Agent who shall be responsible for undertaking all responsibilities of Dissemination hereunder.

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

Pursuant to paragraph (b)(5)(iii) of the Rule, the obligation of LPCA to provide financial and operating information of LPCA and notices of material events, as set forth herein, shall terminate if and when LPCA 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 (*provided that* LPCA has no further obligations with respect to the Bonds).

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

This Continuing Disclosure Agreement is intended to be for the sole benefit of the Bond Trustee, the Underwriter 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 Bond Trustee, and the Bond 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 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 Bond Trustee shall be entitled to the indemnification and other provisions of the Bond Indenture with regard to any actions.

Any failure by LPCA to comply with the provisions of this Continuing Disclosure Agreement shall not be an Event of Default under the Agreement or the Bond Indenture. The registered owners' and the Bond 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 LPCA 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 Bond Trustee or any other person to attorneys' fees, financial damages of any sort or any other relief other than an order or injunction compelling performance.

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

Notwithstanding any other provision of this Continuing Disclosure Agreement, LPCA 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 Bond 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 LPCA, 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 LPCA (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.

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

#### **Section 10. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.**

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the LPCA has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the LPCA and shall not be deemed to be acting in any fiduciary capacity for the LPCA, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the LPCA's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the LPCA has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon Certifications of the LPCA at all times.

The obligations of the LPCA under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and shall not incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The reasonable fees and expenses of such counsel shall be payable by the LPCA.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Agreement shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB

*[Signature Page Follows]*

**Section 10. Counterparts**

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

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

**LEGACY21, INC. DBA LEGACY PREPARATORY  
CHARTER ACADEMY**

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

**Digital Assurance Certification LLC**  
as Dissemination Agent

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

**APPENDIX F**

**SUBSTANTIALLY FINAL FORMS OF THE MASTER INDENTURE, THE BOND INDENTURE AND THE LOAN  
AGREEMENT**

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MASTER TRUST INDENTURE AND SECURITY AGREEMENT

between

LEGACY21, INC.  
DBA LEGACY PREPARATORY CHARTER ACADEMY

and

UMB BANK, N.A.,  
as Master Trustee

Dated as of

February 1, 2018

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## MASTER TRUST INDENTURE AND SECURITY AGREEMENT

THIS MASTER TRUST INDENTURE AND SECURITY AGREEMENT (this “Master Indenture”), dated as of February 1, 2018, is between Legacy21, Inc. dba Legacy Preparatory Charter Academy, a Texas nonprofit corporation (the “Company”), and UMB Bank, N.A., a national banking association with a corporate trust office in Austin, Texas, not in its individual capacity but solely as the Master Trustee (the “Master Trustee”).

### WITNESSETH:

WHEREAS, the Company is authorized by law and deems it necessary and desirable to enter into this Master Indenture for the purpose of providing for the incurrence of Debt and the issuance of Notes hereunder to evidence and secure such Debt.

WHEREAS, all acts and things necessary to constitute these presents a valid indenture and agreement according to its terms have been done and performed and the execution of this Master Indenture has in all respects been duly authorized, and the Company, in the exercise of the legal right and power vested in it, has executed this Master Indenture and may incur Debt and make, execute, issue and deliver Notes hereunder.

NOW, THEREFORE, THIS MASTER INDENTURE WITNESSETH:

### GRANTING CLAUSES

In order to declare the terms and conditions upon which Notes are to be authenticated, issued and delivered, and to secure the payment of Notes and the performance and observance of all of the covenants and conditions herein or therein contained, and in consideration of the premises, of the purchase and acceptance of Notes by the Holders thereof and of the sum of One Dollar (\$1.00) 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 any Debt Service Reserve Fund established pursuant to any supplement hereto, or held by other banks or fiduciary institutions which are collaterally assigned to the Master Trustee as security for the Notes, including the depository account specified in the Deposit Account Control Agreement, and all securities, financial assets (as defined in Section 8.102(a)(9) of the UCC) and securities entitlements (within the meaning of Section 8.102(a)(17) of the UCC) and, with respect to Book-Entry Securities, in the applicable Federal Book-Entry Regulations, carried in or credited to such fund or account;

(c) all accounts, deposit accounts, general intangibles and related rights of the Company (each as defined in the UCC), whether now owned or hereafter acquired or arising and wherever located;

(d) any and all other property of every kind and nature from time to time hereafter, by delivery or by writing of any kind, conveyed, pledged, assigned or transferred as additional security hereunder by the Company or by anyone on its behalf to the Master Trustee, subject to the terms thereof, including, without limitation, funds of the Company held by the Master Trustee as security for the Notes;

(e) the real and personal property subject to the lien of the Deed of Trust (as hereinafter defined); and

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

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

TO HAVE AND TO HOLD IN TRUST, upon the terms herein set forth, subject to Section 2.10 hereof, for the proportionate benefit, security and protection of all Holders of the Notes issued under and secured by this Master Indenture without privilege, priority or distinction as to the lien or otherwise of any of the Notes over any other, except as set forth in such Notes and in the Supplemental Master Trust Indenture executed with respect to such Notes; provided, however, that if the Company shall pay, or cause to be paid, the principal of the Notes or the obligations secured thereby and the redemption or prepayment premium, if any, and the interest and any other amounts due or to become due thereon in full at the times and in the manner mentioned in the Notes according to the true intent and meaning thereof, and the Company shall keep, perform and observe all the covenants and conditions pursuant to the terms of this Master Indenture to be kept, performed and observed by it, and shall pay or cause to be paid to the Master Trustee all sums of money due or to become due to it in accordance with the terms and

provisions hereof, then upon such final payment this Master Indenture and the rights hereby granted and the restrictions hereby incurred shall cease, determine and be void; otherwise this Master Indenture shall be and remain in full force and effect. Notwithstanding anything in this Master Indenture to the contrary, when all of the Notes are no longer Outstanding, the Master Trustee may execute a release of the lien of this Master Indenture on the Deed of Trust and any property of the Company encumbered thereby.

NOW, THEREFORE, in consideration of the premises, the Company covenants and agrees with the Master Trustee, for the equal and proportionate benefit of the respective Holders from time to time of the Notes, as follows:

## **ARTICLE I.**

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

#### **Section 1.01. Construction of Terms; Definitions.**

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

(i) The term “Master Indenture” means this instrument as originally executed or as it may from time to time be supplemented or amended by one (1) or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof.

(ii) All references in this instrument to designated “Articles,” “Sections” and other subdivisions are to the designated Articles, Sections and other subdivisions of this instrument as originally executed. The words “herein,” “hereof” and “hereunder” and other words of similar import refer to this Master Indenture as a whole and not to any particular Article, Section or other subdivision.

(iii) The terms defined in this Article have the meanings assigned to them in this Article throughout this Master Indenture, and include the plural as well as the singular. Reference to any Person means that Person and its successors and assigns.

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

(v) The terms used in this Master Indenture and not defined herein have the meanings assigned to them in the Related Bond Documents.

(b) The following terms have the meanings assigned to them below whenever they are used in this Master Indenture:

“Accountant” means a Person engaged in the practice of accounting who is a certified public accountant and who (except as otherwise expressly provided herein) may be employed by or affiliated with the Company.

“Act of Note Holder(s)” has the meaning given to such term in Section 1.03.

“Adjusted Revenues” means, for any period of calculation, the total of all operating and nonoperating revenues of the Company directly related to the Charter, including but not limited to State Revenues, federal and local funds for school lunches and other food programs, special education, and transportation, including accounts receivable and rights to receive the same plus investment and other income 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 gains (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 Company’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 (1) 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 ninety (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 on the date of such certificate to refund any of such Balloon Debt), then for the purpose of calculating what future annual debt service requirements will be, any installment of principal of (and premium, if any) and interest and other debt service charges on such Balloon Debt that could so be

refunded shall be excluded from such calculation and the principal plus interest of the refunding debt shall be evenly allocated over the life of the refunding debt with equal principal payments plus interest deemed due each year but solely for the purpose of spreading the principal requirements for calculation of coverage;

(c) Prefunded Payments - principal of (and premium, if any) and interest and other debt service charges on Debt, or portions thereof, shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year for which such principal, premium, interest or other debt service charges are payable from funds irrevocably deposited or set aside in trust for the payment thereof at the time of such calculations (including, without limitation, capitalized interest and accrued interest so deposited or set aside in trust or escrowed with the Master Trustee or another Independent Person approved by the Master Trustee);

(d) Variable Rate Debt - as to any Debt that bears interest at a variable interest rate which cannot be ascertained at the time of calculation, an interest rate equal to the greater of an annual interest rate equal to the Bond Buyer Revenue Bond Index (or, if the Bond Buyer Revenue Bond Index is unavailable, a comparable index chosen by the Company's financial advisor) and the weighted average rate of interest borne 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 one hundred eighty (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 Debt 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 (iii) 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 twenty-five percent (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 that 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 Master Trust Indenture authorizing any series of Notes.

“Authorized Representative” means the Chairman or Superintendent of the Company, or any other person duly appointed by the Governing Body of the Company to act on behalf of the Company, each as evidenced by a written certificate furnished to the Master Trustee containing the specimen signature of such person or persons and signed on behalf of the Company by an authorized officer of the Company. The Master Trustee may rely on such written certificate until it is given written notice to the contrary.

“Available Revenues” means, for any period of determination thereof, the amount of excess (deficit) of Adjusted Revenues over Expenses for such period, plus any gifts, grants, requests or donations and income thereon restricted as to use by the donor or grantor for the sole purpose of paying Expenses of the Company, but less: (a) unrealized and unrestricted 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 or exceed twenty-five percent (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 fifty percent (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.

“Charter” means the charter or charters issued to the Company by the Texas Education Agency pursuant to Chapter 12, Texas Education Code, authorizing the Company to open one (1) or more open-enrollment charter schools and receive State Revenues for the operation thereof.

“Code” means the Internal Revenue Code of 1986, as amended from time to time, and the corresponding provisions, if any, of any successor internal revenue laws of the United States.

“Company” means Legacy21, Inc. dba Legacy Preparatory Charter Academy, a Texas nonprofit corporation, its permitted successors and assigns, and any resulting, surviving or transferee Person permitted hereunder.

“Consent,” “Order” and “Request” each mean a written consent, order or request signed in the name of the Company and delivered to the Master Trustee by the Chairman of the Governing Body, the President, an Executive or Senior Vice President, the Chief Financial Officer or any other Person designated by the Company to execute any such instrument on behalf of the Company as evidenced by an Officer’s Certificate.

“Corporate Trust Office” means the address or addresses of the Master Trustee designated from time to time in accordance with Section 1.04.

“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 2.01(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 “Debt,” there shall be excluded any particular Debt, if upon or prior to the Maturity thereof, there shall have been deposited with the proper depository in trust the necessary funds (or evidences of such Debt or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption or satisfaction of such Debt; and thereafter such funds, evidences of Debt and investments so deposited shall not be included in any computation of the assets of the Company, and the income from any such deposits shall not be included in the calculation of Adjusted Revenues or Available Revenues.

“Deed of Trust” means that certain Deed of Trust and Security Agreement dated as of even date herewith from the Company to the Master Trustee, as such Deed of Trust may be amended, supplemented or restated, and/or any security instrument executed in substitution therefor or in addition thereto, as such substitute or additional security instrument may be amended, supplemented or restated from time to time.

“Defeasance Obligations” means any obligations authorized under Texas law and the related financing documents to be deposited in escrow for the defeasance of any Debt.

“Deposit Account Control Agreement” means any Deposit Account Control Agreement 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 in connection with any Related Bond Indenture.

“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 6.01 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 that 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.

“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; or in the case of additional Debt in the process of issuance, the underwriter or bank who has executed the related purchase contract.

“Independent,” when used with respect to any specified Person, means such a Person who (i) is in fact independent, (ii) does not have any direct financial interest or any material indirect financial interest in the Company and (iii) is not connected with the Company as an officer, employee, promoter, trustee, partner, director or person performing similar functions. Whenever it is provided that any Independent Person’s opinion or certificate shall be furnished to the Master Trustee, such Person shall be appointed by Order and such opinion or certificate shall state that the signer has read this definition and that the signer is Independent within the meaning hereof.

“Interest Payment Date” means the Stated Maturity of an installment of interest on any Note.

“Long-Term Debt” means all Debt created, assumed or guaranteed by the Company that matures by its terms (in the absence of the exercise of any earlier right of demand), or is renewable at the option of the Company to a date, more than one (1) year after the original creation, assumption or guarantee of such Debt by the Company.

“Management Consultant” means a firm of Independent professional management consultants, or an Independent school management organization, knowledgeable in the operation of public or private schools and having a favorable reputation for skill and experience in the field of public or private school management consultation.

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

“Master Trustee” means UMB Bank, N.A., a national banking association with a corporate trust office in Austin, Texas, serving as trustee pursuant to this Master Indenture, and its successors and assigns.

“Maturity,” when used with respect to any Debt (or any Note), means the date on which the principal of such Debt (or Note) becomes due and payable as therein or herein provided, whether at the Stated Maturity thereof or by declaration of acceleration, call for redemption or otherwise.

“Maximum Annual Debt Service” means, as of any date of calculation, the highest Annual Debt Service Requirements with respect to all Outstanding Debt for any succeeding Fiscal Year.

“Note” means any obligation of the Company issued pursuant to Section 2.01 of this Master Indenture and executed, authenticated and delivered pursuant to Section 2.03 hereof.

“Note Register” and “Note Registrar” have the respective meanings specified in Section 2.05 hereof.

“Notice of Exclusive Control” means the Notice of Exclusive Control specified in a 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 2.01 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 9.02 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 Trust 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 Trust 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 that the Master Trustee actually knows to be so owned shall be so disregarded. Notes so owned that 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 1.03 of this Master Indenture, Section 1.03 shall control.

“Participating Campuses” means the authorized charter schools benefitting from this Master Indenture and operated by the Company that are (i) refinanced, 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 Trust 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 that 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 (1) of the two (2) 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 that at the time has a credit rating assigned to any series of Notes or Related Bonds (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, the 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 that 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 that the Related Bond Trustee actually knows to be so owned shall be so disregarded. Related Bonds so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the 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 1.03 of this Master Indenture, Section 1.03 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 4.05 hereof.

“Series 2018 Bonds” means the New Hope Cultural Education Facilities Finance Corporation Education Revenue Bonds (Legacy Preparatory Charter Academy), Series 2018A, and the New Hope Cultural Education Facilities Finance Corporation Taxable Education Revenue Bonds (Legacy Preparatory Charter Academy), Series 2018B.

“Series 2018 Notes” shall mean any of the Notes issued pursuant to a Supplemental Master Trust Indenture and secured by this Master Indenture to evidence payment obligations of the Company with respect to the Series 2018 Bonds.

“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; subject to the limitations of Chapter 12, Texas Education Code, including particularly, Section 12.107.

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

“Trust Estate” means the property described as the Trust Estate in the Granting Clauses of this Master Indenture or any Supplemental Master Trust 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.

**Section 1.02. Form of Documents Delivered to Trustee.** Every certificate and every Opinion of Counsel with respect to compliance with a condition or covenant provided for in this Master Indenture shall include a statement that the person making such certification or opinion has read such covenant or condition and the definitions relating thereto, has made or caused to be made such examination or investigation as is necessary to enable him 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 (1) such Person, or that they be so certified or covered by only one (1) document, but one such Person



may certify or give an opinion with respect to some matters and one (1) 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 (1) 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 such Person's certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of a specified Person stating that the information with respect to such factual matters is in the possession of such Person, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two (2) or more applications, requests, consents, certificates, statements, opinions or other instruments under this Master Indenture, they may, but need not, be consolidated and form one (1) instrument.

**Section 1.03. Acts of Note Holders.**

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Master Indenture to be given or taken by Note Holders may be embodied in and evidenced by one (1) or more instruments of substantially similar tenor signed by such Note Holders in person or by an agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Master Trustee or Paying Agent, and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Note Holders signing such instrument or instruments. Proof of execution of any such instrument, or of a writing appointing any such agent, shall be sufficient for any purpose of this Master Indenture and (subject to Section 7.01) conclusive in favor of the Master Trustee and the Company, if made in the manner provided in this Section.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by the certificate of any notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by an officer of a corporation or a member of a partnership, on behalf of such corporation or partnership, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the person executing the same, may also be proved in any other manner that the Master Trustee deems sufficient.

(c) The ownership of Notes shall be proved by the Note Register.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other action by any Note Holder shall bind every Holder of any Note issued upon the transfer thereof or in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Master Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Note.

(e) The ownership of Related Bonds may be proved by the registration books for such Related Bonds maintained pursuant to the Related Bond Indenture.

(f) In determining whether the Holders of the requisite aggregate principal amount of Notes have concurred in any demand, direction, request, notice, consent, waiver or other action under this Master Indenture, or for any other purpose of this Master Indenture, Notes or Related Bonds that are owned by the Company shall be disregarded and deemed not to be Outstanding or outstanding under the Related Bond Indenture, as the case may be, for the purpose of any such determination, provided that for the purposes of determining whether the Master Trustee shall be protected in relying on any such direction, consent or waiver, only such Notes or Related Bonds which the Master Trustee has actual notice or knowledge are so owned shall be so disregarded and deemed not to be Outstanding Notes or Related Bonds. Outstanding Notes or Related Bonds so owned that have been pledged in good faith may be regarded as Outstanding or outstanding under the Related Bond Indenture, as the case may be, for purposes of this Section, if the pledgee shall establish to the satisfaction of the Master Trustee the pledgee's right to vote such Notes or Related Bonds. In case of a dispute as to such right, any decision by the Master Trustee taken upon the advice of counsel shall be full protection to the Master Trustee. In the event that a Note secures the obligation of a Person under an agreement or instrument that provides for the making of advances to or on behalf of such Person, such Note shall only be counted to be Outstanding in a principal amount equal to the amount so advanced or otherwise due and owing under the terms of such agreement (and only if such amount remains outstanding or unpaid) to or on behalf of such Person. In the event that a Note secures a Financial Products Agreement, such Note shall only be deemed to be Outstanding in a principal amount equal to any amount with which the Company is in default with respect to the payment thereof. In no event, however, shall the amount owed to a Holder be counted twice because there are the same amounts due and owing under two (2) Notes relating to the same obligations (e.g., the principal amount reimbursable to the provider of a liquidity facility as the holder of bonds purchased by such liquidity provider as well as the principal amount of such purchased bonds by such liquidity provider as holder of the purchased bonds).

(g) At any time prior to (but not after) the time the Master Trustee takes action in reliance upon evidence, as provided in this Section 1.03, of the taking of any action by the Holders of the percentage in aggregate principal amount of Notes specified herein in connection with such action, any Holder of such Note or Related Bond that is shown by such evidence to be included in Notes the Holders of which have consented to such action may, by filing written notice with the Master Trustee and upon proof of holding as provided in this Section 1.03, revoke such action so far as it concerns such Note or Related Bond. Except upon such revocation or such action taken by the Holder of a Note or Related Bond in any direction, demand, request, waiver, consent, vote or other action of the Holder of such Note or Related Bond that by any provision hereof is required or permitted to be given shall be conclusive and binding upon such Holder and upon all future Holders and owners of such Note or Related Bond, and of any Note

or Related Bond issued in lieu thereof, whether or not any notation in regard thereto is made upon such Note or Related Bond. Any action taken by the Holders of the percentage in aggregate principal amount of Notes specified herein in connection with such action shall be conclusively binding upon the Company, the Master Trustee and the Holders of all of such Notes or Related Bonds.

**Section 1.04. Notices, etc., to Master Trustee and Company.** Any request, demand, authorization, direction, notice, consent, waiver or Act of Note Holders or other document provided or permitted by this Master Indenture to be made upon, given or furnished to, or filed with:

(a) the Master Trustee by any Note Holder or by any specified Person shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with and actually received by a Responsible Officer of the Master Trustee at 3005 S. Lamar Blvd., Ste. D-109 #428, Austin, Texas 78704, Attention: Jose Gaytan, or at any other address subsequently furnished in writing to the Company and the Holders by the Master Trustee;

(b) the Company by any Note Holder or by any Person shall be sufficient for every purpose hereunder if in writing and mailed, first class postage prepaid, to the Company at 601 Accent Drive, Plano, Texas 75075, Attention: Dr. Rebecca Good, Superintendent/CEO, or at any other address subsequently furnished in writing to the Master Trustee by the Company.

**Section 1.05. Notices to Note Holders; Waiver.** Where this Master Indenture provides for notice to Note Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first class postage prepaid, to each Note Holder affected by such event, at such Note Holder's address as it appears on the Note Register, not later than the latest date, and not earlier than the earliest date, prescribed for the first giving of such notice. In any case where notice to Note Holders is given by mail, neither the failure to mail such notice, nor any default in any notice so mailed to any particular Note Holder shall affect the sufficiency of such notice with respect to other Note Holders. Where this Master Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders of Notes shall be filed with the Master Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

**Section 1.06. Successors and Assigns.** All covenants and agreements in this Master Indenture by the Company and the Master Trustee shall bind their respective successors and assigns, whether so expressed or not.

**Section 1.07. Severability Clause.** If any provision of this Master Indenture shall be held or deemed to be, or shall in fact be, inoperative or unenforceable as applied to any particular case in any jurisdiction or jurisdictions, or in all jurisdictions or in all cases because of the conflicting of any provision with any constitution or statute or rule of public policy or for any other reasons, such circumstance shall not have the effect of rendering the provision or provisions in question inoperative or unenforceable in any other jurisdiction or in any other case or circumstance or of rendering any other provision or provisions herein contained invalid,

inoperative or unenforceable to the extent that such other provisions are not themselves actually in conflict with such constitution, statute or rule of public policy.

**Section 1.08. Benefits of Master Indenture.** Nothing in this Master Indenture or in the Notes, express or implied, shall give to any Person, other than the parties hereto, and their successors hereunder and the Holders of the Notes, any benefit or any legal or equitable right, remedy or claim under this Master Indenture.

**Section 1.09. Governing Law.** This Master Indenture shall be governed in all respects, including validity, interpretation and effect by, and shall be enforceable in accordance with, the laws of the State.

**Section 1.10. Effect of Headings and Table of Contents.** The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

## **ARTICLE II.**

### **ISSUANCE AND FORM OF NOTES**

**Section 2.01. 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 Trust 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 R-1 upwards (with such prefix as may be designated in the Supplemental Master Trust 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 (1) 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 Trust 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 2.02. 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 Trust Indenture relating thereto authorizes such Debt and that such Supplemental Master Trust Indenture complies with the provisions of Article VIII hereof;

(b) An original executed counterpart of a Supplemental Master Trust Indenture providing for the issuance of such Note or series of Notes; such Supplemental Master Trust 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 2018 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 2.02 and in Section 2.12 of this Master Indenture have been satisfied, (2) upon the execution of such Note or series of Notes by the Company and the authentication thereof by the Master Trustee, such Note or series of Notes will be the valid and binding obligations of the Company enforceable in accordance with its (their) terms, subject to the customary bankruptcy, insolvency and equitable principles exceptions and such other exceptions as may be acceptable to the initial payee thereof, (3) registration of such Note or series of Notes under the Securities Act of 1933, as amended, is not required, or, if such registration is required, that the Company has complied with all applicable provisions of said Act, (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, as amended, is not required, or if such qualification is required, that the Company has complied with all applicable provisions of such Act, and (5) the issuance of the proposed additional Debt will not adversely affect the exclusion from gross income of interest on the Related Bonds Outstanding for federal income tax purposes.

(d) The title insurance policy, or endorsement thereof, required by Section 2.12 or 4.07, if necessary and if permitted by the laws of the State.

(e) If in connection with the issuance of additional Debt, any other certificate, report or other item required under Section 2.12.

**Section 2.03. 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 Trust Indenture creating such series; and upon the receipt of the Supplemental Master Trust Indenture, and evidence of satisfaction of the other requirements contained herein, the Master Trustee shall authenticate and deliver such Notes as in this Master Indenture and the relevant Supplemental Master Trust 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:

\_\_\_\_\_

UMB BANK, N.A.,  
as Master Trustee, or its agent

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

**Section 2.04. 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 Trust 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 Trust Indenture may contain additional (or different) representations, warranties, covenants, defaults and remedies and other provisions that do not contradict the terms of this Master Indenture, to the extent provided in the related Supplemental Master Trust 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 that shall read substantially as follows: "This Note has not been registered under the Securities Act of 1933, as amended."

**Section 2.05. Registration, Transfer and Exchange.**

(a) The Company shall cause to be kept at the Corporate Trust Office of the Master Trustee in Austin, 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 Trust Indenture. In such case, the Note Register may consist of one (1) 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 (1) 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 that 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 2.06. 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 Trust 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 2.07. 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 Plano, 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 Trust 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 3.03 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 to the Master Trustee in writing by such Holder; provided, however, that any Supplemental Master Trust 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 to an account located in the United States. 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 or is required, 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 2.07, 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 2.08. Persons Deemed Owners.** The Company, the Master Trustee and any agent thereof shall 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 2.09. 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 Trust 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 that 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 2.10. Security for Notes; Subordination.**

(a) Except as otherwise expressly provided herein or in any Supplemental Master Trust Indenture pursuant to which such Note or obligation is issued, all Notes issued and Outstanding under this Master Indenture are equally and ratably secured by the pledge and assignment of a security interest in the Trust Estate pursuant to the Granting Clauses of this Master Indenture. Any one (1) 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. 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 that 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 2.11. 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 a 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), a 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 written direction of the Holders of not less than twenty-five percent (25%) in principal amount of the Notes Outstanding, issue a Notice of Exclusive Control under a Deposit Account Control Agreement and (ii) collect and receive all of the Adjusted Revenues. The Master Trustee also shall be entitled to (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, as such term is defined in the Deed of Trust) 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 Master Indenture and thereafter from time to time, cause the Deed of Trust and any financing statements in respect thereof to be filed, registered and recorded in such manner and in such places as may be required by law in order to fully perfect and protect such security interest and from time to time will perform or cause to be performed any other act as provided by law and will execute or cause to be executed and filed as provided herein any and all continuation statements as required for such perfection and protection. Copies of all filings and recordings hereunder shall be promptly filed with the Master Trustee. Except to the extent it is exempt therefrom, the Company shall pay or cause to be paid all filing, registration and recording fees and all expenses incident to the preparation, execution and acknowledgment of such instruments of perfection, and all federal or state fees and other similar fees, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of the Deed of Trust and such instruments of perfection. The Master Trustee shall not be responsible for the sufficiency of or the recording of this instrument, any supplemental indenture, any mortgage, deed of trust, other security or other instruments of further assurance.

The Master Trustee shall confirm, on an annual basis, the filing of continuation statements for the Financing Statements (as such term is defined in the Related Bond Indenture) by the Company 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; provided that unless otherwise directed by the Company or the Issuer in writing, the Master Trustee may conclusively rely upon the Financing Statements in filing any continuation statements.

(c) The Company covenants not to take any action that would create or allow any parity liens to exist, except any Permitted Encumbrances (as defined in the Deed of Trust), on any real property included in the Deed of Trust other than a lien arising in connection with the

issuance of Debt as permitted by Section 2.12. 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 except as expressly permitted by the Bond Documents. The Company will not hereafter make or suffer to exist any pledge or assignment of, lien on, or security interest in the collateral described hereunder that ranks prior to or on parity with the lien granted hereunder, or file any financing statement describing any such pledge, assignment, lien or security interest, except as expressly permitted by the Bond Documents. The security interest granted hereunder is and shall be prior to any judicial lien hereafter imposed on such collateral to enforce a judgment against the Issuer on a simple contract.

(d) The Company covenants that all Adjusted Revenues will be deposited into the account (or accounts) maintained with the depository institution that has been identified to the Texas Education Agency as the Company's depository bank that is the subject of a Deposit Account Control Agreement hereunder.

**Section 2.12. Additional Debt.**

(a) Parity Debt. Upon satisfaction of the applicable requirements of Section 2.02 and any additional requirements set forth in the Related Bond Documents, the Company reserves the right to issue and incur one (1) or more series of parity Debt payable from the Adjusted Revenues of the Company that 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:

(i) 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;

(ii) Parity Pledge. Such Debt shall be secured on a parity with respect to the Trust Estate and shall be payable by the Issuer solely from the Adjusted Revenues and other amounts 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 that the terms of any Supplemental Master Indenture may expressly relinquish any right to any of the collateral provided in the Trust Estate (in which case it shall only be entitled to its pro rata share of the collateral which has not been relinquished);

(iii) Additional Debt Coverage. 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 twelve (12) months out of the most recent eighteen (18) months immediately preceding the issuance of the additional Debt, the Available Revenues equal at least 1.10 times the Annual Debt Service

Requirements on all Debt then Outstanding prior to the issuance of the additional Debt; and

(B) Projected Coverage for Additional Debt. Delivery of an Officer's Certificate setting forth projections that indicate that the estimated Available Revenues are equal to at least 1.20 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 Officer's Certificate 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;

(iv) Alternate Coverage for Additional Debt. In lieu of the requirements described in Section 2.12(a)(iii) 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;

(v) Eliminated Expenses. For the purposes of this Section 2.12, any expenses that the Company certifies will be eliminated as a result of the issuance or incurrence of the additional Debt shall be excluded; and

(vi) 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, or a new title insurance policy issued in connection with the Debt increasing the coverage thereunder by an amount equal to the aggregate principal amount of the additional Debt.

The satisfaction of the conditions set forth in paragraphs (i) through (vi) above shall be evidenced to the Master Trustee. The Master Trustee may rely, and (subject to Section 7.01) shall be fully protected in relying upon, a closing certificate executed by an Authorized Representative certifying that items (i) through (vi) were completed.

(b) Refunding. If additional Debt is being issued for the purpose of refunding any Outstanding Debt, the reports required to be delivered under Section 2.12(a)(iii) shall not be required 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 additional Debt may be issued in amounts not to exceed ten percent (10%) of the principal

amount of the Debt last issued for such Project upon delivery of an Officer's Certificate that such additional Debt is required to fund the costs of completion and such additional Debt shall not be required to comply with Section 2.12(a)(iii) herein; provided that, such additional Debt must comply with any applicable requirements imposed by the Related Bond Indenture and Related Loan Documents.

(d) Non-Recourse Debt. The Company reserves the right to incur Debt that is not secured by a lien on either Available Revenues or Adjusted Revenues. Such debt may be secured by a lien on all or any portion of the assets financed therewith.

(e) Exemption. The Series 2018 Notes shall not be considered additional Debt and are not subject to the provisions of this Section 2.12.

### **ARTICLE III.**

#### **REDEMPTION OR PREPAYMENT OF NOTES**

**Section 3.01. Redemption or Prepayment.** Notes of each series shall be subject to optional and mandatory redemption or prepayment (subject to Section 6.02) in whole or in part and may be redeemed prior to Stated Maturity only as provided in the Supplemental Master Trust Indenture creating such series. Unless otherwise provided by the Supplemental Master Trust Indenture creating a series of Notes, the provisions of Sections 3.02 through 3.05 of this Master Indenture shall also apply to the redemption of Notes.

**Section 3.02. Election to Redeem or Prepay; Notice to Master Trustee.** The Company shall notify the Master Trustee in writing of the election by 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 sixty (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 3.03. Deposit of Redemption or Prepayment Price.** Prior to any redemption or prepayment date, the Company shall deposit with the Master Trustee or its designated agent an amount of money sufficient to pay the redemption or prepayment price of all the Notes that are to be redeemed or prepaid on such date.

**Section 3.04. 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 3.03, 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 or prepayment date at the rate borne by the Note.

**Section 3.05. Notes Redeemed or Prepaid in Part.** Any Note that 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 4.01. 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 4.02. 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 fifty million dollars (\$50,000,000), and (iv) be subject to supervision or examination by federal or state authority.

(c) Subject to Section 2.07 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

(i) 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;

(ii) 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

(iii) 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 (1<sup>st</sup>) 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 (2) years after such principal (and premium, if any) or interest has become due and payable shall to the extent permitted by law be paid to the Company on its Request (which Request shall include the Company's representation that it is entitled to such funds under applicable escheatment laws and its agreement to comply with such laws) and the Holder of such Note shall thereafter, to the extent of any legal right or claim, be deemed to be an unsecured general creditor, and shall look only to the Company for payment thereof, and all liability of the Master Trustee or such Paying Agent with respect to such trust money, and all liability of the Company, shall thereupon cease; provided, however, that the Master Trustee or such Paying Agent, before being required to make any such repayment, shall, at the written direction of the Company, publish notice in an Authorized Newspaper at the expense of the Company that such money remains unclaimed and that, after a date specified therein, which shall not be less than thirty (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 4.03. 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 that has not been cured or waived under any Note. For the purpose of this Section, the term “default” means any event that is, or after notice or lapse of time or both would become, an Event of Default.

**Section 4.04. Corporate Existence.** Subject to Sections 5.01 and 5.02, 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 4.05. Revenue Fund.**

(a) There is hereby created by the Company and established with the Master Trustee the special fund of the Company designated the “Legacy Preparatory Charter Academy 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 that 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 6.06.

(b) If, and only if, an Event of Default under Section 6.01(a) of 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 a 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 (1<sup>st</sup>) day of such Event of Default thereof and on each day thereafter, until no default under Section 6.01(a) of this Master Indenture then exists. To the extent funds in the Revenue Fund are transferred by the Master Trustee in accordance with the requirements of the Master Indenture and are sufficient for such purposes, the transfer and application of such funds for the purposes described in the Master Indenture shall be considered to satisfy the related Loan Payment obligations of the Company. To the extent funds in the Revenue Fund are ever insufficient to satisfy the transfer requirements of the Master Indenture, the Company may make the related Loan Payments from funds other than the Adjusted Revenues, if any.

(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 of priority indicated:

- (i) to the Master Trustee any fees or expenses that are then due and payable;
- (ii) equally and ratably to the Holder of each instrument evidencing a Note on which there has been a default pursuant to Section 6.01(a), an amount equal to all defaulted principal of (or premium, if any), interest and obligations on such Note;
- (iii) 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 (5<sup>th</sup>) Business Day before the end of the month immediately preceding each Interest Payment Date shall be in an amount to provide, together with amounts then on deposit in the Interest Account, the balance of the interest due on the Notes on the next succeeding Interest Payment Date. There shall be paid from the Interest Account equally and ratably to the Holder of each instrument evidencing a Note the amount of interest on each Note as such interest becomes due;
- (iv) 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 (5<sup>th</sup>) Business Day before the end of the 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;
- (v) 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 twelve (12) equal monthly installments or as otherwise in such amounts required by the applicable Related Bond Documents; and
- (vi) 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 6.01(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 that is 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 ninety-one (91) days from date of purchase.

**Section 4.06. 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 “Legacy Preparatory Charter Academy 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 that the Master Trustee shall have no duty to establish the Insurance and Condemnation Fund prior to the first occurring receipt of proceeds under an insurance policy or a condemnation of all or a portion of any Related Project. The money deposited to the Insurance and Condemnation Fund, together with all investments thereof and investment income therefrom, shall be held in trust and applied solely as provided in this Section.

(b) Immediately upon receipt of any payments to the Master Trustee for deposit into the Insurance and Condemnation Fund, the Master Trustee shall transfer such amounts to the Related Bond Trustee under 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 4.07. Title Insurance.** The Company shall obtain and deliver to the Master Trustee on or prior to the closing date of any Debt a standard Texas form T-1 owner’s policy of title insurance and a standard Texas form T-2 lender’s policy of title insurance issued by a title insurance company selected by the Company, showing the Master Trustee as insured parties, as their interests may appear, with respect to the Mortgaged Property, together with such endorsements as may be required by the Master Trustee 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. 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 7.03(a) hereof. There shall be deleted in such policies the standard exceptions for discrepancies, encroachments, overlaps, conflicts in boundary lines, servitudes or such other matters that would be disclosed by an accurate survey and inspection of the Mortgaged Property.

**Section 4.08. Waiver of Certain Covenants.** The Company may omit in any particular instance to comply with any covenant or condition set forth in Sections 4.02 through 4.06 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, 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.

**Section 4.09. 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:

- (i) 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 on the Closing Date of the Series 2018 Bonds and subsequently determined after construction is completed on any properties covered under the Deed of Trust;

- (ii) during the course of any construction, reconstruction, remodeling or repair of the Related Project, builders' all risk extended coverage insurance (non-reporting Completed Value with Special Cause of Loss form) in amounts based upon the completed replacement value of the Related Project and insurance coverage for lost gross revenues due to damage or destruction of the Related Project prior to construction in an amount sufficient to provide temporary or interim facilities and equipment during the period of replacement or repair of the damaged or destroyed facility, and endorsed to provide that occupancy by any Person shall not void such coverage;

- (iii) general liability;

- (iv) comprehensive professional liability insurance; and

- (v) worker's compensation insurance as required by the laws of the State.

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, or by an insurance fund established by the United States or the 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 insurers) 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 (30) days' prior written notice to the Master Trustee and the Company, and (iv) shall name the Master Trustee as additional insured or Mortgagee. The Company shall deliver to the Master Trustee, no later than the date on which it is required to obtain an insurance policy pursuant to Section 4.09(a), proof of each such insurance policy.

(c) Certifications. The Company shall, on the closing date for any Debt and thereafter within one hundred twenty (120) days after the end of each of its Fiscal Years, submit to the Master Trustee 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 4.01(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 4.09(c).

## ARTICLE V.

### CONSOLIDATION, MERGER, CONVEYANCE AND TRANSFER

**Section 5.01.** 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:

(i) the Person formed by such consolidation or into which the Company merges or the Person that 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 of (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;

(ii) an Officer's Certificate shall be delivered to the Master Trustee to the effect that (i) such consolidation, merger or transfer shall not, immediately after giving effect to such transaction, cause a default hereunder to occur and be continuing, and (ii) the financial strength of the surviving entity shall be equal to or greater than the financial strength of the Company immediately prior to such consolidation, merger or transfer; and

(iii) 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.

**Section 5.02. 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 5.01, 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 6.01. 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 thirty (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 and has been given by registered or certified mail by (i) the Holders of at least twenty-five percent (25%) in principal amount of Notes then Outstanding, or (ii) the Master Trustee to the Company (with a copy to the Master Trustee in the case of notice by the Holders); provided that if such default under this Section 6.01(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; provided, however, that if such default or breach shall last longer than ninety (90) days, it shall constitute an Event of Default hereunder; 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 Bankruptcy Code, Title 11 of the United States Code, 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 ninety (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 ninety (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 that is secured by a Note notifies the Master Trustee in writing that an event of default under such Financial Products Agreement, as therein defined, has occurred and is continuing beyond the applicable grace period, if any.

**Section 6.02. 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 twenty-five percent (25%) in principal amount of the Notes Outstanding (or, in the case of any Event of Default described in clause (e) above resulting in the loss of any exclusion from gross income of interest on, or the invalidity of, any Debt secured by a pledge of Notes, the Holders of not less than twenty-five percent (25%) in principal amount of the Notes Outstanding of the affected series) shall, by a notice in writing to the Company, accelerate the Maturity of the Notes, and upon any such declaration such principal of (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:

(i) the Company has caused to be paid or deposited with the Master Trustee a sum sufficient to pay:

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

(B) the principal of (and premium, if any, on) any Notes that 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

(C) 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

(ii) all Events of Default, other than the non-payment of the principal of Notes that have become due solely by such acceleration, have been cured or waived as provided in Section 6.13.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

(c) Acceleration of Notes pursuant to this Section 6.02 may be declared separately and independently with or without an acceleration of the Related Bonds.

**Section 6.03. Collection of Indebtedness and Suits for Enforcement by Master Trustee.**

(a) The Company covenants that if:

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

(ii) 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

(iii) default is made in the payment of any other amount when such amount is due and payable;

the Company will, subject to Section 4.01 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 Trust Estate.

(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.

(d) If an Event of Default occurs and is continuing, the Master Trustee may provide a Notice of Exclusive Control to the Company's Depository Bank.

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

**Section 6.04. 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:

(i) 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

(ii) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder of 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 6.05. 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 6.06. 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 Master 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 4.06, 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 6.07. 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:

(a) such Holder has previously given written notice to the Master Trustee of a continuing Event of Default;

(b) the Holders of not less than twenty-five percent (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;

(c) 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;

(d) the Master Trustee for sixty (60) days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(e) 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 (1) or more Holders of Notes shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Master Indenture to affect, disturb or prejudice the rights of any other Holders of Notes, or to obtain or to seek to obtain priority or preference over any other Holders (except as expressly authorized herein), or to

enforce any right under this Master Indenture, except in the manner herein provided and for the benefit of all the Holders of Notes in the priority of payment set forth herein.

**Section 6.08. 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 6.09. 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 6.10. 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 6.11. 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 6.12. 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 7.03(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 that is not inconsistent with such direction.

**Section 6.13. 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:

(i) a default in the payment of the principal of (or premium, if any) or interest or any other amount on any Note; or

(ii) a default in respect of a covenant or provision hereof that 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 6.14. 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 ten percent (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 6.15. 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, that 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 6.16. No Recourse Against Others.** No recourse under or upon any obligation, covenant or agreement contained in this Master Indenture or any indenture supplemental hereto,

or in any Note, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, or against any past, present or future director, officer or employee, as such, of the Master Trustee or the Company or of any successor corporation, either directly or through the Company, whether by virtue of any constitution or statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that this Master Indenture and the Notes are solely corporate obligations, and that no such personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, directors, officers or employees, as such, of the Master Trustee or the Company or any successor corporation, or any of them, because of the creation of indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Master Indenture or in any of the Notes or implied therefrom; and that any and all such personal liability, either at common law or in equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, director, officer or employee, as such, are hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Master Indenture and the issue of such Notes.

## ARTICLE VII.

### CONCERNING THE MASTER TRUSTEE

#### **Section 7.01. 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 7.03(h) hereof), the Master Trustee shall exercise the rights and powers vested in it by this Master Indenture, and use the same degree of care and skill in the exercise thereof as a reasonably prudent person would exercise or use under the circumstances in the conduct of his or her 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:

(i) this subsection shall not be construed to limit the effect of subsection (a) of this Section or Section 7.03 hereof;

(ii) 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;

(iii) 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 6.02(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

(iv) 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.

(v) 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 7.03.

**Section 7.02. Notice of Defaults.** Within sixty (60) days after the occurrence of any default of which the Master Trustee is deemed to have knowledge in accordance with Section 7.03(h) hereof, the Master Trustee shall transmit by mail to all Holders of Notes notice of such default, unless such default shall have been cured or waived or unless corrective action to cure such default has been instituted and is being pursued such that such default does not constitute an Event of Default; provided, however, that except in the case of a default in the payment of the principal of (or premium, if any) or interest on any Notes or in the payment of any sinking or purchase fund installment, the Master Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors and/or Responsible Officers of the Master Trustee in good faith determine that the withholding of such notice from the Holders of the Notes is in the interest of the Holders of Notes; and provided further, that in the case of any default of the character specified in Section 6.01(b), no such notice to Holders of Notes shall be given until at least thirty (30) days after the notice described in Section 6.01(b) is given and a cure is not forthcoming. For the purpose of this Section, the term “default” means any event that is, or after notice or lapse of time or both would become, an Event of Default.

**Section 7.03. 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 is 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 provided to the Master Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities that might be incurred by it in connection with such request or direction and for the payment of the Master Trustee's fees in connection therewith.

(f) The Master Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document, but the Master Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Master Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney and to take such memoranda from and in regard thereto as may be reasonably desired. The Master Trustee shall have no obligation to perform any of the duties of the Company under this Master Indenture.

(g) The Master Trustee may execute any of the trusts or powers hereunder either directly or by or through agents or attorneys or may act or refrain from acting in reliance upon the opinion or advice of such agents or attorney, but the Master Trustee shall not be held liable for any negligence or misconduct of any such agent or attorney appointed by it with due care. The Master Trustee may act upon the opinion or advice of an attorney or agent selected by it in the exercise of reasonable care and upon the opinion or advice of an attorney or agent retained by the Company. The Master Trustee shall not be responsible for any loss or damage resulting from any action or nonaction based on its good faith reliance upon such opinion or advice. The Master Trustee may in all cases pay reasonable compensation to any attorney or agent retained or employed by it in connection herewith.

(h) The Master Trustee shall not be required to take notice or be deemed to have notice of any Event of Default hereunder unless the Master Trustee shall be specifically notified of such Event of Default in writing by the Company or by the Holder of an Outstanding Note, and in the absence of such notice the Master Trustee may conclusively assume that no Event of Default exists; provided, however, that the Master Trustee shall be required to take and be deemed to have notice of its failure to receive the moneys necessary to make payments when due of principal of (premium, if any) or interest on any Note.

(i) The Master Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with any direction of the Holders of the Outstanding Notes permitted to be given by them under this Master Indenture.

(j) The permissive right of the Master Trustee to do things enumerated in this Master Indenture shall not be construed as a duty and the Master Trustee shall not be answerable for other than its negligence or willful misconduct in accordance with the terms of this Master Indenture.

(k) The Master Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

(l) The Master Trustee shall not be responsible for monitoring the existence of or determining whether any lien or encumbrance or other charge including, without limitation, any Permitted Encumbrance (as defined in the Deed of Trust) exists against the Project or the Trust Estate.

(m) The Master Trustee shall not be bound to ascertain or inquire as to the performance or observance of any covenants, conditions or agreements on the part of the Company herein or in the Deed of Trust hereunder except as may be expressly provided for herein or therein. The Master Trustee may require of the Company full information and advice as to the performance of the aforesaid covenants, conditions and agreements.

**Section 7.04. 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 7.05. 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 7.06. Moneys to Be Held in Trust.** All moneys received by the Master Trustee shall, until used or applied as herein provided, 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 in writing to pay.

**Section 7.07. Compensation and Expenses of Master Trustee.**

(a) The Company hereby agrees:

(i) 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;



(ii) except as otherwise expressly provided in this Section 7.07(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

(iii) to indemnify the Master Trustee, its officers, directors, employees, agents and affiliates (including, without limitation, the Master Trustee as Paying Agent hereunder) (collectively, the “Indemnitees”) for, and to defend and hold them harmless against, loss, liability, claims, proceedings, suits, demands, penalties, costs and expenses, including, without limitation, the costs and expenses of outside and in-house counsel and experts and their staffs and all expenses of document location, duplication and shipment and of preparation to defend and defending any of the foregoing (“Losses”), that may be imposed on, incurred by or asserted against any Indemnitee in respect of (i) any loss, or damage to any property, or injury to or death of any person, asserted by or on behalf of any Person arising out of, resulting from, or in any way connected with the Project, or the conditions, occupancy, use, possession, conduct or management of, or any work done in or about the Project or from the planning, design, acquisition or construction of any Project facilities or any part thereof, (ii) the issuance of any Notes or Related Bonds, or the Company’s or the Issuer’s, as the case may be, authority therefore, (iii) this Master Indenture and any instrument related thereto, (iv) the Master Trustee’s execution, delivery and performance of the Master Indenture, except in respect of any Indemnitee to the extent such Indemnitee’s negligence or bad faith caused such 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 material 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 statements 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 officers and board 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 board members and its Property not misleading in any material respect. The foregoing is in addition to any other rights, including rights to indemnification, to which the Master Trustee may otherwise be entitled, including, without limitation, pursuant to the Deed of Trust. The provisions of this Section 7.07(a)(iii) will survive the satisfaction and discharge of this Master Indenture and the payment of all Notes hereunder.

(b) As such security for the performance of the obligations of the Company under this Section, the Master Trustee shall have a lien prior to the Notes upon all property and funds held or collected by the Master Trustee as such. The payment obligations set forth above shall include all such fees and expenses of the Master Trustee and its agents under any Supplemental Master Trust Indenture.

**Section 7.08. 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 fifty million dollars (\$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 7.09. 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 Section shall become effective until the acceptance of appointment by the successor Master Trustee under Section 7.10.

(b) The Master Trustee may resign at any time by giving written notice thereof to the Company. If an instrument of acceptance by a successor Master Trustee shall not have been delivered to the Master Trustee within thirty (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 (i) the Holders of a majority in principal amount of the Outstanding Notes, or (ii) so long as there is no Event of Default and no circumstance has occurred that, with the passage of time, will constitute an Event of Default, the Company acting through an Authorized Representative.

(d) If at any time:

(i) the Master Trustee shall cease to be eligible under Section 7.08 and shall fail to resign after written request therefor by the Company or by any Holder of Notes; or

(ii) the Master Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent, or a 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 6.14, any Holder of Notes who has been a bona fide Holder of a Note for at least six (6) 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 (6) 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 six (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 7.10. 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 7.11. 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 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 7.12. Release of Property.** At the request of a majority of the Holders of the aggregate principal amount of the Outstanding Notes, the Master Trustee shall execute and deliver in recordable form any releases of Property encumbered hereby or by the Deed of Trust.

**Section 7.13. Subordination Authority.** Notwithstanding anything to the contrary herein or in the Related Bond Documents, without the consent of the Master Trustee, and without such actions constituting a breach or violation of the Deed of Trust, a mortgagor may impose upon real property such reasonable easements and similar encumbrances to title as are customarily created or imposed in connection with the development of real property (“Customary Development Encumbrances”), e.g., utility easements and similar rights of way, and easements, building setback lines, and the like created by the platting or re-platting of the real property. In addition, the liens and security interests covering or encumbering the real property created by the Deed of Trust shall at all times be subordinate and inferior to the easements and other similar encumbrances against title to the real property created in connection with any future Customary Development Encumbrances, including, but not limited to, plats; provided, however, such liens and security interests of the Deed of Trust shall not be inferior or subordinate to any monetary liens created pursuant to any such future Customary Development Encumbrances, and all liens and security interests created by the said Deed of Trust shall be superior and prior to any and all such monetary liens created by any such future Customary Development Encumbrances. The Master Trustee, to the extent deemed necessary or desirable by the Company, is hereby directed to sign any and all documents subordinating the lien of the Deed of Trust to any Customary Development Encumbrances confirming such subordination in accordance with the terms of this Section upon receipt of an Officer’s Certificate directing the Master Trustee to sign the documents and certifying that such documents are permitted to be executed in accordance with this Section 7.13.

## **ARTICLE VIII.**

### **SUPPLEMENTS**

**Section 8.01. Supplemental Master Trust Indentures Without Consent of Holders of Notes.** Without the consent of the Holders of any Notes, the Company, when authorized by a Board Resolution, and the Master Trustee at any time may enter into or consent to one (1) or more indentures supplemental hereto, subject to Section 8.03 hereof, for any of the following purposes:

(a) to cure any ambiguity or to correct or supplement any provision herein or therein that 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 that 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 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;

(i) to allow for the issuance of any series of Notes in certificated or uncertificated form;

(j) 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;

(k) so long as no Event of Default has occurred and is continuing under this Master Indenture and so long as no event that, 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, if any, a copy of whose report shall be filed with the Master Trustee:

- (i) is in the best interest of the Company;
- (ii) does not materially adversely affect the Holder of any Note;
- (iii) 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 Trust 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
- (iv) provided that no such amendment, directly or indirectly, shall (A) change the provisions of this subsection (k), (B) make any modification of the type prohibited in Section 8.02 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;
- (l) to make any amendment to any provision of this Master Indenture or to any supplemental indenture that is only applicable to Notes issued thereafter or which will not apply so long as any Notes then Outstanding remain Outstanding;
- (m) 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 (1) 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 8.02. Supplemental Master Trust Indentures With Consent of Holders of Notes.**

(a) With the consent of the Holders of not less than a majority in principal amount of the Outstanding Notes, by Act of said Note 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 8.03 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 Trust Indenture shall, without the consent of the Holder of each Outstanding Note affected thereby:

- (i) 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

(ii) 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

(iii) modify any of the provisions of this Section or Section 6.13, 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.

(iv) It shall not be necessary for any Act of Note Holders under this Section to approve the particular form of any proposed Supplemental Master Trust Indenture, but it shall be sufficient if such Act of Note Holders shall approve the substance thereof, as presented in written form to the Holders of the Notes by the Company.

**Section 8.03. Execution of Supplemental Master Trust Indentures.** In executing, or accepting the additional trusts created by, any Supplemental Master Trust Indenture permitted by this Article or the modifications thereby of the trusts created by this Master Indenture, the Master Trustee must receive, and will be fully protected in relying upon, an Opinion of Counsel stating that the execution of such Supplemental Master Trust 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 Trust Indenture entered into under Section 8.01(d)) be obligated to, enter into any such Supplemental Master Trust Indenture or consent that affects the Master Trustee's own rights, duties or immunities under this Master Indenture or otherwise.

**Section 8.04. Effect of Supplemental Master Trust Indentures.** Upon the execution of any Supplemental Master Trust Indenture under this Article, this Master Indenture shall, with respect to each series of Notes to which such Supplemental Master Trust Indenture applies, be modified in accordance therewith, and such Supplemental Master Trust 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 8.05. Notes May Bear Notation of Changes.** Notes authenticated and delivered after the execution of any Supplemental Master Trust 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 Trust 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 Trust 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 9.01.** 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 7.07 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 7.07 and, if funds shall have been deposited with the Master Trustee pursuant to Section 9.02, the obligations of the Master Trustee under Section 9.03 and Section 4.02(f) shall survive.

**Section 9.02.** Notes Deemed Paid. Unless otherwise provided in the Supplemental Master Trust 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 forty-five (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 9.02 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 redemption 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 9.03. Application of Trust Money.** The Defeasance Obligations and money deposited with the Master Trustee pursuant to Section 9.02 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 9.02, 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 Section, any Defeasance Obligation that is subject to redemption at the option of its issuer, the redemption date for which has not been irrevocably established as of the date of such calculation, shall be assumed to cease to bear interest at the earliest date on which such obligation may be redeemed at the option of the issuer thereof and the principal of such obligation shall be assumed to be received at its Stated Maturity.

This Master Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the Company and the Master Trustee have caused this Master Indenture to be signed on their behalf by their duly authorized representatives as of the date first written above.

LEGACY21, INC. DBA LEGACY  
PREPARATORY CHARTER ACADEMY

By: \_\_\_\_\_  
Chairman, Board of Directors

UMB BANK, N.A., as Master Trustee

By: \_\_\_\_\_  
Jose Gaytan, Vice President

**SUPPLEMENTAL MASTER TRUST INDENTURE NO. 1**

Dated as of February 1, 2018

Between

LEGACY21, INC.  
DBA LEGACY CHARTER PREPARATORY ACADEMY

and

UMB BANK, N.A.,  
as Master Trustee

Supplemental to:

Master Trust Indenture  
Dated as of February 1, 2018

In connection with the issuance of  
the Series 2018A and Series 2018B  
Master Notes

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## **SUPPLEMENTAL MASTER TRUST INDENTURE NO. 1**

**THIS SUPPLEMENTAL MASTER TRUST INDENTURE NO. 1**, dated as of February 1, 2018 (this “Supplemental Master Indenture”), is between UMB BANK, N.A., a national banking association, having a corporate trust office in Austin, Texas, as master trustee (the “Master Trustee”), and Legacy21, Inc. dba Legacy Preparatory Charter Academy, a non-profit corporation organized and existing under the laws of the State of Texas (the “Company”), amending and supplementing the hereinafter referenced Original Master Indenture.

### **RECITALS:**

WHEREAS, the Company entered into a Master Trust Indenture, dated as of February 1, 2018 (being referred to herein as the “Original Master Indenture”), with the Master Trustee, for the purpose of providing for the issuance of Notes thereunder to secure Debt of the Company (as such terms are defined in the Original Master Indenture); and

WHEREAS, the Company and the Master Trustee are authorized under Sections 2.01 and 8.01(i) of the Original Master Indenture, to amend or supplement the Original Master Indenture, subject to the terms and provisions contained therein, to provide for the issuance of a series of Notes; and

WHEREAS, the Company desires to enter into this Supplemental Master Indenture in order to provide for the issuance of certain Notes, as hereinafter described, to be secured under the Original Master Indenture, as amended and supplemented hereby (as so amended and supplemented, the “Master Indenture”); and

WHEREAS, the Company deems it desirable to issue (i) a Tax-Exempt Master Indenture Note (Legacy Preparatory Charter Academy) Series 2018A entitled to the security of the Master Indenture in the original principal amount of \$36,920,000 (the “Tax-Exempt Master Note”) and (ii) a Taxable Master Indenture Note (Legacy Preparatory Charter Academy) Series 2018B entitled to the security of the Master Indenture in the original principal amount of \$1,095,000 (the “Taxable Master Note” and, together with the Tax-Exempt Master Note the “Notes”) and to deliver such Notes to the New Hope Cultural Educational Facilities Finance Corporation (the “Issuer”) in order to evidence and secure the obligations of the Company under the Loan Agreement (the “Loan Agreement”) between the Company and the Issuer, dated as of February 1, 2018, relating to the Issuer’s Education Revenue Bonds (Legacy Preparatory Charter Academy), Series 2018A (the “Series 2018A Bonds”) and the Issuer’s Taxable Education Revenue Bonds (Legacy Preparatory Charter Academy), Series 2018B (the “Series 2018B Bonds” and, together with the Series 2018A Bonds, the “Bonds”) issued pursuant to a Trust Indenture and Security Agreement (the “Bond Indenture”), dated as of February 1, 2018, between the Issuer and UMB Bank, N.A., as trustee (in such capacity, the “Bond Trustee”); and

WHEREAS, pursuant to the terms of the Bond Indenture and the Loan Agreement, the Company will be liable for payment of the Bonds; and

WHEREAS, all acts and things necessary to make the Notes authorized by this Supplemental Master Indenture, when executed by the Company and authenticated and delivered by the Master Trustee as provided in the Original Master Indenture and this Supplemental Master

Indenture, the valid, binding and legal obligations of the Company and to constitute these presents, together with the Original Master Indenture, a valid indenture and agreement according to its terms, have been done and performed, and the execution of this Supplemental Master Indenture and the issuance of the Notes authorized by this Supplemental Master Indenture have in all respects been duly authorized;

WHEREAS, the Company finds it in its best interest to create and maintain a common Debt Service Reserve Fund established with the Master Trustee exclusively for the Bonds;

NOW, THEREFORE, in order to declare the terms and conditions upon which the Notes authorized hereby are authenticated, issued and delivered, and in consideration of the premises and the acquisition and acceptance of the Notes by the Holders thereof, and in consideration of the mutual covenants, conditions and agreements which follow, the Company covenants and agrees with the Master Trustee as follows:

## **ARTICLE I.**

### **DEFINITIONS**

Section 1.01 Definitions of Words and Terms. Words and terms used in this Supplemental Master Indenture and not otherwise defined herein shall, except as otherwise stated, have the meanings assigned to them in the Original Master Indenture.

“Debt Service” means as of any particular date of computation, with respect to the Bonds and with respect to any period, the aggregate of the amounts to be paid or set aside by the Issuer from proceeds received by the Issuer pursuant to the Loan Agreement as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on the Bonds; assuming, in the case of Bonds required to be redeemed or prepaid as to principal prior to maturity, that the principal amounts thereof will be redeemed prior to maturity in accordance with the mandatory redemption provisions applicable thereto.

“Debt Service Funds” means the special trust fund created pursuant to Section 4.03 of the Bond Indenture.

“Debt Service Reserve Fund” means the fund established pursuant to Section 5.01 hereof.

“Eligible Securities” means, to the extent permitted by law (as determined by the Company but not the Master Trustee), obligations or securities now or hereafter authorized as investments under the Public Funds Investment Act, Chapter 2256, Texas Government Code, maturing or redeemable at the option of the Master Trustee, or marketable, prior to the maturities thereof, at such time or times as to enable disbursements to be made from the Debt Service Reserve Fund in accordance with the terms hereof.

“Maximum Annual Debt Service” means, as of any date of calculation, the highest principal and interest payment requirements with respect to all outstanding Bonds for any succeeding Fiscal Year.

“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.

“Reserve Fund Requirement” means an amount equal to the least of (a) the Maximum Annual Debt Service on the Bonds excluding the amount held in reserve from the previous year, (b) one hundred twenty-five percent (125%) of the average annual Debt Service on the Bonds, or (c) ten percent (10%) of the initial principal amount of the Bonds (or sale proceeds in the event that the amount of original issue discount exceeds two percent (2%) multiplied by the stated redemption price at maturity of the Bonds); provided, that the amount funded by the Series 2018A Bonds shall not exceed ten (10%) percent of the initial principal amount of the Series 2018A Bonds; provided further that, if the Series 2018A Bonds are sold with more than a de minimis amount of original issue discount or premium, the issue price will be used to measure the ten percent (10%) limit. The initial Reserve Fund Requirement will be calculated by Specialized Public Finance Inc. and provided to the Master Trustee in a certificate upon which it can conclusively rely.

“Reserve Fund Surety Policy” has the meaning assigned to such term in Section 5.03(a) hereof.

“Value” means the value of any investments, determined at the end of each calendar month, which shall be calculated as follows:

1. As to Eligible Securities (other than as provided in (2) and (3) below), the market value thereof determined by the Master Trustee at the end of each month using and relying conclusively and without liability upon any generally accepted industry standards and from a generally accepted pricing information service available to it;
2. As to certificates of deposit and bankers’ acceptances, the face amount thereof, plus accrued interest; and
3. As to any investment not specified above, the lower of cost or market value thereof.

Section 1.02 Designation of Participating Campuses. The Company hereby designates each of the following facilities of the Company as a “Participating Campus” and the revenues and assets of the Participating Campuses shall, so long as any Debt is outstanding, be subject to all terms, covenants and restrictions contained in the Master Indenture and shall comprise all or part of the Trust Estate created therein:

- (i) 601 Accent Drive, Plano, Texas 75075; and
- (ii) 2727 Military Parkway, Mesquite, Texas 75149.



## ARTICLE II.

### THE NOTES

#### Section 2.01 Authorization of Notes.

(a) There is hereby created and authorized to be issued hereunder a Note, described as follows: “Tax-Exempt Master Indenture Note (Legacy Preparatory Charter Academy) Series 2018A” in the aggregate original principal amount of \$36,920,000, dated February 21, 2018, issued by the Company and for the primary benefit of the Issuer. The Tax-Exempt Master Note shall initially be issued and registered in the name of the Issuer, and then endorsed by the Issuer to the order of and registered in the name of the Bond Trustee, or its successors or assigns, and shall be executed, authenticated and delivered in accordance with Article II of the Original Master Indenture.

(b) There is hereby created and authorized to be issued hereunder a Note, described as follows: “Taxable Master Indenture Note (Legacy Preparatory Charter Academy) Series 2018B” in the aggregate original principal amount of \$1,095,000, dated February 21, 2018, issued by the Company and for the primary benefit of the Issuer. The Taxable Master Note shall initially be issued and registered in the name of the Issuer, and then endorsed by the Issuer to the order of and registered in the name of the Bond Trustee, or its successors or assigns, and shall be executed, authenticated and delivered in accordance with Article II of the Original Master Indenture.

Section 2.02 Form of Notes. The Tax-Exempt Master Note and the Taxable Master Note shall be issued as single, fully-registered promissory notes without coupons, in substantially the forms set forth in, respectively, Exhibit “A” and Exhibit “B” hereto.

Section 2.03 Payments on Notes. The principal of the Notes shall be payable in the amounts and on the dates, and each of the unpaid installments of principal shall bear interest from the date of such notes at the respective rates, and such notes shall have such other terms and provisions, as are set forth in or incorporated by reference into the Agreement.

#### Section 2.04 Credits on Notes.

(a) The Company shall receive a credit against amounts due on the Tax-Exempt Master Note on any payment date equal to the amounts paid as principal of (and premium, if any) or interest on, respectively, the Series 2018A Bonds on such payment date, including a credit against any mandatory sinking fund redemption payments.

(b) The Company shall receive a credit against amounts due on the Taxable Master Note on any payment date equal to the amounts paid as principal of (and premium, if any) or interest on, respectively, the Series 2018B Bonds on such payment date, including a credit against any mandatory sinking fund redemption payments.

(c) Notwithstanding the provisions of subsection (a) or (b) above or any other provision herein or in the Original Master Indenture, in the event that any payment on or with respect to the Bonds shall have been made by or on behalf of the Company and, by reason of

bankruptcy or other act of insolvency, such payment shall be deemed to be a preferential payment, and the Bond Trustee shall be required by a court of competent jurisdiction to surrender such payment, any credit on, respectively, the Tax-Exempt Master Note and the Taxable Master Note that may have been given as a result of such payment shall be rescinded, and the amount owing on, respectively, the Tax-Exempt Master Note or the Taxable Master Note shall be calculated as if such payment shall not have been made.

Section 2.05 Interest on Overdue Installments. The Tax-Exempt Master Note and the Taxable Master Note shall bear interest on overdue installments of principal (premium, if any) and interest, to the extent permitted by law, at a rate equal to the applicable interest rate or rates borne by, respectively, the Series 2018A Bonds and the Series 2018B Bonds.

Section 2.06 Registration, Transfer and Exchange. The Notes shall be transferred or exchanged pursuant to Section 2.05 of the Original Master Indenture.

### **ARTICLE III.**

#### **REDEMPTION OR REDUCTION OF NOTES; SATISFACTION AND RELEASE**

Section 3.01 Redemption. The Tax-Exempt Master Note and the Taxable Master Note shall be subject to redemption prior to Stated Maturity to the extent and with respect to the corresponding redemption of the Series 2018A Bonds and the Series 2018B Bonds, respectively, in accordance with the terms of the Bond Indenture. Notice of redemption of the Bonds shall, without further notice or action by the Master Trustee or the Company, constitute notice of redemption of the corresponding amounts of principal due on the Tax-Exempt Master Note or the Taxable Master Note, as applicable, and the same shall, thereby, become due and payable on the redemption date of the Series 2018 Bonds or at such earlier time as payment is required with respect thereto pursuant to the terms of the Bond Indenture.

Section 3.02 Partial Redemption or Reduction. In the event of a partial redemption of the Tax-Exempt Master Note or the Taxable Master Note pursuant to Section 3.01 hereof, the amount of the principal and interest on such Tax-Exempt Master Note or the Taxable Master Note becoming due after such redemption shall, to the extent appropriate and with the approval of the Master Trustee, be adjusted so that the installments of principal and interest thereafter due on the Tax-Exempt Master Note or the Taxable Master Note correspond to the payments of the principal of and interest on the Outstanding Series 2018A Bonds and Series 2018B Bonds, respectively.

Section 3.03 Effect of Call for Prepayment or Redemption. On the date designated for prepayment or redemption by notice as herein provided, the Tax-Exempt Master Note or the Taxable Master Note or the portion thereof so called for prepayment or redemption shall become due and payable at the prepayment or redemption price provided for prepayments or redemption of such Tax-Exempt Master Note or Taxable Master Note or portion thereof on such date. If on the date fixed for prepayment or redemption, moneys for payment of the prepayment or redemption price and accrued and unpaid interest on the Tax-Exempt Master Note or the Taxable Master Note are held by the Master Trustee or the Bond Trustee, (i) interest on such

Tax-Exempt Master Note or the Taxable Master Note or portion thereof so called for prepayment or redemption shall cease to accrue, (ii) such Tax-Exempt Master Note or the Taxable Master Note or portion thereof shall cease to be entitled to any benefit or security hereunder except the right to receive payment from the moneys held by the Master Trustee or the Bond Trustee, and (iii) the amount of such Tax-Exempt Master Note or the Taxable Master Note or portion thereof so called for prepayment or redemption shall be deemed paid and no longer outstanding.

Section 3.04 Satisfaction and Release. The Company's payment obligations with respect to the Tax-Exempt Master Note or the Taxable Master Note shall be considered satisfied when all amounts due and owing on the Series 2018A Bonds or the Series 2018B Bonds, respectively, have been paid or deemed paid under the Bond Indenture.

#### **ARTICLE IV.**

#### **REPRESENTATIONS, WARRANTIES AND COVENANTS**

Section 4.01 Representations and Warranties. The Company represents and warrants that (a) it is duly authorized under the laws of the State of Texas and all other applicable provisions of law to execute this Supplemental Master Indenture and to issue the Notes, (b) all corporate action on the part of the Company required by its organizational documents and the Original Master Indenture to establish this Supplemental Master Indenture as the binding obligation of the Company has been duly and effectively taken, and (c) all such action so required for the authorization and issuance of the Notes has been duly and effectively taken.

Section 4.02 Covenants under the Original Master Indenture and Related Bond Documents. The Company covenants and agrees that so long as any of the Notes remain outstanding, it will deliver to the Bond Trustee all reports, opinions and other documents required by the Original Master Indenture to be submitted to the Master Trustee at the time said reports, opinions or other documents are required to be submitted to the Master Trustee, and that it will faithfully perform or cause to be performed at all times any and all covenants, agreements and undertakings required on the part of the Company contained in the Master Indenture and the Notes, and the Company hereby confirms its covenants and agrees with its undertakings in the Master Indenture.

#### **ARTICLE V.**

#### **RESERVE FUND**

##### **Section 5.01 Debt Service Reserve Fund.**

There is hereby created by the Company and established with the Master Trustee the special fund of the Company designated its "Legacy Preparatory Charter Academy Education Revenue Bonds Series 2018 Debt Service Reserve Fund" and, within such Debt Service Reserve Fund, a "Tax-Exempt Bonds Reserve Account" and a "Taxable Bonds Reserve Account. "The Debt Service Reserve Fund shall serve as a common reserve fund for the Bonds. There shall initially be deposited with the Master Trustee in the Debt Service Reserve Fund from the proceeds of the Bonds an amount sufficient to cause the amount on deposit therein to equal the

Reserve Fund Requirement, as specified in the Company Order (as defined in the Bond Indenture) to authenticate and deliver the Bonds, as follows: (a) from sale proceeds of the Series 2018A Bonds, an amount equal to the Maximum Annual Debt Service on the Series 2018A Bonds (provided, that the amount funded by the Series 2018A Bonds shall not exceed ten (10%) percent of the initial principal amount of the Series 2018A Bonds; provided further that, if the Series 2018A Bonds are sold with more than a de minimis amount of original issue discount or premium, the issue price will be used to measure the ten percent (10%) limit) and (b) from sale proceeds of the Series 2018B Bonds, the difference between the Reserve Fund Requirement and the amount deposited in the Tax-Exempt Bond Reserve Account shall be deposited into the Taxable Bonds Reserve Account. To the extent that additional amounts are required to be deposited in the Debt Service Reserve Fund, such moneys shall come from sources other than the proceeds of the Bonds as provided herein and in the Agreement.

(a) If the Master Trustee receives notification from a Bond Trustee that there are insufficient funds in its Debt Service Fund to pay the Debt Service on the related Bonds, the Master Trustee shall immediately transfer from the Debt Service Reserve Fund to said Bond Trustee for deposit into such deficient Debt Service Fund under its control, amounts necessary to make such payments.

(b) In the event of any withdrawal from the Debt Service Reserve Fund pursuant to paragraph (b) above in order to cure any deficiency in a Debt Service Fund, the Master Trustee shall promptly notify the Company in writing that a deficiency in the Debt Service Reserve Fund exists, and the Company shall, as provided in Section 4.06 of the Agreement, (1) within thirty (30) days of receipt of such notice pay to the Master Trustee the full amount needed to restore the amount in the Debt Service Reserve Fund to the Reserve Fund Requirement, or (2) in twelve (12) consecutive equal monthly installments, the first of which shall be made within thirty (30) days from the date of the withdrawal, pay such deficiency to the Master Trustee for deposit into the Debt Service Reserve Fund to restore the amount in the Debt Service Reserve Fund to equal the Reserve Fund Requirement; provided that if any additional decline occurs prior to the restoration of any decline, such additional decline shall be restored in equal monthly installments over the remainder of the restoration period for the initial decline. Notwithstanding the foregoing, moneys in the Debt Service Reserve Fund may be applied to pay Debt Service during the twelve (12) months immediately preceding and including the final Debt Service payment at maturity.

(c) The Master Trustee shall determine the Value of the Eligible Securities on deposit in the Debt Service Reserve Fund as of each January 1 and July 1 (or the succeeding Business Day if such day is not a Business Day), commencing [July 1, 2018]; provided that, if there is a deficiency in the Debt Service Reserve Fund, the Master Trustee shall determine such Value on a monthly basis until such deficiency is cured. The weighted average maturity of the Eligible Securities on deposit in the Debt Service Reserve Fund shall at no time exceed six (6) months. If the Value of such Eligible Securities plus any moneys in the Debt Service Reserve Fund falls below the Reserve Fund Requirement, the Master Trustee shall immediately notify the Company, and the Company, as provided in Section 4.06 of the Agreement, shall, in no more than four (4) consecutive equal monthly installments, the first of which shall be made within thirty (30) days from the date of such deficiency, pay an amount equal to such deficiency to the Master Trustee for deposit in the Debt Service Reserve Fund to restore the amount in the Debt

Service Reserve Fund to equal the Reserve Fund Requirement; provided, that any amounts being paid to the Master Trustee pursuant to paragraph (c) hereof shall be paid in accordance with such paragraph; provided further, that if any additional decline occurs prior to the restoration of any decline, such additional decline shall be restored in equal monthly installments over the remainder of the restoration period for the initial decline. To the extent the Value of such Eligible Securities plus any moneys in the Tax-Exempt Bonds Reserve Account exceeds the least of (i) ten percent (10%) of the sale proceeds of the Series 2018A Bonds, (ii) the Maximum Annual Debt Service on the Series 2018A Bonds, or (iii) one hundred twenty-five percent (125%) of the average annual debt service on the Series 2018A Bonds, within the meaning of Section 1.148-2(f)(2)(ii) of the Regulations, such excess shall be invested as directed in writing by the Company at a yield which is not “materially higher” than the Yield on the Series 2018A Bonds, as provided in Section 148(a) of the Code or invested in obligations the yield of which is in excess of the Yield on the Bonds, provided the Company and the Issuer agree to make yield restriction payments described in Section 1.148-5(c) of the Regulations. The Master Trustee has no responsibility for determining whether such a condition exists.

(d) Upon any redemption or defeasance of all or any portion of the Bonds, moneys no longer required to remain on deposit in the Debt Service Reserve Fund may be used for the purposes of such redemption or for any other purpose for which proceeds of the Bonds might be used. Upon final Maturity of the Bonds, the Master Trustee shall transfer the balance on deposit in the Debt Service Reserve Fund to the Bond Trustee for deposit in the Debt Service Fund of the Bond Indenture.

(e) So long as any Bonds are Outstanding, the Company shall have no right, title or interest in or to the funds in the Debt Service Reserve Fund.

Section 5.02 Exclusive Debt Service Reserve Fund. The Debt Service Reserve Fund is exclusively for the benefit of the Bonds and the trust estate established under the Bond Indenture and maintained by the Bond Trustee. No other Person shall have any right, claim or access to the Debt Service Reserve Fund, including any other related bond trustee or any other holder of Notes.

#### Section 5.03 Reserve Fund Surety Policy.

(a) The Company expressly reserves the right at any time to satisfy all or any part of the Reserve Fund Requirement by obtaining for the benefit of the Debt Service Reserve Fund one (1) or more Reserve Fund Surety Policies pursuant to a supplemental master trust indenture. In the event the Company elects to substitute at any time a Reserve Fund Surety Policy for any funded amounts in the Debt Service Reserve Fund, it may apply any bond proceeds thereby released, including investment earnings on bond proceeds, to any purposes for which the Bonds were issued and any other funds thereby released to any purposes for which such funds may lawfully be used. A “Reserve Fund Surety Policy” shall be a guaranty agreement issued by the Texas Public Finance Authority pursuant to Section 53.351(e), Texas Education Code, in a principal amount equal to the portion of the Reserve Fund Requirement to be satisfied. The cost for any such surety policy may be paid from Bond proceeds or other funds of the Issuer or the Company lawfully available for such purpose. Any Reserve Fund Surety Policy shall be authorized by resolution and, if required by the laws of the State as determined by

and communicated to the Master Trustee by Bond Counsel, submitted to the Attorney General for examination and approval.

(b) In the event the Debt Service Reserve Fund contains one (1) or more Reserve Fund Surety Policies, the Master Trustee shall not draw on a Reserve Fund Surety Policy unless no other cash or investments are otherwise available in the Debt Service Reserve Fund. If more than one (1) Reserve Fund Surety Policy is held in the Debt Service Reserve Fund, the Master Trustee shall draw on such policies on a proportionate basis. Whenever amounts have been drawn on one (1) or more Reserve Fund Surety Policy, amounts subsequently transferred to the Debt Service Reserve Fund shall be used to reimburse the provider (or if more than one (1), to the providers on a proportionate basis) of such Reserve Fund Surety Policy in accordance with the terms thereof, for the amounts advanced, interest thereon and any associated fees. The issuer(s) of such Reserve Fund Surety Policy or Policies shall be secured with respect to such reimbursement obligations by a lien on the Adjusted Revenues, subject and subordinate to the lien securing the Notes and the reimbursement obligations and the required deposits to the Debt Service Fund of the Bond Indenture, and shall further be secured by a lien on amounts from time to time on deposit in and required to be deposited to the Debt Service Reserve Fund, which lien shall be subject and subordinate to the lien securing the Bonds.

## **ARTICLE VI.**

### **MISCELLANEOUS PROVISIONS**

Section 6.01 Notices. Except as otherwise provided in the Original Master Indenture, it shall be sufficient service of any notice, request, complaint, demand or other paper required by the Original Master Indenture to be given to or filed with the parties if the same shall be delivered in person or duly mailed by certified, registered or first class mail addressed to the addresses provided in the Original Master Indenture. The Master Trustee will be deemed to have received notice upon receipt of such notice by the Responsible Officer of the Master Trustee.

Section 6.02 Ratification of Original Master Indenture. The Original Master Indenture, as supplemented by this Supplemental Master Indenture, is in all respects ratified and confirmed and the Original Master Indenture, as so supplemented, shall be read, taken and construed as one and the same instrument. Except as herein otherwise expressly provided, all the provisions, definitions, terms and conditions of the Original Master Indenture, as supplemented by this Supplemental Master Indenture, shall be deemed to be incorporated in, and made a part of, this Supplemental Master Indenture.

Section 6.03 Limitation of Rights. Nothing in this Supplemental Master Indenture or in the Notes, express or implied, shall give or be construed to give any Person other than the Company, the Master Trustee and the respective registered Holders of the Notes or their assigns, any legal or equitable right, remedy or claim under or in respect of this Supplemental Master Indenture, or under any covenant, condition and provision herein contained, all its covenants, conditions and provisions being for the sole benefit of the Company, the Master Trustee and of the respective Holders of the Notes.

Section 6.04 Binding Effect. All the covenants, stipulations, promises and agreements in this Supplemental Master Indenture by or on behalf of the Company or the Master Trustee shall inure to the benefit of and shall bind their respective successors and assigns, whether so expressed or not.

Section 6.05 Severability Clause. If any provision of this Supplemental Master Indenture shall be held or deemed to be, or shall in fact be, inoperative or unenforceable as applied to any particular case in any jurisdiction or jurisdictions, or in all jurisdictions or in all cases because of the conflicting of any provision with any constitution or statute or rule of public policy or for any other reasons, such circumstance shall not have the effect of rendering the provision or provisions in question inoperative or unenforceable in any other jurisdiction or in any other case or circumstance or of rendering any other provision or provisions herein contained invalid, inoperative or unenforceable to the extent that such other provisions are not themselves actually in conflict with such constitution, statute or rule of public policy.

Section 6.06 Execution in Counterparts. This Supplemental Master Indenture may be executed in any number of counterparts, each of which shall be deemed an original; and all of which shall together constitute but one and the same instrument.

Section 6.07 Governing Law. This Supplemental Master Indenture shall be governed in all respects, including validity, interpretation and effect by, and shall be enforceable in accordance with, the law of the State of Texas.

Section 6.08 Texas Education Code Section 12.128. Property purchased or leased by the Company with State Revenues will be subject to Section 12.128 of the Texas Education Code, as amended.

**IN WITNESS WHEREOF**, the parties hereto have caused this Supplemental Master Indenture to be duly executed by the persons thereunto duly authorized, as of the date and year first above written.

LEGACY21, INC. DBA LEGACY  
PREPARATORY CHARTER ACADEMY

By: \_\_\_\_\_  
Chairman, Board of Directors



UMB BANK, N.A., as Master Trustee

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

Name: \_\_\_\_\_

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

## **EXHIBIT A**

### **FORM OF MASTER INDENTURE NOTE**

**MASTER INDENTURE NOTE  
(LEGACY PREPARATORY CHARTER ACADEMY)  
Series 2018A**

**THIS NOTE HAS NOT BEEN REGISTERED UNDER  
THE SECURITIES ACT OF 1933, AS AMENDED**

Registered	UNITED STATES OF AMERICA	Registered
No. MRA-1	STATE OF TEXAS	\$36,920,000

Interest Rate: AS SET FORTH HEREIN

Maturity Date: August 15, 2047

Issue Date: February 21, 2018

Registered Holder: NEW HOPE CULTURAL EDUCATIONAL FACILITIES FINANCE CORPORATION

Principal Amount: THIRTY-SIX MILLION NINE HUNDRED TWENTY THOUSAND AND NO/ONE-HUNDREDTHS DOLLARS

Legacy21, Inc. dba Legacy Preparatory Charter Academy, a Texas nonprofit corporation (the “Company”), for value received, hereby promises to pay to the Holder named above, or registered assigns, the Principal Amount set forth above. The Company also promises to pay interest hereon from the Issue Date set forth above, or from the Interest Payment Date (as defined in the Indenture referred to below) to which interest has been paid or duly provided for, and on such other dates as may be required by the Loan Agreement referenced below until the principal hereof is paid or made available for payment. Principal of (and premium, if any) and interest on this Note are payable at the times and in the amounts described in Article IV of the Loan Agreement referred to below. The Company also promises to pay to the Holder hereof the obligations of the Company described in Section 4.01 of the Loan Agreement, hereinafter defined, at the times and the amounts specified therein.

1. Authorization of Note. This Note represents the duly authorized Note of the Company, in the principal amount stated above, designated as “Tax-Exempt Master Indenture Note (Legacy Preparatory Charter Academy) Series 2018A” (this Note, together with all other Notes issued and secured under the Master Indenture, referred to collectively as the “Notes”) issued under and pursuant to the Master Trust Indenture dated as of February 1, 2018, between the Company, acting on its own behalf, and UMB Bank, N.A., as trustee (the “Master Trustee”), as supplemented by the Supplemental Master Trust Indenture No. 1, dated as of February 1, 2018, between the Company, acting on its own behalf and the Master Trustee (collectively, being herein called the “Master Indenture”). This Note is issued for the purpose of securing the obligations of the Company under a Loan Agreement dated as of February 1, 2018 (the “Loan Agreement”), entered into between the Company and the New Hope Cultural Educational

Facilities Finance Corporation (the “Issuer”) in connection with the issuance and sale of revenue bonds of the Issuer in the principal amount of \$36,920,000, designated “New Hope Cultural Educational Facilities Finance Corporation Education Revenue Bonds (Preparatory Charter Academy) Series 2018A” (the “Bonds”), issued under and pursuant to the Constitution and laws of the State of Texas, and a Trust Indenture and Security Agreement, dated as of February 1, 2018 (the “Indenture”), between the Issuer and UMB Bank, N.A., as trustee (the “Bond Trustee”). This Note is a Senior Note as that term is defined in the Master Indenture.

It is provided in the Master Indenture that the Company has and may hereafter issue additional Notes from time to time, and if issued, such additional Senior Notes will rank *pari passu* with this Senior Note and all other Senior Notes heretofore or hereafter issued under the Master Indenture, except as otherwise provided in the Supplemental Master Trust Indenture No. 1 authorizing this Note and in the Master Indenture.

Copies of the Master Indenture, the Indenture and the Loan Agreement are on file at the Corporate Trust Office of the Master Trustee and reference is hereby made to the Master Indenture, the Indenture and the Loan Agreement for the provisions, among others, with respect to the nature and extent of the security for and the rights of the registered Holders of this Note, the terms and conditions on which, and purposes for which, this Note is issued and the rights, duties and obligations of the Company and the Master Trustee under the Master Indenture, to all of which the Holder hereof, by acceptance of this Note assents. The Master Indenture may be modified, amended or supplemented only to the extent and under the circumstances permitted by, and subject to the terms and conditions of, the Master Indenture.

2. Payment. Interest on this Note that is payable, and is punctually paid or duly provided for, on any Interest Payment Date, will, as provided in the Master Indenture, be paid to the Person in whose name this Note is registered at the close of business on the regular Record Date for such interest, which shall be the Interest Payment Date. Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the Holder on such regular Record Date, and shall be paid to the Person in whose name this Note is registered at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Master Trustee, notice whereof shall be given to Note Holders not less than ten (10) days prior to such special record date.

Interest on this Note shall be paid to the Holder of this Note at its address as it appears on the registration books of the Master Trustee by wire transfer of immediately available funds or in such other manner as may be mutually acceptable to the Bond Trustee and the registered Holder of this Note.

Principal and the redemption price of this Note shall be payable to the Holder of this Note at the designated payment office of the Master Trustee located in Austin, Texas (the “Place of Payment”) upon the surrender for cancellation of this Note.

If the specified date for any such payment shall be a Saturday, a Sunday or a legal holiday or the equivalent for banking institutions generally (other than legal moratorium) at the place where payment thereof is to be made, then such payment may be made on the next succeeding day that is not one of the foregoing days without additional interest and with the

same force and effect as if made on the specified date for such payment. All such payments shall be made in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

3. Redemption. This Note is subject to redemption only in connection with the redemption of a related amount of Series 2018A Bonds as described in the Indenture.

4. Defeasance of Note. This Note is subject to defeasance as provided in the Master Indenture.

5. Limitations of Rights. The Holder of this Note shall have no right to enforce the provisions of the Master Indenture or to institute action to enforce the covenants therein, or to take any action with respect to any event of default under the Master Indenture, or to institute, appear in or defend any suit or other proceedings with respect thereto, except as provided in the Master Indenture.

6. Transfer of Note. This Note is transferable by the registered Holder hereof in person or by duly authorized attorney at the principal payment office of the Master Trustee, but only to a successor Bond Trustee for the Holders of the Bonds in the manner, subject to the limitations and upon payment of the charges provided in the Master Indenture, and upon surrender and cancellation of this Note. Upon such transfer a new registered Note or Notes without coupons of the same series and maturity and of authorized denomination or denominations for the same aggregate principal amount will be issued to the transferee in exchange therefor. The Master Trustee may deem and treat the registered Holder hereof as the absolute Holder hereof for the purpose of receiving payment of or on account of principal hereof and premium, if any, hereon and interest due hereon and for all other purposes and the Master Trustee shall not be affected by any notice to the contrary.

7. Certain Rights of Holders. If an Event of Default, as defined in the Master Indenture, shall occur, the principal of this Note and any additional notes may be declared due and payable in the manner and with the effect provided in the Master Indenture. To the extent permitted by law, the indebtedness of the Company under the Loan Agreement and this Note may be separately and independently accelerated with or without an acceleration of the Series 2018A Bonds.

The Master Indenture permits, with certain exceptions as therein provided, the amendment of the Master Indenture and the modification of the rights and obligations of the Company and the rights of the Holders of the Notes under the Master Indenture at any time with the consent of the Holders of not less than a majority in principal amount of the Notes at the time Outstanding, as defined in the Master Indenture. The Master Indenture also contains provisions permitting the Holders of specified percentages in aggregate principal amount of the Notes at the time Outstanding, as defined in the Master Indenture, on behalf of the Holders of all the Notes, to waive compliance by the Company or its affiliates with certain provisions of the Master Indenture and certain past defaults under the Master Indenture and their consequences. Any such consent or waiver by the Holder of this Note shall be conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon the transfer hereof or in

exchange therefor or in lieu hereof whether or not notation of such consent or waiver is made upon this Note.

No reference herein to the Master Indenture and no provision of this Note or of the Master Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of this Note at the times, place and rate, and in the coin or currency herein prescribed from the sources herein described.

8. Usury. In no event shall the amount of interest (as defined and calculated in accordance with applicable law) contracted for, charged, reserved, received or taken in connection with the loan exceed the amount of interest that could have been contracted for, charged, reserved, received or taken at the Highest Lawful Rate, as defined in the Loan Agreement. If the applicable law is ever judicially interpreted so as to render usurious any amount contracted for, charged, reserved, received or taken in connection with the loan, or if the exercise of the option contained in the Master Indenture or otherwise to accelerate the maturity of the loan or if any prepayment of the loan by the Company results in there having been paid or received any interest in excess of that permitted by applicable law, then notwithstanding anything to the contrary contained in the Master Indenture, the Master Indenture provides that all excess amounts theretofore paid or received shall be credited on the principal balance of the loan (or, if the loan has been or would thereby be paid in full, refunded), and the provisions of the Master Indenture shall immediately be deemed reformed and the amounts thereafter collectible thereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for thereunder.

9. No Recourse. No recourse shall be had for the payment of the principal of or premium or interest on this Note or for any claim based thereon or upon any obligation, covenant or agreement in the Master Indenture contained, against any past, present or future officer, trustee, director, member, employee or agent of the Company, or any incorporator, officer, director, member, employee or agent of any successor corporation, as such, either directly or through any successor corporation, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise and all such liability of any such incorporators, officers, directors, members, employees or agents, as such, is hereby expressly waived and released as a condition of and consideration for the execution of the Master Indenture and the issuance of this Note.

10. Authentication of Note. This Note shall not be entitled to any benefit under the Master Indenture, or be valid or become obligatory for any purpose, until this Note shall have been authenticated by execution by the Master Trustee of the Certificate of Authentication inscribed hereon.

11. Waiver of Presentment or Notice. The Company hereby waives presentment for payment, demand, protest, notice of protest, notice of dishonor and all defenses on the grounds of extension of time of payment for the payment hereof which may be given (other than in writing) by the Master Trustee to the Company.

IT IS CERTIFIED that all conditions, acts and things required to exist, happen and be performed under the Master Indenture precedent to and in the issuance of this Note, exist, have happened and have been performed, and that the issuance, authentication and delivery of this Note have been duly authorized by resolutions of the Company.

**IN WITNESS WHEREOF**, the Company has caused this Note to be duly executed.

LEGACY21, INC. DBA LEGACY  
PREPARATORY CHARTER ACADEMY

By: \_\_\_\_\_  
Chairman, Board of Directors

## ASSIGNMENT

For value received, the undersigned hereby assigns to UMB Bank, N.A., as Bond Trustee (the “Bond Trustee”) under a Trust Indenture and Security Agreement, dated as of February 1, 2018, between the Bond Trustee and the undersigned, the within Note and all its rights thereunder without recourse or warranty, except warranty of good title and warranty that the Issuer has not assigned this Note to a Person other than the Bond Trustee and that the principal amount remains unpaid under this Note.

NEW HOPE CULTURAL  
EDUCATIONAL FACILITIES  
FINANCE CORPORATION

By: \_\_\_\_\_  
Chairman, Board of Directors



(Form of Certificate of Authentication to  
appear on each Note)

CERTIFICATE OF AUTHENTICATION

This is one of the Notes referred to in the Master Indenture.

Date of Authentication:

---

UMB BANK, N.A., as Master Trustee

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

## **EXHIBIT B**

### **FORM OF MASTER INDENTURE NOTE**

MASTER INDENTURE NOTE  
(LEGACY PREPARATORY CHARTER ACADEMY)  
Series 2018B

THIS NOTE HAS NOT BEEN REGISTERED UNDER  
THE SECURITIES ACT OF 1933, AS AMENDED

Registered	UNITED STATES OF AMERICA	Registered
No. MRB-1	STATE OF TEXAS	\$1,095,000

Interest Rate: AS SET FORTH HEREIN

Maturity Date: August 15, 2020

Issue Date: February 21, 2018

Registered Holder: NEW HOPE CULTURAL EDUCATIONAL FACILITIES FINANCE CORPORATION

Principal Amount: ONE MILLION NINETY-FIVE THOUSAND AND NO ONE-HUNDREDTHS DOLLARS

Legacy21, Inc., a Texas nonprofit corporation (the “Company”), for value received, hereby promises to pay to the Holder named above, or registered assigns, the Principal Amount set forth above. The Company also promises to pay interest hereon from the Issue Date set forth above, or from the Interest Payment Date (as defined in the Indenture referred to below) to which interest has been paid or duly provided for, and on such other dates as may be required by the Loan Agreement referenced below until the principal hereof is paid or made available for payment. Principal of (and premium, if any) and interest on this Note are payable at the times and in the amounts described in Article IV of the Loan Agreement referred to below. The Company also promises to pay to the Holder hereof the obligations of the Company described in Section 4.01 of the Loan Agreement, hereinafter defined, at the times and the amounts specified therein.

1. Authorization of Note. This Note represents the duly authorized Note of the Company, in the principal amount stated above, designated as “Taxable Master Indenture Note (Legacy Preparatory Charter Academy) Series 2018B” (this Note, together with all other Notes issued and secured under the Master Indenture, referred to collectively as the “Notes”) issued under and pursuant to the Master Trust Indenture dated as of February 1, 2018 between the Company, acting on its own behalf, and UMB Bank, N.A., as trustee (the “Master Trustee”), as supplemented by the Supplemental Master Trust Indenture No. 1, dated as of February 1, 2018, between the Company, acting on its own behalf and the Master Trustee (collectively, being herein called the “Master Indenture”). This Note is issued for the purpose of securing the obligations of the Company under a Loan Agreement dated as of February 1, 2018 (the “Loan Agreement”), entered into between the Company and New Hope Cultural Educational Facilities

Finance Corporation (the “Issuer”) in connection with the issuance and sale of revenue bonds of the Issuer in the principal amount of \$1,095,000 designated “New Hope Cultural Educational Facilities Finance Corporation Taxable Education Revenue Bonds (Legacy Preparatory Charter Academy) Series 2018B” (the “Bonds”), issued under and pursuant to the Constitution and laws of the State of Texas, and a Trust Indenture and Security Agreement, dated as of February 1, 2018 (the “Indenture”), between the Issuer and UMB Bank, N.A., as trustee (the “Bond Trustee”). This Note is a Senior Note as that term is defined in the Master Indenture.

It is provided in the Master Indenture that the Company has and may hereafter issue additional Notes from time to time, and if issued, such additional Senior Notes will rank *pari passu* with this Senior Note and all other Senior Notes heretofore or hereafter issued under the Master Indenture, except as otherwise provided in the Supplemental Master Indenture No. 1 authorizing this Note and in the Master Indenture.

Copies of the Master Indenture, the Indenture and the Loan Agreement are on file at the Corporate Trust Office of the Master Trustee and reference is hereby made to the Master Indenture, the Indenture and the Loan Agreement for the provisions, among others, with respect to the nature and extent of the security for and the rights of the registered Holders of this Note, the terms and conditions on which, and purposes for which, this Note is issued and the rights, duties and obligations of the Company and the Master Trustee under the Master Indenture, to all of which the Holder hereof, by acceptance of this Note assents. The Master Indenture may be modified, amended or supplemented only to the extent and under the circumstances permitted by, and subject to the terms and conditions of, the Master Indenture.

2. Payment. Interest on this Note that is payable, and is punctually paid or duly provided for, on any Interest Payment Date, will, as provided in the Master Indenture, be paid to the Person in whose name this Note is registered at the close of business on the regular Record Date for such interest, which shall be the Interest Payment Date. Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the Holder on such regular Record Date, and shall be paid to the Person in whose name this Note is registered at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Master Trustee, notice whereof shall be given to Note Holders not less than ten (10) days prior to such special record date.

Interest on this Note shall be paid to the Holder of this Note at its address as it appears on the registration books of the Master Trustee by wire transfer of immediately available funds or in such other manner as may be mutually acceptable to the Bond Trustee and the registered Holder of this Note.

Principal and the redemption price of this Note shall be payable to the Holder of this Note at the designated payment office of the Master Trustee located in Austin, Texas (the “Place of Payment”) upon the surrender for cancellation of this Note.

If the specified date for any such payment shall be a Saturday, a Sunday or a legal holiday or the equivalent for banking institutions generally (other than legal moratorium) at the place where payment thereof is to be made, then such payment may be made on the next succeeding day that is not one of the foregoing days without additional interest and with the

same force and effect as if made on the specified date for such payment. All such payments shall be made in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

3. Redemption. This Note is subject to redemption only in connection with the redemption of a related amount of Series 2018B Bonds as described in the Indenture referenced above.

4. Defeasance of Note. This Note is subject to defeasance as provided in the Master Indenture.

5. Limitations of Rights. The Holder of this Note shall have no right to enforce the provisions of the Master Indenture or to institute action to enforce the covenants therein, or to take any action with respect to any event of default under the Master Indenture, or to institute, appear in or defend any suit or other proceedings with respect thereto, except as provided in the Master Indenture.

6. Transfer of Note. This Note is transferable by the registered Holder hereof in person or by duly authorized attorney at the principal payment office of the Master Trustee, but only to a successor Bond Trustee for the Holders of the Bonds in the manner, subject to the limitations and upon payment of the charges provided in the Master Indenture, and upon surrender and cancellation of this Note. Upon such transfer, a new registered Note or Notes without coupons of the same series and maturity and of authorized denomination or denominations for the same aggregate principal amount will be issued to the transferee in exchange therefor. The Master Trustee may deem and treat the registered Holder hereof as the absolute Holder hereof for the purpose of receiving payment of or on account of principal hereof and premium, if any, hereon and interest due hereon and for all other purposes and the Master Trustee shall not be affected by any notice to the contrary.

7. Certain Rights of Holders. If an Event of Default, as defined in the Master Indenture, shall occur, the principal of this Note and any additional notes may be declared due and payable in the manner and with the effect provided in the Master Indenture. To the extent permitted by law, the indebtedness of the Company under the Loan Agreement and this Note may be separately and independently accelerated with or without an acceleration of the Series 2018B Bonds.

The Master Indenture permits, with certain exceptions as therein provided, the amendment of the Master Indenture and the modification of the rights and obligations of the Company and the rights of the Holders of the Notes under the Master Indenture at any time with the consent of the Holders of not less than a majority in principal amount of the Notes at the time Outstanding, as defined in the Master Indenture. The Master Indenture also contains provisions permitting the Holders of specified percentages in aggregate principal amount of the Notes at the time Outstanding, as defined in the Master Indenture, on behalf of the Holders of all the Notes, to waive compliance by the Company or its affiliates with certain provisions of the Master Indenture and certain past defaults under the Master Indenture and their consequences. Any such consent or waiver by the Holder of this Note shall be conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon the transfer hereof or in

exchange therefor or in lieu hereof whether or not notation of such consent or waiver is made upon this Note.

No reference herein to the Master Indenture and no provision of this Note or of the Master Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of this Note at the times, place and rate, and in the coin or currency herein prescribed from the sources herein described.

8. Usury. In no event shall the amount of interest (as defined and calculated in accordance with applicable law) contracted for, charged, reserved, received or taken in connection with the loan exceed the amount of interest that could have been contracted for, charged, reserved, received or taken at the Highest Lawful Rate, as defined in the Loan Agreement. If the applicable law is ever judicially interpreted so as to render usurious any amount contracted for, charged, reserved, received or taken in connection with the loan, or if the exercise of the option contained in the Master Indenture or otherwise to accelerate the maturity of the loan or if any prepayment of the loan by the Company results in there having been paid or received any interest in excess of that permitted by applicable law, then notwithstanding anything to the contrary contained in the Master Indenture, the Master Indenture provides that all excess amounts theretofore paid or received shall be credited on the principal balance of the loan (or, if the loan has been or would thereby be paid in full, refunded), and the provisions of the Master Indenture shall immediately be deemed reformed and the amounts thereafter collectible thereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for thereunder.

9. No Recourse. No recourse shall be had for the payment of the principal of or premium or interest on this Note or for any claim based thereon or upon any obligation, covenant or agreement in the Master Indenture contained, against any past, present or future officer, trustee, director, member, employee or agent of the Company, or any incorporator, officer, director, member, employee or agent of any successor corporation, as such, either directly or through any successor corporation, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise and all such liability of any such incorporators, officers, directors, members, employees or agents, as such, is hereby expressly waived and released as a condition of and consideration for the execution of the Master Indenture and the issuance of this Note.

10. Authentication of Note. This Note shall not be entitled to any benefit under the Master Indenture, or be valid or become obligatory for any purpose, until this Note shall have been authenticated by execution by the Master Trustee of the Certificate of Authentication inscribed hereon.

11. Waiver of Presentment or Notice. The Company hereby waives presentment for payment, demand, protest, notice of protest, notice of dishonor and all defenses on the grounds of extension of time of payment for the payment hereof which may be given (other than in writing) by the Master Trustee to the Company.

IT IS CERTIFIED that all conditions, acts and things required to exist, happen and be performed under the Master Indenture precedent to and in the issuance of this Note, exist, have happened and have been performed, and that the issuance, authentication and delivery of this Note have been duly authorized by resolutions of the Company.

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed.

LEGACY21, INC. DBA LEGACY  
PREPARATORY CHARTER ACADEMY

By: \_\_\_\_\_  
Chairman, Board of Directors

## ASSIGNMENT

For value received, the undersigned hereby assigns to UMB BANK, N.A., as Bond Trustee (the "Bond Trustee") under a Trust Indenture and Security Agreement, dated as of February 1, 2018, between the Bond Trustee and the undersigned, the within Note and all its rights thereunder without recourse or warranty, except warranty of good title and warranty that the Issuer has not assigned this Note to a Person other than the Bond Trustee and that the principal amount remains unpaid under this Note.

NEW HOPE CULTURAL  
EDUCATIONAL FACILITIES  
FINANCE CORPORATION

By: \_\_\_\_\_  
Chairman, Board of Directors

(Form of Certificate of Authentication to  
appear on each Note)

CERTIFICATE OF AUTHENTICATION

This is one of the Notes referred to in the Master Indenture.

Date of Authentication:

---

UMB BANK, N.A., as Master Trustee

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



TRUST INDENTURE AND SECURITY AGREEMENT

between

NEW HOPE CULTURAL EDUCATIONAL FACILITIES FINANCE CORPORATION

and

UMB BANK, N.A.,  
as Trustee

Relating to  
\$36,920,000

NEW HOPE CULTURAL EDUCATIONAL FACILITIES FINANCE CORPORATION  
EDUCATION REVENUE BONDS  
(LEGACY PREPARATORY CHARTER ACADEMY),  
SERIES 2018A

and

\$1,095,000

NEW HOPE CULTURAL EDUCATIONAL FACILITIES FINANCE CORPORATION  
TAXABLE EDUCATION REVENUE BONDS  
(LEGACY PREPARATORY CHARTER ACADEMY),  
SERIES 2018B

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Dated as of

February 1, 2018

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## **TRUST INDENTURE AND SECURITY AGREEMENT**

**THIS TRUST INDENTURE AND SECURITY AGREEMENT** (this “Indenture”), dated as of February 1, 2018, is between the **NEW HOPE CULTURAL EDUCATIONAL FACILITIES FINANCE CORPORATION**, a nonprofit corporation created and existing under the Act (the “Issuer”), and **UMB BANK, N.A.**, a national banking corporation with a corporate trust office in Austin, Texas, not in its individual capacity but solely as Trustee (the “Trustee”).

### **W I T N E S S E T H:**

WHEREAS, the town of New Hope, Texas (the “Sponsoring Entity”), a political subdivision of the State, has, pursuant to the Cultural Education Facilities Finance Corporation Act, Chapter 337, Texas Local Government Code, as amended (the “Act”), approved and created the Issuer as a nonstock, nonprofit corporation;

WHEREAS, the Issuer is a duly constituted authority and instrumentality (within the meaning of those terms in the Regulations of the Department of the Treasury and the rulings of the Internal Revenue Service (the “IRS”) prescribed and promulgated pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”));

WHEREAS, the Issuer, on behalf of the Sponsoring Entity, has the same powers, authority and rights to issue revenue bonds for the purpose of aiding any accredited institutions of higher education and authorized charter schools in financing or refinancing educational facilities and facilities which are incidental, subordinate or related thereto or appropriate in connection therewith that a nonprofit corporation created under Section 53.35(b), Texas Education Code, or any authority created under Section 53.11, Texas Education Code, has under Chapter 53, Texas Education Code, as amended;

WHEREAS, Legacy21, Inc. dba Legacy Preparatory Academy, a Texas nonprofit corporation (the “Company”), requests that the Issuer issue and, in furtherance of the purpose of the Act, the Issuer proposes to issue, its revenue bonds pursuant to the Board Resolution of the Issuer authorizing the issuance of the Bonds and this Indenture, which will be designated \$36,920,000 Education Revenue Bonds (Legacy Preparatory Charter Academy), Series 2018A (the “Series 2018A Bonds”) and \$1,095,000 Taxable Education Revenue Bonds (Legacy Preparatory Charter Academy), Series 2018B (the “Series 2018B Bonds” and, together with the Series 2018A Bonds, the “Bonds”), the proceeds of the Bonds will be used to (i) purchase, construct, renovate and improve educational facilities located in Plano and Mesquite, Texas (the “Projects”), (ii) refinance certain existing loans, (iii) reimburse itself for various capital expenditures, (iv) fund a debt service reserve fund, and (v) pay costs of issuance of the Bonds;

WHEREAS, the Issuer and the Company have entered into a Loan Agreement, dated as of even date herewith (the “Agreement”), providing for (i) a loan from the Issuer to the Company of the proceeds of the sale of the Bonds and (ii) the repayment of such loan by the Company;

WHEREAS, contemporaneously with the execution and delivery of this Indenture, the parties to the Bond Documents have executed and delivered the other Bond Documents for the purposes of effecting the issuance of the Bonds, furthering the public purposes of the Act, and

securing to the Holders (as defined herein) of the Bonds the payment of the Bond Obligations (as defined herein);

WHEREAS, the Issuer has determined, subject to the conditions set forth herein and within the Master Indenture, to provide for the issuance from time to time in the future of certain additional Debt for the purpose of defraying the costs of completing, enlarging, improving or expanding one or more projects or other eligible properties for the Company or refunding any series of bonds theretofore issued and Outstanding under this Indenture, and

WHEREAS, all things necessary to make the Bonds, when issued, executed and delivered by the Issuer and authenticated by the Trustee pursuant to this Indenture, the valid, legal and binding limited obligations of the Issuer, and to constitute this Indenture a valid pledge of certain income, revenues and assets derived from the proceeds of the Bonds and from the Agreement (as defined herein) for the payment of the Bond Obligations have been performed, and the execution and delivery of this Indenture, and the creation, execution and issuance of the Bonds subject to the terms hereof, have in all respects been duly authorized;

NOW THEREFORE, in consideration of the premises and other good and valuable consideration and the mutual benefits, covenants and agreements set forth below, the parties agree as follows:

#### GRANTING CLAUSES

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that to secure the payment of the Bond Obligations and the performance of the covenants herein contained and to declare the terms and conditions on which the Outstanding Bonds are secured, and in consideration of the premises, of the purchase of the Bonds by the Holders thereof, and for other good and valuable consideration, the receipt and sufficiency of all of which are hereby acknowledged, the Issuer by these presents does grant, bargain, sell, alien, remise, release, convey, assign, transfer, mortgage, hypothecate, pledge, set over and confirm to the Trustee, forever, all and singular, the following described properties, and grants 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 that the Issuer is or may become entitled to do thereunder, but excluding the amounts agreed to be paid by the Company pursuant to Sections 4.07, 5.01 and 5.06 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 on its behalf or by the Trustee respecting the use and disposition of such property or the proceeds thereof;

TO HAVE AND TO HOLD all said property, rights, privileges and franchises of every kind and description, real, personal or mixed, hereby and hereafter (by supplemental instrument or otherwise) granted, bargained, sold, aliened, remised, released, conveyed, assigned, transferred, mortgaged, hypothecated, pledged, set over, or confirmed as aforesaid, or intended, agreed, or covenanted so to be, together with all the appurtenances thereto appertaining (said properties, rights, privileges and franchises together with any cash and securities hereafter deposited or required to be deposited with the Trustee being herein collectively referred to as the "Trust Estate") unto the Trustee and its successors and assigns forever;

BUT IN TRUST, NEVERTHELESS, for the equal and proportionate benefit and security of the Holders from time to time of the Outstanding Bonds without any priority of any such Bonds over any other such Bonds except as herein otherwise expressly provided;

UPON CONDITION that, if the Issuer, or its successors or assigns shall well and truly pay, or cause to be paid, the principal of (and premium, if any) and interest on the Bonds according to the true intent and meaning thereof, or there shall be deposited with the Trustee such amounts in such form in order that no Bonds shall remain Outstanding as herein defined and provided, and shall pay or cause to be paid to the Trustee all sums of money due or to become due to it in accordance with the terms and provisions of the Bond Documents, then upon the full and final payment of all such sums and amounts secured hereby or upon such deposit, this Indenture and the rights, titles, liens, security interests and assignments herein granted shall cease, determine and be void and this grant shall be released by the Trustee in due form at the expense of the Issuer, except only as herein provided; otherwise this grant to be and shall remain in full force and effect;

AND IT IS HEREBY COVENANTED AND DECLARED that all Bonds are to be authenticated and delivered and the Trust Estate is to be held and applied by the Trustee, subject to the further covenants, conditions and trusts hereinafter set forth, and the Issuer does hereby covenant and agree to and with the Trustee, for the equal and proportionate benefit of all Holders of the Bonds, except as herein otherwise expressly provided, as follows:

## ARTICLE I

### DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

#### Section 1.01 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 or Master Indenture have the meanings assigned to them in the Agreement or the Master Indenture, as applicable. 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-1, A-2, or B hereto:

“Accredited Investor” means an accredited investor as defined in Regulation D of the Securities Act of 1933.

“Act” means Chapter 337, Texas Local Government Code, as amended from time to time.

“Act of Bondholder” has the meaning assigned to such term in Section 1.04 hereof.

“Agreement” means the Loan Agreement, dated as of the date of this Indenture, between the Issuer and the Company relating to the loan of the proceeds of the Bonds.

“Architect” means Parker, Smith & Copper, Inc.

“Authenticating Agent” means the Person designated pursuant to Section 8.12 hereof to perform the duties of such set forth in this Indenture, initially the Trustee.

“Authorized Denominations” means, with respect to the Bonds, twenty-five thousand dollars (\$25,000) and any integral multiple of five thousand dollars (\$5,000) in excess 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 Chairman or Superintendent of the Company, or any other person duly appointed by the Governing Body of the Company to act on behalf of the Company, each as evidenced by a written certificate furnished to the 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.

“Beneficial Owner” means, (i) when used with reference to the book entry only system described in Section 2.12 hereof, the person who is considered the beneficial owner of the Bonds and with respect to the Bonds pursuant to the arrangements for book entry determination of ownership applicable to the Depository and (ii) for purposes of Section 2.05 hereof, any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds and with respect to the Bonds (including persons holding such through nominees, depositories or other intermediaries) or (b) is treated as the owner of any Bonds and, with respect to the Bonds, for federal income tax purposes.

“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 Schulman, Lopez, Hoffer & Adelstein, LLP, or such other attorney or firm of attorneys that are nationally recognized as having expertise in the practice of tax-exempt municipal finance law as approved by the Company.

“Bond Documents” means this Indenture, the Agreement, the Bonds, the Master Indenture, the Supplemental Master Trust Indenture, the Master Notes, the Deed of Trust, the Bond Purchase Agreement and all other agreements, documents and instruments ever delivered pursuant to any of the foregoing and any and all future renewals and extensions or restatements of any of the foregoing.

“Bond Obligations” means all principal of (and premium, if any) and interest on the Bonds and any other amounts that 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 2.04.

“Bond Year” has the meaning assigned to it in the Agreement.

“Bonds” means the Series 2018A Bonds and the Series 2018B Bonds and any bonds issued upon transfer thereof or in exchange therefor or in lieu thereof.

“Book-Entry-Only Form” or “Book-Entry-Only System” means, with respect to the Bonds, a form or system, as applicable, under which (a) the ownership of beneficial interests in the Bonds may be transferred only through a book entry and (b) physical bond certificates in fully registered form are registered only in the name of a Depository or its nominee as Holder, with the physical bond certificates held in the custody of the Depository.

“Business Day” means any day that 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 is located or is authorized by law or executive order to close.

“Closing Date” means the date on which the Bonds are first authenticated and delivered to the initial purchasers thereof against payment therefor.

“Collateral” shall have the meaning assigned to such term in the Deed of Trust.

“Company” means Legacy21, Inc. dba Legacy Preparatory Charter Academy, a Texas nonprofit corporation, its permitted successors and assigns, and any resulting, surviving or transferee Person permitted hereunder.

“Company Order” means an Order of the Company executed by an Authorized Representative and delivered in accordance with Section 4.02 hereof.

“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.

“Construction Consultant” has the meaning assigned to such term in the Agreement.

“Construction Fund” means the special trust fund created in Section 4.05 of this Indenture.

“Corporate Trust Office” means the address or addresses of the Trustee designated from time to time pursuant to Section 1.05 hereof.

“Costs of Issuance” means the costs of financing, legal, printing and other costs attributable to the issuance of the Bonds within the meaning of Section 147(g) of the Code.

“Debt” has the meaning assigned to such term in the Master Indenture.

“Debt Service” means, as of any particular date of computation, with respect to the Bonds and with respect to any period, the aggregate of the amounts to be paid or set aside by the Issuer from proceeds received by the Issuer pursuant to the Agreement as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on the Bonds; assuming, in the case of Bonds required to be redeemed or prepaid as to principal prior to Maturity, that the principal amounts thereof will be redeemed prior to Maturity in accordance with the mandatory redemption provisions applicable thereto.

“Debt Service Fund” means the special trust fund created pursuant to Section 4.03 of this Indenture.

“Debt Service Reserve Fund” means the special trust fund created pursuant to Section 5.01 of the Supplemental Master Trust Indenture.

“Deed of Trust” has the meaning assigned to such term in the Master Indenture.

“Defeasance Obligations” means obligations now or hereafter authorized by Section 1207.062(b), Texas Government Code.

“Depository” means any securities depository that is a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended, operating and maintaining, with its participants or otherwise, a Book-Entry-Only System to record ownership of beneficial interests in the Bonds, and to effect transfers of the Bonds, in Book-Entry-Only Form. The initial Depository for the Bonds shall be DTC.

“DTC” means The Depository Trust Company, New York, New York, the initial securities depository of the Book-Entry-Only System described in Section 2.11 hereof. DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended.

“Eligible Securities” means, to the extent permitted by law (as determined by the Company but not the Trustee), obligations or securities now or hereafter authorized as investments under the Public Funds Investment Act, Chapter 2256, Texas Government Code, maturing or redeemable at the option of the Trustee, or marketable, prior to the maturities thereof, at such time or times as to enable disbursements to be made from the Debt Service Fund, the Debt Service Reserve Fund, the Construction Fund and the Rebate Fund in accordance with the terms hereof.

“Event of Default” is defined in Article VII of this Indenture.

“Exempt Person” means a state or local governmental unit or an organization exempt from federal income taxation under Section 501(a) of the Code by reason of being described in Section 501(c)(3) of the Code.

“Favorable Opinion of Bond Counsel” means, with respect to any action the taking of which requires such an opinion, an unqualified opinion of Bond Counsel, delivered to and in form and substance satisfactory to the Issuer to the effect that such action does not violate the laws of the State (including the Act) and the Indenture and will not adversely affect the exclusion of interest on the Series 2018A Bonds from gross income for purposes of federal income taxation.

“Fiscal Year” has the meaning assigned to such term in the Agreement.

“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 is 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.

“Governmental Obligations” means, as used in Section 10.02 hereof, (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 related defeasance 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 related defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

“Holder” or “Bondholder” or “Registered Holder” or “Owner” means a Person in whose name a Bond is registered in the Bond Register.

“Independent” means, when used with respect to any specified Person, such a Person who (i) is in fact independent, (ii) does not have any direct financial interest or any material indirect financial interest in the Company and (iii) is not connected with the Company as an officer, employee, promoter, trustee, partner, director or person performing similar functions. Whenever it is herein provided that any Independent Person’s opinion or certificate shall be furnished to the Trustee, such Person shall be appointed by Order and such opinion or certificate shall state that the signer has read this definition and that the signer is Independent within the meaning hereof.

“Initial Bonds” means the initial Series 2018A Bond and the initial Series 2018B Bond authorized in Section 2.10 herein.

“Interest Payment Date” means each February 15 and August 15, commencing August 15, 2018.

“Interest Rates” shall mean interest rates as set forth in Sections 2.02(a) and 2.02(b) of this Indenture.

“Investment Grade Credit Rating” means a credit rating of BBB- or higher by S&P Global Ratings and a credit rating of Baa3 or higher by Moody’s Investors Services.

“Issuer” means New Hope Cultural Education Facilities Finance Corporation, a nonprofit corporation organized under the Act.

“Loan” means the loan made by the Issuer to the Company pursuant to the Agreement.

“Loan Payments” has the meaning assigned to such term in the Agreement.

“Management Consultant” means a firm of Independent professional management consultants, or an Independent school management organization, knowledgeable in the operation of public or private schools and having a favorable reputation for skill and experience in the field of public or private school management consultation.

“Master Indenture” means that certain Master Trust Indenture and Security Agreement, dated as of February 1, 2018, between the Company and the Master Trustee, as amended by the Supplemental Master Trust Indenture, and as further amended or supplemented from time to time in accordance with its terms.

“Master Notes” means the promissory notes in the form attached to the Supplemental Master Trust Indenture as Exhibits “A” and “B”, which are secured by the Master Indenture, executed by the Company and dated the Closing Date in the principal amount of the Series 2018A Bonds and the Series 2018B Bonds, respectively.

“Master Trustee” means UMB Bank, N.A., a national banking corporation, with a corporate trust office in Austin, Texas, serving as master trustee pursuant to the Master Indenture or any successor thereto pursuant to the provisions of the Master Indenture.

“Maturity” means, when used with respect to any Bond, the date on which the principal of such Bond becomes due and payable as therein or herein provided, whether at the Stated Maturity thereof or by declaration of acceleration, call for redemption or otherwise.

“Maximum Annual Debt Service” means, as of any date of calculation, the highest principal and interest payment requirements with respect to all Outstanding Bonds for any succeeding Fiscal Year.

“Note” or “Notes” means the Series 2018A Note or the Series 2018B Note and, collectively, the Series 2018 Notes.

“Officer’s Certificate” of any specified Person means a certificate signed by the chairman of the respective Governing Body or an Authorized Representative.

“Opinion of Counsel” has the meaning assigned to such term in the Agreement.

“Outstanding” means, when used with respect to any Bonds, 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 10.02 of this Indenture) in the necessary amount has been theretofore deposited with the Trustee or any paying agent for such Bonds in trust for the Holders of such Bonds pursuant to this Indenture; provided, that, if such Bonds are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or irrevocable provision therefor satisfactory to the Trustee has been made;

(iii) Bonds upon transfer of or in exchange for or in lieu of which other Bonds have been authenticated and delivered pursuant to this Indenture; and

(iv) Bonds alleged to have been destroyed, lost or stolen that have been paid as provided in Section 2.05;

provided, however, that in determining whether the Holders of the requisite principal amount of Outstanding Bonds have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Bonds owned of record or beneficially by the Company or any other obligor upon the Bonds or the Note or such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds that the Responsible Officer actually knows to be so owned shall be so disregarded. Bonds so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee’s right so to act with respect to such Bonds and that the pledgee is not the Company or any other obligor upon the Bonds or the Notes or such other obligor.

“Participating Campuses” has the meaning assigned to such term in the Agreement.

“Paying Agent” means, initially, the Trustee, and any other Person authorized by the Issuer to pay the principal of (and premium, if any) or interest on any Bonds on behalf of the Issuer.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, or government or any agency or political subdivision thereof.



“Place of Payment” for the Bonds means a city or any political subdivision thereof designated as such in the Bonds.

“Proceeds Fund” means the special trust fund created pursuant to Section 4.02 of this Indenture.

“Project” means the Project described in Exhibit A to the Agreement.

“Qualified Institutional Buyer” has the meaning ascribed to such term under Rule 144A of the Securities Act of 1933.

“Rating Service” means each nationally recognized securities rating service that at the time has a credit rating assigned to the Bonds.

“Rebate Fund” means the special trust fund created in Section 4.04 of this Indenture.

“Record Date” means the close of business for the Trustee on the last Business Day of the calendar month immediately preceding any Interest Payment Date.

“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” means, when used with respect to the Trustee, the officer in the Corporate Trust Office of the Trustee having direct responsibility for administration of this Indenture.

“Series 2018A Bonds” means the New Hope Cultural Education Facilities Finance Corporation Education Revenue Bonds (Legacy Preparatory Charter Academy) Series 2018A, authorized to be issued pursuant to Section 2.01 of this Indenture.

“Series 2018B Bonds” means the New Hope Cultural Education Facilities Finance Corporation Taxable Education Revenue Bonds (Legacy Preparatory Charter Academy) Series 2018B, authorized to be issued pursuant to Section 2.01 of this Indenture.

“Sponsoring Entity” means the Town of New Hope, Texas.

“State” means the State of Texas.

“Stated Maturity” means, when used with respect to any Bond or any installment of interest thereon, the date specified in such Bond as the fixed date on which the principal of such Bond or such installment of interest is due and payable.

“Supplemental Master Trust Indenture” means Supplemental Master Trust Indenture No. 1, dated as of February 1, 2018, between the Company and the Master Trustee.

“Trust Estate” is defined in the Granting Clauses of this Indenture.

“Trustee” means UMB Bank, N.A., a national banking corporation, with a corporate trust office in Austin, Texas, serving as Trustee pursuant to this Indenture or any successor thereto pursuant to the provisions of this Indenture.

Section 1.02 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 1.03 Form of Documents Delivered to Trustee. Every certificate and opinion 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 or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of a specified Person stating that the information with respect to such factual matters is in the possession of such Person, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Section 1.04 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 (an “Act of Bondholder”); 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. 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 8.01) 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 Bondholder 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 or her 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 that 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 of Bondholder shall bind every Holder of any Bond issued upon the transfer thereof or in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Issuer in reliance thereon, whether or not notation of such action is made upon such Bond.

Section 1.05 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,

(a) 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 3005 S. Lamar Blvd., Ste. D-109 #428, Austin, Texas 78704, Attention: Jose Gaytan or at any other address subsequently furnished in writing to the Bondholders and the other parties to the Bond Documents by the Trustee;

(b) 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 at New Hope Cultural Educational Facilities Finance Corporation, c/o Gay, McCall, Isaacks, & Roberts, P.C., 777 E.15<sup>th</sup> Street, Plano, Texas 75074, Attention: Maria Huynh, or at any other address subsequently furnished in writing to the Trustee and the Company by the Issuer; and

(c) 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 at Legacy21, Inc., 9441 LBJ Freeway, Suite 101, Dallas, Texas 75243, Attention: Dr. Rebecca Good, Superintendent/CEO or at any other address subsequently furnished in writing to the Trustee and the Issuer by the Company.

Section 1.06 Notices to Bondholders; Waiver. Where this Indenture provides for notice to Bondholders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first class postage prepaid, to each Bondholder affected by such event, at his address as it appears on the Bond Register, not later than the latest date, and not earlier than the earliest date, prescribed for the first giving of such notice. Any notice or communication to the Bondholders when the Bonds are in Book-Entry-Only Form shall be given in accordance with the applicable procedures of the Depository not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice. In any case where notice to Bondholders is given by mail, neither the failure to mail such notice, nor any default in any notice so mailed to any particular Bondholder shall affect the sufficiency of such notice with respect to other Bondholders. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders of Bonds shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Section 1.07 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 1.08 Severability Clause. In case any provision in this Indenture or in the Bonds or any application thereof shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions and applications shall not in any way be affected or impaired thereby.

Section 1.09 Benefits of Indenture. Nothing in this Indenture or in the Bonds, express or implied, shall give to any Person, other than the parties hereto, their successors hereunder, any separate trustee or co-trustee appointed hereunder, the Company, and the Holders of Bonds, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 1.10 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 1.11 Directors, Officers, Employees and Agents Exempt from Personal Liability. No recourse under or upon any obligation, covenant or agreement contained in this Indenture, or in any Bond, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, or against any past, present or future director, officer or employee, as such, of the Issuer or the Trustee, or of any successor corporation, either directly or through the Issuer or the Trustee, whether by virtue of any constitution or statute or rule of law, or by the enforcement of any assessment, judgment or penalty, or otherwise; it being expressly understood that this Indenture and the Bonds are solely corporate obligations, and that no such personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, directors, officers or employees, as such, of the Issuer, the Trustee, or any other successor corporation, or any of them, because of the creation of indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Indenture or the Bonds or implied therefrom, and that any and all such personal liability either at common law or equity or by constitution or statute, of,

and any and all such rights and claims against, every such incorporator, director, officer or employee, as such, are hereby expressly waived and released as a condition of, and in consideration for, the execution of this Indenture and the issuance of the Bonds.

## **ARTICLE II**

### **AUTHORIZATION AND TERMS OF BONDS; ISSUANCE AND FORM OF BONDS**

#### **Section 2.01 Authorization and Form of Bonds.**

(a) The Series 2018A Bonds shall be designated “New Hope Cultural Educational Facilities Finance Corporation Education Revenue Bonds (Legacy Preparatory Charter Academy) Series 2018A.” The aggregate principal amount of Series 2018A Bonds is \$36,920,000. Each of the Series 2018A Bonds shall be numbered separately from RA-1 upwards. Each of the Series 2018A Bonds shall be issued only in fully registered form in Authorized Denominations. The Series 2018A Bonds shall be issued for the purpose of providing funds to be loaned by the Issuer to the Company to be used to (i) purchase, construct, renovate and improve educational facilities located in Plano and Mesquite, Texas (the “Projects”), (ii) refinance certain existing loans, (iii) reimburse itself for various capital expenditures, (iv) fund a debt service reserve fund and (v) pay costs of issuance of the Bonds.

(b) The Series 2018B Bonds shall be designated “New Hope Cultural Educational Facilities Finance Corporation Taxable Education Revenue Bonds (Legacy Preparatory Charter Academy) Series 2018B.” The aggregate principal amount of Series 2018B Bonds is \$1,095,000. Each of the Series 2018B Bonds shall be numbered separately from RB-1 upwards. Each of the Series 2018B Bonds shall be issued only in fully registered form in Authorized Denominations. The Series 2018B Bonds shall be issued for the purpose of providing funds to be loaned by the Issuer to the Company to pay a portion of the Costs of Issuance of the Bonds.

(c) The Bonds shall be substantially in the forms set forth in Exhibit A-1 and Exhibit A-2 attached hereto, with such appropriate variations, omissions and insertions as are permitted or required by this Indenture and may have endorsed thereon such legends or text as may be necessary or appropriate to conform to any applicable rules and regulations of any governmental authority or any usage or requirement of law with respect thereto. The Bonds may be typewritten, printed, lithographed, engraved or produced in similar manner. If any Bond is printed, any portion of the text of the Bond may be printed on the back of the Bond with an appropriate reference placed on the front of the Bond.

#### **Section 2.02 Terms of Bonds.**

(a) The Series 2018A Bonds shall be dated as of February 1, 2018, shall mature on August 15 in the years and in the amounts set forth below, and shall bear interest at the following rates (the “Interest Rates”) from the later of (i) the date of delivery or (ii) the most recent Interest Payment Date to which interest has been paid or provided for:

<b>Year of Maturity</b>	<b>Amount</b>	<b>Interest Rate</b>
2027	\$4,985,000	5.250%
2037	\$11,440,000	6.000%
2047	\$20,495,000	6.000%

(b) The Series 2018B Bonds shall be dated as of February 1, 2018, shall mature on August 15 in the years and in the amounts set forth below, and shall bear interest at the following Interest Rates from the later of (i) the date of delivery or (ii) the most recent Interest Payment Date to which interest has been paid or provided for:

<b>Year of Maturity</b>	<b>Amount</b>	<b>Interest Rate</b>
2020	\$ 1,095,000	5.750%

(c) The Bonds shall be subject to optional and mandatory redemption prior to Maturity in the manner provided in the forms of Bonds set forth in Exhibit A-1 and Exhibit A-2 attached hereto.

(d) Interest on the Bonds shall be paid on each Interest Payment Date until the principal thereof shall have been paid or provided for. Interest shall be calculated on the basis of a 360-day year consisting of twelve (12) 30-day months.

(e) Amounts due with respect to the Bonds shall be payable in lawful money of the United States. Payment of principal of, premium, if any, and interest on the Bonds 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 or Maturity, as applicable. Upon written request of a Registered Holder of at least one million dollars (\$1,000,000) in principal amount of Bonds or all of any series of the Bonds, all payments of principal of, premium, if any, and interest on the Bonds shall be paid by wire transfer (at the risk and expense of such registered Owner) in immediately available funds to an account in the United States designated by such registered Owner upon written notice fifteen (15) days 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 Bonds that are in Book-Entry-Only Form will be paid in immediately available funds to DTC or its nominee, as the case may be, as the registered owner of such Bonds.

**Section 2.03 Execution, Authentication and Delivery.** The Bonds shall be executed on behalf of the Issuer by its President or its Vice President and attested to by its Secretary. The signature of any of these officers on the Bonds may be manual or facsimile.

Bonds bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Issuer shall bind the Issuer, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Bonds or did not hold such offices at the date of such Bonds.

The Initial Bonds issued hereunder shall be registered by the Comptroller of Public Accounts of the State of Texas or by one of the Comptroller's deputies.

At any time and from time to time after the execution and delivery of this Indenture, the Issuer may deliver Bonds executed by the Issuer to the Authenticating Agent; the Authenticating Agent shall authenticate such Bonds; and the Bond Registrar shall register and deliver such Bonds as in this Indenture provided and not otherwise.

Prior to the initial delivery by the Trustee (in its capacity as Bond Registrar) of the Bonds, there shall be delivered to the Trustee:

(a) a Board Resolution of the Issuer authorizing the issuance, execution and delivery of the Bonds;

(b) a Company Order (i) to register the Bonds with the Stated Maturity, principal amount and other terms provided in the Order and (ii) to authenticate and deliver the Bonds to the original purchasers upon payment to the Trustee for deposit or payment in accordance with the provisions of this Indenture of the sum specified in such Order;

(c) the Master Notes 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 documents specifically listed in the definition of Bond Documents;

(e) an Opinion of Counsel to each of the Issuer, the Company and the Trustee to the effect that each Bond Document to which such entity is a party 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) an Officer's Certificate of the Company (i) approving the issuance and delivery of the Bonds and (ii) certifying that there then exists no event of default under the Bond Documents or any outstanding documents by which the Company is bound;

(g) an opinion of Bond Counsel, subject to the exceptions and qualifications set forth therein, to the effect that (i) this Indenture has been duly authorized, executed and delivered by the Issuer and constitutes a valid and binding obligation of the Issuer enforceable in accordance with its terms, and that all conditions precedent provided in this Indenture relating to the authentication and delivery of the Bonds have occurred, (ii) the Bonds have been duly authorized, executed, issued and delivered by the Issuer, are the legal and valid limited obligations of the Issuer, and are entitled to the benefits and security of this Indenture, (iii) the Bonds and the offering or sale of the Bonds are not required to be registered under the Securities Act of 1933, as amended, and the Indenture is exempt from qualification as an indenture pursuant to the Trust Indenture Act of 1939, as amended, and (iv) interest on the Bonds is excludable from gross income of the holders of the Bonds for federal income tax purposes.

(h) the Initial Bonds, together with the approval of the Bonds by the Attorney General of Texas as evidenced by his approving opinion related thereto and initial registration of the Bonds by the Comptroller of Public Accounts of the State of Texas.

Section 2.04 Registration, Transfer and Exchange. The Trustee is hereby appointed as Bond Registrar (the “Bond Registrar”) for the purpose of registering Bonds and transfers of Bonds as herein provided. The Issuer shall cause to be kept at a corporate trust office or the principal payment office of the Bond Registrar or Bond Registrars for the Bonds, a register or registers (sometimes herein referred to as the “Bond Register”) in which, subject to such reasonable regulations as it may prescribe, the Issuer shall provide for the registration of Bonds and of transfers of Bonds. The Bond Registrar shall keep the Bond Register with respect to the Bonds at its principal payment office in Austin, 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, Stated Maturity and interest rate.

At the option of the Holder, Bonds may be exchanged for Bonds of any Authorized Denomination, of a like aggregate principal amount, series, Stated Maturity and interest rate, upon the surrender of the Bonds to be exchanged at such office or agency. Whenever any Bonds are so surrendered for exchange, the Issuer shall execute, the Authenticating Agent shall authenticate and the Bond Registrar shall deliver, the Bonds that the Bondholder making the exchange is entitled to receive.

All Bonds issued upon any transfer or exchange of Bonds shall be the valid obligations of the Issuer, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Bonds surrendered upon such transfer or exchange.

Every Bond presented or surrendered for transfer or exchange shall (if so required by the Issuer or the Bond Registrar) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Issuer and the Bond Registrar duly executed by the Holder thereof or his attorney duly authorized in writing.

No service charge shall be made for any transfer or exchange of Bonds, but the Issuer and the Bond Registrar may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Bonds, other than exchanges expressly provided in this Indenture to be made without expense or without charge to Holders.

The Issuer and the Bond Registrar shall not be required (1) to issue, transfer or exchange any Bonds during a period beginning at the opening of business fifteen (15) days before the day of mailing of a notice of redemption of Bonds selected for redemption under Section 3.03 and ending at the close of business on the day of such mailing or (2) to transfer or exchange any Bond selected for redemption in whole or in part.



Section 2.05 Restrictions on Registration and Transfer of the Bonds.

(a) Notwithstanding any other provision hereof, the Bonds may not be registered in the name of, or transferred to, and the Beneficial Owner cannot be, any person except an Accredited Investor or a Qualified Institutional Buyer; provided, however, that, pursuant to Section 2.12 hereof, Bonds registered in the name of the Depository or its nominee shall be deemed to comply with this Section so long as each Beneficial Owner of the Bonds is an Accredited Investor or a Qualified Institutional Buyer. Each initial Beneficial Owner shall provide to the Issuer and the Trustee an executed Investor Letter, in substantially the form attached hereto as Exhibit C.

(b) The foregoing limitation shall cease to apply (without notice to or consent of any Bondholder) upon and after receipt by the Trustee from the Company of a rating letter evidencing the receipt of an Investment Grade Credit Rating for the Bonds from a nationally recognized investment rating firm. The Trustee shall as soon as practicable, but in no event more than ten (10) calendar days after receipt by the Trustee of such information, notify each Bondholder that (i) the restrictions set forth in this Indenture requiring that the Beneficial Owners of the Bonds by Qualified Institutional Buyers or Accredited Investors shall be of no further force or effect and (ii) the Authorized Denominations henceforth shall be \$5,000 and any integral multiple in excess thereof.

(c) In the event the limitation set forth in clause (a) ceases to apply, the Trustee shall provide, or cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system (or such other electronic system designated by the Municipal Securities Rulemaking Board) a notice in a timely manner not in excess of ten (10) business days after the occurrence of such event.

Section 2.06 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 Authenticating Agent shall authenticate and the Bond Registrar shall register and deliver in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Bond, a new Bond of like tenor, series, interest rate and principal amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Bond has become or is about to become due and payable, the Issuer in its discretion may (and upon Company Order shall), instead of issuing a new Bond, pay such Bond.

Upon the issuance of any new Bond under this Section, the Issuer and the Bond Registrar may require the payment by the Holder of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Bond Registrar) connected therewith.

Every new Bond issued pursuant to this Section in lieu of any destroyed, lost or stolen Bond shall constitute an original additional contractual obligation of the Issuer, whether or not the

destroyed, lost or stolen Bond shall be at any time enforceable by anyone, and shall be entitled to all the benefits and security of this Indenture equally and proportionately with any and all other Bonds duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Bonds.

Section 2.07 Payment of Interest on Bonds; Interest Rights Preserved. Interest on any Bond that is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Bond is registered at the close of business on the Record Date for such interest.

Any interest on any Bond that is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called “Defaulted Interest”) shall forthwith cease to be payable to the Holder thereof on the relevant Record Date by virtue of having been such Holder; and such Defaulted Interest shall be paid by the Issuer (but only from the sources provided herein), to the Persons in whose names the Bonds are registered at the close of business on a special record date (“Special Record Date”) for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Trustee, as agent of the Issuer, shall determine the amount of Defaulted Interest proposed to be paid on each Bond and the date of the proposed payment, and at the same time the Issuer shall deposit (but only from the sources provided herein) with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of Persons entitled to such Defaulted Interest. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest, which shall not be more than fifteen (15) nor less than ten (10) days prior to the date of the proposed payment and not less than ten (10) days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Issuer and the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the date and amount of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first class postage prepaid, to each Bondholder at his address as it appears in the Bond Register, not less than ten (10) days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the Persons in whose names the Bonds are registered on such Special Record Date.

Subject to the foregoing provisions of this Section, each Bond delivered under this Indenture upon transfer of or in exchange for or in lieu of any other Bond shall carry the rights to interest accrued and unpaid, and to accrue, that were carried by such other Bonds.

Section 2.08 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 the principal of (and premium, if any) and (subject to Section 2.06) 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 2.09 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 2.10 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 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 BONDS.

Section 2.11 Initial Bonds. Pending the preparation of definitive Bonds, the Issuer will execute, and the Bond Registrar shall deliver the Initial Bonds, which may be printed, lithographed, typewritten, mimeographed or otherwise produced, substantially of the tenor of the definitive Bonds in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Initial Bonds may determine, as evidenced by their execution of such Initial Bonds.

Upon the issuance of the Initial Bonds, the Issuer will cause definitive Bonds to be prepared without unreasonable delay. After the preparation of definitive Bonds, the Initial Bonds shall be exchangeable for definitive Bonds upon surrender of the Initial Bonds at the office of the Trustee in a Place of Payment, without charge to the Holder. Upon surrender for cancellation of the Initial Bonds, the Issuer shall execute and the Bond Registrar shall authenticate and deliver in exchange therefor a like principal amount of definitive Bonds of Authorized Denominations. Until so exchanged, the Initial Bonds shall in all respects be entitled to the same benefits under this Indenture as the definitive Bonds.

Section 2.12 Book-Entry-Only System.

(a) The Bonds may and initially shall be registered under a Book-Entry-Only System maintained by a Depository. Notwithstanding any inconsistent provisions in this Indenture to the contrary, the provisions of this Section 2.11 shall govern at any time the Bonds are issued and Outstanding in Book-Entry-Only Form.

(b) Under the Book-Entry-Only System, the Bonds shall be issued in the form of a separate, single, fully registered and immobilized bond certificate representing the aggregate principal amount of the Bonds. Except as provided herein, the ownership of such Bonds shall be registered in the Bond Register in the name of Cede & Co., as nominee of DTC, which will serve as initial Depository for the Bonds. Ownership of beneficial interests in the Bonds shall be shown by book-entry on the system maintained and operated by the Depository and its participants and indirect participants (such participants and indirect participants being collectively referred to as the “Participants”), and transfers of ownership of beneficial interests shall be made only by the Depository and its Participants by book-entry, and the Issuer, the Company and the Trustee shall have no responsibility therefor. The Depository will be required to maintain records of the positions of Participants in the Bonds, and the Participants and Persons acting through Participants will be required to maintain records of the purchasers of beneficial interests in the Bonds (the “Beneficial Owners”). Except as provided in subsection (i) of this Section 2.11, the Bonds shall not be transferable or exchangeable, except for transfer to another Depository or to another nominee of a Depository.

(c) With respect to Bonds registered in the Bond Register in the name of the Depository or its nominee, the Issuer, the Company and the Trustee shall have no responsibility or obligation to any Participant or to any Beneficial Owner for whom a Participant acquires an interest in the Bonds. NEITHER THE ISSUER, THE COMPANY, NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE PARTICIPANTS OR THE BENEFICIAL OWNERS OF THE BONDS WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY THE DEPOSITORY OR ANY PARTICIPANT; (ii) THE PAYMENT BY THE DEPOSITORY OR ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF, OR INTEREST, AND PREMIUM, IF ANY, ON OR REDEMPTION PRICE OF THE BONDS; (iii) THE DELIVERY BY THE DEPOSITORY OR ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO HOLDERS UNDER THE TERMS OF THIS INDENTURE; (iv) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (v) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY THE DEPOSITORY AS OWNER OF THE BONDS. NEITHER THE ISSUER, THE COMPANY NOR THE TRUSTEE HAS ANY DIRECT OBLIGATION OR RESPONSIBILITY TO PARTICIPANTS OR BENEFICIAL OWNERS.

(d) So long as the Bonds or any portions thereof are registered in the name of a Depository or any nominee thereof, all payments of principal of (premium, if any) or interest on the Bonds or redemption price of such Bonds shall be made only to or upon the order of such Depository on the dates and at the times provided for such payment under this Indenture and at the address indicated for such Depository in the Bond Register kept by the Bond Registrar by transfer of immediately available funds; provided that the Trustee has received sufficient funds from the sources described in this Indenture and the Agreement to make such payment. Each such payment to the Depository or its nominee shall be valid and effective to fully satisfy and discharge all liability of the Issuer or the Trustee with respect to the principal of (premium, if any) or interest on the Bonds and redemption price with respect to the Bonds so registered to the extent of the sum or sums so paid. In the event of the redemption of less than all of the Bonds Outstanding of any Stated Maturity, the Trustee shall not require surrender by the Depository or its nominee of the

Bonds so purchased or redeemed, and the Depository may retain such Bonds. In the event of partial redemption of the Bonds, the Depository shall make an appropriate notation on the Bonds as to the amount of such partial redemption; provided that the Depository shall deliver to the Trustee, upon request, a written confirmation of such partial redemption and thereafter the records maintained by the Trustee shall be conclusive as to the amount of the Bonds of such Stated Maturity that have been redeemed. The Issuer, the Company and the Trustee shall not be liable for the failure of the Depository to properly indicate on the Bonds the payment of such principal or redemption price.

(e) All transfers of beneficial ownership interests in the Bonds when issued in Book-Entry-Only Form shall be effected by procedures promulgated by the Depository with its Participants for recording and transferring the ownership of beneficial interest in each of such Bonds.

(f) The Issuer, the Company, the Bond Registrar and the Trustee and any of their respective agents may treat the Depository (or its nominee) as the sole and exclusive Bondholder of the Bonds registered in its name for the purposes of payment of the principal of (premium, if any) or interest on the Bonds or redemption price with respect to the Bonds, selecting the Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Bondholders under this Indenture, registering the transfer of Bonds, obtaining any consent or other action to be taken by Bondholders and for all other purposes whatsoever; and the Issuer, the Company, the Bond Registrar and the Trustee shall not be affected by any notice to the contrary.

(g) So long as the Bonds are registered in the name of the Depository or any nominee thereof, all notices required or permitted to be given to the Holders of such Bonds under this Indenture shall be given to the Depository. In connection with any notice or other communication to be provided to Holders pursuant to this Indenture by the Issuer, the Company or the Trustee with respect to any consent or other action to be taken by Holders, the Depository shall consider the date of receipt of notice requesting such consent or other action as the record date for such consent or other action, provided that the Issuer or the Trustee may establish a special record date for such consent or other action. The Issuer or the Trustee shall give the Depository notice of such special record date not less than fifteen (15) calendar days in advance of such special record date to the extent possible.

(h) Any successor Trustee, in its written acceptance of its duties under this Indenture, shall agree to take any actions necessary from time to time to comply with the requirements of such Depository.

(i) The Depository may determine to discontinue providing its services with respect to the Bonds at any time by giving reasonable written notice to the Trustee and the Issuer and discharging its responsibilities with respect thereto under applicable law. Under such circumstance (if there is not a successor Depository), Bond certificates will be delivered as described elsewhere in Article II of this Indenture. Upon receipt of such notice from the Depository, the Trustee shall provide a copy of the notice to the Company. The Company, in its sole discretion, and without the consent of any other Person, may terminate the services of the Depository with respect to the Bonds if the Company determines that: (i) the Depository is unable to discharge its responsibilities with respect to the Bonds; or (ii) a continuation of the requirement

that all of the Bonds be registered in the Bond Register in the name of the nominee of the Depository is not in the best interest of the Beneficial Owners. In the event that no substitute Depository is found by the Company or restricted registration is no longer in effect, Bond certificates will be delivered as described in Article II of this Indenture. Upon the termination of the services of the Depository with respect to the Bonds pursuant to this Section 2.11(i), after which no successor Depository willing to undertake the functions of the Depository hereunder can be found that, in the opinion of the Company, is willing and able to undertake such functions upon reasonable and customary terms, the Bonds shall no longer be restricted to being registered in the Bond Register in the name of the nominee of the Depository, but may be registered in the name or names and in such maturities and principal amounts as the Depository shall designate in writing to the Bond Registrar in accordance with the provisions elsewhere in Article II of this Indenture, but without any liability on the part of the Issuer or the Bond Registrar for the accuracy of such designation. Upon the termination of the services of the Depository with respect to the Bonds for any reason and the appointment of a successor Depository, all references in this Indenture to the Depository shall refer to such successor Depository. Whenever the Depository requests the Issuer, the Company and the Trustee to do so, the Issuer, the Company and the Trustee shall cooperate with the Depository in taking appropriate action after reasonable notice to arrange for another Depository to maintain custody of certificates evidencing the Bonds.

(j) So long as any Bonds are registered in the name of the nominee of the Depository, a legend prescribed by the Depository to that effect may be printed on such Bond certificate.

### **ARTICLE III**

#### **REDEMPTION OF BONDS**

Section 3.01 Redemption. The Bonds shall be subject to redemption as set forth in the forms of Bonds in Exhibit A-1 and Exhibit A-2 hereto.

Section 3.02 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 sixty (60) days prior to the redemption date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), deliver a Company Request to the Trustee notifying the Trustee in writing of such redemption date and of the principal amount of Bonds of each Stated Maturity to be redeemed.

Section 3.03 Selection by Trustee of Bonds to be Redeemed. If less than all of the Bonds of a particular Stated Maturity are called for redemption, the particular Bonds or portions thereof to be redeemed shall be redeemed by the Trustee by lot; provided, however, that, if the Bonds are registered in the Book-Entry-Only System, the method of redemption shall be in accordance with the procedures of the Depository and provided, further, that portions of Bonds shall be redeemed in Authorized Denominations and 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 3.04 Notice of Redemption.

(a) Not less than thirty (30) days prior to any redemption date, but not more than sixty (60) days prior to any redemption date, the Trustee shall cause notice of the call for any redemption identifying the Bonds or portions thereof to be redeemed to be given in the name of the Issuer by first class mail, postage prepaid, to the Holders of each Bond to be redeemed at the address shown on the Bond Register on the date such notices are mailed. Any notice mailed as provided in this Section shall be conclusively presumed to have been duly given, irrespective of whether received.

Each notice of redemption shall state at a minimum, the complete official name of the issue, including series designation, CUSIP number, amounts called of each Stated Maturity (for partial calls), date of the notice, date of issue, interest rate, maturity date of the Bonds called for redemption, redemption date, redemption price, the place or places of redemption, and appropriate address or addresses with name of contact person and telephone number. Unless moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Trustee prior to the giving of such notice of redemption, such notice shall state that said redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for such redemption. If sufficient moneys are not received, such notice shall be of no force and effect, the Issuer shall not redeem such Bonds and the Trustee shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

(b) If any of the Bonds are redeemed pursuant to an advance refunding, notice of such advance refunding and redemption shall be given in the same manner as above provided, and within the same time period with respect to the actual redemption date.

Section 3.05 Deposit of Redemption Price. Subject to any condition to such redemption, on or prior to any redemption date, the Company shall deposit with the Trustee or with a Paying Agent an amount of money sufficient to pay the redemption price, premium, if any, and interest accrued thereon to the date fixed for redemption of all the Bonds that are to be redeemed on such date.

Section 3.06 Bonds Payable on Redemption Date. Notice of redemption having been given as aforesaid, and the deposit described in Section 3.05 having been made, and all conditions to such redemption having been fulfilled, the Bonds so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified and from and after such date such Bonds shall cease to bear interest. If, however, funds available to pay the redemption price have not been so deposited on the redemption date, the redemption will be cancelled. Upon surrender of any such Bond for redemption in accordance with said notice, such Bond shall be paid by the Issuer at the redemption price. Installments of interest whose Stated Maturity is on or prior

to the redemption date shall be payable to the Holders of such Bonds registered as such on the relevant Record Dates according to their terms.

If any Bond called for redemption shall not be so paid upon surrender thereof for redemption, the principal shall, until paid, bear interest from the redemption date at the rate borne by the Bond.

Section 3.07 Bonds Redeemed in Part. Any Bond that is to be redeemed only in part shall be surrendered at a Place of Payment (with, if the Issuer or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Issuer and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing) and the Issuer shall execute and the Trustee shall authenticate and deliver to the Holder of such Bond without service charge, a new Bond or Bonds of the same interest rate and Stated Maturity and of any Authorized Denomination as requested by such Holder in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Bond so surrendered.

## **ARTICLE IV**

### **FUNDS AND INVESTMENTS**

#### **Section 4.01 Establishment of Funds; Source of Payment of the Bonds.**

(a) The Issuer hereby establishes with the Trustee the Proceeds Fund, the Debt Service Fund, the Construction Fund and the Rebate Fund (collectively, the “Funds”). The Issuer reserves the right to establish additional trust funds or accounts from time to time.

(b) The Bonds and all payments by the Issuer hereunder are not and shall never become general obligations of the Issuer, but are special and limited obligations payable solely from the Loan Payments and other payments made by the Company under the Agreement. Loan Payments made pursuant to the Agreement by the Company are to be made directly to the Trustee for the account of the Issuer and shall be deposited pursuant to the provisions of Section 4.01 of the Agreement. No covenant or agreement contained in the Bonds or in this Indenture shall be deemed to be the covenant or agreement of any officer, director, agent or employee of the Issuer in his or her individual capacity and neither the members of the Board of Directors of the Issuer nor any official executing or authenticating the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability, by reason of the issuance or authentication thereof.

#### **Section 4.02 Proceeds Fund.**

(a) There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated its “Legacy Preparatory Charter Academy Education Revenue Bonds Series 2018 Proceeds Fund” (herein referred to as the “Proceeds Fund”) and, within such Proceeds Fund, a “Tax-Exempt Bond Proceeds Account” and a “Taxable Bond Proceeds Account.” The proceeds of the sale of the Series 2018A Bonds shall be deposited into the Tax-Exempt Proceeds Account and immediately transferred by Trustee to the Debt Service Fund, the Debt Service Reserve Fund and the Construction Fund, all as specified in the Company Order to



authenticate and deliver the Series 2018A Bonds. The proceeds of the sale of the Series 2018B Bonds shall be deposited into the Taxable Bond Proceeds Account of the Proceeds Fund and applied by the Trustee as specified in the Company Order to authenticate and deliver the Series 2018B Bonds. Within the Proceeds Fund there shall be created by the Issuer and established with the Trustee an Insurance Proceeds Account; provided that the Trustee shall have no duty to establish and maintain the Insurance Proceeds Account prior to the receipt of insurance or condemnation proceeds pursuant to the Agreement.

(b) In the event of the receipt of insurance or condemnation proceeds pursuant to Section 3.06(b) of the Agreement, the Trustee is hereby directed to deposit such proceeds in the Insurance Proceeds Account of the Proceeds Fund and to make payments from the Insurance Proceeds Account of the Proceeds Fund for the purposes permitted under such section of the Agreement upon receipt of a Requisition Certificate signed by an Authorized Representative of the Company. Any balance of the insurance or condemnation proceeds remaining after the affected Participating Campus 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 Company, shall be, upon delivery to the Trustee of a Company Order to such effect, deposited to the Debt Service Fund and applied to the redemption of the Bonds at the earliest practical date. Upon receipt of insurance or condemnation proceeds pursuant to Section 3.06(c) of the Agreement, the Trustee is hereby directed to deposit such funds in the Insurance Proceeds Account of the Proceeds Fund and subsequently make disbursements from such account or transfer such funds to the Debt Service Fund in accordance with the requirements of Section 3.06(d) and Section 3.06(e) of the Agreement.

#### Section 4.03 Debt Service Fund.

(a) There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated its “Legacy Preparatory Charter Academy Education Revenue Bonds Series 2018 Debt Service Fund” (herein referred to as the “Debt Service Fund”) and, within such Debt Service Fund, a “Tax-Exempt Bonds Account” and a “Taxable Bonds Account”, and within each such account a “Capitalized Interest Subaccount.” 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 7.06.

(b) The Trustee shall deposit to the credit of the corresponding Debt Service Fund Account immediately upon receipt (1) amounts due and payable by the Company pursuant to Section 4.01(a) or (b) of the Agreement and the terms of the Master Notes; (2) the amounts described in Section 4.04(b); and (3) any other amounts delivered to the Trustee specifically for deposit thereto.

(c) On each Principal Payment Date or Interest Payment Date, as the case may be, the Trustee shall withdraw money first from the applicable account of the Debt Service Fund in an amount sufficient to pay the Bondholders principal and interest on each series of Bonds.

(d) If there are insufficient funds in the Debt Service Fund to pay the Debt Service on the Bonds by 12:00 noon (Central Time) four (4) Business Days prior to any Interest Payment Date, the Trustee shall contact the Master Trustee and request transfer from the Debt

Service Reserve Fund to the appropriate account of the Debt Service Fund amounts necessary to make such payments from the Debt Service Fund on any Interest Payment Date.

Section 4.04 Rebate Fund.

(a) There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated its “Legacy Preparatory Charter Academy Education Revenue Bonds Series 2018 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 (5) days after each receipt or transfer of funds to the Rebate Fund in accordance with Section 5.03(g)(i)(B) of the Agreement (and in any event within sixty (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 (5) days after receipt from the Company of any amount pursuant to Section 5.03(g)(ii) of the Agreement, the Trustee shall withdraw such amount from the Rebate Fund and pay such amount to the United States of America.

(iii) All payments to the United States of America pursuant to this Section shall be made by the Trustee for the account and in the name of the Issuer and shall be paid by draft posted by registered United States Mail (return receipt requested), addressed to the appropriate IRS address accompanied by the relevant IRS Form 8038-T (or to such other applicable successor information return specified by the IRS) described in Section 5.03(g)(i)(C) or Section 5.03(g)(ii) of the Agreement, as the case may be.

(d) The Trustee shall preserve copies of all statements and forms received from the Company pursuant to Section 5.03(g) of the Agreement and all records maintained by it of transactions in the Rebate Fund and shall deliver such materials to the Company and, if requested, shall deliver copies thereof to the Issuer within sixty (60) days following the retirement of all of the Bonds.

(e) The Trustee may conclusively rely on the instructions of the Company with regard to any actions to be taken by it pursuant to this Section and shall have no liability for any consequences of any failure of the Company to supply accurate or sufficient instructions.

If at any time during the term of this Indenture the Issuer, the Trustee, or the Company desires to take any action 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.

#### Section 4.05 Construction Fund.

(a) There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated its “Legacy Preparatory Charter Academy Education Revenue Bonds Series 2018 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 Reimbursement Account, a Project Account and a Costs of Issuance Account. The Trustee shall have the authority to create accounts and subaccounts within the Construction Fund as necessary and convenient for the administration of such Fund. 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 Bonds to the extent specified by the Company Order.

(c) The Trustee shall disburse amounts in 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) The Trustee shall disburse amounts in the Project Account of the Construction Fund to pay or reimburse the Company for all other Project Costs (as defined in the Agreement) no later than three (3) 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 in substantially the form of Exhibit B to this Indenture, and shall not be required to make any investigation in connection therewith. Except for requisitions involving the purchase of real property or pursuant to a Company Order at Closing, such Requisition Certificate shall include the approval of the Construction Consultant.

(f) 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.

(g) In furtherance and not in limitation of this Section 4.05 hereof, all payments made from 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 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.

(h) Any funds remaining in the Construction Fund or any sub-account thereto after the Project is certified or deemed “complete” pursuant to Section 3.04 of the Agreement shall be transferred to the Debt Service Fund to redeem Bonds pursuant to the procedures set forth in Exhibit A-1 and Exhibit A-2 hereto regarding “Mandatory Redemption with Excess Proceeds.”

(i) On the earlier of the end of the fifth Bond Year or receipt of the Officer’s Certificate required by Section 3.04 of the Agreement, the Trustee shall transfer any amount then on deposit in the Construction Fund to the Debt Service Fund unless the Trustee has received from the Company a Requisition Certificate for all or any portion of such amounts for payment of incurred but unpaid Project Costs. To the extent the amounts are transferred to the Debt Service Fund, such amounts may be used to (i) pay principal or interest on the Bonds, subject to the limitations described in Section 1.148-6(d)(3) of the Regulations or (ii) redeem Bonds in Authorized Denominations, to the maximum degree permissible, and at the earliest dates at which the Bonds may be redeemed under this Indenture; provided, however, if the Bonds may not be redeemed, the Bonds may be defeased in accordance with Section 1.141-12 of the Regulations.

Section 4.06 Investment of Bond Proceeds. Pending the disbursement of any amounts deposited from the proceeds of the Bonds to any Fund, such proceeds may only be invested 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 4.07 Investment of Funds.

(a) Pending disbursement of the amounts on deposit in any Fund, the Trustee shall promptly invest and reinvest such amounts in the particular Eligible Securities specified in any Company Order; provided that, if no such Company Order is delivered to the Trustee, the Trustee shall invest and reinvest such amount in the Fidelity Treasury Class IV #2016 Money Market Fund. All such investments shall be credited to the Fund, Account or subaccount from which the money used to acquire such investments shall have come.

(b) Except as provided in Section 4.04(d), all income and profits on investments in the Debt Service Fund, the Debt Service Reserve Fund, the Construction Fund and the Rebate Fund shall be credited to those respective Funds. All losses on investments shall be charged against the Fund and Account to which such investments are credited. The Trustee may make any investment through its own trust department. As amounts invested are needed for disbursement from any Fund or Account, the Trustee shall cause a sufficient amount of the investments credited to that Fund or Account to be redeemed or sold and converted into cash to the credit of that Fund or Account. The Trustee shall 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 or accounts in such manner and to such extent, if any, as may be necessary so that the Series 2018A 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 4.08 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 or account, and shall not be liable for any losses or for interest on the Series 2018A 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 5.01 Payment of Debt Service; Limited Obligations. The Issuer will duly and punctually pay the principal of (and premium, if any) and interest on the Bonds in accordance with the terms of the Bonds and this Indenture; provided, however, that the Bonds and the other obligations of the Issuer provided for herein shall be limited obligations of the Issuer and shall be payable by the Issuer solely out of the Trust Estate and the revenues derived therefrom or in connection with the Bond Documents. The Bonds and the other expense reimbursement obligations of the Issuer provided for herein shall never be payable out of any other funds of the Issuer except the Trust Estate and such revenues.

If the specified date for any such payment shall be a Saturday, a Sunday or a legal holiday or the equivalent for banking institutions generally (other than a moratorium) at the place where payment thereof is to be made, then such payment may be made on the next succeeding day that 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 5.02 Money for Bond Payments to be Held in Trust; Appointment of Paying Agents. The Issuer shall appoint a Paying Agent in each Place of Payment for the Bonds. Each such Paying Agent appointed by the Issuer shall be a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least ten million dollars (\$10,000,000) and subject to supervision or examination by federal or state authority. The Issuer will, prior to each due date of the principal of (and premium, if any) or interest on any Bonds, deposit or cause to be deposited (but only from the sources provided herein) with a Paying Agent a sum sufficient to pay the principal (and premium, if any) or interest so becoming due,

such sum to be held in trust for the benefit of the Holders of such Bonds. Each Paying Agent for the Bonds shall provide the CUSIP number for the Bond with each payment of interest on and the principal or the redemption price of any Bond, specifying the amount paid in respect of each CUSIP number. Each Paying Agent shall make payment of interest or the redemption price of any Bond, upon written request of a Registered Holder of at least one million dollars (\$1,000,000) in principal amount of Bonds, by wire transfer (at the risk and expense of such Registered Holder) in immediately available funds to an account in the United States designated by such Registered Holder upon written notice to the Trustee fifteen (15) days prior to the Record Date.

The Issuer hereby appoints the Trustee as the initial Paying Agent for the Bonds. The Trustee shall accept such appointment by executing this Indenture in such capacity on the signature page hereto.

The Issuer will cause each Paying Agent other than the Trustee to execute and deliver to the Trustee and the Company an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will:

- (1) hold all sums held by it for the payment of principal of (and premium, if any) or interest on Bonds in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;
- (2) give the Trustee notice of any default by the Issuer (or any other obligor upon the Bonds) in the making of any such payment of principal (and premium, if any) or interest; and
- (3) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

The Issuer may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, by 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 (1<sup>st</sup>) 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 (2) years after such principal (and premium, if any) or interest has become due and payable, shall be paid to the Company on Company Request (which Request shall include the Company's representation that it is entitled to such funds under applicable escheatment laws and its agreement to comply with such laws) and the Holder of such Bond shall thereafter, to the extent of any legal right or claim, be deemed to be an unsecured general creditor, and shall look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Issuer, shall thereupon cease; provided, however, that

the Trustee, the Issuer or such Paying Agent, before being required to make any such repayment, shall, upon receipt of a Company Order and 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 thirty (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 the Holders entitled thereto.

Any bank or trust company with or into which any Paying Agent may be merged or consolidated, or to which the assets and business of such Paying Agent may be sold, shall be deemed the successor of such Paying Agent for the purposes of this Indenture. If the position of Paying Agent shall become vacant for any reason, the Issuer shall, within thirty (30) days thereafter, appoint such bank or trust company as shall be specified by the Company and acceptable to the Trustee and located in the same city as such Paying Agent to fill such vacancy; provided, however, that if the Issuer shall fail to appoint a successor Paying Agent within said period, the Trustee shall make such appointment. No removal, resignation or termination of the Paying Agent shall take effect until a successor shall be appointed. Notice of the designation of a successor Paying Agent shall be sent by the Trustee by first class mail to each Holder of the Bonds.

Section 5.03 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 to assign, pledge and confirm unto the Trustee 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 5.04 Maintenance of Rights. The Issuer will use its best efforts to perform and observe all obligations to be performed by it under the Bond Documents. The Issuer will maintain the validity and effectiveness of the Bond Documents and, except as permitted hereby, take no action, and not knowingly omit to take any reasonable action, the taking or omission of which might release any party from its liabilities or obligations under the Bond Documents, or result in the surrender, termination, amendment or modification of, or impair the validity of, any Bond Document. The Issuer agrees that the Trustee, subject to the conditions thereof, may enforce for and on behalf of the Holders all of the covenants and agreements of the parties to the Bond Documents (other than the Trustee) as set forth in the Bond Documents, whether or not the Issuer is in default hereunder. The Trustee shall either (i) file continuation statements for any financing

statements, copies of which are delivered to it (the “Financing Statements”) or (ii) confirm, on an annual basis, the filing of continuation statements for such Financing Statements. The Trustee is hereby authorized to make such filings; provided, however, that unless otherwise directed by the Issuer or the Company in writing, the Trustee may conclusively rely upon the Financing Statements in filing any continuation statements hereunder.

Section 5.05 Corporate Existence. Subject to Article VI hereof, the Issuer will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and rights (charter and statutory); provided, however, that the Issuer shall not be required to preserve any right if its Governing Body shall determine that the preservation thereof is no longer desirable in the conduct of the affairs of the Issuer and that the loss thereof is not disadvantageous in any material respect to the Bondholders.

Section 5.06 Limitations on Liens, Debt and Disposition of Assets. Except as permitted or contemplated in this Indenture, the Issuer covenants that it will not: (i) create any mortgage, lien, encumbrance, pledge, charge or other exception to title (other than those created by this Indenture) upon or against any of the properties or assets constituting the Trust Estate, or any revenues derived therefrom or any other funds held by the Trustee for the benefit of the Holders superior to or ranking on parity with the lien created by this Indenture; (ii) sell, lease, transfer, convey or otherwise dispose of all or any part of the Trust Estate or its interest therein except subject to the interests of the Trustee created by this Indenture; (iii) create, incur or assume any debt secured by the Trust Estate or the Issuer’s interest therein or the revenues pledged herein; or (iv) knowingly take any other action that will impair the lien of this Indenture on the Trust Estate.

Section 5.07 Tax Covenants.

(a) The Issuer agrees that, until the final Maturity of the Series 2018A 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 2018A Bonds, whether or not such money was derived from the proceeds of the sale of the Series 2018A Bonds or from any other source, in a manner that would cause the Series 2018A 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 2018A Bonds being considered arbitrage bonds, the Issuer at the direction of the Company shall instruct the Trustee to take such action as is necessary to restrict or limit the yield on such investment or to use such moneys in accordance with such written direction.

(b) The Issuer shall not knowingly use or direct the use of any proceeds of the Series 2018A Bonds or any other funds of the Issuer, directly or indirectly, in any manner, and shall not itself take or knowingly permit to be taken any other action or actions, that would result in any of the Series 2018A Bonds being treated other than as an obligation described in Section 103(a) of the Code.

(c) The Issuer will not knowingly use or direct the use of any portion of the proceeds of the Series 2018A Bonds, including any investment income earned on such proceeds, directly or indirectly, to make or finance loans to Persons who are not Exempt Persons. For



purposes of the preceding sentence, a loan to an organization described in Section 501(c)(3) of the Code for use with respect to an unrelated trade or business, determined according to Section 513(a) of the Code, constitutes a loan to a Person who is not an Exempt Person.

(d) The Issuer will not knowingly take any action, or omit to take any action, which action or omission will adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2018A 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 remediate or otherwise negate such action or omission.

(e) The Issuer will not knowingly take any action that would result in all or any portion of the Series 2018A Bonds being treated as “federally guaranteed” within the meaning of Section 149(b)(2) of the Code.

(f) The Issuer shall file, or cause to be filed, with the Secretary of the Treasury a Form 8038 with respect to the Series 2018A Bonds.

(g) For purposes of this Section 5.07, the Issuer’s compliance shall be based solely on acts or omissions by the Issuer and no acts or omissions of, or direction 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 Closing Date for the Series 2018A Bonds. In complying with the foregoing covenants, the Issuer may rely from time to time upon a Favorable Opinion of Bond Counsel.

Section 5.08 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 that are set forth in this Indenture or that are necessary for interest on any issue of the Series 2018A 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 6.01 Consolidation, Merger, Conveyance, or Transfer Only on Certain Terms. The Issuer shall not consolidate with or merge into any other corporation or convey or transfer the Trust Estate substantially as an entirety to any Person, unless:

(a) such consolidation, merger, conveyance or transfer shall be on such terms as shall fully preserve the lien and security hereof and the rights and powers of the Trustee and the Holders of the Bonds hereunder;

(b) the corporation formed by such consolidation or into which the Issuer is merged or the Person that 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 6.02 and containing:

(1) an assumption by such surviving or successor corporation or such transferee of the due and punctual payment of the principal of (and premium, if any) and interest on all the Bonds and the performance and observance of every covenant and condition of this Indenture to be performed or observed by the Issuer, subject, however, to the same limitations and conditions as are herein or in the Bonds provided, and

(2) a grant, conveyance and transfer complying with Section 6.02;

(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 Officer's 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 6.02 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 6.01, 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 6.01 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 that shall have been previously executed and delivered by the Issuer to the Trustee for authentication, and any Bonds that 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 7.01 Events of Default. “Event of Default” means, whenever used herein, 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 any premium on 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 dealt with specifically elsewhere in this Section and continuance of such default or breach for a period of thirty (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 twenty-five percent (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, that if such default or breach shall last longer than ninety (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 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 ninety (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 ninety (90) days; or

(4) the Company shall institute proceedings to be adjudicated a voluntary bankrupt, or shall consent to the institution of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization or arrangement under the federal Bankruptcy Code or any other similar applicable federal or state law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of it or of its property, or shall make assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts

generally as they become due, or corporate action shall be taken by the Company in furtherance of any of the aforesaid purposes; or

(5) the Maturity of any Note issued under the Master Indenture shall be accelerated unless such acceleration has been rescinded and annulled pursuant to the Master Indenture; or

(6) receipt by the Trustee of written notice from the Master Trustee that the Notes have been accelerated under the Master Indenture.

(7) an “Event of Default” has occurred under any of the Bond Documents as the term “Event of Default” is therein defined.

If any portion of a Loan Payment shall not be paid at the time therein specified, the Trustee shall promptly give telephonic or facsimile notice to any Person that may execute an Officer’s Certificate on behalf of the Company of such failure and shall promptly thereafter confirm such notice by telex, facsimile or letter to the other parties to the Bond Documents unless such amount is immediately thereafter paid.

#### Section 7.02 Acceleration of Maturity; Rescission and Annulment.

(a) If an Event of Default occurs and is continuing, then and in every such case the Trustee shall, at the direction of twenty-five percent (25%) of the Bondholders, give written notice to the Issuer, the Company and the Holders of the Bonds declaring the principal of the Outstanding Bonds to be due and payable immediately. The Trustee having given such notice, the principal of the Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in this Indenture or in the Bonds to the contrary notwithstanding.

(b) At any time after such a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article provided, the Holders of a majority in principal amount of the Bonds Outstanding, by written notice to the Issuer and the Trustee, in the case of any acceleration of Maturity of the Bonds, may direct the Trustee to rescind and annul such declaration and its consequences if the Issuer has caused to be paid or deposited with the Trustee a sum sufficient to pay:

(1) all overdue installments of interest on all Bonds;

(2) the principal of and any premium on any Bonds that have become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the Bonds;

(3) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel; and

(4) all Events of Default, other than the nonpayment of the principal of Bonds that have become due solely by such acceleration, have been cured or waived as provided in Section 7.13.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

Section 7.03 Collection of Indebtedness and Suits for Enforcement by Trustee. The Issuer covenants that if:

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

(2) default is made in the payment of the principal of or any premium on any Bond when such principal (or premium, if any) becomes due and payable,

the Issuer will, upon demand of the Trustee, pay (but solely from the Trust Estate and the revenues pledged by this Indenture to such payment) to it, for the benefit of the Holders of such Bonds, the whole amount then due and payable on such Bonds for principal (and premium, if any) and interest, with interest upon the overdue principal (and premium, if any); and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If the Issuer fails to pay any of the foregoing amounts forthwith upon demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, and may prosecute such proceeding to judgment or final decree, and may enforce the same against the Issuer or any other obligor upon the Bonds and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property constituting a part of the Trust Estate of the Issuer or any other obligor upon the Bonds, wherever situated.

If an Event of Default occurs and is continuing, the Trustee may proceed to protect and enforce its rights and the rights of the Holders of Bonds by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

Section 7.04 Trustee May File Proofs of Claim. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Issuer, the Company or any other obligor upon the Bonds or property of the Issuer, of the Company or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Bonds shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Issuer, the Company or such other obligor for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise,

(i) to file and prove a claim for the whole amount of principal (and premium, if any) and interest owing and unpaid in respect of the Bonds and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Holders of Bonds allowed in such judicial proceeding, and

(ii) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any receiver, assignee, trustee, liquidator, sequestrator (or other similar official) in any such judicial proceeding is hereby authorized by each Holder of Bonds to make such payments to the Trustee, and in the event that the Trustee shall consent to the making of such payments directly to the Holders of Bonds, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under this Indenture.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder of Bonds any plan of reorganization, arrangement, adjustment or composition affecting the Bonds or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder of Bonds in any such proceeding.

Section 7.05 Trustee May Enforce Claims Without Possession of Bonds. All rights of action and claims under this Indenture or the Bonds may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Bonds in respect of which such judgment has been recovered to the extent of the obligations then owing to such Persons.

Section 7.06 Application of Money Collected. Any money collected by the Trustee pursuant to this Article and any other sums then held by the Trustee as part of the Trust Estate shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Bonds and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

(a) First: To the payment of all amounts due the Trustee under this Indenture;

(b) Second: To the payment of the amounts then due and unpaid upon the Bonds, for interest, in respect of which or for the benefit of which such money has been collected, ratably without preference or priority of any kind, according to the amounts due and payable on such Bonds for interest;

(c) Third: To the payment of the amounts then due and unpaid upon the Bonds, for principal (and premium, if any), in respect of which or for the benefit of which such money has

been collected, ratably without preference or priority of any kind, according to the amounts due and payable on such Bonds for principal (and premium, if any);

(d) Fourth: To the Company, any remaining amounts of money so collected.

Section 7.07 Limitation on Suits. Subject to Section 7.12 hereof, the Holder of any Bond shall have no right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

(a) such Holder has previously given written notice to the Trustee of a continuing Event of Default;

(b) the Holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(c) the Holders have furnished 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 sixty (60) days after its receipt of such notice, request and furnishing of indemnity, has failed to institute any such proceeding; and

(e) no direction inconsistent with such request during such sixty (60) day period by the Holders of a majority in principal amount of Outstanding Bonds has been received by the Trustee;

it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders of Bonds, or to obtain or to seek to obtain priority or preference over any other Holders, to take any action that would affect the validity of the lien of this Indenture on the Trust Estate, or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all the Holders of Bonds to the extent of the amounts then owing to such Persons.

Section 7.08 Unconditional Right of Holders of Bonds to Receive Principal, Premium and Interest. Notwithstanding any other provision in this Indenture, the Holder of any Bond shall have the right, which is absolute and unconditional, to receive payment of the principal of (and premium, if any) and interest on such Bond, but solely from the sources provided in this Indenture, on the respective Stated Maturities expressed in such Bond (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

Section 7.09 Restoration of Rights and Remedies. If the Trustee or any Holder of Bonds has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or such Holder of Bonds, then and in every such case the Issuer, the Trustee, the Company, and the Holders of Bonds shall, subject to any determination in such proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and

remedies of the Trustee and the Holders of Bonds shall continue as though no such proceeding had been instituted.

Section 7.10 Rights and Remedies Cumulative. No right or remedy herein conferred upon or reserved to the Trustee or the Holders of Bonds is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 7.11 Delay or Omission Not Waiver. No delay or omission of the Trustee or any Holder of any Bond to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or the Holders of Bonds may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or the Holders of Bonds, as the case may be.

Section 7.12 Control by Holders of Bonds. Subject to Section 8.03 herein, 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 that is not inconsistent with such direction.

Section 7.13 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 7.14 Undertaking for Costs. All parties to this Indenture agree, and each Holder of any Bond by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any



party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Trustee, to any suit instituted by any Holder of Bonds, or group of Holders of Bonds, holding in the aggregate more than ten percent (10%) in principal amount of the Outstanding Bonds, or to any suit instituted by any Holder of Bonds for the enforcement of the payment of the principal of (or premium, if any) or interest on any Bond on or after the respective Stated Maturities expressed in such Bond (or, in the case of redemption, on or after the redemption date).

Section 7.15 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, that 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 7.16 No Recourse Against Others. No recourse under or upon any obligation, covenant or agreement contained in this Indenture or any indenture supplemental hereto, or in the Agreement, or in any Bond or any Note, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, or against any past, present or future director, officer or employee, as such, of the Issuer, the Company or the Sponsoring Entity or of any successor corporation, either directly or through the Issuer, the Company or the Sponsoring Entity, whether by virtue of any constitution or statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that this Indenture and the Agreement and the Bonds and the Notes are solely corporate obligations, and that no such personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, directors, officers or employees, as such, of the Issuer, the Company or the Sponsoring Entity or any successor corporation, or any of them, because of the creation of indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Indenture or in the Agreement or in any of the Bonds or any of the Notes or implied therefrom; and that any and all such personal liability, either at common law or in equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, director, officer or employee, as such, are hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issue of such Bonds or any of the Notes.

Section 7.17 Expenses Payable under Indenture. All expenses incurred in carrying out this Indenture shall be payable solely from funds derived by the Issuer from the Company. Anything in this Indenture to the contrary notwithstanding, the performance by the Issuer of all duties and obligations imposed upon it hereby, the exercise by it of all powers granted to it hereunder, the carrying out of all covenants, agreements and promises made by it hereunder, and liability of the Issuer for all warranties and other covenants herein shall be limited solely to the money and revenues received from the payments by the Company in respect to the Notes and under the Agreement, and from moneys attributable to the proceeds of Bonds, or the income from the temporary investment thereof, and, to the extent herein or in the Agreement provided, the proceeds

of insurance, sale and condemnation awards; and the Issuer shall not be required to effectuate any of its duties, obligations, powers or covenants except from, and to the extent of, such moneys, revenues, proceeds and payments.

Section 7.18 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 the 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 8.01 Duties and Liabilities of Trustee.**

(a) The Trustee accepts and agrees to execute the specific trusts imposed upon it by this Indenture, but only upon the terms and conditions set forth herein, and no implied covenants or obligations shall be read into this Indenture against the Trustee.

(b) In case any Event of Default (of which the Trustee has actual knowledge or is deemed to have actual knowledge under Section 8.03(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 8.03;

(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 7.02 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 8.03 and 8.13.

Section 8.02 Notice of Defaults. Within sixty (60) days after the occurrence of any default hereunder of which the Trustee has knowledge in accordance with Section 8.03(h) hereof, the Trustee shall transmit by mail to all Holders of Bonds, notice of such default, unless such default shall have been cured or waived or unless corrective action to cure such default has been instituted and is being pursued such that such default does not constitute an Event of Default; provided, however, that except in the case of a default in the payment of the principal of (or premium, if any) or interest on any Bonds or in the payment of any sinking or purchase fund installment, the Trustee shall be protected in withholding such notice from the Holders of Bonds if and so long as the board of directors, the executive committee or a trust committee of directors and/or Responsible Officers of the Trustee in good faith determine that the withholding of such notice is in the interest of the Holders of Bonds; provided, further, that in the case of any default of the character specified in Section 7.01(2) hereof no such notice to Holders of Bonds shall be given until at least thirty (30) days after the occurrence thereof; and provided that in the case of acceleration pursuant to Section 7.02, the Trustee shall give immediate notice as provided therein. For the purpose of this Section, the term “default” means any event that is, or after notice or lapse of time or both would become, an Event of Default.

The Trustee shall mail, first class postage prepaid, to each Rating Service then rating the Bonds notice of any of the following events, whenever:

(a) the Trustee, pursuant to the Indenture, has resigned or been removed and a successor Trustee has been appointed, such notice to be mailed within ten (10) 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 (10) Business Days prior to the effective date of such amendment or supplement and within three (3) Business Days after the receipt of such written notice by the Trustee;

(c) the Trustee either (1) receives a Company Request pursuant to Section 3.02 that directs the Trustee to redeem all the Outstanding Bonds or (2) declares the principal of all Outstanding Bonds to be immediately due and payable pursuant to Section 7.02, such notice to be mailed within ten (10) Business Days after the receipt of such Company Request (and to specify the redemption date requested thereby) or after such declaration; or

(d) all Bonds shall be deemed to have been paid or defeased as provided in Article X hereof.

Section 8.03 Certain Rights of Trustee.

(a) The Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties and shall not be required to verify the accuracy of any information or calculations required to be included therein or attached thereto;

(b) Any request or direction of any Person mentioned herein shall be sufficiently evidenced by a Request of such Person; and any resolution of the Governing Body of any Person may be evidenced to the Trustee by a Board Resolution of such Person;

(c) Whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officer's Certificate;

(d) The Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(e) The Trustee shall be under no obligation to exercise any of the discretionary rights or powers vested in it by this Indenture at the request or direction of any of the Holders of Bonds pursuant to the provisions of this Indenture, unless such Holders shall have furnished to the Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities that 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 reasonably may be desired; provided that the Trustee shall have no obligation to perform any of the duties of the Issuer under this Indenture or of the Company under any of the Bond Documents;

(g) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys, but the Trustee shall not be held liable for any negligence or misconduct of any such agent or attorney appointed with due care;

(h) The Trustee shall not be required to take notice or be deemed to have notice of any default hereunder unless the Trustee shall be specifically notified of such default in writing by the Issuer or the Company or by the Holder of an Outstanding Bond, and in the absence of such

notice the Trustee may conclusively assume that no default exists; provided, however, that the Trustee shall be required to take and be deemed to have notice of its failure to receive the moneys necessary to make payments when due of Debt Service;

(i) The Trustee shall not be liable for any error of judgment made in good faith by its officers, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

(j) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with any direction of the Holders of the applicable percentage of the Holders of Outstanding Bonds permitted to be given by them under this Indenture;

(k) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it;

(l) The Trustee may seek the approval of the Holders of the Bonds by any means it deems appropriate and not inconsistent with the terms of this Indenture or the Master Indenture in connection with the giving of any consent or taking of any action in its capacity as holder of any Note;

(m) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty to take such action;

(n) The Trustee shall not be required to give any bond or surety in respect of the execution of the trusts and powers established by this Indenture; and

(o) The Trustee shall not be responsible for monitoring the existence of or determining whether any lien or encumbrance or other charge including, without limitation, any Permitted Encumbrance (as defined in the Deed of Trust), exists against the Project or the Trust Estate.

Notwithstanding the aforesaid, the Trustee shall be required to pay the Holders of the Bonds at the times required under this Indenture so long as moneys are available therefor.

Section 8.04 Not Responsible For Recitals or Issuance of Bonds. The recitals contained herein and in the Bonds (other than the certificate of authentication on such Bonds) shall be taken as the statements of the Issuer, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the value or condition of the Trust Estate or any part thereof, or as to the title of the Issuer thereto or as to the adequacy, sufficiency or perfection of the security afforded thereby or hereby; as to the validity or genuineness of any securities at any time pledged and deposited with the Trustee hereunder; as to the validity or sufficiency of this Indenture, the other Bond Documents or of the Bonds; or as to the correctness or sufficiency of any statement made in the offering documents used in connection with the offer or sale of the Bonds. The Trustee

shall not be accountable for the use or application by the Issuer or the Company of any of the Bonds or of the proceeds of such Bonds.

Section 8.05 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 8.06 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 8.07 Compensation and Expenses of Trustee and Paying Agent. The Issuer agrees, but solely from the Trust Estate and the revenues pledged by this Indenture to such payment,

(1) to pay to the Trustee, Bond Registrar, Authenticating Agent and Paying Agent from time to time, when due, reasonable compensation for all services rendered by them hereunder, including extraordinary services during the existence of a default, which shall not be limited by any law limiting the compensation of the trustee of an express trust; and

(2) except as otherwise expressly provided herein, to reimburse the Trustee and the Paying Agent upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee or such Paying Agent in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel and securities or transaction charges to the extent not waived by the Trustee as a result of its receipt of compensation with respect to such securities or transactions) except any such expense, disbursement or advance as may be attributable to the negligence or bad faith of such Person.

Nothing in this Section 8.07 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 4.07(b) and 5.01(h) of the Agreement. As such security for the performance of the obligations of the Issuer under this Section, the Trustee shall have a lien prior to the Bonds upon all property and funds held or collected by the Trustee as such.

When the Trustee incurs expenses or renders services in connection with any bankruptcy or insolvency proceeding, such expenses (including the fees and expenses of its counsel) and the compensation for such services are intended to constitute expenses of administration under any bankruptcy law or law relating to creditors' rights generally.

Section 8.08 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 fifty million dollars (\$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 8.09 Resignation and Removal; Appointment of Successor.

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Section shall become effective until the acceptance of appointment by the successor Trustee under Section 8.10.

(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 thirty (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 (i) by an act of the Holders of a majority in principal amount of the Outstanding Bonds, or (ii) by the Company so long as no Event of Default has occurred or no circumstance exists that, with the passage of time, will constitute an Event of Default, 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 8.08 and shall fail to resign after written request by the Issuer or by any such Holder of Bonds, or

(2) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (i) the Issuer by an Issuer Request may remove the Trustee and (ii) subject to Section 7.14, any Holder of Bonds who has been a bona fide Holder of a Bond for at least six (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 three (3) months after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee shall be appointed by Act of the Bondholders of a majority in principal amount of the Outstanding Bonds delivered to the Issuer and the retiring Trustee, the successor Trustee so

appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the successor Trustee appointed by the Issuer. If no successor Trustee shall have been so appointed by the Issuer or the Holders of Bonds and accepted appointment in the manner hereinafter provided, the Trustee or any Holder of Bonds who has been a bona fide Holder of a Bond for at least six (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 hereby authorizes the Company to remove the Trustee at any time in the Company's sole discretion and appoint a substitute Trustee and notify the Issuer of such 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 Holders of Bonds at their addresses as shown in the Bond Register. Each notice shall include the name and address of the applicable corporate trust office or payment office of the successor Trustee.

Section 8.10 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 8.11 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 corporate trust business of the Trustee, shall be the successor Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, to the extent operative, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Bonds shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger or consolidation to such authenticating Trustee may adopt such authentication and deliver the Bonds so authenticated with the same effect as if such successor Trustee had itself authenticated such Bonds.

Section 8.12 Authenticating Agent. There may (and whenever the Trustee shall not maintain an office or agent in each Place of Payment there shall) be an Authenticating Agent appointed by the Trustee with power to act on its behalf and subject to its direction in the



authentication and delivery of the Bonds in connection with delivery of Bonds pursuant to Section 2.03 and transfers and exchanges under Sections 2.04, 2.05 and 3.07, as fully to all intents and purposes as though the Authenticating Agent had been expressly authorized by those Sections to authenticate and deliver the Bonds. For all purposes of this Indenture, the authentication and delivery of the Bonds by the Authenticating Agent pursuant to this Section shall be deemed to be the authentication and delivery of the Bonds “by the Trustee.”

The Trustee is hereby appointed Authenticating Agent with respect to the Bonds.

Each Authenticating Agent shall at all times be a bank or trust company having an office or agent in a Place of Payment, and shall at all times be a corporation organized and doing business under the laws of the United States or of any state with a combined capital and surplus of at least fifty million dollars (\$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 8.03 and 8.07. The provisions of Sections 2.07, 8.03, 8.04 and 8.05 of this Indenture shall be applicable to any Authenticating Agent.

Section 8.13 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.

## ARTICLE IX

### SUPPLEMENTS AND AMENDMENTS

Section 9.01 Supplemental Indentures and Amendatory Agreements Without Consent of Holders of Bonds. Without the consent of the Holders of any Bonds, the Issuer, when authorized by a Board Resolution, and the Trustee at any time upon receipt of Company Consent, may enter into or consent to one or more indentures supplemental hereto, subject to Section 9.03 hereof, or amendments to the Agreement or the Supplemental Master Trust Indenture for any of the following purposes:

(1) to evidence the succession of another Person to the Issuer or the Company, or successive successions, and the assumption by the successor Person of the covenants, agreements and obligations of the Issuer as permitted by this Indenture or the Company as permitted by the Agreement;

(2) to add to the covenants of the Issuer or the Company for the benefit of the Holders of Bonds, to surrender any right or power herein or therein conferred upon the Issuer or the Company;

(3) to cure any ambiguity or to correct or supplement any provision herein or therein that 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 that shall not be inconsistent with this Indenture, provided such action shall not adversely affect the interests of the Holders of Bonds;

(4) to modify or supplement this Indenture in such manner as may be necessary to qualify this Indenture under the Trust Indenture Act of 1939, as then amended, or under any similar federal or state statute or regulation, including provisions whereby the Trustee accepts such powers, duties, conditions and restrictions hereunder and the Issuer or the Company undertakes such covenants, conditions or restrictions additional to those contained in this Indenture as would be necessary or appropriate so to qualify this Indenture; provided, however, that nothing herein contained shall be deemed to authorize inclusion in this Indenture or in any indenture supplemental hereto, provisions referred to in Section 316(a)(2) of the said Trust Indenture Act or any corresponding provision provided for in any similar statute hereafter in effect;

(5) in connection with any other change herein or therein which, in the judgment of a Management Consultant, a copy of whose report shall be filed with the Trustee, (a) is in the best interest of the Company and (b) does not materially adversely affect the Holder of any Bond; provided that no such change shall be made if within thirty (30) days of its receipt of such Management Consultant's report, the Trustee shall have obtained a report from another Management Consultant indicating that in its opinion either clause (a) or clause (b) of this subsection (5) is not satisfied; provided further, that the Trustee shall be under no duty to retain another such Management Consultant; or

(6) to modify or supplement this Indenture in such manner as may be necessary or appropriate to cause the rating assigned to the Bonds by each Rating Service to maintain an investment grade rating on the Bonds from each Rating Service.

Section 9.02 Supplemental Indentures and Amendatory Agreements With Consent of Holders of Bonds. With the consent of the Holders of not less than a majority in principal amount of the Outstanding Bonds affected by such supplemental indenture, by an Act of 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 9.03 hereof), amendments to the Agreement or the Supplemental Master Trust Indenture for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture, the Agreement and the Supplemental Master Trust Indenture or of modifying in any manner the rights of the Holders of the Bonds under this Indenture, the Agreement and the Supplemental Master Trust Indenture; provided, however, that no such supplemental indenture or amendment shall, without the consent of the Holder of each Bond affected thereby:

(1) change the Stated Maturity of the principal of, or any installment of interest on, any Bonds or any date for mandatory redemption thereof, or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, or change the coin or currency in which, any Bonds or the interest thereon is payable, or impair or subordinate the lien of this Indenture on the Trust Estate or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the redemption date), or

(2) reduce the percentage in principal amount of the Outstanding Bonds, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture, or

(3) modify any of the provisions of this Section or Section 7.13, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Bond affected thereby.

It shall not be necessary for any Act of 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 as presented in written form to the Holders of Bonds.

Section 9.03 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 8.01) 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 9.01(4)) be obligated to, enter into any such supplemental indenture or consent that 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 9.04 Effect of Supplemental Indentures. Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes, and every Holder of Bonds thereafter or theretofore authenticated and delivered hereunder shall be bound thereby.

Section 9.05 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 10.01 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 that have been replaced or paid as provided in Section 2.05, except for any such Bond that, prior to the satisfaction and discharge of this Indenture, has been presented to the Trustee with a claim of ownership and enforceability by the Holder thereof and where enforceability has not been determined adversely against such Holder by a court of competent jurisdiction,

(2) Bonds, other than those referred to in paragraph (1) above, for the payment or redemption of which the Issuer or the Company has deposited or caused to be deposited with the Trustee at the Maturity thereof in trust for such purpose funds (which shall be immediately available for payment) in an amount sufficient to pay and discharge the entire indebtedness on such Bonds for principal (and premium, if any) and interest to such Maturity, and

(3) Bonds deemed no longer Outstanding as a result of the deposit or escrow of money or Defeasance Obligations or both as described in Section 10.02;

(b) the Issuer or the Company has paid or caused to be paid all other sums payable by the Issuer or the Company hereunder and under the Agreement; 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 the 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 8.07 shall survive unless otherwise agreed by the Trustee in writing.

#### Section 10.02 Payment of Bonds.

(a) All of the Bonds shall be deemed to have been paid for purposes of this Indenture if (i) there has been deposited with the Trustee in trust in a segregated account either (A) moneys in an amount, or (B) Defeasance Obligations, the principal of and interest on which will, when due, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, (as established by a report of an Independent certified public accountant setting forth the calculations upon which such report is based) provide moneys in an amount, which, together with any moneys deposited with or held by the Trustee at the same time and available for such purpose pursuant to this Indenture, will be sufficient to pay when due and payable the principal, premium, if any, and interest due and payable and to become due and payable on and prior to the respective redemption dates or Maturity dates on all of the Bonds, or (C) a combination of (A) and (B), and (ii) in case any of such Bonds are to be redeemed on any date prior to their Stated Maturity, the Company has given to the Trustee irrevocable written instructions instructing the Trustee to effect the redemption of such Bonds on such date and to give notice of such redemption to Holders prior to said date as provided in Exhibits A-1 and Exhibit A-2 to this Indenture, and (iii) in the event such Bonds are not to be redeemed within the sixty (60) days next succeeding the date of such deposit with the Trustee, the Issuer has given irrevocable written instructions to the Trustee to give notice to the Holders of such Bonds advising that the deposit required by clause (i) of this paragraph has been made with the Trustee and that the Bonds are deemed to have been paid in accordance with this Article and stating such Maturity or redemption date or dates upon which money is to be available for the payment of the principal, premium, if any, and interest on such Bonds. The Trustee shall not be required to accept any deposit of Defeasance Obligations pursuant to clause (i)(B) or (i)(C) during the continuance of an Event of Default. For purposes of this Section, Governmental Obligations issued or held in the

name of the Trustee in book-entry form on the books of the Department of Treasury of the United States of America shall be deemed to be deposited with the Trustee.

Any Defeasance Obligations deposited with the Trustee pursuant to this Section shall mature on such dates as shall be required for the aforesaid purpose. Such Defeasance Obligations shall not contain provisions permitting the redemption thereof at the option of the issuer thereof.

(b) Any release under this Section shall be without prejudice to the right of the Trustee to be paid reasonable compensation for all services rendered by it under this Indenture and all its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees, incurred on and about the administration of trusts created by this Indenture and the performance of its powers and duties under this Indenture.

Section 10.03 Application of Trust Money. The Defeasance Obligations and money deposited with the Trustee pursuant to Section 10.02 and principal or interest payments on any such Defeasance Obligations shall be held in trust, shall not be sold or reinvested, and shall be applied by it, in accordance with the provisions of the Bonds and this Indenture, to the payment, either directly or through any Paying Agent as the Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money or Defeasance Obligations were deposited; provided that, upon delivery to the Trustee of an Officer's Certificate (accompanied by the report of an Independent certified public accountant setting forth the calculations upon which such Officer's Certificate is based) establishing that the money and Defeasance Obligations on deposit following the taking of the proposed action will be sufficient for the purposes described in Section 10.02(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 that 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 11.01 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 11.02 Final Agreement. This written Indenture represents the final agreement between the parties and may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements of the parties. There are no unwritten oral agreements between the parties.

IN WITNESS WHEREOF, the Issuer and the Trustee have caused this Indenture to be signed on their behalf by their duly authorized representatives as of the date first written above.

NEW HOPE CULTURAL EDUCATION  
FACILITIES FINANCE CORPORATION

By: \_\_\_\_\_  
President, Board of Directors

TRUST INDENTURE

UMB BANK, N.A., as Trustee

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

ACCEPTED AND AGREED TO BY:

UMB BANK, N.A., as Paying Agent and  
Bond Registrar

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



EXHIBIT A-1

FORM OF SERIES 2018A BONDS

THIS BOND IS SUBJECT TO TRANSFER RESTRICTIONS AS SET FORTH IN THE INDENTURE (AS HEREIN DEFINED). BY POSSESSION OF THIS BOND, THE HOLDER CERTIFIES THAT IT IS A QUALIFIED INSTITUTIONAL BUYER OR AN ACCREDITED INVESTOR, AS SUCH TERMS ARE DEFINED IN THE INDENTURE. THE HOLDER HEREOF, BY THE ACCEPTANCE OF THIS BOND, ACKNOWLEDGES THAT THIS BOND MAY ONLY BE REGISTERED IN THE NAME OF, OR TRANSFERRED TO, AND BENEFICIAL OWNERSHIP MAY ONLY BE HELD BY, A "QUALIFIED INSTITUTIONAL BUYER" OR AN "ACCREDITED INVESTOR." THE TRANSFER RESTRICTIONS HEREOF MAY BE REMOVED ONLY PURSUANT TO CERTAIN PROVISIONS OF THE INDENTURE. IN THE EVENT SUCH RESTRICTIONS ARE REMOVED, THE BOND TRUSTEE SHALL INFORM THE HOLDER OF THIS BOND.

EXCEPT AS MAY OTHERWISE BE PROVIDED HEREIN, THIS BOND OR ANY PORTION HEREOF MAY BE TRANSFERRED ONLY IN MINIMUM DENOMINATIONS OF \$25,000 OR ANY INTEGRAL MULTIPLE OF \$5,000 IN EXCESS THEREOF ("AUTHORIZED DENOMINATIONS").

1. Form of Series 2018A Bonds.

NO. RA-\_\_\_\_ REGISTERED  
\$ \_\_\_\_\_

UNITED STATES OF AMERICA  
STATE OF TEXAS  
NEW HOPE CULTURAL EDUCATIONAL FACILITIES FINANCE CORPORATION  
EDUCATION REVENUE BOND  
(LEGACY PREPARATORY CHARTER ACADEMY)  
SERIES 2018A

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Dated Date</u>	<u>CUSIP NO.</u>
____%	_____	February 1, 2018	_____

New Hope Cultural Education Facilities Finance Corporation (the "Issuer"), a nonprofit higher education finance corporation organized and existing pursuant to the laws of the State of Texas (the "State"), including Chapter 337 of the Texas Local Government Code, as amended (the

“Act”), hereby promises to pay to the order of Cede & Co., or its successor in interest, or registered assigns, at the principal payment office of UMB Bank, N.A., in Austin, Texas (the “Place of Payment”), the aggregate principal amount of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) on the Maturity Date set forth above (or earlier as hereinafter provided) and to pay interest thereon, calculated on the basis of a 360-day year of twelve (12) 30-day months at the per annum rate set forth above, from the date of delivery or the most recent Interest Payment Date to which interest has been paid or provided for; provided that such principal and interest are payable solely from the sources and in the manner hereinafter described, and solely as authorized and provided in the Act.

THE OWNER HEREOF shall never have the right to demand payment of this obligation out of any funds raised or to be raised by taxation or from any source whatsoever except the payments and amounts described in the Indenture, the Note, the Agreement (all as defined herein) and this Bond. The Bonds are special and limited obligations payable solely as provided herein. NEITHER THE TOWN OF NEW HOPE, TEXAS, THE STATE NOR A STATE AGENCY, ANY POLITICAL CORPORATION, SUBDIVISION OR AGENCY OF THE STATE SHALL BE OBLIGATED TO PAY THE BONDS OR THE INTEREST THEREON AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, ANY STATE AGENCY, POLITICAL CORPORATION OR POLITICAL SUBDIVISION OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

THE PRINCIPAL of, premium, if any, and interest on this Bond are payable in lawful money of the United States of America. Amounts due on this Bond shall be paid by check drawn upon by UMB Bank, N.A. (the “Trustee,” “Paying Agent” and “Bond Registrar” for this series of Bonds), and mailed to the Owner hereof at its address as it appears on the bond registration books of the Issuer, kept by the Bond Registrar (the “Bond Register”) on the last Business Day of the calendar month immediately preceding the month in which such payment date occurs. Upon written request of a registered owner of at least one million dollars (\$1,000,000) in principal amount of Bonds or all of the Bonds, all payments of principal, premium and interest on the Bonds shall be paid by wire transfer at the risk and expense of such registered owner in immediately available funds to an account in the United States designated by such registered owner upon fifteen (15) days’ prior written notice to the Trustee.

THE INTEREST on this Bond shall be paid on each February 15 and August 15, commencing August 15, 2018 until the principal thereof shall have been paid or provided for.

THIS BOND is one of a series of bonds (the “Bonds”) authorized and issued in the aggregate principal amount of \$36,920,000 for the purpose of loaning the proceeds to Legacy21, Inc. (the “Company”) to be used to (i) purchase, construct, renovate and improve educational facilities located in Plano and Mesquite, Texas (the “Projects”), (ii) refinance certain existing loans, (iii) reimburse itself for various capital expenditures, (iv) fund a debt service reserve fund and (v) pay costs of issuance of the Bonds, under and pursuant to authority conferred by the Act, a resolution adopted by the Governing Body of the Issuer, and a Trust Indenture, dated as of February 1, 2018 (the “Indenture”), by and between the Issuer and the Trustee. The proceeds of the sale of the Bonds will be loaned to the Company pursuant to a Loan Agreement, dated as of February 1, 2018 (the “Agreement”), between the Issuer and the Company, and the Company’s

obligations under the Agreement are further evidenced by the Company's execution and issuance of a promissory note (the "Note"), dated as of the date of delivery, in an amount equal to the aggregate principal amount of the Bonds. The Note is a "Note" as defined in and is entitled to the security of a Master Trust Indenture and Security Agreement, dated as of February 1, 2018 (the "Master Indenture"), as supplemented by Supplemental Master Trust Indenture No. 1, dated as of February 1, 2018 (the "Supplemental Master Trust Indenture"), between the Company on behalf of itself and UMB Bank, N.A., Master Trustee.

THE TRANSFER of this Bond may be registered by the owner hereof in person or by his attorney or legal representative at the corporate trust office or principal payment office of the Bond Registrar as set forth in the Indenture, but only in the manner and subject to the limitations and conditions provided in the Indenture and upon surrender and cancellation of this Bond and execution of the Assignment hereon. Upon any such surrender for transfer of the Bond at the office or agency of the Trustee in a Place of Payment, the Issuer shall execute, the Trustee shall authenticate, and the Bond Registrar shall register and deliver, in the name of the designated transferee, one or more new Bonds of any Authorized Denomination, of a like aggregate principal amount, maturity and interest rate. The Issuer and the Bond Registrar shall not be required (1) to issue, transfer or exchange any Bonds during a period beginning at the opening of business fifteen (15) days before the day of mailing a notice of redemption of the Bonds selected for redemption under the Indenture and ending the close of business on the day of such mailing or (2) to transfer or exchange any Bond selected for redemption in whole or in part.

Subject to the limitations set forth in the Master Indenture, the Company may from time to time issue additional notes authorized by and entitled to the security of the Master Indenture for the purposes set forth in the Master Indenture ("Master Notes"), which shall rank equally and on a parity with the Note and all other Master Notes except as set forth in any supplemental master trust indenture authorizing issuance of any Master Note.

EXCEPT AS hereinafter set forth, the Bonds are not subject to redemption prior to maturity.

The Bonds are subject to mandatory redemption in part prior to maturity with funds from the Debt Service Fund, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption, without premium, on August 15 in each of the years, and in the principal amounts, respectively, as set forth in the following schedule:

**\$4,985,000 Series 2018A Bonds Maturing August 15, 2027**

<b>Mandatory Redemption Date</b> <b><u>August 15</u></b>	<b>Principal Amount to be</b> <b><u>Mandatorily Redeemed</u></b>
2020	\$ 10,000.00
2021	605,000.00
2022	640,000.00
2023	670,000.00
2024	705,000.00
2025	745,000.00
2026	785,000.00
2027*	825,000.00

\*Final Maturity

**\$11,440,000 Series 2018A Bonds Maturing August 15, 2037**

<b>Mandatory Redemption Date</b> <b><u>August 15</u></b>	<b>Principal Amount to be</b> <b><u>Mandatorily Redeemed</u></b>
2028	\$ 870,000.00
2029	920,000.00
2030	975,000.00
2031	1,035,000.00
2032	1,095,000.00
2033	1,160,000.00
2034	1,230,000.00
2035	1,305,000.00
2036	1,385,000.00
2037*	1,465,000.00

\*Final Maturity

**\$20,495,000 Series 2018A Bonds Maturing August 15, 2047**

<b>Mandatory Redemption Date</b> <b><u>August 15</u></b>	<b>Principal Amount to be</b> <b><u>Mandatorily Redeemed</u></b>
2038	\$ 1,555,000.00
2039	1,650,000.00
2040	1,745,000.00
2041	1,850,000.00
2042	1,956,000.00
2043	2,080,000.00
2044	2,205,000.00
2045	2,340,000.00
2046	2,480,000.00
2047*	2,625,000.00

\*Final Maturity

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

Optional Redemption. The Bonds maturing on August 15, 2027 and thereafter are subject to optional redemption prior to scheduled maturity, in whole or in part, at the option of the Company, upon written notice of the exercise of the option to redeem Bonds delivered to the Trustee by the Company at least thirty (30) days prior to the date fixed for redemption but not more than sixty (60) days prior to the date of redemption, on the optional redemption dates set forth below at the redemption prices equal to the percentage of the principal amount thereof set forth opposite each optional redemption date plus accrued interest to the redemption date:

<u>Optional Redemption Date</u>	<u>Redemption Price</u>
<u>February 15</u>	
2023	105%
2024	104%
2025	103%
2026	102%
2027	101%
2028 and after	100%

Mandatory Redemption Upon Determination of Taxability. The Bonds shall be redeemed in whole prior to maturity on a date selected by the Company that is not more than one hundred twenty (120) days following receipt by the Trustee of written notice of the occurrence of a Determination of Taxability (as hereinafter defined) at a redemption price equal to one hundred three percent (103%) of the principal amount thereof plus accrued interest to the redemption date.

As used herein, “Determination of Taxability” means a determination that the interest income on any of the Bonds does not qualify as interest excluded from gross income of the recipient thereof for the purpose of federal income taxation (“exempt interest”) under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”) (in the case of a private activity bond, for a reason other than that a registered owner is or a former registered owner was a substantial user within the meaning of Section 147 of the Code), which determination shall be deemed to have been made upon the first to occur of any of the following: (a) the date on which the Trustee is notified that an opinion of counsel is unable to be delivered to the effect that the interest on the Bonds qualifies as such exempt interest; or (b) the date on which the Trustee is notified by or on behalf of the Issuer that a change in law or regulation has become effective or that the Internal Revenue Service has issued any public or private ruling, technical advice memorandum or any other written communication or that there has occurred a ruling or decision of a court of competent jurisdiction with or to the effect that the interest income on any of the Bonds does not qualify as such exempt interest; or (c) the date on which the Company shall receive notice from the Trustee in writing that the Trustee has been notified by the Internal Revenue

Service, or has been advised by the Issuer, the Company or any owner or former owner of a Bond that the Internal Revenue Service has issued a notice of deficiency or similar notice that asserts that the interest on any of the Bonds does not qualify as such exempt interest.

Mandatory Redemption With Excess Proceeds. The Bonds shall be redeemed in whole or in part prior to maturity as a result of a deposit of amounts transferred from the Construction Fund to the Debt Service Fund (all as defined in the Indenture) as excess proceeds upon completion of the Project. Bonds redeemed as described in this paragraph shall be redeemed within sixty (60) days of such deposit at a redemption price equal to the unpaid principal amount of the Bonds being redeemed, without premium, plus accrued interest to the redemption date.

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

IF LESS THAN ALL of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed shall be redeemed by the Trustee in accordance with the written direction of the Company; provided, however, that portions of Bonds shall be redeemed in Authorized Denominations and that no redemption shall result in a Bond being held in less than an Authorized Denomination.

IN CASE PART, but not all, of this Bond shall be selected for redemption, the owner hereof or his attorney or legal representative shall present and surrender this Bond to the Trustee for payment of the redemption price, and the Issuer shall cause to be executed, authenticated and delivered to or upon the order of such owner or his attorney or legal representative, without charge therefor, in exchange for the unredeemed portion of the principal amount of this Bond so surrendered, a Bond of the same maturity and bearing interest at the same rate.

AT LEAST thirty (30) days prior to the date fixed for any redemption of the Bonds but not more than sixty (60) days prior to any redemption date, the Trustee shall cause a written notice of such redemption to be mailed by first class mail, postage prepaid, to each Holder of the Bonds to be redeemed, at the address appearing on the Bond Register on the date such notice is mailed by the Trustee. Any notice mailed as provided herein shall be conclusively presumed to have been given, irrespective of whether or not received. By the date fixed for any such redemption, due provision shall be made with the Trustee and the Paying Agent for the payment of the principal amount of the Bonds being redeemed, premium, if any, and interest accrued hereon. If such written notice of redemption is made, due provision for payment of the redemption price is made and all conditions to the redemption have been fulfilled, all as provided above and in the Indenture, the Bonds that are to be redeemed shall become due and payable at the redemption price and from and

after such date shall cease to bear interest. If any Bond shall not be paid upon the surrender thereof for redemption, the principal shall, until paid, bear interest at the rate borne by this Bond.

IF THE DATE for any such payment on this Bond shall be a Saturday, a Sunday or a legal holiday or the equivalent for banking institutions generally (other than a moratorium) at the place where payment thereof is to be made, then such payment may be made on the next succeeding day that is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment.

IT IS HEREBY CERTIFIED AND COVENANTED that this Bond has been duly and validly authorized, issued and delivered; that all acts, conditions and things required or proper to be performed, exist and be done precedent to or in the authorization, issuance and delivery of this Bond have been performed, exist and been done in accordance with law; that this Bond is a special limited revenue obligation of the Issuer, and that the principal of, premium, if any, and interest on this Bond are payable from and secured by a lien on and pledge of the payments designated as Loan Payments (the "Loan Payments") to be paid, or caused to be paid, to the Trustee, pursuant to the Master Indenture, the Supplemental Master Trust Indenture and the Agreement, as evidenced by the Note, and by an assignment by the Issuer to the Trustee of the Note to evidence the Company's obligations to make Loan Payments under the Master Indenture, the Supplemental Master Trust Indenture and the Agreement to the Trustee. The Company is unconditionally obligated (subject only to the provisions of the Agreement relating to merger, consolidation and transfer of assets) to the Issuer and the Trustee to pay, or cause to be paid, without set off, recoupment or counterclaim, to the Trustee each Loan Payment for deposit into the Debt Service Fund created for the benefit of the owners of the Bonds by the Indenture, in aggregate amounts sufficient to pay and redeem, and provide for the payment and redemption of, the principal of, premium, if any, and interest on the Bonds, when due, and to make certain other deposits as required by the Indenture, subject to and as required by the provisions of the Agreement, the Note and the Indenture.

THE BONDS are secured by the Indenture whereunder the Trustee is custodian of the Debt Service Fund and is obligated to enforce the rights of the owners of the Bonds and to perform other duties in the manner and under the conditions stated in the Indenture. In case an "Event of Default," as defined in the Indenture, shall occur, the principal of the Bonds then Outstanding may be declared to be due and payable immediately upon the conditions and in the manner provided in the Indenture. The Trustee shall, upon written request of the owners of at least a majority in principal amount of the Bonds then Outstanding, waive, as permitted by the Indenture, any Event of Default and its consequences except a default in the payment of the principal of (or premium, if any) or interest on any Bond or a default in respect of a covenant or provision of the Indenture that under the Indenture cannot be modified or amended without the consent of the Holder of each Outstanding Bond affected. The Holder of this Bond shall have no right to institute any action, suit or proceeding at law or in equity to enforce the Indenture except as provided in the Indenture; provided that nothing in the Indenture shall affect or impair the rights of the owner hereof to enforce the payment of the principal of, premium, if any, and interest on this Bond from the source and in the manner herein expressed. Reference is hereby made to the Indenture for additional provisions with respect to the nature and extent of the security for the Bonds; the rights, duties and

obligations of the Company, the Issuer, the Trustee and the Holders of the Bonds; the terms upon which the Bonds are issued and secured; and the modification of any of the foregoing.

THE ISSUER has reserved the right to amend the Indenture, as provided therein; and, under some (but not all) circumstances, amendments thereto must be approved by the owners of at least a majority in aggregate principal amount of the Outstanding Bonds.

[To appear on Initial Series 2018A Bond only]

This Bond shall not be valid or obligatory for any purpose or be entitled to any benefit under the Indenture until the certificate of registration hereon shall have been manually executed by the Comptroller of Public Accounts of the State of Texas (or his duly authorized deputy), as provided by the Indenture.

[To appear on each exchange or replacement Bond]

This Bond shall not be valid or obligatory for any purpose or be entitled to any benefit under the Indenture until the certificate of authentication hereon shall have been executed by the Trustee.



IN WITNESS WHEREOF, New Hope Cultural Educational Facilities Finance Corporation has caused this Bond to be executed with the manual or facsimile signatures of its duly authorized officers, all as of the date first set forth above.

NEW HOPE CULTURAL  
EDUCATIONAL FACILITIES FINANCE  
CORPORATION

By: \_\_\_\_\_  
President, Board of Directors

ATTEST:

By: \_\_\_\_\_  
Secretary, Board of Directors

2. Form of Trustee's Certificate of Authentication.

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds issued under the provisions of the within mentioned Indenture, which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

UMB BANK, N.A, as Trustee

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

Date of authentication:

\_\_\_\_\_

3. Form of Assignment.

ASSIGNMENT

For value received, the undersigned hereby sells, assigns and transfers unto \_\_\_\_\_

Please insert Social Security or Taxpayer Identification number of Transferee \_\_\_\_\_

(Please print or typewrite name and address, including zip code of Transferee)

the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints \_\_\_\_\_, attorney, to register the transfer of the within Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: \_\_\_\_\_

Signature Guaranteed: \_\_\_\_\_

NOTICE: Signature(s) must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company that is a medallion guarantor. The assignor's signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or any change whatever.

NOTICE: The signature to this assignment must correspond with the name as it appears upon the face of this Bond in every particular, without alteration or enlargement or any change whatsoever.

4. Initial Series 2018A Bond.

The initial Series 2018A Bond shall be in the form set forth in "Form of Series 2018A Bonds" above except for the following alterations:

(a) the Initial Series 2018A Bond shall be numbered IA-1 and shall be payable to the initial purchaser of the Series 2018A Bonds instead of to Cede & Co.;

(b) immediately under the name of the Bond, the headings "INTEREST RATE" and "MATURITY DATE" shall both be completed with the words "As Shown Below" and the word "CUSIP" deleted; and

(c) in the first paragraph of the initial Series 2018A Bond, the words “on the Maturity Date set forth above (or earlier as hereinafter provided)” and “at the per annum rate set forth above” shall be deleted and the following shall be inserted after paid or provided for “..., with such principal to be paid in installments on August 15 in each of the years and in the principal amounts identified in the following schedule and with such installments bearing interest at the per annum rates set forth in the following schedule:”

<u>Year of Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>
2027	\$4,985,000	5.250%
2037	\$11,440,000	6.000%
2047	\$20,495,000	6.000%

5. Form of Comptroller’s Registration Certificate to appear on the Initial Series 2018A Bond only.

REGISTRATION CERTIFICATE OF  
COMPTROLLER OF PUBLIC ACCOUNTS

OFFICE OF COMPTROLLER	§	
	§	REGISTER NO. _____
STATE OF TEXAS	§	

I HEREBY CERTIFY that this Bond has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and that this Bond has been registered by the Comptroller of Public Accounts of the State of Texas.

WITNESS my signature and seal this \_\_\_\_\_.

\_\_\_\_\_  
Comptroller of Public Accounts  
of the State of Texas

(COMPTROLLER’S SEAL)

EXHIBIT A-2

FORM OF SERIES 2018B BONDS

THIS BOND IS SUBJECT TO TRANSFER RESTRICTIONS AS SET FORTH IN THE INDENTURE (AS HEREIN DEFINED). BY POSSESSION OF THIS BOND, THE HOLDER CERTIFIES THAT IT IS A QUALIFIED INSTITUTIONAL BUYER OR AN ACCREDITED INVESTOR, AS SUCH TERMS ARE DEFINED IN THE INDENTURE. THE HOLDER HEREOF, BY THE ACCEPTANCE OF THIS BOND, ACKNOWLEDGES THAT THIS BOND MAY ONLY BE REGISTERED IN THE NAME OF, OR TRANSFERRED TO, AND BENEFICIAL OWNERSHIP MAY ONLY BE HELD BY, A "QUALIFIED INSTITUTIONAL BUYER" OR AN "ACCREDITED INVESTOR." THE TRANSFER RESTRICTIONS HEREOF MAY BE REMOVED ONLY PURSUANT TO CERTAIN PROVISIONS OF THE INDENTURE. IN THE EVENT SUCH RESTRICTIONS ARE REMOVED, THE BOND TRUSTEE SHALL INFORM THE HOLDER OF THIS BOND.

EXCEPT AS MAY OTHERWISE BE PROVIDED HEREIN, THIS BOND OR ANY PORTION HEREOF MAY BE TRANSFERRED ONLY IN MINIMUM DENOMINATIONS OF \$25,000 OR ANY INTEGRAL MULTIPLE OF \$5,000 IN EXCESS THEREOF ("AUTHORIZED DENOMINATIONS").

1. Form of Series 2018B Bonds.

	REGISTERED
NO. RB-____	\$1,095,000

UNITED STATES OF AMERICA  
STATE OF TEXAS  
NEW HOPE CULTURAL EDUCATIONAL FACILITIES FINANCE CORPORATION  
TAXABLE EDUCATION REVENUE BOND (LEGACY PREPARATORY CHARTER  
ACADEMY)  
SERIES 2018B

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Dated Date</u>	<u>CUSIP NO.</u>
5.750%	August 15, 2020	February 1, 2018	_____

New Hope Cultural Educational Facilities Finance Corporation (the "Issuer"), a nonprofit higher education finance corporation organized and existing pursuant to the laws of the State of Texas (the "State"), including Chapter 337 of the Texas Local Government Code, as amended (the "Act"), hereby promises to pay to the order of Cede & Co., or its successor in interest, or registered assigns, at the principal payment office of UMB Bank, N.A., in Austin, Texas (the "Place of

Payment”), the aggregate principal amount of One Million Ninety-Five Thousand Dollars (\$1,095,000) on the Maturity Date set forth above (or earlier as hereinafter provided) and to pay interest thereon, calculated on the basis of a 360-day year of twelve (12) 30-day months at the per annum rate set forth above, from the date of delivery or the most recent Interest Payment Date to which interest has been paid or provided for; provided that such principal and interest are payable solely from the sources and in the manner hereinafter described, and solely as authorized and provided in the Act.

THE OWNER HEREOF shall never have the right to demand payment of this obligation out of any funds raised or to be raised by taxation or from any source whatsoever except the payments and amounts described in the Indenture, the Note, the Agreement (all as defined herein) and this Bond. The Bonds are special and limited obligations payable solely as provided herein. NEITHER THE TOWN OF NEW HOPE, TEXAS, THE STATE NOR A STATE AGENCY, ANY POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE SHALL BE OBLIGATED TO PAY THE BONDS OR THE INTEREST THEREON AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, ANY STATE AGENCY, POLITICAL CORPORATION OR POLITICAL SUBDIVISION OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

THE PRINCIPAL of, premium, if any, and interest on this Bond are payable in lawful money of the United States of America. Amounts due on this Bond shall be paid by check drawn upon by UMB Bank, N.A. (the “Trustee,” “Paying Agent” and “Bond Registrar” for this series of Bonds) and mailed to the Owner hereof at its address as it appears on the bond registration books of the Issuer, kept by the Bond Registrar (the “Bond Register”) on the last Business Day of the calendar month immediately preceding the month in which such payment date occurs. Upon written request of a registered owner of at least one million dollars (\$1,000,000) in principal amount of Bonds or all of the Bonds, all payments of principal, premium and interest on the Bonds shall be paid by wire transfer at the risk and expense of such registered owner in immediately available funds to an account in the United States designated by such registered owner upon fifteen (15) days’ prior written notice to the Trustee.

THE INTEREST on this Bond shall be paid on each February 15 and August 15, commencing August 15, 2018, until the principal thereof shall have been paid or provided for.

THIS BOND is one of a series of bonds (the “Bonds”) authorized and issued in the aggregate principal amount of \$1,095,000 for the purpose of providing funds to be loaned by the Issuer to Legacy21, Inc. (the “Company”), to pay a portion of the costs of issuance of the Bonds, under and pursuant to authority conferred by the Act, a resolution adopted by the Governing Body of the Issuer, and a Trust Indenture, dated as of February 1, 2018 (the “Indenture”), by and between the Issuer and the Trustee. The proceeds of the sale of the Bonds will be loaned to the Company pursuant to a Loan Agreement, dated as of February 1, 2018 (the “Agreement”), between the Issuer and the Company, and the Company’s obligations under the Agreement are further evidenced by the Company’s execution and issuance of a taxable promissory note (the “Note”), dated as of the date of delivery, in an amount equal to the aggregate principal amount of the Bonds. The Note is a “Note” as defined in and is entitled to the security of a Master Trust Indenture and Security Agreement, dated as of February 1, 2018 (the “Master Indenture”), as supplemented by

Supplemental Master Trust Indenture No. 1, dated as of February 1, 2018 (the “Supplemental Master Trust Indenture”), between the Company on behalf of itself and UMB Bank, N.A., Master Trustee.

THE TRANSFER of this Bond may be registered by the owner hereof in person or by his attorney or legal representative at the corporate trust office or principal payment office of the Bond Registrar as set forth in the Indenture, but only in the manner and subject to the limitations and conditions provided in the Indenture and upon surrender and cancellation of this Bond and execution of the Assignment hereon. Upon any such surrender for transfer of the Bond at the office or agency of the Trustee in a Place of Payment, the Issuer shall execute, the Trustee shall authenticate, and the Bond Registrar shall register and deliver, in the name of the designated transferee, one or more new Bonds of any Authorized Denomination, of a like aggregate principal amount, maturity and interest rate. The Issuer and the Bond Registrar shall not be required (1) to issue, transfer or exchange any Bonds during a period beginning at the opening of business fifteen (15) days before the day of mailing a notice of redemption of the Bonds selected for redemption under the Indenture and ending the close of business on the day of such mailing or (2) to transfer or exchange any Bond selected for redemption in whole or in part.

Subject to the limitations set forth in the Master Indenture, the Company may from time to time issue additional notes authorized by and entitled to the security of the Master Indenture for the purposes set forth in the Master Indenture (“Master Notes”), which shall rank equally and on a parity with the Note and all other Master Notes except as set forth in any supplemental master trust indenture authorizing issuance of any Master Note.

EXCEPT AS hereinafter set forth, the Bonds are not subject to redemption prior to maturity.

The Bonds are subject to mandatory redemption in part prior to maturity with funds from the Debt Service Fund, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption, without premium, on August 15 in each of the years, and in the principal amounts, respectively, as set forth in the following schedule:

**\$1,095,000 Series 2018B Bonds Maturing August 15, 2020**

Mandatory Redemption Date	Principal Amount to be
<u>August 15</u>	<u>Mandatorily Redeemed</u>
2019	\$ 530,000.00
2020*	565,000.00

\*Final Maturity

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

date of purchase thereof or (c) redeemed pursuant to the optional redemption provision described below.

Optional Redemption. The Bonds are not subject to optional redemption.

Mandatory Redemption With Excess Proceeds. The Bonds shall be redeemed in whole or in part prior to maturity as a result of a deposit of amounts transferred from the Construction Fund to the Debt Service Fund (all as defined in the Indenture) as excess proceeds upon completion of the Project. Bonds redeemed as described in this paragraph shall be redeemed within sixty (60) days of such deposit at a redemption price equal to the unpaid principal amount of the Bonds being redeemed, without premium, plus accrued interest to the redemption date.

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

IF LESS THAN ALL of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed shall be redeemed by the Trustee in accordance with the written direction of the Company; provided, however, that portions of Bonds shall be redeemed in Authorized Denominations and that no redemption shall result in a Bond being held in less than an Authorized Denomination.

IN CASE PART, but not all, of this Bond shall be selected for redemption, the owner hereof or his attorney or legal representative shall present and surrender this Bond to the Trustee for payment of the redemption price, and the Issuer shall cause to be executed, authenticated and delivered to or upon the order of such owner or his attorney or legal representative, without charge therefor, in exchange for the unredeemed portion of the principal amount of this Bond so surrendered, a Bond of the same maturity and bearing interest at the same rate.

AT LEAST thirty (30) days prior to the date fixed for any redemption of the Bonds but not more than sixty (60) days prior to any redemption date, the Trustee shall cause a written notice of such redemption to be mailed by first class mail, postage prepaid, to each Holder of the Bonds to be redeemed, at the address appearing on the Bond Register on the date such notice is mailed by the Trustee. Any notice mailed as provided herein shall be conclusively presumed to have been given, irrespective of whether or not received. By the date fixed for any such redemption, due provision shall be made with the Trustee and the Paying Agent for the payment of the principal amount of the Bonds being redeemed, premium, if any, and interest accrued hereon. If such written notice of redemption is made, due provision for payment of the redemption price is made and all conditions to the redemption have been fulfilled, all as provided above and in the Indenture, the



Bonds that are to be redeemed shall become due and payable at the redemption price and from and after such date shall cease to bear interest. If any Bond shall not be paid upon the surrender thereof for redemption, the principal shall, until paid, bear interest at the rate borne by this Bond.

IF THE DATE for any such payment on this Bond shall be a Saturday, a Sunday or a legal holiday or the equivalent for banking institutions generally (other than a moratorium) at the place where payment thereof is to be made, then such payment may be made on the next succeeding day that is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment.

IT IS HEREBY CERTIFIED AND COVENANTED that this Bond has been duly and validly authorized, issued and delivered; that all acts, conditions and things required or proper to be performed, exist and be done precedent to or in the authorization, issuance and delivery of this Bond have been performed, exist and been done in accordance with law; that this Bond is a special limited revenue obligation of the Issuer, and that the principal of, premium, if any, and interest on this Bond are payable from and secured by a lien on and pledge of the payments designated as Loan Payments (the "Loan Payments") to be paid, or caused to be paid, to the Trustee, pursuant to the Master Indenture, the Supplemental Master Trust Indenture and the Agreement, as evidenced by the Note, and by an assignment by the Issuer to the Trustee of the Note to evidence the Company's obligations to make Loan Payments under the Master Indenture, the Supplemental Master Trust Indenture and the Agreement to the Trustee. The Company is unconditionally obligated (subject only to the provisions of the Agreement relating to merger, consolidation and transfer of assets) to the Issuer and the Trustee to pay, or cause to be paid, without set off, recoupment or counterclaim, to the Trustee each Loan Payment for deposit into the Debt Service Fund created for the benefit of the owners of the Bonds by the Indenture, in aggregate amounts sufficient to pay and redeem, and provide for the payment and redemption of, the principal of, premium, if any, and interest on the Bonds, when due, and to make certain other deposits as required by the Indenture, subject to and as required by the provisions of the Agreement, the Note and the Indenture.

THE BONDS are secured by the Indenture whereunder the Trustee is custodian of the Debt Service Fund and is obligated to enforce the rights of the owners of the Bonds and to perform other duties in the manner and under the conditions stated in the Indenture. In case an "Event of Default," as defined in the Indenture, shall occur, the principal of the Bonds then Outstanding may be declared to be due and payable immediately upon the conditions and in the manner provided in the Indenture. The Trustee shall, upon written request of the owners of at least a majority in principal amount of the Bonds then Outstanding, waive, as permitted by the Indenture, any Event of Default and its consequences except a default in the payment of the principal of (or premium, if any) or interest on any Bond or a default in respect of a covenant or provision of the Indenture that under the Indenture cannot be modified or amended without the consent of the Holder of each Outstanding Bond affected. The Holder of this Bond shall have no right to institute any action, suit or proceeding at law or in equity to enforce the Indenture except as provided in the Indenture; provided that nothing in the Indenture shall affect or impair the rights of the owner hereof to enforce the payment of the principal of, premium, if any, and interest on this Bond from the source and in the manner herein expressed. Reference is hereby made to the Indenture for additional provisions with respect to the nature and extent of the security for the Bonds; the rights, duties and

obligations of the Company, the Issuer, the Trustee and the Holders of the Bonds; the terms upon which the Bonds are issued and secured; and the modification of any of the foregoing.

THE ISSUER has reserved the right to amend the Indenture, as provided therein; and, under some (but not all) circumstances, amendments thereto must be approved by the owners of at least a majority in aggregate principal amount of the Outstanding Bonds.

[To appear on Initial Series 2018B Bond only]

This Bond shall not be valid or obligatory for any purpose or be entitled to any benefit under the Indenture until the certificate of registration hereon shall have been manually executed by the Comptroller of Public Accounts of the State of Texas (or his duly authorized deputy), as provided by the Indenture.

[To appear on each exchange or replacement Bond]

This Bond shall not be valid or obligatory for any purpose or be entitled to any benefit under the Indenture until the certificate of authentication hereon shall have been executed by the Trustee.

IN WITNESS WHEREOF, New Hope Cultural Educational Facilities Finance Corporation has caused this Bond to be executed with the manual or facsimile signatures of its duly authorized officers, all as of the date first set forth above.

NEW HOPE CULTURAL  
EDUCATIONAL FINANCE  
CORPORATION

By: \_\_\_\_\_  
President, Board of Directors

ATTEST:

By: \_\_\_\_\_  
Secretary, Board of Directors

2. Form of Trustee's Certificate of Authentication.

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds issued under the provisions of the within mentioned Indenture, which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

UMB BANK, N.A., as Trustee

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

Date of authentication:

\_\_\_\_\_

3. Form of Assignment.

ASSIGNMENT

For value received, the undersigned hereby sells, assigns and transfers unto \_\_\_\_\_

Please insert Social Security or Taxpayer Identification number of Transferee \_\_\_\_\_

(Please print or typewrite name and address, including zip code of Transferee)

the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints \_\_\_\_\_

\_\_\_\_\_, attorney, to register the transfer of the within Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: \_\_\_\_\_

Signature Guaranteed: \_\_\_\_\_

NOTICE: Signature(s) must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company that is a medallion guarantor. The assignor's signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or any change whatever.

NOTICE: The signature to this assignment must correspond with the name as it appears upon the face of this Bond in every particular, without alteration or enlargement or any change whatsoever.

4. Initial Series 2018B Bond.

The Initial Bond shall be in the form set forth in "Form of Series 2018B Bonds" above except for the following alterations:

(a) the Initial Bond shall be numbered IB-1 and shall be payable to the initial purchaser of the Series 2018B Bonds instead of to Cede & Co.; and

(b) immediately under the name of the Bond, the word "CUSIP" shall be deleted.

5. Form of Comptroller's Registration Certificate to appear on the Initial Series 2018B Bond only.

REGISTRATION CERTIFICATE OF  
COMPTROLLER OF PUBLIC ACCOUNTS

OFFICE OF COMPTROLLER

§

§

STATE OF TEXAS

§

REGISTER NO. \_\_\_\_\_

I HEREBY CERTIFY that this Bond has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and that this Bond has been registered by the Comptroller of Public Accounts of the State of Texas.

WITNESS my signature and seal this \_\_\_\_\_.

\_\_\_\_\_  
Comptroller of Public Accounts  
of the State of Texas

(COMPTROLLER'S SEAL)

EXHIBIT B

FORM OF REQUISITION CERTIFICATE

Company Request No.: \_\_\_\_\_

[DATE]

UMB Bank, N.A., as Trustee  
3005 S. Lamar Blvd., Ste. D-109 #428  
Austin, Texas 78704

Attention: Jose Gaytan

Re: Disbursement from [Construction] [Proceeds] Fund

Ladies and Gentlemen:

This Requisition is provided to you pursuant to Section [4.05] [4.02] of the Trust Indenture and Security Agreement, dated as of February 1, 2018 (the "Indenture"), between the New Hope Cultural Education Facilities Finance Corporation (the "Issuer") and you, as Trustee. The capitalized terms used in this Request have the same meanings given such terms in the Indenture or the Loan Agreement, dated as of February 1, 2018 (the "Loan Agreement"), between the Issuer and Legacy21, Inc. (the "Company").

On behalf of the Company, the undersigned hereby certifies as follows:

(i) There has been expended, or is being expended concurrently with the delivery of this certificate, on account of [Project Costs, as defined in the Loan Agreement] [Cost of Issuances as defined in the Loan Agreement] [casualty or condemnation costs permitted under Section 3.06 of the Loan Agreement] an amount at least equal to the amount requisitioned below for disbursement;

(ii) No Event of Default under the Indenture has occurred and is continuing;

(iii) No other Request in respect of the expenditures set forth in clause (i) above is being or has previously been delivered to the Trustee;

[(iv) The portion of the amount of the proceeds of the Series 2018A Bonds requested that will be used to pay Costs of Issuance plus all previous amounts requested for Costs of Issuance does not exceed two percent (2%) of the proceeds of the Bonds deposited into the Proceeds Fund;]

[(v) The portion of the amount representing Proceeds of the Series 2018A Bonds requested to pay Project Costs that are Qualifying Costs (as such term is defined in Section 5.03 of the Loan Agreement) plus all previous amounts requested for Project Costs that are Qualifying Costs is not less than ninety-five percent (95%) of the Net Proceeds of the Bonds deposited into the Construction Fund requested to date; ]

[You are hereby directed to pay the amount of \$\_\_\_\_\_ from the Reimbursement Account of the Construction Fund to the Company in the amounts and to the parties as set forth in the attached schedule.]

[You are hereby directed to pay the amount of \$\_\_\_\_\_ from the Project Account of the Construction Fund in the amount as set forth in the attached schedule.\*]

[You are hereby directed to pay the amount of \$\_\_\_\_\_ from the Costs of Issuance Account of the Construction Fund in the amounts and to the parties as set forth in the attached schedule. Such amount, in addition to amounts previously paid from the Costs of Issuance Account of the Construction Fund pursuant to the terms of this Indenture does not exceed \$\_\_\_\_\_.]

[You are hereby directed to pay the amount of \$\_\_\_\_\_ from the Insurance Proceeds Account of the Proceeds Fund in the amounts and to the parties as set forth in the attached schedule.\*]

Legacy21, Inc. dba Legacy Preparatory  
Academy

By: \_\_\_\_\_  
Authorized Representative

\* Requires Construction Consultant Approval evidenced by the signature below:

\_\_\_\_\_  
Name \_\_\_\_\_  
Title: Construction Consultant

## EXHIBIT C

### FORM OF INVESTOR LETTER

\$36,920,000

New Hope Cultural Educational Facilities Finance Corporation Education Revenue Bonds  
(Legacy Preparatory Charter Academy)  
Series 2018A

and

\$1,095,000

New Hope Cultural Educational Facilities Finance Corporation Taxable Education Revenue  
Bonds (Legacy Preparatory Charter Academy)  
Series 2018B

New Hope Cultural Educational Facilities Finance Corporation  
c/o c/o Gay, McCall, Isaacks, & Roberts, P.C.  
777 E.15<sup>th</sup> Street  
Plano, Texas 75074  
Attention: Maria Huynh

UMB Bank, N.A.  
3005 S. Lamar Blvd., Ste. D-109 #428  
Austin, Texas 78704  
Attention: Jose Gaytan

Ladies and Gentlemen:

The undersigned, authorized representative of \_\_\_\_\_, a \_\_\_\_\_ (the "Purchaser"), does hereby represent and agree, as follows:

1. New Hope Cultural Educational Facilities Finance Corporation (the "Issuer") is issuing its \$36,920,000 Education Revenue Bonds (Legacy Preparatory Charter Academy) Series 2018A (the "Series 2018A Bonds") and its \$1,095,000 Taxable Education Revenue Bonds (Legacy Preparatory Charter Academy) Series 2018B (the "Series 2018B Bonds" and together with the Series 2018A Bonds, the "Bonds"). The Bonds are being issued pursuant to a Trust Indenture and Security Agreement, dated as of February 1, 2018 (the "Indenture") between the Issuer and UMB Bank, N.A., as trustee (the "Trustee"). The Issuer will loan the proceeds of the Bonds to Legacy21, Inc. dba Legacy Preparatory Charter Academy (the "Borrower") pursuant to the terms of a Loan



Agreement, dated as of February 1, 2018 (the "Loan Agreement"), by and between the Issuer and the Borrower.

2. The undersigned has the authority to execute this letter on behalf of the Purchaser of the Bonds.

3. The Purchaser is (i) an "Accredited Investor" as defined in Rule 501(a) of the Securities Act of 1933, as amended (the "1933 Act") or (ii) a "Qualified Institutional Buyer" as defined in Rule 144A promulgated under the 1933 Act, which has sufficient knowledge and experience in financial and business matters, including purchase and ownership of charter school revenue bonds, to be able to evaluate the risks and merits of the investment represented by the Bonds, and which can bear the economic risk of its investment in the Bonds. The Purchaser understands that it may be required to bear the risks of this investment in the Bonds for an indefinite time, as there may be no market for the Bonds.

4. The Purchaser understands that the Bonds are not registered under the 1933 Act and that such registration is not legally required as of the date hereof; and further understands that the Bonds (a) are not being registered or otherwise qualified for sale under the "Blue Sky" laws and regulations of any state, (b) will not be listed in any stock or other securities exchange, and (c) are not being rated by any national securities rating agency.

5. The Purchaser acknowledges that it has received the Limited Offering Memorandum dated February 7, 2018 relating to the Bonds, and the Purchaser has had the opportunity to ask questions and receive answers from knowledgeable individuals concerning the Borrower and the Bonds and the security therefor so that, as a reasonable investor, based upon the information provided, the Purchaser has been able to make its decision to purchase the Bonds. The Purchaser acknowledges that it has not relied upon the Issuer for any information in connection with the Purchaser's decision to purchase the Bonds.

6. The Bonds are being acquired by the Purchaser for its own account for investment purposes and not with a view to or for resale thereof in any manner that would result in the Purchaser being an agent of the Issuer or an underwriter within the meaning of the 1933 Act. As of the date hereof, the Purchaser intends to hold the Bonds for its own account for a period of time, possibly to maturity, and as of the date hereof, does not intend to dispose of all or any part of the Bonds, provided that the Issuer acknowledges that the Purchaser has the right to sell and transfer the Bonds, in accordance with terms and conditions of the Indenture. The Purchaser covenants and agrees with the Issuer that it will comply with the Indenture and all applicable federal or state securities laws then in effect with respect to any subsequent sale, transfer or other disposition of the Bonds.

7. The Purchaser acknowledges that the Bonds are limited obligations of the Issuer, payable solely from the Trust Estate (as defined in the Indenture), which consists primarily of payments made by the Borrower pursuant to the Loan Agreement. The Issuer shall not be directly, indirectly, contingently or morally obligated to pay the principal of the Bonds or the interest

thereon, or any other expenses related to the Bonds, except from funds provided under the Indenture, including payments under the Loan Agreement, and neither the faith and credit or the taxing power of the State of Texas nor any political subdivision thereof (including the Issuer) is pledged to the payment of the principal of or interest on the Bonds. The Purchaser acknowledges that the Issuer has no taxing power.

Capitalized terms used herein and not otherwise defined have the meanings given such terms in the Indenture.

[NAME OF INVESTOR]

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

Its: \_\_\_\_\_

LOAN AGREEMENT

between

NEW HOPE CULTURAL EDUCATIONAL FACILITIES FINANCE CORPORATION

and

LEGACY21, INC.  
DBA LEGACY PREPARATORY CHARTER ACADEMY

Relating to

\$36,920,000

NEW HOPE CULTURAL EDUCATIONAL FACILITIES FINANCE CORPORATION  
EDUCATION REVENUE BONDS  
(LEGACY PREPARATORY CHARTER ACADEMY)  
SERIES 2018A

and

\$1,095,000

NEW HOPE CULTURAL EDUCATIONAL FACILITIES FINANCE CORPORATION  
TAXABLE EDUCATION REVENUE BONDS  
(LEGACY PREPARATORY CHARTER ACADEMY)  
SERIES 2018B

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Dated as of

February 1, 2018

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## LOAN AGREEMENT

**THIS LOAN AGREEMENT** (this “Agreement”), dated as of February 1, 2018, is between the **New Hope Cultural Educational Facilities Finance Corporation**, a nonprofit corporation created and existing under the Act (the “Issuer”), and **Legacy21, Inc. dba Legacy Preparatory Charter Academy**, a Texas nonprofit corporation (the “Company”).

### WITNESSETH:

WHEREAS, the town of New Hope, Texas (the “Sponsoring Entity”), a political subdivision of the State, has, pursuant to the Cultural Education Facilities Finance Corporation Act, Chapter 337, Texas Local Government Code, as amended (the “Act”), approved and created the Issuer as a nonstock, nonprofit corporation;

WHEREAS, the Issuer is a duly constituted authority and instrumentality (within the meaning of those terms in the Regulations of the Department of the Treasury and the rulings of the Internal Revenue Service (the “IRS”) prescribed and promulgated pursuant to Section 103 of the Internal Revenue Code of 1986, as amended);

WHEREAS, the Issuer, on behalf of the Sponsoring Entity, is empowered to issue its revenue bonds in order to acquire by purchase, purchase contract or lease, or to construct, enlarge, extend, repair, renovate or otherwise improve, educational facilities, and to refinance any educational facility acquired, constructed or improved, and for the purpose of aiding authorized charter schools in providing educational facilities and facilities incidental, subordinate or related thereto or appropriate in connection therewith;

WHEREAS, in furtherance of the purposes of the Act, the Issuer proposes to issue its \$36,920,000 Education Revenue Bonds (Legacy Preparatory Charter Academy) Series 2018A (the “Series 2018A Bonds”) and its \$1,095,000 Taxable Education Revenue Bonds (Legacy Preparatory Charter Academy) Series 2018B (the “Series 2018B Bonds” and, together with the Series 2018A Bonds, the “Bonds”), the proceeds of which will be loaned to the Company pursuant to this Agreement to be used to (i) purchase, construct, renovate and improve educational facilities located in Plano and Mesquite, Texas (the “Projects”), (ii) refinance certain existing loans, (iii) reimburse itself for various capital expenditures, (iv) fund a debt service reserve fund and (v) pay costs of issuance of the Bonds;

WHEREAS, contemporaneously with the execution and delivery of this Agreement, the Issuer has entered into the Trust Indenture and Security Agreement (the “Indenture”), dated as of February 1, 2018, between the Issuer and UMB Bank, N.A., as trustee (in such capacity, the “Trustee”), for the purposes of effecting the issuance of the Bonds, furthering the public purposes of the Act and securing to the Holders of the Bonds the payment of the Bonds;

WHEREAS, the Company is a party to that certain Master Trust Indenture and Security Agreement (the “Master Indenture”), dated as of February 1, 2018, between the Company, on behalf of itself, and UMB Bank, N.A., as Master Trustee (the “Master Trustee”), as supplemented by the Supplemental Master Trust Indenture No. 1, dated as of February 1, 2018, between the Company and the Master Trustee, which secures payment of certain Debt (as defined in the Master Indenture) of the Company, including the Series 2018A Note and the

Series 2018B Note (as hereinafter defined), which evidences the Loan made hereby (the “Loan”);

WHEREAS, the Issuer shall issue the Bonds in order to loan the proceeds thereof pursuant to this Agreement to the Company and the Company agrees to repay the Loan on the terms set forth herein;

WHEREAS, pursuant to the provisions of this Agreement, the Company is executing and delivering to the Issuer the Series 2018A Note and the Series 2018B Note to evidence the loan of the proceeds of the Series 2018A Bonds and the Series 2018B Bonds, respectively, to the Company and the obligation of the Company under this Agreement to repay the same, and each such note is a “Master Note” under the Supplemental Master Trust Indenture; and

WHEREAS, pursuant to the provisions of this Agreement, the Issuer is collaterally assigning to the Trustee all of the Issuer’s right, title and interest in the Series 2018A Note, the Series 2018B Note and the Loan Payments (as hereinafter defined) to be made by the Company pursuant to this Agreement;

NOW THEREFORE, in consideration of the premises and other good and valuable consideration and the mutual benefits, covenants and agreements set forth below, the parties agree as follows:

## ARTICLE I.

### DEFINITIONS AND INTERPRETATIONS

#### 1.01 Construction of Terms; Definitions.

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

(i) “Agreement” means this instrument as originally executed or as it may from time to time be supplemented or amended by one (1) or more agreements supplemental hereto entered into pursuant to the applicable provisions hereof.

(ii) 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.

(iii) 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 the Master Indenture and not defined herein have the meanings assigned to them in the Indenture and the Master Indenture. Reference to any Bond Document means that Bond Document as amended or supplemented from time to time. Reference to any party to a Bond Document means that party and its permitted successors and assigns.

(iv) 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) that 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) that 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 Schulman, Lopez, Hoffer & Adelstein, LLP, or such other attorney or firm of attorneys nationally recognized in the practice of tax-exempt municipal finance law as approved by the Company.

“Bond Documents” means the Indenture, the Agreement, the Series 2018 Notes, the Master Indenture, the Supplemental Master Trust Indenture, the Deed of Trust, the Deposit Account Control Agreement and all other agreements, documents and instruments delivered pursuant to any of the foregoing and any and all future renewals or restatements of any of the foregoing.

“Bond Year” has the meaning set forth in Section 5.03 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 Bonds, (b) the duties, activities, acts or omissions (even if negligent) of any Person in connection with the issuance of the Bonds, the obligations of the various parties arising under the Bond Documents or the administration of any of the Bond Documents or (c) the duties, activities, acts or omissions (even if negligent) of any Person in connection with the design, construction, installation, operation, use, occupancy, maintenance or ownership of the Project or any part thereof.

“Closing Date” means the date of closing of the issuance of the Bonds.

“Code” means the Internal Revenue Code of 1986, as amended from time to time, and the corresponding provisions, if any, of any successor internal revenue laws of the United States.

“Computation Date” has the meaning set forth in Section 5.03 herein.

“Construction Consultant” means Parkhill, Smith & Cooper, Inc. or any successor construction consultant, designated by the Company, for any Participating Campus.

“Continuing Disclosure Agreement” means the Continuing Disclosure Agreement dated as of February 1, 2018 between the Company and Digital Assurance Certification, LLC.

“Days Cash on Hand” means, as of any date of determination, the product obtained by multiplying 365 by the quotient determined by dividing (a) all unrestricted cash, cash equivalents, liquid investments and unrestricted marketable securities (valued at the lower of cost or market) of the Company (less cash restricted for debt service on Debt of the Company) as reported in the Company’s most recent audited financial statements by (b) the total expenses of the Company plus interest expense on Debt, in each case for the prior Fiscal Year.

“Debt” shall have the meaning assigned to such term in the Master Indenture.

“Debt Service Reserve Fund” means the special trust fund created pursuant to Section 5.01 of the Supplemental Master Trust Indenture.

“Extraordinary Optional Redemption” means an Extraordinary Optional Redemption, as described in Exhibit A-2 of the Indenture.

“Favorable Opinion of Bond Counsel” means, with respect to any action the taking of which requires an unqualified opinion, such an opinion of counsel, which shall be from Bond Counsel, delivered to and in form and substance satisfactory to the Issuer to the effect that such action is permitted under the laws of the State (including the Act), the Code and the Indenture and will not adversely affect the exclusion of interest on the Series 2018A Bonds from gross income for purposes of federal income taxation.

“Fiscal Year” means any twelve-month period beginning on September 1 of any calendar year and ending on August 31 of the following year or such other twelve-month period selected

by the Company as the fiscal year for the Company; provided that the Company shall give written notice of any such change to the Issuer and the Trustee.

“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.

“Indenture” means the Trust Indenture and Security Agreement, dated as of the date of this Agreement, between the Issuer and UMB Bank, N.A., as trustee, securing the Bonds.

“Indemnified Party” shall mean one (1) or more of the Issuer, the Governing Body of the Issuer, the Sponsoring Entity and any of their successors, officers, directors or commissioners.

“Independent” means, when used with respect to any specified Person, such a Person who (i) is in fact independent, (ii) does not have any direct financial interest or any material indirect financial interest in the Company and (iii) is not connected with the Company as an officer, employee, promoter, trustee, partner, director or person performing similar functions. Whenever it is herein or in the Indenture provided that any Independent Person’s opinion or certificate shall be furnished to the Trustee, such Person shall be appointed by order and such opinion or certificate shall state that the signer has read this definition and that the signer is Independent within the meaning hereof.

“Loan Payments” means the amounts described in Sections 4.01(a) and (b) of this Agreement.

“Losses” means losses, costs, damages, expenses, judgments and liabilities of whatever nature (including, but not limited to, reasonable attorney’s, accountant’s and other professional’s fees, litigation and court costs and expenses, amounts paid in settlement and amounts paid to discharge judgments and amounts payable by an Indemnified Party to any other Person under any arrangement providing for indemnification of that Person) directly or indirectly resulting from, arising out of or relating to one (1) or more Claims.

“MSRB” means the Municipal Securities Rulemaking Board.

“Opinion of Counsel” means a written opinion of counsel, who may (except as otherwise expressly provided) be counsel to any party to a Bond Document, and shall be satisfactory to the Trustee.

“Organizational Documents” of any corporation means the articles of incorporation, certificate of incorporation, corporate charter or other document pursuant to which such corporation was organized, and its bylaws, each as amended from time to time, and as to any other Person, means the instruments pursuant to which it was created and which govern its powers and the authority of its representatives to act on its behalf.

“Participating Campuses” means, collectively, the charter school campuses and facilities of the Company so designated under the Master Trust Indenture, as supplemented.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Plans and Specifications” means the plans and specifications for the Project, as the same may be prepared or amended from time to time as provided in Section 3.01 hereof, on file at the principal business office of the Company and available at all times for inspection by the Issuer.

“Project” means the Project described in Exhibit A hereto.

“Project Costs” means costs permitted to be paid out of proceeds of the Bonds by the Act and by the Code, including costs related to the Project (excluding the Costs of Issuance).

“Regulated Chemical” means any substance, the presence of which requires investigation, permitting, control or remediation under any federal, state or local statute, regulation, ordinance or order, including, without limitation:

- (a) any substance defined as “hazardous waste” under the Resource Conservation and Recovery Act, as amended (42 U.S.C. §6901 et seq.);
- (b) any substance defined as a “hazardous substance” under the Comprehensive Environmental Response, Compensation and Liability Act, as amended (42 U.S.C. §9601 et seq.);
- (c) any substance defined as a “hazardous material” under the Hazardous Materials Transportation Act (49 U.S.C. §1800 et seq.);
- (d) any substance defined under any Texas statute analogous to (a), (b) or (c), to the extent that said statute defines any term more expansively;
- (e) asbestos;
- (f) urea formaldehyde;
- (g) polychlorinated biphenyls;
- (h) petroleum, or any distillate or fraction thereof;
- (i) any hazardous or toxic substance designated pursuant to the laws of the State; and
- (j) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority.

“Rule” means Securities and Exchange Commission Rule 15c2-12, as amended.

“Series 2018 Notes” means the Series 2018A Note and the Series 2018B Note together.

“Series 2018A 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 2018A Bonds.

“Series 2018B Note” means the taxable master indenture note in the form attached to the Supplemental Master Trust Indenture as Exhibit B, which is secured by the Master Indenture executed by the Company and dated the Closing Date in the principal amount of the Series 2018B Bonds.

“Sponsoring Entity” means the Town of New Hope, Texas.

“Supplemental Master Trust Indenture” shall mean the Supplemental Master Trust Indenture No. 1, dated as of February 1, 2018, between the Company and the Master Trustee.

“Value” means the value of any investments, determined at the end of each calendar month, which shall be calculated as follows:

1. As to Eligible Securities (other than as provided in (2) and (3) below), the market value thereof determined by the Master Trustee at the end of each month using and relying conclusively and without liability upon any generally accepted industry standards and from a generally accepted pricing information service available to it;

2. As to certificates of deposit and bankers’ acceptances, the face amount thereof, plus accrued interest; and

3. As to any investment not specified above, the value thereof established by prior agreement among the Company and the Master Trustee.

(c) Certain terms, used primarily in Sections 4.07 and 5.03, are defined in those Sections.

**1.02 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 him 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 (1) document, but one such Person may certify or give an opinion with respect to some matters and one (1) 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 (1) or several documents.

Any certificate or opinion of an officer of the Company 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 such certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual

matters, upon a certificate or opinion of, or representations by, an officer or officers of 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 (2) or more applications, requests, consents, certificates, statements, opinions or other instruments hereunder, they may, but need not, be consolidated and form one (1) instrument.

**1.03 Communications.** All notices, demands, certificates, requests, consents, submissions or other communications hereunder shall be given as provided in the Indenture.

**1.04 Term of Agreement.** This Agreement shall remain in full force and effect from the date of execution and delivery hereof until the Indenture has been discharged in accordance with the provisions thereof; provided, however, that (a) the provisions of this Section and of Sections 4.07, 5.01, 5.06 and 5.07 of this Agreement shall survive any expiration or termination of this Agreement and (b) in addition, if the Indenture is discharged prior to the final Maturity of the Bonds, the provisions of Sections 3.03, 3.05, 4.01(b), 4.03 and 5.03 of this Agreement shall continue until the final Maturity of the Bonds.

**1.05 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.

**1.06 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.

**1.07 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.

**1.08 Severability 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.

**1.09 Benefits of Agreement.** Subject to Section 7.09 hereof, nothing in this Agreement or in the Bonds, express or implied, shall give to any Person, other than the parties to the Bond Documents and their successors and assigns hereunder, the Indemnified Parties and the Holders of the Bonds, any benefit or any legal or equitable right, remedy or claim under this Agreement.

**1.10 Governing Law.** This Agreement shall be construed in accordance with and governed by the laws of the State.

**1.11 Amendments.** This Agreement may be amended only as provided in the Indenture.

## ARTICLE II.

### REPRESENTATIONS, WARRANTIES AND COVENANTS

2.01 **Representations, Warranties and Covenants of the Issuer.** The Issuer represents, warrants and covenants that:

(a) Corporate Existence; Good Standing. The Issuer is a public, nonprofit corporation created by the Town of New Hope, Texas (the “Town”) and exists as an instrumentality of the Town pursuant to the Cultural Education Facilities Finance Corporation Act, Chapter 337, Texas Local Government Code, as amended (the “Act”).

(b) Power. Under the Act the Issuer, among others, has the same powers, authority and rights to issue revenue bonds for the purpose of aiding any accredited institutions of higher education and authorized charter schools in financing or refinancing educational facilities and facilities which are incidental, subordinate or related thereto or appropriate in connection therewith that a nonprofit corporation created under Section 53.35(b), Texas Education Code, or any authority created under Section 53.11, Texas Education Code, has under Chapter 53, Texas Education Code, as amended.

(c) Due Authorization. The Issuer has duly adopted the resolution authorizing the issuance of the Bonds and has duly authorized the execution and delivery of the Bond Documents to be executed and delivered by it.

(d) Enforceability. The Bond Documents to which the Issuer is a party and the Bonds constitute valid and binding obligations of the Issuer, enforceable against the Issuer in accordance with their terms (except that (i) the enforceability of such Bond Documents may be limited by bankruptcy, reorganization, insolvency, fraudulent transfer, moratorium or other similar laws of general application relating to the enforcement of creditors’ rights, (ii) certain equitable remedies, including specific performance, may be unavailable, and (iii) the indemnification provisions contained therein may be limited by applicable securities laws and public policy).

(e) No Litigation. There is no action, suit, proceeding or investigation at law or in equity before or by any court, either state or federal, or public board or body pending or, to the Issuer’s knowledge, threatened, calling into question the creation or existence of the Issuer, the validity of the Bond Documents to be executed and delivered by it, the authority of the Issuer to execute and deliver the Bond Documents to be executed and delivered by it and to perform its obligations under the Bond Documents or the title of any Person to the office held by that Person with the Issuer.

(f) Non-Contravention. The execution and delivery by the Issuer of the Bond Documents to be executed and delivered by it, and the performance of its obligations under such Bond Documents, will not violate in any respect any provision of law or regulation, or of any judgment, decree, writ, order or injunction, or of the Organizational Documents of the Issuer, and to the Issuer’s knowledge, will not contravene the provisions of, or constitute a default under, or result in the creation of a lien, charge or encumbrance under,

any agreement (other than the Indenture) to which the Issuer is a party or by which any of its properties constituting a part of the Trust Estate under the Indenture are bound.

(g) No Default. To the Issuer's knowledge, no event has occurred, and no condition currently exists, that 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.

**2.02 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 nonprofit 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 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 that, with notice or lapse of time or both, would constitute an event of default or a default under any agreement or instrument to which the Company is a party or by which the Company is or may be bound or to which any of the property or assets of the Company is or may be subject, and which would have a material adverse effect on the Company or which would impair its ability to carry out its obligations under the Bond Documents has occurred and is continuing; neither the execution nor the delivery by the Company of the Bond Documents to which it is party, nor the consummation of any of the transactions herein and therein contemplated nor the fulfillment of, or compliance with, the terms and provisions hereof or thereof, will contravene the Organizational Documents of the Company or will conflict with, in any way that is material to the Company, or result in a breach of, any of the terms, conditions or provisions of, or constitute a default under, any corporate or limited partnership restriction or any bond, debenture, note, mortgage, indenture, agreement or other instrument to which the Company is a party or by which the Company is or may be bound or to which any of the property or assets of the Company is or may be subject, or

any law or any order, rule or regulation (applicable as of the date hereof to the Company) of any court or regulatory body, administrative agency or other governmental body having jurisdiction over the Company or its properties or operations, or will result in the creation or imposition of a prohibited lien, charge or other security interest or encumbrance of any nature upon any property or asset of the Company under the terms of any such restriction, bond, debenture, note, mortgage, indenture, agreement, instrument, law, order, rule or regulation.

(d) No Litigation. Except as disclosed in writing in connection with the offering of the 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 Bonds, no consents, approvals, authorizations or any other actions by any governmental or regulatory authority that have not been obtained or taken are or will be required for the issuance and sale of the Bonds, the execution and delivery of the Bond Documents by the Company, the construction, ownership and operation of the Project or the consummation of the other transactions contemplated by the Bond Documents (except for such licenses, certificates, approvals or permits necessary for the construction of the Project for which the Company either has applied or shall apply with due diligence and which the Company expects to receive).

(g) No Conflict of Interest. No elected or appointed public official, employee, agent or representative of the Sponsoring Entity or any of its official boards, commissions or committees or any member of the Governing Body of the Issuer has any direct or indirect interest of any kind, or any right, agreement or arrangement to acquire such an interest in the Project, as owner, contractor, subcontractor, shareholder, general or limited partner, tenant or otherwise that would violate or require disclosure or other action under any law,



regulation, charter or ordinance of the State or the Sponsoring Entity. 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 Bonds.

(h) Representations Regarding the Project. The Company intends to construct and operate the Project during the term of this Agreement and to expend a portion of the proceeds of the Bonds in the Project Account of the Construction Fund to pay Project Costs. In addition, the Project will be located in its entirety within the boundaries of the State. The principal amount of the Bonds is based upon the Company's most reasonable estimate of financing or refinancing the Project Costs as of the date hereof, which estimates are based upon sound engineering and accounting principles. The ownership of the Project will at all 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:

(i) 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;

(ii) 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;

(iii) 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;

(iv) The Company has not operated during its five (5) most recent fiscal years or the current fiscal year, as of the date hereof, in a manner that would result in its 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;

(v) With the exception of the payment of compensation (and the payment or reimbursement of expenses), which is not excessive and is for personal services that are reasonable and necessary to carrying out the purposes of the Company, no individual who would be a “foundation manager” within the meaning of Section 4946(b) of the Code with respect to the Company, nor any Person controlled by any such individual or individuals or any of their Affiliates, nor any Person having a personal or private interest in the activities of the Company has acquired or received, directly or indirectly, any income or assets, regardless of form, of the Company during the current Fiscal Year and the five (5) Fiscal Years preceding the current Fiscal Year, other than as reported to the IRS by the Company;

(vi) The Company is not a “private foundation” within the meaning of Section 509(a) of the Code;

(vii) 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;

(viii) 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;

(ix) 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;

(x) 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 2018A Bonds to be includable in the income of the recipients thereof for federal income tax purposes;

(xi) Taking into account the Issue Price (as defined in Section 5.03(q) of this Agreement) of the Stated Maturity of the Series 2018A Bonds, the average term of the Series 2018A Bonds does not exceed one hundred twenty (120) percent of the average reasonably expected economic life of the Project to be financed or refinanced by the Series 2018A 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 5.03(q) of this Agreement) of the Series 2018A 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 2018A 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 twenty-five percent (25%) or more of the collective Net Proceeds of the Series 2018A Bonds, directly or indirectly, have been expended for land, such land shall be treated as having an economic life of thirty (30) years and shall be taken into account for purposes of determining the reasonably expected economic life of such property.

(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 4.03 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 and again as of the Closing Date.

### ARTICLE III.

#### THE PROJECT

##### 3.01 Acquisition and Construction of the Project.

(a) The Company agrees to utilize the amounts in the Project Account of 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 that may be financed by the Issuer under the Act and any required approvals of such changes, additions or deletions have been obtained from any governmental bodies or agencies having jurisdiction.

### **3.02 Disbursements of Bond Proceeds.**

(a) Disbursements from Project Account of the Construction Fund. Pursuant to the provisions of the Indenture, there shall be deposited into the Project Account of the Construction Fund a portion of the proceeds received from the sale of the Bonds. The Trustee is authorized and directed to make payments to the Company from the Project Account of the Construction Fund, as requested by the Company and approved in writing by Construction Consultant upon receipt of a Requisition Certificate substantially in the form attached as Exhibit B to the Indenture. The Company shall retain copies of all such Requisition Certificates until the date that is six (6) years from the first date on which no Series 2018A Bonds are Outstanding.

(b) Disbursements from the Costs of Issuance Account and the Reimbursement Account of the Construction Fund. Pursuant to the provisions of the Indenture, there shall be deposited into the Costs of Issuance Account and the Reimbursement Account of the Construction Fund a portion of the proceeds received from the sale of the Bonds. The Trustee is authorized and directed to disburse funds on or after the Closing Date for the Costs of Issuance of the Bonds and certain reimbursements to the Company upon receipt of a Requisition Certificate. The Company shall retain copies of all Requisition Certificates until the date that is six (6) 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 3.02 and shall not be required to make any investigation in connection therewith.

**3.03 Completion of Project if Bond Proceeds Insufficient.** The Company agrees to pay all Project Costs that are not, or cannot be, paid or reimbursed from the proceeds of the Bonds. The Company agrees that if, after exhaustion of the moneys in the Construction Fund established pursuant to the Indenture, the Company should pay any portion of the Project Costs, it shall not be entitled to any reimbursement therefor from the Issuer, the Trustee or from any Bondholder, nor shall it be entitled, as a consequence of such unreimbursed payment, to any abatement, postponement or diminution of the amounts payable under this Agreement.

**3.04 Completion.** Upon completion of the Project, but not later than the end of the fifth (5<sup>th</sup>) Bond Year, the Company shall deliver to the Trustee a Completion Certificate in the form of Exhibit B hereto.

**3.05 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; 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.

**3.06 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 two hundred fifty thousand dollars (\$250,000), such proceeds shall be transferred to the Trustee for deposit in the Insurance Proceeds Account of the Proceeds 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 Proceeds Fund for such purposes or to reimburse the Company for costs paid by it in connection therewith upon receipt of a Requisition Certificate signed by an Authorized Representative of the Company and approved by the Construction Consultant, in the same form as Exhibit B to the Indenture. Any balance of the insurance or condemnation proceeds remaining after the Project has been repaired, restored or replaced to a state substantially like that prior to the event of damage, destruction or taking, as determined by the Construction Consultant, shall, upon delivery to the Trustee of a certificate executed by the Construction Consultant to such effect, be deposited to the Debt Service Fund and applied to the redemption of the Bonds at the earliest practical date.

(c) If the insurance or condemnation proceeds of any damage, destruction, condemnation or taking under the threat of condemnation with respect to the Project as determined by the Construction Consultant pursuant to paragraph (a) above are greater than two hundred fifty thousand dollars (\$250,000), such insurance or condemnation proceeds shall be transferred to the Trustee for deposit in the Insurance Proceeds Account of the Proceeds Fund for the Bonds, and:

(i) 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 (i) above for deposit in a special separate account of the Proceeds 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, equipment and effects, to its original condition to the extent possible. Each request for payment shall comply with the requirements of the Indenture Section 4.02(b) for payments from the Insurance Proceeds Account of the Proceeds Fund.

(ii) If the Construction Consultant's report determines that the conditions are not satisfied or fail to meet the requirements relating to repair or reconstruction or replacement in clause (i) above, the Company shall prepay the Loan and the Bonds shall be redeemed as set forth in paragraph (e) below.

(d) Under the circumstances set forth in subsection (c)(i) 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 costs in excess of the amount of the insurance or condemnation proceeds held by the Trustee. The Company agrees that if by reason of any such insufficiency of the insurance or condemnation proceeds, the Company shall make any payments pursuant to the provisions of this Section, the Company shall not be entitled to any reimbursement therefor from the Trustee or any Holder, nor shall the Company be entitled to any diminution of the amount payable hereunder.

(e) Under the circumstances set forth in subsection (c)(ii) hereof, the Loan shall be paid and the Bonds redeemed in full without premium and the insurance proceeds shall be transferred by the Trustee from the applicable account in the Construction Fund to the applicable account in the Debt Service Fund for such purpose. If the insurance proceeds are insufficient to redeem the Bonds in full, the Company shall provide to the Trustee for deposit into the Debt Service Fund moneys which, together with the insurance proceeds, will be sufficient to redeem all of the Bonds pursuant to the Extraordinary Optional Redemption provisions of the Bonds. In the event that the Company has completed any

repair, reconstruction or replacement of the Project after the occurrence of any damage, destruction or condemnation and there are excess insurance proceeds, such excess shall be deposited in the Debt Service Fund and applied to the redemption of all or a portion of the Bonds pursuant to the Extraordinary Optional Redemption provision of the Bonds.

**3.07 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.

**3.08 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.

**3.09 No Establishment and No Impairment of Religion.** The Company and the Issuer intend that the Loan to the Company and all other transactions provided for in this Agreement be made in strict compliance with all applicable laws and constitutional provisions of the United States and the State. Accordingly, the Company agrees that to the full extent required from time to time by applicable laws and constitutional provisions of the United States and the State in order for the Loan to the Company and all other transactions provided for in this Agreement to be made and effected in compliance with such laws and constitutional provisions: (a) no part of the Project financed in whole or in part with proceeds of the Bonds shall be used for sectarian instruction or as a place of religious worship; (b) notwithstanding the payment in full of the Loan Payments and the Bonds, and notwithstanding the termination of this Agreement, each such part of the Project will continue to be subject to the restrictions set out in clause (a) of this Section for so long as it is owned by the Company, or any voluntary grantee of the Company; provided that the continuance of such restriction is necessary to preserve the exemption from federal income taxation of interest on the Bonds under the Code. Provided, however, that to any extent that a restriction or agreement set out in this Section shall at any time not be required in order for the Loan 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.

**3.10 Issuer Relieved from Responsibility with Respect to Project.** The Company and the Issuer hereby expressly acknowledge and agree that the Issuer is under no responsibility to insure, maintain, operate or repair the Project or to pay taxes with respect thereto, and the Company expressly relieves the Issuer from any such responsibility.

3.11 **Force Majeure.** If by reason of Force Majeure the Company shall be rendered unable wholly or in part to carry out its obligations under this Article (other than its obligations to pay money contained in this Agreement), and if the Company gives notice and full particulars of such Force Majeure in writing to the Issuer and to the Trustee within a reasonable time after failure to carry out such obligations, then the obligations of the Company under this Article, so far as they are affected by such Force Majeure, shall be suspended during the continuance of the inability then claimed, including a reasonable time for removal of the effect thereof. The requirement that any Force Majeure shall be reasonably beyond the control of the Company shall be deemed to be fulfilled even though any existing or impending strike, lockout or other industrial disturbance may not be settled but could have been settled by acceding to the demand of the opposing Person. The occurrence of any Force Majeure shall not suspend or otherwise abate, and the Company shall not be relieved from, the obligation to pay the 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.

3.12 **Insurance.** So long as the Bonds remain Outstanding, the Company shall at all times keep and maintain the insurance required by Section 4.09 of the Master Indenture.

3.13 **Disposition of Project.** Subject to Section 5.11 hereof, the Company covenants that the Project will not be sold or otherwise disposed in a transaction resulting in the receipt by the Company of cash or other compensation, unless the Company delivers a Favorable Opinion of Bond Counsel to the Issuer and the Trustee; provided that this provision shall not apply to any portion of the Property comprising personal property and disposed of in the ordinary course of business.

## ARTICLE IV.

### PAYMENTS

#### 4.01 **Loan Payments**

(a) To repay the Loan of the proceeds of the Bonds evidenced by the Series 2018 Notes, the Company shall, subject to the limitations of Section 4.05 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 (5<sup>th</sup>) Business Day prior to any Interest Payment Date or the eighth (8<sup>th</sup>) day of each month, in equal monthly installments, for deposit into the Debt Service Fund, amounts sufficient to provide



for the payment of interest that is due on the next ensuing date for payment of such interest with respect to the Bonds;

(ii) on or before the earlier of the fifth (5<sup>th</sup>) Business Day prior to any Interest Payment Date or the eighth (8<sup>th</sup>) day of each month, in equal monthly installments, for deposit into the Debt Service Fund, amounts sufficient to provide for the payment of the principal of or sinking fund payment on the Bonds that is next due for payment of such principal or for such sinking fund redemption payment; and

(iii) on or before the earlier of the fifth (5<sup>th</sup>) Business Day prior to any Interest Payment Date or the eighth (8<sup>th</sup>) day of each month, for deposit into the Debt Service Reserve Fund, such amounts as are required by Section 4.06 of this Agreement to restore the Reserve Fund Requirement.

(b) If, subsequent to a date on which the Company is not obligated to pay the Loan Payments (as a result of defeasance of the Bonds pursuant to Section 10.02 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 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 4.05 of this Agreement, shall pay immediately to the Trustee for deposit in the Debt Service Fund the amount of any such deficiency below such sufficient amount.

(c) If the Texas Education Agency, the Texas Attorney General, the Texas Comptroller of Public Accounts or any other agency with authority over the expenditures or safekeeping of State Revenues notifies the Company that the Bonds do not provide benefits to all Participating Campuses sufficient to satisfy the requirements under Section 12.107, Texas Education Code, as amended, then the Company shall only provide Loan Payments from any Participating Campuses in excess of its Pro-Rata share through a loan to any other Participating Campuses that cannot pay its Pro-Rata share. Such loan shall not constitute Debt under the terms of the Master Indenture, the Indenture or any Supplement to either document, the Company shall have no duty to notify the Trustee of any such notification or loan, and the Trustee shall have no duty or responsibility to enforce this Section; 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 4.04 hereof. For purposes of this paragraph, “Pro-Rata” means in proportion to the percentage of Bond proceeds spent on improvements to schools operated under a specific charter, such that the amount of Loan Payments made from State Revenues with respect to schools operated under a particular charter is proportional to the percentage of Bond proceeds spent on improvements to the schools operated under such charter in accordance with Section 12.107, Texas Education Code, as amended.

**4.02 Prepayment of Loan; Redemption of Bonds.** The Company may at any time deliver money or Defeasance Obligations to the Trustee with instructions to the Trustee to hold such money or Defeasance Obligations pursuant to the Indenture in connection with a deemed payment or redemption of Bonds. The Issuer agrees that, at the request at any time of the Company, it will notify the Trustee, exercise its rights and otherwise cooperate with the Company to cause the Bonds or any portion thereof to be redeemed to the extent required or permitted by the Indenture. Except to the extent of any such deemed payment or any redemption of the Bonds in whole or in part, neither the Loan made hereunder, nor the Series 2018 Notes shall be pre-payable. 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.

**4.03 Security Interests.** (a) As security for repayment of the Series 2018 Notes and performance of the Company's obligations under this Agreement, the Company hereby pledges, sets over, assigns and grants a security interest to the Issuer in all of the Company's right, title and interest in and to all amounts at any time deposited in the Funds established pursuant to the Indenture (except the Rebate Fund), including all investments and reinvestments made with such amounts and the proceeds thereof, and in all of its rights to and interests in such amounts, investments, reinvestments and proceeds. The Company hereby authorizes and directs the Trustee to invest and disburse such amounts and proceeds in accordance with the Indenture and this Agreement. The Company represents that, under the laws of the State, (i) this Agreement creates a valid and binding lien in favor of the Issuer as security for the payment of the Series 2018 Notes, enforceable in accordance with the terms hereof; and (ii) the lien on the collateral granted hereunder, is and shall be prior to any judicial lien hereafter imposed on such collateral to enforce a judgment against the Company on a simple contract.

(b) The Company hereby authorizes the Issuer and the Trustee to file any financing statements or continuation statements necessary to maintain the perfection of the security interests granted hereby. 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 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 (1) 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 for any financing statements, copies of which are delivered to it (the "Financing Statements") or (ii) confirm, on an annual basis, the filing of continuation statements for such Financing Statements. The Trustee is hereby authorized to make such filings; provided, however, that unless otherwise directed by the Issuer or the Company in writing, the Trustee may conclusively rely upon the Financing Statements in filing any continuation statements hereunder.

(c) Under the Indenture, the Issuer is, as security for the Bonds, pledging, assigning, transferring and granting a security interest in certain of its rights, title and interest under this Agreement to the Trustee. The Company agrees that this Agreement, and all of the rights, interests, powers, privileges and benefits accruing to or vested in the Issuer, shall be protected and enforced in conformity with the Indenture and (except for the Issuer's Unassigned Rights) are being assigned by the Issuer to the Trustee as security for the Bonds and may be exercised, protected and enforced solely by the Trustee for or on behalf of the Bondholders in conformity with this Agreement and the Indenture. The Trustee is hereby given the exclusive right to enforce, as assignee of the Issuer, the performance of the obligations of the Company, and the Company hereby consents to the same and agrees that the Trustee may enforce such rights as provided in this Agreement and in the Indenture. The Issuer and the Company recognize that the Trustee is a third party creditor-beneficiary of this Agreement. The Issuer hereby directs the Company to make all payments (other than payments relating to any money or rights not granted to the Trustee as part of the Trust Estate pursuant to the granting clauses in the Indenture) to the Trustee instead of to the Issuer and the Company hereby agrees to do so. All such payments shall be made in lawful money of the United States of America directly to the Trustee, as assigned by the Issuer, at the location specified by the Trustee, and shall be applied as provided in Section 4.01 of this Agreement. The Company and the Issuer further acknowledge that, except for the obligation of the Trustee to credit amounts paid or recovered from this Agreement or the collateral therefor to the Issuer's debt evidenced by the Bonds, and except for certain rights not granted to the Trustee as part of the Trust Estate, the Issuer has no further interest in this Agreement and the Trustee shall have the exclusive right (subject to the provisions of the Indenture) to grant consents, extensions, forgiveness and waivers, make amendments, release collateral and otherwise deal with the Company as the sole owner of this Agreement and the Trustee exclusively may start and prosecute suit hereon or otherwise take action to recover amounts owing under this Agreement without first obtaining the consent of the Issuer or without joining the Issuer as a plaintiff.

**4.04 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 that it may have at any time to any stay or extension of time for performance or to terminate, cancel or limit its liability under the Bond Documents to which it is a party except through payment or deemed payment of the Bonds as provided in such Bond Documents. The Holders of the Bonds shall be entitled to rely upon the agreements and covenants in this Section regardless of the validity or enforceability of the remainder of this Agreement or any other Bond Document or agreement.

The preceding paragraph shall not be construed to release the Issuer from the performance of any of its agreements contained in this Agreement, or except to the extent provided in this Section and Section 5.01, prevent or restrict the Company from asserting any rights that 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.

**4.05 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 that could have been contracted for, charged, reserved, received or taken at the Highest Lawful Rate. If the applicable law is ever judicially interpreted so as to render usurious any amount called for under the Bond Documents or otherwise contracted for, charged, reserved, received or taken in connection with any loan made hereunder, or if the Trustee's exercise of the right to accelerate the Maturity of any loan made hereunder or if any prepayment of any such loan by the Company results in there having been paid or received any interest in excess of that permitted by applicable law, then notwithstanding anything to the contrary contained in the Bond Documents, all excess amounts theretofore paid or received shall be credited on the principal balance of such loan (or, if such loan has been or would thereby be paid in full, refunded), and the provisions of this Agreement and the related Note shall immediately be deemed reformed and the amounts thereafter collectible thereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for thereunder. All sums paid or agreed to be paid for the use, forbearance or detention of the indebtedness evidenced by any such loan shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of such indebtedness until payment in full so that the rate or amount of interest on account of such indebtedness does not exceed the usury ceiling from time to time in effect and applicable to such indebtedness for so long as such indebtedness is outstanding (it being understood that the foregoing provisions permit the rate of interest on such loan to exceed the Highest Lawful Rate for any day as long as the total amount of interest paid on such loan from the date of initial delivery of the Bonds to the date of calculation does not exceed the amount of interest that would have been paid on such loan to the date of calculation if such loan had borne interest for such period at the Highest Lawful Rate). For purposes of this Section, "Highest Lawful Rate" means the maximum rate of nonusurious interest (determined as provided in this Agreement) applicable to each loan made to the Company under this Agreement allowed from time to time by applicable law as is now in effect or, to the extent allowed by applicable law, such higher rate as may hereafter be in effect.

**4.06 Debt Service Reserve Fund.** In the event of any withdrawal from the Debt Service Reserve Fund pursuant to Section 4.03(d) of the Indenture and Section 5.01(b) of the Supplemental Master Trust Indenture, in order to cure any deficiency in the Debt Service Fund or in the event that the Master Trustee notifies the Company that the amount on deposit in the Debt Service Reserve Fund is less than the Reserve Fund Requirement, the Company shall pay, or cause to be paid, to the Master Trustee, (i) if the amount in the Debt Service Reserve Fund is less than the Reserve Fund Requirement because of any withdrawal from the Debt Service Reserve Fund pursuant to Section 4.03(d) of the Indenture and Section 5.01(b) of the Supplemental Master Trust Indenture in order to cure any deficiency in the Debt Service Fund, the amount needed to restore the amount in the Debt Service Reserve Fund to the Reserve Fund Requirement (A) in full within thirty (30) days from the date of deposit in the Debt Service Fund or (B) in no more than twelve (12) equal, consecutive monthly installments, each payable on the date that a Loan Payment is due, commencing in the month immediately succeeding the month of the withdrawal, or (ii) in the event that the Master Trustee notifies the Company that the amount on deposit in the Debt Service Reserve Fund is less than the Reserve Fund Requirement, the amount of such decline in Value for deposit into the Debt Service Reserve Fund in no more than four (4) consecutive equal monthly installments, each payable on the date that a Loan Payment is due, commencing in the month immediately succeeding the month in which the calculation of the Reserve Fund Requirement showed a deficiency in the Debt Service Reserve Fund; provided that if an additional decline occurs prior to the restoration of any decline, such additional decline shall be restored in equal monthly installments over the remainder of the restoration period for the initial decline.

**4.07 Fees and Expenses.**

(a) Issuer. The Company agrees to pay promptly upon demand therefor all fees and costs paid, incurred or charged by the Issuer in connection with the Bonds including, without limitation, (i) all out-of-pocket expenses and Costs of Issuance (including reasonable fees and expenses of attorneys employed by the Issuer) reasonably incurred by the Issuer in connection with the issuance of the Bonds and the administration of the Bond Documents, (ii) all payments required to be paid by the Issuer with respect to the Bonds, and (iii) out-of-pocket expenses (including reasonable fees and expenses of attorneys employed by the Issuer) reasonably incurred by the Issuer in connection with the enforcement of any of its rights or remedies or the performance of its duties under the Bond Documents to which it is a party.

(b) Trustee and Paying Agent. The Company agrees to pay all costs paid, incurred or charged by the Trustee and the Paying Agent including, without limitation, (i) all fees and out-of-pocket expenses incurred with respect to services rendered under any of the Bond Documents, (ii) all amounts payable to the Trustee and the Paying Agent pursuant to Section 8.07 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**

**5.01 Indemnification.** (a) 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 THAT ARISE FROM THE NEGLIGENCE OF ANY INDEMNIFIED PARTY.**

(b) Release. None of the Indemnified Parties shall be liable to the Company for, and the Company hereby releases each of them from, all liability to the Company for, all injuries, damages or destruction to all or any part of any property owned or claimed by the Company that directly or indirectly result from, arise out of or relate to the design, construction, operation, use, occupancy, maintenance or ownership of the Project or any part thereof, even if such injuries, damages or destruction directly or indirectly result from, arise out of or relate to, in whole or in part, one (1) or more acts or omissions of the Indemnified Parties (other than fraud, willful misconduct or theft on the part of the Indemnified Party claiming release) in connection with the issuance of the Bonds or in connection with the Project.

(c) Subrogation. Each Indemnified Party, as appropriate, shall reimburse the Company for payments made by the Company pursuant to this Section to the extent of any proceeds, net of all expenses of collection, actually received by it from any other source (but not from the proceeds of any claim against any other Indemnified Party) with respect to any Loss to the extent necessary to prevent a multiple recovery by such Indemnified Party with respect to such Loss. At the request and expense of the Company, each Indemnified Party shall claim or prosecute any such rights of recovery from other sources (other than any claim against another Indemnified Party) and such Indemnified Party shall assign its rights to such rights of recovery from other sources (other than any claim against another Indemnified Party), to the extent of such required reimbursement, to the Company.

(d) Notice. In case any Claim shall be brought or, to the knowledge of any Indemnified Party, threatened against any Indemnified Party in respect of which indemnity may be sought against the Company, such Indemnified Party promptly shall notify the Company in writing; provided, however, that any failure so to notify shall not relieve the Company of its obligations under this Section.

(e) Defense. The Company shall have the right to assume the investigation and defense of all Claims, including the employment of counsel and the payment of all expenses. Each Indemnified Party shall have the right to employ separate counsel in any such action and participate in the investigation and defense thereof, but the fees and expenses of such counsel shall be paid by such Indemnified Party unless (i) the employment of such counsel has been specifically authorized by the Company in writing, (ii) the Company has failed, after receipt of notice of such Claim, to assume the defense and to employ counsel, or (iii) the Indemnified Party shall have been advised by counsel that there may be one (1) or more legal defenses available to it that 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 (1) 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 (1) 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 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 the Bonds or the Issuer's authority therefore; (iii) the Indenture and any instrument related thereto, (iv) the Trustee's execution, delivery and performance of the Indenture in respect of any Indemnatee, except to the extent such Indemnatee's gross negligence or bad faith primarily caused the Loss, and (v) compliance with or attempted compliance with or reliance on any instruction or other direction upon which the Trustee may rely under the

Indenture or any instrument related thereto. The Company further agrees to indemnify the Indemnitees against any Losses as a result of (1) any untrue statement or alleged untrue statement of any material fact or the omission or alleged omission to state a material fact necessary to make the statements made not misleading in any statement, information or material furnished by the Company to the Issuer or the Trustee, including, but not limited to, any disclosure utilized in connection with the sale of the Bonds, or (2) the inaccuracy of the statement contained in any section of any Bond Document relating to environmental representations and warranties. The foregoing indemnification shall include, without limitation, indemnification for any statement or information concerning the Company or its officer and members or its Property contained in any official statement or other offering document furnished to the Trustee or the purchaser of any Bonds that is untrue or incorrect in any material respect, and any omission from such official statement or other offering document of any statement or information that should be contained therein for the purpose for which the same is to be used or that 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.

**5.02 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.

**5.03 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 2018A 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 5.03(q). With the intent not to limit the generality of the foregoing, the Company covenants and agrees that, prior to the final Maturity of the Series 2018A 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 2.02(i)(i) through 2.02(i)(L) of this Agreement, and (ii) timely file or cause to be filed all materials, returns, reports and other documents that 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 2.02(i)(A) through 2.02(i)(xii) of this Agreement.

(c) Ownership of Project. All of the property financed or refinanced with the Net Proceeds of the Series 2018A Bonds will, at all times prior to final Maturity of the Series 2018A Bonds or prior to the expiration of the useful life of such property, be owned for federal income tax purposes by the Company or by another Exempt Person.

(d) Limit on Costs of Issuance. The Net Proceeds of the Series 2018A Bonds will be expended for the purposes set forth in this Agreement and in the Indenture. Not more than two percent (2%) of the Sale Proceeds of the Series 2018A Bonds, within the meaning of Section 147(g) of the Code, will be expended to pay Costs of Issuance with respect to the Series 2018A Bonds.

(e) Use of Net Proceeds. The Company will not use or permit to be used, directly or indirectly, in any trade or business carried on by any Person who is not an Exempt Person, more than the lesser of (i) five percent (5%) of the Net Proceeds of the Series 2018A Bonds or (ii) fifteen million dollars (\$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 2018A 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 2018A 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 Net Proceeds of the Series 2018A Bonds, directly or indirectly, to make or finance loans to persons who are not Exempt Persons. For purposes of the preceding sentence, (i) a loan to an organization described in Section 501(c)(3) of the Code for use with respect to an unrelated trade or business, determined according to Section 513(a) of the Code, does not constitute a loan to an Exempt Person, and (ii) any transaction that constructively transfers ownership of property financed with Sale Proceeds of the Series 2018A Bonds for federal income tax purposes constitutes a loan of such Sale Proceeds.

(g) Rebate. The Company agrees to take all steps necessary to compute and pay any Rebate Amount in accordance with Section 148(f) of the Code, including:

(i) Delivery of Documents and Money on Computation Dates. The Company will deliver to the Trustee, within forty-five (45) days after each Computation Date for the Series 2018A Bonds,

(A) a statement, signed by an officer of the Company, stating the Rebate Amount as of such Computation Date; and

(B) (1) if such Computation Date is an Installment Computation Date, an amount which, together with any amount then held for the credit of the Rebate Fund, is equal to at least ninety percent (90%) of the Rebate Amount in respect of the Series 2018A Bonds as of such Installment Computation Date, less any prior payments made to the United States for rebatable arbitrage in respect of the Series 2018A Bonds, (2) if such Computation Date is the Final Computation Date, an amount which, together with any amount then held for the credit of the Rebate Fund in respect of the Series 2018A Bonds, is equal to the Rebate Amount as of such Final Computation Date, less any prior payments made to the United States for rebatable arbitrage in respect of the Series 2018A Bonds, or (3) if such Computation Date is an Expenditure Date, an amount which, together with any amount then held for the credit of the Rebate Fund in respect of the Series 2018A Bonds, is equal to the Rebate Amount in respect of the Series 2018A Bonds as of such Expenditure Date; and

(C) an IRS Form 8038-T completed as of such Computation Date.

(ii) Correction of Underpayment. If the Company discovers or is notified as of any date that any payment paid to the United States Treasury pursuant to the Indenture of an amount described in Section 5.03(g) above will have failed to satisfy any requirement of Section 1.148-3 of the Regulations (whether or not such failure will be due to any default by the Company, the Issuer or the Trustee), the Company will (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 one hundred seventy-five (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 will take such steps as are necessary to prevent the Series 2018A 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 will retain all of its accounting records relating to the accounts and subaccounts within the Debt Service Fund, the Construction Fund, the Debt Service Reserve Fund and the Rebate Fund and the investment and expenditure of the Proceeds of the Series 2018A Bonds and all calculations made in preparing the statements described in this Section 5.03(g) for at least three (3) years after the later of the final Maturity of the Series 2018A Bonds or the first date on which no Series 2018A 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 federal government pursuant to the foregoing requirements to any Person other than the federal government by entering into any investment arrangement with respect to the Gross Proceeds of the Series 2018A Bonds that is not purchased at fair market value or includes terms that the Company would not have included if the Series 2018A 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 will be permitted to take such action if it will 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 5.03(g); provided, however, this shall not absolve the Company of any of the covenants of this Section 5.03(g).

(h) “Federally Guaranteed” Obligations. The Company will not cause the Series 2018A Bonds to be treated as “federally guaranteed” obligations for purposes of Section 149(b) of the Code.

(i) Prohibited Facilities. None of the Proceeds of the Series 2018A Bonds will be used to provide any airplane, sky box or other private luxury box, facility primarily used for gambling, or store the principal business of which is the sale of alcoholic beverages for consumption off premises.

(j) Information Reporting Requirements. The Company will cause the Issuer to comply with the information reporting requirements of Section 149(e)(2) of the Code requiring certain information regarding the Series 2018A Bonds to be filed with the IRS within prescribed time limits.

(k) Yield on Investment of Gross Proceeds. The Company will restrict the cumulative blended Yield on the investment of the Gross Proceeds of the Series 2018A Bonds to the Yield of such issue, other than amounts (i) not subject to yield restriction due

to any applicable temporary period under Section 148(c) of the Code, or as a result of being on deposit in a Reasonably Required Reserve or Replacement Fund, the Rebate Fund, a bona fide debt service fund (including the Debt Service Fund) or as a minor portion, or (ii) invested at a restricted yield by virtue of being invested in obligations described in Section 103(a) of the Code that are not “specified private activity bonds” within the meaning of Section 57(a)(5) of the Code to the extent required by the Code or the Regulations.

(l) Notification of the Internal Revenue Service. The Company will timely notify the IRS of any changes in its organizational documents or method of operations to the extent that the IRS does not already have knowledge of any such changes.

(m) No Arbitrage. The Company will not use or invest the Proceeds of the Series 2018A Bonds such that the Series 2018A Bonds become “arbitrage bonds” within the meaning of Section 148 of the Code, and as evidence of this intent, a representative of the Company has reviewed the No-Arbitrage Certificate prepared in connection with the Series 2018A Bonds and the Company understands and will take (or request the Trustee or the Issuer to take) the actions described therein.

(n) Bonds are Not Hedge Bonds. The Company covenants and agrees that not more than fifty percent (50%) of the Proceeds of the Series 2018A Bonds will be invested in Nonpurpose Investments having a substantially guaranteed Yield for four (4) years or more within the meaning of Section 149(g)(3)(A)(ii) of the Code, and the Company reasonably expects that at least eighty-five percent (85%) of the spendable proceeds of the Series 2018A Bonds will be used to carry out the governmental purposes of the Series 2018A Bonds within the three-year period beginning on the Closing Date.

(o) Limit on Nonhospital Bonds. The Company will expend at least ninety-five percent (95%) of the Net Sale Proceeds of the Series 2018A Bonds for Capital Expenditures incurred after August 5, 1997. Accordingly, the Series 2018A Bonds are not subject to the one hundred fifty million dollars (\$150,000,000) limit on nonhospital bonds imposed by section 145(b) of the Code.

(p) Public Approval. The Company covenants and agrees that the Proceeds of the Series 2018A 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 2018A Bonds published by the Issuer on November 11, 2017 in the *Dallas Morning News*.

(q) Definitions. The following terms have the meanings assigned to them below whenever they are used in this Agreement:

“Available Construction Proceeds” has the meaning set forth in Section 148(f)(4)(C)(vi) of the Code.

“Bond Year” means, with respect to the Series 2018A Bonds, each one-year period (or shorter period from the Closing Date) that ends at the close of business on the day selected by the Company. The first and last Bond Years may be short periods. If no day is selected by the Company before the earlier of the final Maturity of such issue of Bonds or the date that is five (5)

years after the Closing Date, Bond Years end on each anniversary of the Closing Date and on the date of final Maturity. Unless notified in writing to the contrary, the Trustee may conclusively presume that Bond Years end on each anniversary of the Closing Date and the date of final maturity.

“Computation Date” means each Installment Computation Date and the Final Computation Date and in addition, with respect to any portion of the Series 2018A Bonds that is a Construction Bond Issue, with respect to which the penalty set forth in Section 148(f) of the Code has been elected, each Expenditure Date.

“Construction Bond Issue” means the Series 2018A Bonds (or any portions thereof elected by the Issuer in accordance with Section 148(f)(4)(C)(v) of the Code) at least seventy-five percent (75%) of the Available Construction Proceeds, which are to be used for construction expenditures (including expenditures for reconstruction and rehabilitation) with respect to property that is or will be owned by an Exempt Person.

“Costs of Issuance” means issuance costs with respect to the Series 2018A Bonds within the meaning of Section 147(g) of the Code.

“Exempt Person” means a state or local governmental unit or an organization exempt from federal income taxation under Section 501(a) of the Code by reason of being described in Section 501(c)(3) of the Code.

“Expenditure Date” means, with respect to any portion of the Series 2018A Bonds that is a Construction Bond Issue, each six-month anniversary of the Closing Date.

“Expenditure Delay Penalty” means, with respect to any portion of the Series 2018A Bonds that is a Construction Bond Issue, an amount equal to (i) the amount calculated under Section 1.148-3 of the Regulations (i.e., the Rebate Amount calculated as if no part of the Series 2018A Bonds is a Construction Bond Issue), or (ii) with respect to a Construction Bond Issue for which an election has been made to pay the penalty in lieu of rebate, one and one half percent (1.5%) of the Unexpended Required Amount on each Expenditure Date, all in accordance with Section 148(f)(4)(C)(vii) of the Code.

“Final Computation Date” means the final Maturity of the Series 2018A Bonds.

“Gross Proceeds” means any Proceeds and Replacement Proceeds of the Series 2018A Bonds.

“Installment Computation Date” means the last day of the fifth (5<sup>th</sup>) and each succeeding fifth (5<sup>th</sup>) 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 other than an obligation the interest of which is excludable from gross income under Section 103(a) of the Code and is not a preference item under section

57(a)(5) of the Code, (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 that is not located within the jurisdiction of the issuer and that is not acquired to implement a court ordered or approved housing desegregation plan.

“Issue Price” means, with respect to the Series 2018A 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 at least ten percent (10%) of each Maturity of the Series 2018A Bonds is sold.

“Net Proceeds” means any Net Sale Proceeds, Investment Proceeds and Transferred Proceeds of the Series 2018A 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 2018A Bonds, other than the Series 2018A Note and the Series 2018B Note.

“Proceeds” means any Sale Proceeds, Investment Proceeds and Transferred Proceeds of the Series 2018A Bonds.

“Qualifying Costs” means the Project Costs (excluding the costs for funding a debt service reserve fund) 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 2018A Bonds invested at a Yield materially higher than the Yield on the Series 2018A Bonds does not exceed the lesser of (i) ten percent (10%) of the stated principal amount of the Series 2018A Bonds; (ii) the maximum annual debt service on the Series 2018A Bonds; or (iii) one hundred twenty-five percent (125%) of the average annual debt service on the Series 2018A Bonds, within the meaning of Section 1.148-2(f)(2)(ii) of the Regulations; provided that, if the Series 2018A Bonds are sold with more than a de minimus amount of original issue discount or premium, the issue price will be used to measure the ten percent (10%) limit.

“Rebate Amount” has the meaning ascribed in Section 1.148-3 of the Regulations and generally means the excess as of any date of the future value of all receipts on Nonpurpose Investments over the future value of all payments on Nonpurpose Investments, all as determined in accordance with Section 1.148-3 of the Regulations. In the case of any Temporary Period Issue,

the “Rebate Amount” as of any Computation Date shall be limited to the “Rebate Amount” attributable to any Reasonably Required Reserve or Replacement Fund. For any Construction Bond Issue, the “Rebate Amount” as of any Computation Date shall be the Expenditure Delay Penalty plus (in the case of a Computation Date other than an Expenditure Date) the “Rebate Amount” attributable to any Reasonably Required Reserve or Replacement Fund.

“Rebate Analyst” means an independent certified public accountant, financial analyst or bond counsel, or any firm of the foregoing, or financial institution, experienced in making the arbitrage and rebate calculations required pursuant to Section 148(f) of the Code, selected, retained and compensated by the Company pursuant to this Section 5.03(g) to make the computations and give the directions required under Section 4.05 of the Indenture.

“Replacement Proceeds” has the meaning set forth in Section 1.148-1(c) of the Regulations.

“Required Amount” means, with respect to the Series 2018A Bonds (or portion thereof) that is a Construction Bond Issue, (i) ten percent (10%) of the Available Construction Proceeds on the Expenditure Date that falls on the six-month anniversary of the Closing Date, (ii) forty-five percent (45%) of the Available Construction Proceeds on the Expenditure Date that falls on the one-year anniversary of the Closing Date, (iii) seventy-five percent (75%) of the Available Construction Proceeds on the Expenditure Date that falls on the 18-month anniversary of the Closing Date, and (iv) one hundred percent (100%) of the Available Construction Proceeds on any Expenditure Date that falls on or after the two-year anniversary of the Closing Date.

“Sale Proceeds” means any amounts actually or constructively received from the sale (or other disposition) of any Series 2018A 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 2018A Bond, as described in Section 1.148-4(b)(4) of the Regulations, and certain amounts received upon termination of certain hedges, as described in Section 1.148-4(h)(5) of the Regulations.

“Temporary Period Issue” means the Series 2018A Bonds that meet either the 6-month exception or the 18-month exception set forth in Section 1.148-7 of the Regulations.

“Transferred Proceeds” means transferred proceeds as defined in section 1.148-9 of the Regulations.

“Unexpended Required Amount” means, for any Construction Bond Issue, the Required Amount on any Expenditure Date less the percentage of Available Construction Proceeds actually expended on and prior to such Expenditure Date; provided, however, that in the case of any Expenditure Date that falls on or after the two-year anniversary of the Closing Date, Available Construction Proceeds actually expended shall include a reasonable retainage (not in excess of five percent (5%) of Available Construction Proceeds if such retainage is expended prior to the three-year anniversary of the Closing Date.

“Yield” means yield, as determined in accordance with Section 148(h) of the Code and the Regulations, and generally is the yield which, when used in computing the present worth of all

payments of principal and interest to be paid on an obligation, produces an amount equal to the Issue Price of such obligation.

To the extent that published rulings of the IRS or amendments to the Code or the Regulations modify the covenants of the Company that are set forth in this Section 5.03 or that are necessary to preserve the excludability from gross income of interest on the Series 2018A Bonds for federal income tax purposes, the Company and the Issuer will comply with such modifications.

**5.04 Financial Reports; No Default Certificates; Notice of Default.** 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 six (6) months after the end of each Fiscal Year of the Company. At the same time said audit report is delivered to the Company, the Company shall deliver to the Trustee a copy thereof, a copy of the management letter of such accountants and a certificate signed by the Superintendent or Chairman of the Governing Body of the Company stating that such person has reviewed the obligations of the Company under the Agreement, the Deed of Trust, the Series 2018 Notes, the Master Indenture and the Indenture and the performance of the Company hereunder and thereunder, and has consulted with such officers and employees of the Company as he deemed appropriate and necessary for the purpose of delivering such certificate, and based on such review and consultation, no Event of Default and no event that, 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 described in Section 5.09 and the Liquidity Requirement set forth in Section 5.12 herein. 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 confirm that the aforementioned certificate is in the form prescribed herein, 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 that, with the giving of notice or the passage of time or both, would constitute an Event of Default hereunder or under the Series 2018 Notes, the Master Indenture or the Indenture.

**5.05 Further Assurances and Corrective Instruments; Recordation.** The Issuer and the Company agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for carrying out the intention or facilitating the performance of this Agreement, the Master Indenture and the Indenture.

The Company covenants that it will act and cooperate so that this Agreement, the Master Indenture, the Indenture, any financing statements, and all supplements thereto, and any other instruments as may be required from time to time to be kept, will be recorded and filed in such manner and in such places as may from time to time be required by law in order fully to preserve and protect the security of the Holders and the rights of the Trustee under the Indenture.

**5.06 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 5.06 as the “Indemnified Parties”) for, from and against any and all losses, 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 5.06 shall not be affected by any investigation by or on behalf of Indemnified Parties, or by any information that Indemnified Parties may have or obtain with respect thereto.

Notwithstanding anything to the contrary contained in this Section 5.06, no indemnification shall be required for any damages under this Section incurred solely as the result of the gross negligence or willful misconduct of the party seeking indemnification. **The indemnification of the Indemnified Parties as provided in this Section 5.06 shall remain in full force and effect if any such Losses directly or indirectly results from, arises out of or is asserted to have resulted from, arisen out of or related to the sole or contributory negligence of any of the Indemnified Parties.**

**5.07 Continuing Disclosure Undertaking.** The Company hereby agrees to enter into and fully perform its obligations under the Continuing Disclosure Agreement.

**5.08 Existence of the Company.** While any of the Bonds remain Outstanding, the Company shall maintain its corporate existence and qualification to do business in the State, and, if different, the state of the Company's incorporation, and shall not merge or consolidate with any other corporation or entity or sell or dispose of all or substantially all of its assets, unless (and subject to the provisions of Sections 3.13 and 5.03 hereof) (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 53A.02, Texas Education Code.

**5.09 Debt Service Coverage Ratio.** Available Revenues for each Fiscal Year must be equal to at least one hundred ten percent (110%) the Annual Debt Service Requirements of the Company as of the Fiscal Year ending August 31, 2019 and annually thereafter until the Bonds have been paid in full. The Company's failure to achieve a debt service coverage ratio of one hundred ten percent (110%) does not constitute an Event of Default if the Company timely engages (within thirty (30) days of submittal of the certificate set forth in Section 5.04 describing such circumstance or, if such certificate is not timely submitted, within thirty (30) days of the date such certificate was required to be submitted) an Independent Management Consultant, such consultant timely prepares (within forty-five (45) days of engagement) a report (to be delivered to the Company and the Trustee) with recommendations for meeting the required debt service coverage ratio and the Company, to the extent legally permissible, will consider any recommendations and, to the fullest extent practicable, adopt and carry out such recommendations, within thirty (30) days of receipt of such recommendations. Notwithstanding the preceding sentence, if the debt service coverage ratio falls below one hundred percent (100%) of the Annual Debt Service Requirements of the Company, it shall constitute an Event of Default hereunder.

**5.10 Maintenance of Charter.** The Company covenants to maintain and renew its Charter Contract in accordance with applicable State law. In the event the Company's Charter expires, is revoked or terminated, the Company will provide to the Master Trustee within thirty (30) days of the notification of such expiration, termination or revocation by the Commissioner of Education a detailed written report of all action taken or to be taken to address and correct such expiration, revocation or termination. In the event the Company fails to meet applicable Texas Education Agency standards for the second consecutive time, the Company agrees that it shall (i) engage an independent consultant with expertise in the operation and management of the academic and financial affairs of charter schools and (ii) within thirty (30) days of such engagement provide

to the Master Trustee a detailed written report of such independent consultant of all action taken or to be taken to address and correct such failure, expiration, termination or revocation. If (i) the Charter remains expired, revoked or terminated, (ii) the Company has exhausted its administrative remedies for reinstatement or renewal of the Charter and (iii) the Company is unable to qualify as an “accredited primary or secondary school,” as such term is defined in Section 53A.02, Texas Education Code, and continue operations in the State, then such expiration, revocation or termination and failure to continue operations shall constitute an Event of Default.

#### **5.11 Disposition of Assets**

(a) Property Plant and Equipment. No PP&E of the Company may be sold or otherwise disposed of unless (i) the PP&E is obsolete or worn out or (ii) fair market value is received in return, or (iii) the market value of all PP&E disposed of in any Fiscal Year does not exceed five percent (5%) of the total market value of all PP&E of the Company.

(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.

#### **5.12 Liquidity.**

(a) The Company covenants to maintain (i) commencing with the Fiscal Year ending August 31, 2019, not less than forty (40) Days Cash on Hand and (ii) commencing with the Fiscal Year ending August 31, 2020 and for all Fiscal Years thereafter, not less than forty-five (45) Days Cash on Hand. The Company’s Days Cash on Hand shall be tested on and as of August 31 of each year, commencing August 31, 2019, and the Company shall provide a certificate to the Master Trustee within 30 days of completion of the audit of the Company’s financial statements for the applicable Fiscal Year evidencing that the Company’s Days Cash on Hand met the requirement described above. The foregoing is subject to the qualification that if applicable State or federal laws or regulations, or the rules and regulations of the agencies having jurisdiction, shall not permit the Company to maintain such level of Days Cash on Hand, then the Company shall, in conformity with the then prevailing laws, rules or regulations, maintain its Days Cash on Hand equal to the maximum permissible level.

(b) If the Company’s Days Cash on Hand is less than the required number of days for the prior Fiscal Year, the Company shall promptly (i.e., within 45 days) employ at its sole cost and expense an Independent Management Consultant to review and analyze the operations and administration of the Company, inspect the Company’s facilities, and promptly submit to the Company and the Master Trustee written reports, and make such recommendations, as to the operation and administration of the Company as such Independent Management Consultant deems appropriate, including any recommendation as to a revision of the methods of operation and administration thereof. The Company agrees to consider any recommendations by the Independent Management Consultant and, to the fullest extent practicable, to adopt and carry out such recommendations.

(c) So long as the Company is otherwise in full compliance with its obligations under the Bond Documents, including following, to the fullest extent practicable, the recommendations of the Independent Management Consultant, it shall not constitute an Event of Default if the Days Cash on Hand for any testing date is less than the required number of days for the prior Fiscal Year, as applicable, except to the extent such Days Cash on Hand is less than the required number of days for two consecutive Fiscal Years.

(d) If, after meeting the Liquidity Requirement set forth in Section 5.12(a) above, the Company expends any of this balance, the Company agrees to restore the Liquidity Requirement to the then required levels by the end of the next Fiscal Year.

### **5.13 Continuing Disclosure Undertaking.**

(a) The Company hereby agrees to enter into and fully perform its obligations under the Continuing Disclosure Agreement.

(b) Annually following the posting of the annual report on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") system in accordance with the terms of the Continuing Disclosure Agreement, the Company will conduct a status conference call with the Bondholders for the purpose of reviewing the previous year's financial performance. The Company agrees to post notice of such call on EMMA.

(c) Upon the occurrence and continuance of an Event of Default under this Agreement, the Company shall hold an investor call within 30 days of the end of each Fiscal quarter. The Company agrees to post notice of such call on EMMA.

## **ARTICLE VI.**

### **EVENTS OF DEFAULT; REMEDIES**

**6.01 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 (1) or more of the following events:

(a) Failure by the Company to pay the Loan Payments when due;

(b) Any representation or warranty made or deemed made by the Company under the Bond Documents shall be false, misleading or erroneous in any material respect when made or deemed made, or a failure by the Company to observe and perform any covenant, condition or agreement on its part to be observed or performed under this Agreement or the Indenture, other than as referred to in subsection (a) of this Section, for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to the Company by the Issuer or the Trustee; provided that if such default 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; provided, however, that if such default or breach shall last longer than ninety (90) days, it shall constitute an Event of Default hereunder;

(c) The occurrence and continuance of any “Events of Default” specified in the Bond Documents or the Master Indenture that have not been waived; or

(d) The failure to maintain the debt service coverage ratio as set forth in Section 5.09 hereof.

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.

**6.02 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 (1) 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 is 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; or

(b) From time to time, take whatever actions at law or in equity is necessary or desirable to enforce the obligations of the Company under Sections 4.07, 5.01 and 6.06 hereof.

**6.03 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.

**6.04 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.

**6.05 Remedial Rights Assigned to the Trustee.** Such rights and remedies as are given the Issuer hereunder (except the Issuer’s rights under Sections 4.07, 5.01 and 6.06 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.

**6.06 Agreement to Pay Attorneys' 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 6.01(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

**7.01 Severability of Provisions of this Agreement.** In the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

**7.02 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.

**7.03 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.

**7.04 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.

7.05 **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.

7.06 **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.

7.07 **Governing Law.** The validity, interpretation and performance of this Agreement shall be governed by the laws of the State.

7.08 **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.

7.09 **Third Party Beneficiary.** The parties hereto expressly recognize that the Master Trustee and the Trustee are third party beneficiaries to this Agreement and may enforce any right, remedy or claim conferred, given or granted hereunder.

(Signature Pages Follow)

IN WITNESS WHEREOF, the Issuer and the Company have caused this Agreement to be signed in their behalf by their duly authorized representatives as of the date set forth above.

NEW HOPE CULTURAL EDUCATIONAL  
FACILITIES FINANCE CORPORATION

By: \_\_\_\_\_  
President, Board of Directors



LEGACY21, INC. DBA LEGACY  
PREPARATORY CHARTER ACADEMY

By: \_\_\_\_\_  
Chairman, Board of Directors

**EXHIBIT A**  
**TO**  
**LOAN AGREEMENT**

The Project consists of the following:

(i) Purchase, construction, renovation and improvement of educational facilities located in Plano and Mesquite, Texas (the “Projects”);

(ii) Refinancing of certain existing loans;

(iii) Reimbursement for various capital expenditures;

(iv) Funding of a debt service reserve fund; and

(v) Payment of costs associated with the issuance of the Bonds.

## EXHIBIT B

### FORM OF COMPLETION CERTIFICATE

[DATE]

UMB Bank, N.A., as Trustee  
3005 S. Lamar Blvd., Ste. D-109 #428  
Austin, Texas 78704

Attention: Jose Gaytan

Re: \$\_\_\_\_\_ New Hope Cultural Educational Facilities Finance Corporation Education Revenue Bonds (Legacy Preparatory Charter Academy) Series 2018A and \$\_\_\_\_\_ New Hope Cultural Educational Facilities Finance Corporation Taxable Education Revenue Bonds (Legacy Preparatory Charter Academy) Series 2018B

Ladies and Gentlemen:

The undersigned, being the owner of the Project, as defined in that certain Loan Agreement dated as of February 1, 2018 (the "Loan Agreement"), by and among the undersigned and the Issuer, hereby certifies to UMB Bank, N.A., as trustee (the "Trustee"), that "Completion" of the Project on the has been attained as of the date hereof and all conditions relating thereto as set forth below have been satisfied. Capitalized terms used herein and not defined shall have the meanings ascribed thereto in the Loan Agreement.

The undersigned hereby represents and warrants that:

1. as of that date, all Project Costs payable with respect to the acquisition of the Project have been paid;
2. the amount from the Construction Fund expended for Project Costs relating to the Project totaled \$\_\_\_\_\_;
3. the amount from the Construction Fund expended for Project Costs that are not Qualifying Costs (as defined in Section 5.03(q) of the Loan Agreement) totaled \$\_\_\_\_\_.
4. Not less than ninety-five percent (95%) of the Net Proceeds of the Series 2018A Bonds were used for Qualifying Costs. If less than ninety-five percent (95%) of the Proceeds of the Series 2018A Bonds were used for Qualified Costs, the Company has redeposited amounts into the Construction Fund such that the amount of proceeds disbursed for Qualified Costs is equal to at least ninety-five percent (95%) of the Net Proceeds of the Series 2018A Bonds; provided, however, that such redeposit and expenditure did occur not later than eighteen (18) months after the later of (i) the date the expenditure to which the redeposited funds are allocated was paid, or (ii) the date the asset to which the redeposited funds are allocated was placed in service, and in no

event later than sixty (60) days after the fifth (5<sup>th</sup>) anniversary of the date of issue of the Series 2018A Bonds or the date sixty (60) days after the retirement of the issue, if earlier. Moreover, proceeds in an amount equal to not more than two percent (2%) of the Sale Proceeds of the Series 2018A Bonds were used for Costs of Issuance.

LEGACY21, INC. DBA LEGACY  
PREPARATORY CHARTER ACADEMY

By: \_\_\_\_\_  
Authorized Representative

APPROVED BY:

\_\_\_\_\_  
as Construction Consultant

By: \_\_\_\_\_  
Authorized Representative

## **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, LPCA, 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](http://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, LPCA, 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.



**APPENDIX H**  
**FORM OF INVESTOR LETTER**

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## FORM OF INVESTOR LETTER

\$36,920,000

New Hope Cultural Educational Facilities Finance Corporation  
Education Revenue Bonds (Legacy Preparatory Charter Academy) Series 2018A

and

\$1,095,000

New Hope Cultural Educational Facilities Finance Corporation  
Taxable Education Revenue Bonds (Legacy Preparatory Charter Academy) Series 2018B

New Hope Cultural Educational Facilities Finance Corporation  
c/o Gay, McCall, Isaacks, & Roberts, P.C.  
777 E.15th Street  
Plano, Texas 75074  
Attention: Maria Huynh

UMB Bank, N.A.  
3005 S. Lamar Blvd., Ste. D-109 #428  
Austin, Texas 78704  
Attention: Jose Gaytan

Ladies and Gentlemen:

The undersigned, authorized representative of \_\_\_\_\_, a \_\_\_\_\_ (the "Purchaser"), does hereby represent and agree, as follows:

1. The New Hope Cultural Educational Facilities Finance Corporation (the "Issuer") is issuing its \$36,920,000 Education Revenue Bonds (Legacy Preparatory Charter Academy) Series 2018A (the "Series 2018A Bonds") and its \$1,095,000 Taxable Education Revenue Bonds (Legacy Preparatory Charter Academy) Taxable Series 2018B (the "Series 2018B Bonds" and together with the Series 2018A Bonds, the "Bonds"). The Bonds are being issued pursuant to a Trust Indenture and Security Agreement, dated as of February 1, 2018 (the "Indenture") between the Issuer and UMB Bank, N.A., as trustee (the "Trustee"). The Issuer will loan the proceeds of the Bonds to Legacy21, Inc. dba Legacy Preparatory Charter Academy (the "Borrower") pursuant to the terms of a Loan Agreement, dated as of February 1, 2018 (the "Loan Agreement"), by and between the Issuer and the Borrower.

2. The undersigned has the authority to execute this letter on behalf of the Purchaser of the Bonds.

3. The Purchaser is (i) an "Accredited Investor" as defined in Rule 501(a) of the Securities Act of 1933, as amended (the "1933 Act") or (ii) a "Qualified Institutional Buyer" as defined in Rule 144A promulgated under the 1933 Act, which has sufficient knowledge and experience in financial and business matters, including purchase and ownership of charter school revenue bonds, to be able to evaluate the risks and merits of the investment represented by the Bonds, and which can bear the economic risk of its investment in the Bonds. The Purchaser understands that it may be required to bear the risks of this investment in the Bonds for an indefinite time, as there may be no market for the Bonds.

4. The Purchaser understands that the Bonds are not registered under the 1933 Act and that such registration is not legally required as of the date hereof; and further understands that the Bonds (a) are not being registered or otherwise qualified for sale under the "Blue Sky" laws and regulations of any state, (b) will not be listed in any stock or other securities exchange, and (c) are not being rated by any national securities rating agency.

5. The Purchaser acknowledges that it has received the Limited Offering Memorandum dated February 7, 2018 relating to the Bonds, and the Purchaser has had the opportunity to ask questions and receive answers from knowledgeable individuals concerning the Borrower and the Bonds and the security therefor so that, as a reasonable investor, based upon the information provided, the Purchaser has been able to make its decision to purchase the Bonds. The Purchaser acknowledges that it has not relied upon the Issuer for any information in connection with the Purchaser's decision to purchase the Bonds.

6. The Bonds are being acquired by the Purchaser for its own account for investment purposes and not with a view to or for resale thereof in any manner that would result in the Purchaser being an agent of the Issuer or an underwriter within

the meaning of the 1933 Act. As of the date hereof, the Purchaser intends to hold the Bonds for its own account for a period of time, possibly to maturity, and as of the date hereof, does not intend to dispose of all or any part of the Bonds, provided that the Issuer acknowledges that the Purchaser has the right to sell and transfer the Bonds, in accordance with terms and conditions of the Indenture. The Purchaser covenants and agrees with the Issuer that it will comply with the Indenture and all applicable federal or state securities laws then in effect with respect to any subsequent sale, transfer or other disposition of the Bonds.

7. The Purchaser acknowledges that the Bonds are limited obligations of the Issuer, payable solely from the Trust Estate (as defined in the Indenture), which consists primarily of payments made by the Borrower pursuant to the Loan Agreement. The Issuer shall not be directly, indirectly, contingently or morally obligated to pay the principal of the Bonds or the interest thereon, or any other expenses related to the Bonds, except from funds provided under the Indenture, including payments under the Loan Agreement, and neither the faith and credit or the taxing power of the State of Tennessee nor any political subdivision thereof (including the Issuer) is pledged to the payment of the principal of or interest on the Bonds. The Purchaser acknowledges that the Issuer has no taxing power.

Capitalized terms used herein and not otherwise defined have the meanings given such terms in the Indenture.

[NAME OF INVESTOR]

By:

Its:

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